



FLASH REPORT

THREE THINGS TO DO *BEFORE* YOU STRESS TEST

In recent years, we've seen stress testing become an increasingly common action step taken by wealthy families and their advisors. At its core, stress testing is a formal process designed to put a wealth plan (or certain components of it) through its paces. That means evaluating and assessing it to see if the strategies being used are likely to achieve a wealthy family's key financial goals and objectives.

Often that's done by examining how a wealth plan would likely behave in a variety of scenarios—both positive and negative—that would have an impact on it. The goal is to ensure that the plan doesn't spring any unpleasant surprises on the family.

Stress testing also seeks to identify any strategies or opportunities that are currently being overlooked in the plan but that could add significant value to the family's financial life. The goal here is to take what's already working and fine-tune it to make it work even better.

A major benefit of stress testing is that it can help put various financial strategies and efforts together to create a comprehensive picture. Some families implement their wealth solutions piecemeal—using multiple professionals who rarely (if ever) work together on the families' behalf. It's a bit like building a house but having different construction companies build each room without ever coordinating their efforts. A stress test can examine how well the various solutions in place are working together—or not—and identify ways to better coordinate efforts.

FROM THE VERY RICHEST TO THE REST OF US

As with so many financial resources, stress testing really got its start among some of the wealthiest families—such as the Super Rich (people with a net worth of \$500 million or more). Not surprisingly, many families whose wealth wasn't in the hundreds of millions (or even tens of millions) of dollars saw the value of stress tests and wanted in. As more and more wealth management strategies and products become available to individuals and families that are significantly less affluent than the Super Rich, it makes sense that stress testing is gaining traction.

The downside, however, is that we've noticed a troubling trend. As stress testing becomes more commonplace, it's not always being done with as much focus and rigor as it could be—or as is necessary, in some cases. As a result, faults, errors and missteps can be made by some professionals who proclaim they are adept at the process but who don't fully grasp stress testing. This has led to some substandard outcomes.

ACTION STEPS

So, if you want to stress test your personal financial situation, how can you be confident it's being done thoroughly by a high-quality professional? We suggest taking the following action steps.

1. Seek out professionals who can clearly explain the stress testing process and its potential value to you. It's a good sign when a financial professional can really explain stress testing—the value it can bring and the reasons for doing a stress test in the first place—in terms that are clear and compelling to you.

A sign that a professional understands stress testing is if they emphasize these two things: 1) that stress testing is not about being sold services or products, and 2) that stress testing might result in no changes being made at all to the current wealth plan.

Think of stress testing as an annual physical. You may not have any medical concerns going into the appointment, but you show up because you want to ensure that any unidentified or hidden problems are uncovered. That way, you can take steps before the problems become serious. Likewise, you might discover new information that could help you improve your already healthy lifestyle.

2. Work with professionals who are focused on the human aspect of your wealth. Stress testing isn't meant to coldly evaluate each of your wealth strategies versus some index or benchmark. Instead, it's designed to help you see if those strategies collectively are still well-suited for you (based on your particular needs, wants and preferences), versus available alternatives.

In short, in order to be effective, a stress test has to take into account your important personal and even emotional traits. This human aspect of wealth and money is vital to ensuring you are getting the desired wealth management results—and that those results are within the parameters you establish.

That means the professional who does a stress test has to have a deep understanding of you—including your goals and values as a person, not simply your net worth and what you own. Make sure the professional who stress-tests your wealth management solutions is truly client-centered.

3. Work with professionals who are highly skilled, technically. Although the human aspect should take center stage, it won't do much good if the person doing the stress test can't expertly evaluate your current wealth solutions or ones that could be a good fit for you. A highly proficient professional can evaluate the most sophisticated and complex wealth management solutions to see if they are working as expected and are not in any way skirting laws or regulations. They also will be knowledgeable about alternative strategies and products. Being able to construct side-by-side comparisons and looking at all qualities of a wealth management solution are characteristic of a highly technically

THE RIGHT COMBINATION

We believe technically skilled professionals who understand what stress testing really is (and is not) and who have a keen awareness of the human aspect of wealth planning are the best people to conduct stress tests for you. These professionals are, generally, best-positioned to actually deliver the significant value that a well-conducted stress test can offer you and your family.

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