

Managing Sudden Wealth

Recently, we all heard in the news the approximately \$1.6 billion Powerball lottery. The one where it appears that the three families, who split the jackpot, lives have been dramatically changed forever.

For every inspirational rags-to-riches tale there's a cautionary one: The lottery winner who squandered their wealth, the sports star who was broke a few years after retirement, an inheritance that disappears over time, the bonus that evaporates, an Insurance settlement that is not probably cared for, the sale of a home and of course the sudden riches gained selling a business. At Fulcrum Wealth Advisors, we commonly face these challenges with our clients. Our experience and leadership has helped protect the portfolios of Sudden Wealth and has helped to mitigate the change from Sudden Wealth to Sudden Disaster.

A sudden influx of wealth can quickly and dramatically change a person's life and lifestyle. But the challenges of managing a wealth windfall are many, and the consequences of mismanaging can be severe. Often sudden-wealth recipients think they have more than they do, so they may develop unsustainable spending habits that they think can last forever, but they're usually wrong.

If you're the recipient of sudden wealth, consider these strategies to translate your new affluence into a sustainable lifestyle and benefit future generations:

Take the proverbial deep breath

The first thing you'll want to do after receiving a large sum of money is to take a deep breath. You may feel the urge to spend, invest, move, quit your job, or give to others. But if you want your windfall to last, don't do anything until you've had a chance to come to terms with the personal and financial consequences. You will need some time to reflect on your new found wealth. Do not make any sudden decisions. Take the time that is needed to understand the legal ramifications, if any, of your new windfall. Assemble a team of professionals; legal, investment, tax. Work with a financial planner to create a plan tailored specifically to the needs of your family. Be careful of family and friends.

Set Goals

When you're suddenly awash in cash, it may be only natural to immediately think of big-ticket purchases like new cars and exotic vacations. It takes time to adjust to having wealth. A good place to start is with setting goals, both short-term and long-term. Think about what you want to accomplish with your wealth. Be open to the fact that what you want to accomplish with your wealth today maybe different than what is important to you 10 years from now. It's a paradigm shift, and to navigate through it successfully, you need to understand if you have enough to achieve your goals, and then if there is more left after that consider how you may wish to transfer wealth to family or charity.

Perhaps the best way to accomplish this is to create a plan that incorporates all aspects of your financial life. Using a Wealth Management approach, goals can be broken down into four major categories:

1. Lifestyle: Do you have enough to live at a comfortable level?
2. Dreams: What do you envision for your future?
3. Family: How will you provide for your family?
4. Legacy: Will you make a philanthropic impact?

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When you suddenly have a large pot of money, you need well-defined strategies tied to specific objectives because otherwise there's nothing to stop you from raiding the pot. That takes time and usually requires help.

- This will serve as a foundation for your financial plan.
- Do you have enough money set aside in an emergency account?
- Do you have outstanding debt that you'd like to pay off?
- Do you plan to pay for your children's education?
- Do you need to bolster your retirement savings?
- Are you planning to buy a first or second home?
- Would you like to quit your job or go into business for yourself?
- Are you considering giving or loaning money to loved ones or donating to a favorite charity?
- What would you like to accomplish with your wealth over time?

Once you identify your goals around each of these areas, it becomes much easier to associate dollars needed to fund those goals.

Avoid these 10 common financial mistakes

Experiencing a sudden wealth windfall can present as many opportunities as challenges. If you're the recipient of sudden wealth, keep in mind these 10 common financial mistakes:

1. Not having a plan until crisis happens
2. Not having – or monitoring – a good credit history
3. Not having a sufficient cash reserve
4. Letting someone else take care of your finances without review or awareness
5. Maintaining inadequate health, life, disability, property and casualty insurance
6. Living beyond your means
7. Chasing the “hottest” investments
8. Not properly designating beneficiaries on retirement plans and life insurance policies
9. Not updating estate documents as life events occur
10. Not reviewing your income taxes annually

Hire an Advisor

There are many advantages to hiring a financial advisor. An advisor can help educate you about exactly what you can – and can't – expect to accomplish with your newfound wealth. Sudden-wealth recipients

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may not know how to estimate financial capacity, and an advisor who is familiar with managing large sums of money can help you develop a long-term plan based on long-term goals.

An advisor can serve as the quarterback of your team and help keep your legal and tax professionals in the loop and always focused on your personal goal-based outcome.

An advisor can tell you whether you can afford to put your kids through Harvard or the local community college. Your advisor also can tell you how much you can spend every year without potentially running through your money. It's important to quantify those things before you start spending.

An advisor can act as a buffer between you and the many people who may ask for a piece of the pie. You can use your advisor to be the "bad guy." You can tell your friends and family, "I'd love to help you out, but my financial advisor has us on a strict plan and I've structured my financial plan in such a way that I have to follow some rules. It is about at this time that your family member/friend tells you that your advisor sound like an idiot and they refer you to "their guy."

Everybody's got to get that itch to spend out of his or her system. If you really want that sports car, you could consider getting one. Just know that you shouldn't keep getting one every year for the rest of your life.

Debts First

Once you have a plan in place consider moving into the future debt-free. One of the first thing we like to talk to our clients about in a sudden-wealth situation is debt consolidation or eradication. It is true that some debts are better than others but we have found that moving forward knowing that you own nothing to no one can have a profound positive affect one the sudden-wealth recipient.

Make One Splurge Purchase

In a perfect world, sudden-wealth recipients would stash their newfound wealth in a portfolio and refrain from spending it until they are prepared to do so wisely. Practically, however, it's hard to sit on all that money, particularly for people who aren't accustomed to having extra spending money. Consider spending some money but make it a singular, defined splurge and then resume spending according to a disciplined plan.

Uncle Bobs can't miss

Watch out for too-good-to-be-true opportunities. Unfortunately, more than one person has become the target of unscrupulous individuals looking to profit from the good fortune of others. And even if you're approached by a well-meaning friend, family member, or business associate, you should thoroughly investigate any investment or business opportunities presented, instead of relying on someone else's judgment. If you have trouble saying no, consider referring any requests you receive to a third party, such as an attorney or financial professional you're working with.

There is no way that we can cover all things that could go right or wrong in a brief paper like this. Please feel free to reach to us should you have any questions about your situation we are available to assist.