Peak Asset
MANAGEMENT

Timeless Principles for Building Wealth

Our Mission

Our mission is to build relationships of trust with our clients. In this whitepaper we outline the timeless principles that we rely upon to earn that trust and help our clients achieve their personal and financial goals. Whether you are a seasoned investor or are just getting started, these foundational concepts are critical for building wealth and achieving financial security. We are excited to share our philosophy and the framework that drives our approach to life and the markets.

Time is Your Secret Weapon

More than any other variable, time is the key ingredient for building wealth.

Time allows investment returns to compound. Compounding is an exponential, mathematical phenomenon that works best when uninterrupted.

The best part is you don't need a lump sum of money to start saving and investing. Regularly putting money away over time – and allowing compounding to work its magic – is the key to building wealth.

If a 20-year-old starts saving and investing $5,000 a year at an average 6% annual return, those savings will compound to over $1,000,000 by the age of 65. By the age of 70, their total savings of $250,000 over 50 years will have compounded to $1,452,680, nearly 6 times the original investment.

Relying on time as your secret weapon for building wealth is, admittedly, boring. The economist Paul Samuelson famously said: "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas".

It is also important to remember why we seek to build wealth. Building wealth is about achieving the freedom to allocate our time to those people and pursuits that are most fulfilling to us. Time is our most valuable asset.

In this way, time inextricably links both the means and ends of building wealth.

Beware Behavioral Biases

Managing our expectations and emotions is the most challenging task we face as investors.

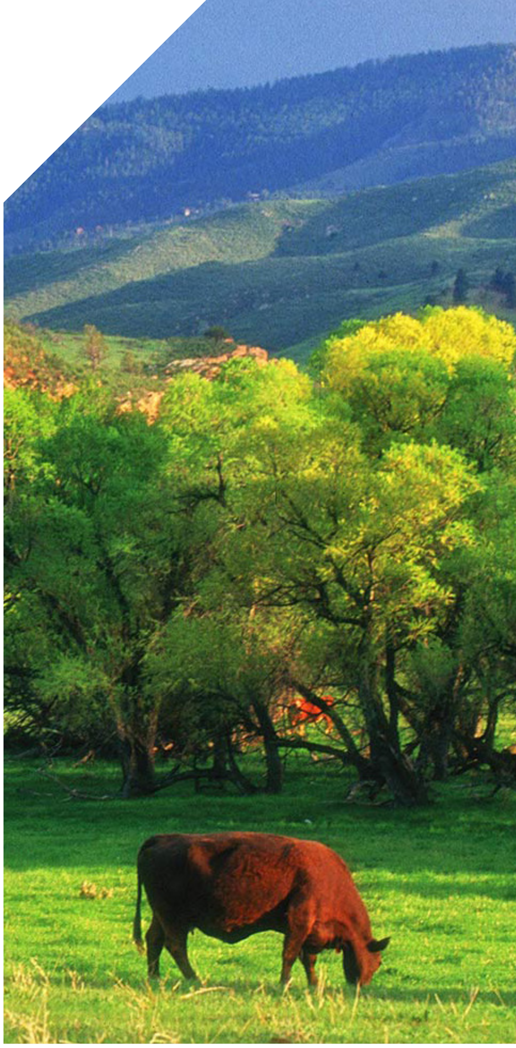
We are all human. There are no truly rational actors in the market.

An entire field of behavioral economics is dedicated to understanding the cognitive pitfalls that trip us up on the path to building wealth. Whether it's due to the *availability* bias (forming a judgment based only on readily available information) or the recency bias (arbitrarily extrapolating the past out into the future), a cycle of greed and fear drives the market.

The goal should be to respect these cognitive biases and mitigate their negative impact. Your goal is not to be perfectly rational but rather to avoid devastating mistakes that could take you out of the game.

Devastating mistakes typically result from taking on undue risk to chase "exciting" investment returns. When we see other people getting rich quickly, our minds tend to focus on the potential for reward, forgetting that risk is directly proportional to that reward. The behavioral trap is to assume that we can replicate someone else's "overnight success", forgetting that a one-off investment home run is typically the result of luck and will not stand the test of time.

Our advice is to build an investment *discipline*. Stick to a reasonable and repeatable strategy, learn from your small mistakes so you can avoid the crippling mistakes, and don't change your discipline just because the crowd is running in a different direction.



There is Only One Free Lunch

The one free lunch in investing is diversification.

By assembling a portfolio of uncorrelated assets, or assets whose values fluctuate differently over time, diversification allows the investor to improve risk-adjusted returns. While there is a mathematical and financial imperative to diversify, the benefit is also psychological.

One of the behavioral biases that runs rampant in investing is the *survivorship bias*. It is tempting to worship the incredible performance that a handful of prominent investors have achieved in their careers (think Warren Buffett, Jim Simmons, or George Soros). While these investors have certainly earned their returns with tremendous dedication and skill (and a bit of timing and luck), what we don't see are the untold millions of people who ruined themselves financially while attempting to "beat" the market.

Due to our tendency to focus on the winners, we underestimate the risk that many of the investing greats took to achieve their success. Outsized investment performance results from taking large, one-sided bets (that may include leverage). When it works, it works extremely well. When it doesn't work, the risk is losing everything.

A well-diversified portfolio may not be the most exciting approach to markets, but it is the only way to reliably build wealth and avoid the risk of a permanent loss of capital. Diversification allows time to work its magic and mitigates the impact of behavioral and cognitive pitfalls. Diversification also allows investors to take advantage of volatility – rather than be held hostage by it.

There are no shortcuts to building wealth, but portfolio diversification and a balanced approach to investing are in fact a free lunch we can all enjoy.

You Are Unique

Your financial plan should be too.

Through different stages in life, your ability to accumulate and draw upon your wealth will change. Understanding your cash flow and how it will change through time is critical to building a successful financial plan.

In very simple terms, your cash flow is your income minus expenses. While achieving positive cash flow is a prerequisite to intentional wealth building, that is just the beginning. Money is a tool and can be used for savings (investment) or consumption. How and when you allocate your resources to education expenses, a family trip, health care, your home, or a shiny new gadget will ebb and flow. When it comes to making a choice to either save or spend your cash flow, there are no right answers – there are only tradeoffs that are unique to you.

Just as your cash flow changes over time, your goals and aspirations will change too. Your financial plans and personal budgets should be living, breathing documents that adapt to your evolving circumstances.

Critically, your plans should not be optimized for a set of unrealistic assumptions about the future. Aggressive expectations for investment returns or muted assumptions about inflation risk may create a false sense of confidence in your plans. Assumptions about cash flows and budgets should include margins of safety so that you can sleep well no matter how the future unfolds.

It’s Okay to Ask for Help

Building wealth is about giving yourself the tools and freedom to live the life you want to live.

Financial markets can be overwhelming to navigate on your own. That’s okay! A fiduciary working on your team frees up your time to be with your loved ones and to dedicate your creativity and energy to the things that excite you most.

Just as we seek out professional guidance when it comes to important matters of health, construction, vehicle maintenance, education, professional development, or legal issues, it’s okay to ask for help when it comes to managing your financial wellbeing across your investments, retirement goals, and tax and estate plans.

No matter whom you choose to work with, a trusted partner on your team can take an outside and balanced perspective when it comes to building your wealth. Major life events and changes can be stressful and heighten uncertainty just when stability and guidance are needed most.

Strategic Framework

Below is an overview of specific strategies or opportunities that every investor should revisit through time. Building wealth is a continuous process and there are incremental steps you can take to put the odds of success on your side. Whether you're already on the right path or you have questions and need help getting started, use this framework as a checklist to highlight areas that are important to you.

Personal Finances & Cash Flow

- ☐ Budgeting & Cash Reserves
- ☐ Establishing & Maintaining Credit
- ☐ Credit Cards
- ☐ Planning for Income in Retirement
- ☐ Homeownership and Mortgages
- ☐ Buying or Leasing a Car
- ☐ Identity Theft and Cybersecurity Insurance
- ☐ Property and Casualty Insurance

Investment Management

- ☐ Understanding Your Risk Tolerance
- ☐ Setting Investment Goals
- ☐ Designing and Managing a Portfolio
- ☐ Asset Allocation & Asset Location
- ☐ Handling Market Volatility
- ☐ Taxable vs Tax-deferred vs Tax-free Investing
- ☐ Stocks, Bonds, ETFs, Mutual Funds, CDs
- ☐ Separately Managed Accounts

Tax Efficient Strategies

- ☐ IRAs and Employer Sponsored 401(k) Plans
- ☐ Roth vs Traditional IRAs and 401(k)s
- ☐ Strategies for Retirement Plan Distributions and RMDs
- ☐ Annuities and Pensions
- ☐ Tax-Loss Harvesting
- ☐ Municipal Bonds and Other Tax-Advantaged Securities
- ☐ Qualified Charitable Distributions and Donor Advised Funds
- ☐ Health Savings Accounts

Building a Legacy

- ☐ Creating & Preserving a Family Legacy
- ☐ Understanding Wills & Trusts
- ☐ Planning for Incapacity
- ☐ Using Life Insurance in Estate Planning
- ☐ Strategies to Minimize Estate Taxes
- ☐ Charitable Gifting Strategies
- ☐ Family Foundations

Education Planning

- ☐ Saving for College
- ☐ 529 Plans
- ☐ Financial Aid & Student Loans
- ☐ Repaying Student Loans
- ☐ Education Tax Credits & Deductions

Social Security and Medicare

- ☐ Understanding Social Security
- ☐ Social Security Retirement vs Disability Benefits
- ☐ Medicare
- ☐ Medicare Prescription Drug Coverage
- ☐ Medicare Supplement

Insurance Planning

- ☐ Protecting Your Loved Ones with Life Insurance
- ☐ Estimating Your Life Insurance Needs
- ☐ Understanding Different Types of Life Insurance
- ☐ Long-Term Care Options
- ☐ Financial Impact of a Disability

Business Planning

- ☐ Starting or Buying a Business
- ☐ Choosing a Business Entity
- ☐ Business Insurance & Tax Planning
- ☐ Retirement Plan Options
- ☐ Succession & Exit Planning

When Should You Hire a Financial Advisor?

- When you are going through a major life transition or your financial situation has become more complicated, a financial advisor can be your advocate to help you navigate consequential life decisions.
- Life events like buying a home, receiving an inheritance, getting married and raising a family, changing jobs, starting a business, caring for an aging parent or a child with special needs, going through divorce, or experiencing the loss of a loved one can all lead to a more complicated financial situation.
- A financial advisory firm can provide support and continuity for you and your family in the event of death or incapacity of your family's primary financial decision maker.
- A financial professional can become a trusted advisor in your corner. Even the best professional athletes in the world hire coaches to benefit from their objective, experienced perspectives. Sound investment management and financial planning go hand in hand with behavioral coaching (particularly when times are tough).
- A financial advisor becomes part of your larger team, working with your estate planning and tax preparation professionals.

Peak Asset
MANAGEMENT

LOCATION:
1371 East Hecla Dr., # A
Louisville, CO 80027

PHONE:
303.926.0100
800.298.9081

EMAIL:
peakam@peakam.com
LEARN MORE AT **peakam.com**