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WWW.FRANGOFINANCIAL.COM

4545 42ND STREET NW, SUITE 314
WASHINGTON, DC 20016-4623
PHONE/FAX 202-244-4460

Financial focus

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College Lessons: The Hard Work Before the Acceptance Letter

Ken Robinson, JD, CFP®
Cleveland, OH

Our daughter, Rebecca, is happily in her second year at a small liberal arts college. Like all families, we were concerned with the cost, and we wanted her to have the best educational and social experience possible.

My wife and I feel we were very successful in helping Rebecca get into a school that's a good match for her. Here are some steps we took along the way.

We hired a college planner. No, not the so-called college planners who are merely life insurance or investment product salespeople. Just like working with a fee-only financial planner, we paid our college planner directly. He helped our daughter decide which schools to consider, gave feedback on her application essays, and shared strategies for maximizing merit-based grants. He saved us far more than his fee.

When my clients are looking for a college planner, I suggest they work with a member of one of these organizations:

- The Higher Education Consultants' Association (www.hecaonline.org)
- The National Association for College Admissions Counseling (www.nacacnet.org)
- The Independent Educational Consultants Association (www.iecaonline.com)

One way to know if you've got the right college planner: does he or she talk about your student finding the right educational fit, or just about how to maximize financial aid?

We set our daughter's expectations early. Ever since elementary school, we made it clear to Rebecca that we would pay for part of her college education, that she would take loans for part, and that she'd be responsible for the rest. For this last piece she could earn money or scholarships. And she'd be expected to fin-

ish a four-year degree in four years—if she decided to take longer, she'd pay for the extra time herself.

I'm convinced this made a difference. Rebecca worked very hard in high school and earned a strong GPA. This qualified her for merit scholarships that cover a substantial part of her college expense.

We understood that state schools might not be the least expensive. The nominal cost of state schools may be relatively low, but the private schools Rebecca applied to had a lot more flexibility to award merit-based aid. It's not uncommon for good students to be able to attend well-respected private schools for far less than they would spend at a nearby state school. Our financial responsibility was lower with a number of the private schools than it would have been at some state schools.

Our daughter took a gap year. Not every student feels ready for college straight out of high school. And because Rebecca was applying to very competitive programs, she didn't get many acceptances during her senior year.

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FAFSA Changes

In September 2015, President Obama announced significant changes to the Free Application for Federal Student Aid (FAFSA) process that will impact millions of students. Starting next year, students will be able to do the following:

- **Submit a FAFSA Earlier:** Students will be able to file a 2017–18 FAFSA as early as 10/1/16, rather than beginning on 1/1/17. The earlier submission date will be a permanent change, enabling students to complete and submit a FAFSA as early as October 1 every year.
- **Use Earlier Income Information:** Beginning with the 2017–18 FAFSA, students will report income information from an earlier tax year, using an already filed tax return. For example, on the 2017–18 FAFSA, students (and parents, as appropriate) will report their 2015 income information, rather than their 2016 income information. In the past, students and parents often had to submit an estimated FAFSA before they had complete information to file that year's return.

Giving students and families the ability to submit their FAFSAs earlier and to use earlier income data, commonly referred to as "prior-prior" year, should result in an earlier and more reliable understanding of aid eligibility, a simpler application process, more students receiving Pell Grants and other aid, and a reduced burden on colleges.

Adapted from <https://studentaid.ed.gov/sa/>

Feel Good While You Do Good:

Four Steps to Maximize Your Satisfaction and Effectiveness When Donating to Charity

Bridget Sullivan Mermel
Chicago, IL

My clients know when I'm stumped by a question I often post it on the Alliance of Comprehensive Advisors discussion forum. Recently a colleague asked about charitable giving. Another reported findings from a popular book, *Happy Money*. With this start, my brain started working overtime tying these two threads together; I ended up updating the advice I give clients.

Turns out, there are four steps to giving away money. Even better, they're pretty easy.

First, develop a donation strategy.

That's right, a donation strategy. That might sound cold-hearted, but we all have a donation strategy, whether it's conscious or not. Some people give money to their college. For some, the more desperate an emotional appeal, the more likely they'll give. For most of us, our giving is more hodgepodge than strategy.

A. Develop your donation strategy by asking your self: "What problem am I trying to solve?" and "What do I value?"

B. Next, consider the balance between what's near to you (your church, your alma mater) versus what's far (ending extreme poverty, disaster relief.) You might have different donation ideas for each.

Here's what Bill and Melinda Gates did. First they thought (and I'm paraphrasing here) what problem(s) is capitalism crappy at solving? The thing that bothered them the most was inequity. Identifying that problem was their Step A. For Step B, globally they asked, what's the biggest inequity? For them, it was children dying and/or not getting enough nutrition. They took a different approach locally saying, "Okay, our educations really helped us; we want to help alleviate inequities in the US education system."

For help identifying global issues <http://www.myphilanthropedia.org/> has 36 different causes. You can weigh the causes against one another and figure out what is most important to you.

Looking for ideas close to home? Your local community foundation helps budding philanthropists figure out their donation strategy. Here's a quick way to find yours: <http://www.cof.org/community-foundation-locator>. In addition, perusing the local United Way website can broaden your local possibilities.

Second, figure out which charities will fulfill your strategy.

Explore charities that have an impact in the areas you value. When you give money locally, it's easier to discern how effective the organization is since you can learn about them directly. When you donate globally, it helps to have third parties measure and report which charities fulfill their missions in the most efficient way.

Three websites that summarize data and report on the effectiveness of specific charities are: charitynavigator.org, givewell.org, and guidestar.org.



It's a good idea at this stage to use your intuition as well. Melinda Gates said, "We come at things from different angles, and I actually think that's really good. So Bill can look at the big data and say, 'I want to act based on these global statistics.' For me, I come at it from intuition. I meet with lots of people on the ground and Bill's taught me to take that and read up to the global data and see if they match."

Third, use your strategy to donate and feel good.

Did you ever notice that giving money away makes you feel good? There's a technical term for it: the warm glow of giving.

In their book, *Happy Money: The Science of Smarter Spending*, Dunn and Norton report: "The amount of money individuals devoted to themselves was unrelated to their overall happiness. What did predict happiness? The amount of money they gave away. The relationship between prosocial spending and happiness held up even after taking into account individuals' income. Amazingly, the effect of this single spending category was as large as the effect of income in predicting happiness."

Think about the mechanics of how you donate to maximize the warm glow. For instance, you don't get ten times the glow for a ten times bigger gift. In one study, a five-dollar donation created as much happiness as a twenty-dollar donation. That argues for giving more frequent, smaller donations. And the closer you are to a person experiencing your gift, the warmer the glow. That argues for writing checks according to a periodic plan, rather than signing up for automatic monthly contributions.

Fourth, pay attention to results.

Notice the communication you get from the charities. Is it always a pitch for more money? Do they communicate their results? Are they fulfilling the mission that you supported when you donated?

Keep in mind that not every donation is going to succeed. For instance, Bill Gates says that his involvement in the attempt to develop a better condom didn't get the results he was hoping for. He doesn't detail exactly what went wrong, except mentioning with a vague smile, "We got a lot of ideas."

A version of this was originally published by Money.com.

ROI vs ROS

Anthony Kure
Brecksville, OH



As computing power and connectivity increase at a dizzying pace every day, it seems we are constantly deluged with statistics and metrics. Perfect examples include the “Fitbit” (measures our steps and calories throughout the day), chip timing in long-distance races, and up-to-the-minute text delivery alerts from Amazon!

The number-centric nature of investments and finances seems made to order for this context. We now have access to instantaneous market trends, daily email messages (or texts, tweets, whatever) on our portfolio performance and high-level statistical analysis, all with the intention of optimizing financial returns or Return on Investment (ROI).

But what about the concept I call Return on Sleep (ROS)? This under-appreciated concept seemingly contradicts ROI; however, I believe this concept should be considered alongside the black and white world of mathematical returns. Return on Sleep is that subjective “gut feeling” or sense of serenity that comes along with knowing a decision is right for you and not necessarily the decision that mathematically optimizes the potential for returns or savings.

Of course, the difficulty with this concept lies in the fact that it can’t be measured with spreadsheets or high-level analytics or data-mining. Optimizing ROS requires thoughtful, in-depth discussion over a period of time in order to conclude what’s best for a particular scenario. Those are activities that number-crunching computers and fast networks don’t do so well.

Let’s look at some examples:

Should we pay off the mortgage? This is the most common ROI vs. ROS scenario I encounter. And I must say with today’s mortgage rates (historically low) and tax policy (deductions for mortgage interest), the ROI usually spits out a calculated conclusion that most people should NOT pay off their mort-

gage, assuming ample available funds. However, some people have a strong urge to not have a mortgage payment or are wary of investing their excess cash, which skews the ROI assumptions. This must be incorporated with some peoples’ strong urge to not have a mortgage payment, whether it makes optimal financial sense or not. So in analysis and discussion with clients, I simply present the current facts and projections. Usually the conclusion is the ROI trumps the ROS. In fact, I even explain that sometimes you can optimize both ROS and ROI by NOT paying off the mortgage (better liquidity, etc.). However, for some people it’s important to strike a balance and devise a strategy that optimizes their financial ROI in the context of their particular need for ROS.

How aggressive should our investments be? This one is a little tougher, especially since we haven’t really felt the angst associated with a significant market downturn since 2008 (even with the recent pullback). Generally speaking, most people know that stocks have higher returns than on bonds over the very long term (e.g., 30 years). However those higher historical returns come with a price: higher volatility and therefore lower ROS. Much like the mortgage payoff, my role is to present the facts and to coach clients NOT to react impulsively to market downturns. For some, the course of our discussions and analysis leads to the conclusion that higher ROS at the expense of not maximizing ROI (i.e., by tilting the portfolio more toward cash and bonds), may make sense for them.

How much life insurance do we need? As a fee-only planner, I don’t sell life insurance and when I discuss this topic with clients, I always bring in a licensed, low-cost provider to consult with. Our discussions sometimes conclude that some folks are willing to pay additional premiums for over-the-top death benefit coverage that neither I nor the insurance agent consider technically necessary. However, if the client’s ROS trumps the ROI of the lower premiums, then for that client, it could be worth paying higher premiums when taking a broader view of the family’s overall peace of mind.

Bottom Line: As I work with individuals and families, I integrate both sets of “metrics” in order to balance ROI and ROS. Cold hard numbers don’t always capture the reality of our real-world financial lives. If our financial lives are technically optimized but we lay awake all night staring at the ceiling fan, worried about so many “what ifs,” then our ROS is close to zero. A good balance is what works best for each particular situation, and that can’t be captured in a spreadsheet or a fancy graph. Sleep tight.

College Lessons: The Hard Work Before the Acceptance Letter (cont.)

She decided to wait and try again rather than go to a school she wasn’t very enthusiastic about. She revised her list of schools, considered a wider geographic area, and in the end had acceptances and merit-based grants from several schools. Also, she felt better prepared to live on her own, being a year older.

We took the FAFSA seriously. The Free Application for Federal Student Aid is something like filling out a second tax return. And just like with your taxes, if you want to make the most of the application, you need to plan in advance. Assets may need to be repositioned, and you may need to plan for which accounts to draw from in any given year.

Just as you’d consult a tax expert on your annual return, we asked our college planner for advice on how to make the FAFSA both truthful and as helpful to our daughter as possible. Our own application benefitted by my hiring my wife in my business, and our daughter buying some education necessities using funds in her own name (to reduce that account balance).

We understood it’s about more than the degree. A very successful self-made client once told me her approach to college. “If your child’s interested in field that has a clear career path, like engineering or medicine, that’s their major. If not, they should study whatever they’re interested in. But they should master how to express themselves clearly both speaking and in writing. And they should learn how to walk into a room where they know no one, and leave having met everyone. Then they can learn to become successful at whatever they want.”

So remember what the end-game is: we want our children to be happy. And college is a great place for them to explore different aspects of what that means. We often look on the admissions process as a battle to be won or lost. But in fact, it’s just one more step in the ongoing journey of our children becoming the people they are meant to be.

Invest in Yourself with a Personal Mission Statement

Audry J. Batiste, CFP®, EA
Las Vegas, NV

One of the most important investment decisions you will ever make is the decision to invest in yourself. You might think investment is only about buying stocks and bonds, but let's take a step back and consider investment a little differently. While economists use the word investment to refer to spending on capital, I want you to think about investment in yourself with a personal mission statement. Having, and being in touch with, a personal mission statement makes it easier for us to make choices that will move us along our own desired path in life. It can help answer the question, "Where do I want to go, and who do I want to be when I get there?"

Mission statements are common in today's business world. Successful companies did not attain greatness by luck. These companies have established solid values and defined goals, as well as clear vision and mission statements that serve as a foundation for their decisions to propel them toward success. Similarly, a personal mission statement should embrace our personal and professional goals to help us maintain the balance that is so critical to success and effectiveness in life.

A personal mission statement answers questions like these:

- What do I want from my life?
- What do I value?
- What are my talents?
- At the end of my life, what do I want to have accomplished?

It is the beginning of personal leadership. It is an investment that sets guidelines for life. Stephen Covey said, "Creating a personal mission statement will be, without question, one of the most powerful and significant things you will ever do to take leadership of your life." It forces you to think deeply about your life, clarify the purpose of your life, and identify what is really important to you. The outcome should help in aligning your behavior with your beliefs.

I wrote my first personal mission statement when my daughter was seven. I was two years into my second marriage, I had 10 years in the military, and life was fun, but complicated. Now it is 14 years later. We have two daughters (21 and 12) and a son (five), I retired from the military, my business is growing, and life is fun, but complicated. So while things have changed in ways that I may not have expected, they are merely different. I bring this up because I believe in the art of planning. Benjamin Franklin once said, "If you fail to plan, you are planning to fail." So, when I developed my personal mission statement, it was to bring focus, direction, purpose, and satisfaction to my life. Although I didn't realize it at the time, I was essentially taking the first step toward a solid financial life plan.

Identify who you are and what you want to accomplish
The process of creating a personal mission statement is to define who you want to become, not just what you want to have and do. Define and assess your life roles. You may have roles specific to your profession, family, community, or other areas in your life. Describe how you would like to be described in each of these roles. The more connected your personal mission is to yourself, the better it can guide your career and your life. In the end, you decide who or what you would like to be.

Five Fundamentals of Fiscal Fitness

Thomas Jefferson in the Declaration of Independence refers to inalienable rights. I'm no scholar, but what I think he means by inalienable is that they are absolute. I see and use the Five Fundamentals of Financial Fitness as absolute financial truths.

It does not matter if you are single, a young couple, approaching retirement, or are in the conservation phase of your financial lifecycle. These five truths are ways to mark progress and to celebrate accomplishments, all while growing your net worth.

1. Pay Yourself First—Savings and Retirement
2. Have Sufficient Cash
3. Pay Off All Credit Cards and Consumer Debt
4. Own the Right-Sized Home
5. Invest in Your Career

ACP planners emphasize behaviors, not returns. We believe in comprehensive planning and that the market will take care of itself. Continuing our series of highlighting a Fundamental of Fiscal Fitness, in this issue, J.B. Batiste tackles the fundamental of how important it is to invest in yourself and your career.

-John Discepoli, CPA/PFS

Try writing your own personal mission statement. It doesn't have to be perfect. You have the rest of your life to fine-tune it. Set up properly, it is relatively easy to review and keep current – just like your financial plan.

