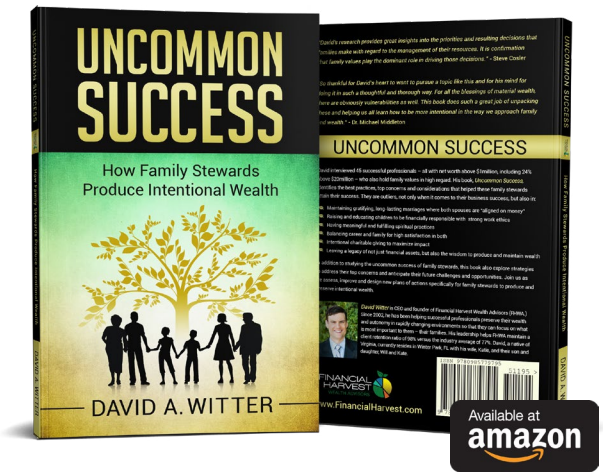
Prosperous Family Stewards Test Their Financial Plans—and So Should You!

The Prosperous Family Steward (as defined in David Witter's *Uncommon Success – How Family Stewards Produce Intentional Wealth*) typically engages a sizable lineup of professional advisors to help them create and implement financial plans. To help ensure those plans are both state-of-the-art as well as in line with their needs and wants, many of them regularly "stress test" these plans.

Here's why you should join them in that effort—even if you don't think of yourself "wealthy."



Asking "What if?"

Stress testing financial plans can be a smart way to help make certain the plan will deliver as promised. The fact is, financial plans that might look great on paper all too often prove to be much less impactful once they are implemented. It is not uncommon for there to be unintended consequences that can even derail one's existential purposes.

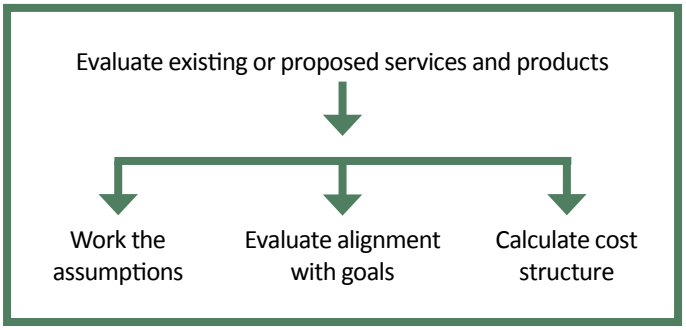
At heart, stress testing is when you ask, "What if ...?" about a variety of areas of a financial plan you have, or are considering. When it comes to estate planning, for instance, a wealthy individual might ask questions like:

- What will actually happen to my assets when I pass?
- How will my family be affected, precisely?
- How does my plan take care of my family without dis-incentivizing them?
- Who will be tracking the family collectible assets such as artwork or jewelry to make sure they go to the designated heirs—as opposed to vanishing?
- Who is going to make sure my estate plan is being executed as it's supposed to be?

To be effective and informative, stress testing should be done in a systematic manner. While there are some variations, the basic process starts by determining your objectives. Your goals, potential breakdowns to be avoided and opportunities to take advantage of should be the driving forces behind the financial and legal solutions you employ.

THE STRESS TESTING PROCESS

Determine your goals



Address alternative services and products

Recommend course of action

Stress Testing is for Everyone

Once you clearly understand your objectives, you can evaluate the specific existing or proposed financial services or products. There are numerous ways to dissect and critically assess financial services and products:

- **Work the assumptions.** A plethora of assumptions underlie all services and products. In stress testing, these assumptions are modified to determine how the solutions will work when a given scenario changes.
- **Evaluate alignment with goals and objectives.** A solution might prove to work extremely well, but still not achieve the desired results. We call this miss-organized, where the strategy is actually organized to produce an unintended or unsatisfactory result. It's essential to ensure that the services and products within your strategy will accomplish your goals.
- **Calculate cost structure**. The intent here is to identify the best and most cost-effective solution possible. When calculating cost structures, all the expenses should be specified—including long-term costs.

*Note: **Costs** are fundamentally **time, energy, money** and **lost opportunities.** Solutions that are the least money can be very costly in terms of your time, energy and lost opportunities.

Based on the stress test's evaluation of the existing or proposed solutions, you might consider alternative products or services. It can be very useful to do side-by-side comparisons between the solutions being considered or currently used and such alternatives, asking questions like:

- How do the assumptions compare?
- How do the alternatives rate when it comes to the outcomes they produce potentially achieving my goals?
- Which solutions are most valuable for me fulfilling my intentions?

The end result of the process: recommendations. Based on those recommendations, there are five courses of action to consider taking:

1. **Stay the course.** If the stress testing found the solutions being used or proposed to be on target and of high quality, the recommended action is to stay the course.

2. **Choose different solutions.** If the stress testing finds what may be described as a system failure—the financial products being used are not going to achieve the desired results and might even blow up, for instance—the right move is to take a different course of action.

3. **Choose a different professional.** If the solutions are miss-organized, or your professional cannot present and implement the solutions needed, it will usually make sense to switch to a more capable expert or team of experts.

4. **Modify the approach with the original professional.** If the solutions can be made more effective with only slight modifications, the best route is often to stick with the original professional team and make the minor changes needed.

5. **Continue stress testing.** There are occasions when the individual or family chooses a professional to conduct a stress test and that professional is not up to the task. This often becomes evident during the stress test process. The only viable course of action is to select a different professional to conduct the stress testing.

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Although stress tests are commonly used among the wealthy, they should be a part of most people's due diligence process when vetting financial plans, financial products and financial services. Frequently, stress tests uncover flaws in financial plans as well as better ways to achieve desired outcomes. For those reasons, stress tests will likely benefit a great number of people—especially business owners and their families, who generally have so much of their future financial security riding on one asset: their business.

Stress testing tax mitigation, estate, asset protection and charitable impact plans certainly requires an investment of time, energy and often money on your part. However, a stress test can be a whole lot cheaper than bearing the costs—financial, emotional and psychological—of a plan or solution that is fundamentally flawed or not coherent with your objectives.

Financial Harvest Wealth Advisors has partnership with various experts in tax, estate, assets protection, and business succession planning, to name a few, with whom we work with to provide stress testing services. We call these 360-Degree Financial Assessments. Call or email us today if you would like to request your 360 Assessment.

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