Grow Your Money Garden

By Ryan Zacharczyk, CFP®, CSA, CRPC

As the sharp chill of winter fades and new life springs forth all around us, I become reflective. Not of nature's majesty (remember, I am a financial planner) but of the power of how what we plant now can be so rewarding, abundant and beautiful later. If every year some of us are able to sow seeds in a desolate flower bed, protect them, grow them, and then, ultimately, enjoy them, why is it so hard for many to do the same with their finances? Maybe, if we treated our money like a garden it would make this task simpler.

Sow it

How do you begin a money garden today that will provide you with beautiful flowers and delicious ripe fruit later? You start by planting seeds. But first to make sure that there are plenty of seeds to plant, you must live below your means. The only way to ensure that there is something to plant in your money garden is by spending less than you earn and also by a simple concept that has been passed down through generations. It is the concept of "pay yourself first."

By placing 10% of your income into a savings account before you pay any bills, liabilities, or expenses, you make your savings a priority that must be paid before all else. This then forces you to adjust your lifestyle to only 90% of your earnings. As your savings accumulate, you can nurture and protect it so it can blossom and flourish.

Protect It

After you plant your money garden, you must protect it from outside intruders that will attempt to take it or emergencies that will force you to use it. The two surest ways to do that is to make sure that you are properly insured and to keep an emergency account in reserve in case of an unforeseen expense.

Having the proper amount of insurance on your home, automobile, health, life, and income (through disability insurance) will ensure that you are protected against some of the greatest financial risks that could afflict you. You can never insure against 100% of the risks in life, but this provides a fair level of protection where you need it most.

The emergency account is one of the least used financial tools, in my experience. Keeping a minimum of 3 to 6 months worth of expenses in a liquid investment, such as a savings account, will ensure that you have the money to pay for unanticipated expenses without having to delve into your investments during perhaps an inopportune time, such as a market decline.

Grow It

Just as a flower needs the right mix of sun, water, soil and nutrients, your portfolio can only flourish over the long run with the right mix of stocks, bonds, real estate and cash. Your portfolio, like a garden, will have a difficult time growing without any of these essential elements.

Once the emergency account is funded with 3 to 6 months of living expenses, it is time to invest in a diversified portfolio. If your emergency account is short-term liquid cash, that can be the cash portion of our portfolio. You now must invest the remainder in stocks, bonds and real estate. Your age and your tolerance for risk will effect just how these investments are proportioned. Younger investors should take more risk, have more stocks and real estate, while older or more conservative investors need to focus on a larger holding of bonds. The error almost all unsuccessful investors make is their need for all or nothing. Almost every portfolio should have some of each of these asset classes at

Continued on next page

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Continued from previous page

all times, no matter how well you think the market or economy will perform.

It is also important to add to your portfolio regularly, in up and down markets, but especially in down markets. Regular contributions to your investment account will ensure you are averaging out the purchase prices of your investments. It also allows you to purchase more shares when prices are cheaper and less shares as they get more expensive.

Finally, when trying to grow your portfolio, the most important number is not your return, but what you keep. Gardeners know they must keep pests out of their vegetable patch to get the best returns and you must do the same. The critters that can destroy your money crop are taxes and fees. What good is an 8% return if 4% is going out the door in expenses and to the government? Make sure you minimize these costs as much as possible to keep more of the fruit you have earned.

Harvest It

Remember, you will someday want to benefit from your garden. It will eventually be harvest time. Harvest your money garden very carefully and strategically, keeping an eye to expenses and, most important, taxes. Make sure you are first taking any dividends or interest payments from a taxable account as initial income. This money is taxed annually anyway, so why not use it first? Then look to use all taxable accounts that are available. Finally, you should harvest retirement accounts and IRAs, saving Roth IRAs for last. This strategy will assure the most possible money comes back to you when you need it.

Enjoy It

Just like a gardener who is awed by the beauty of his elaborate gardens in August, you too need to enjoy the beauty that you have created. Too many are happy to just count their money, like keeping score in some game. Your money and life are not a game. He who dies with the most does not win. Enjoy what you have while you can because you never know when a plague of locusts will decimate your crop before you have time to enjoy it.

Follow these steps and you can create a money garden that will continue to bloom. Then you, too, can one day enjoy the benefits of your bounty and bask in the satisfaction of having created one of the most beautiful and admired gardens in the whole neighborhood.

Ryan Zacharczyk is President of Zynergy Financial Planning, LLC, a financial planning firm specializing in working with mature adults 50 years old and above. Zynergy provides comprehensive financial planning services for individuals 50 and older, helping them achieve their objectives in estate planning, investment management, tax minimization, and insurance planning.