Do you think Micro or Macro?

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I have been in the Financial space since 2003. When I reflect on the early years of my career, I think how grateful I was to have had incredible mentors. My stepfather has been in the financial industry for over 45 years. If it was not for him, I most likely wouldn't be writing this article. He introduced me to great mentors who helped me create the foundation of my practice today. I will leave these mentors nameless, but to compare them to professional sports, would be like learning golf from Phil Mickelson. I was extremely fortunate to learn early in my career about macro financial thinking. What exactly does this mean?

For most people, the concept of creating wealth, protection, and securing a sound financial future is a daunting task. Quite honestly it can be rather intimidating. There is so much information that we all have access to. The media, books, financial tv shows, magazines, newspapers and so-called financial gurus infiltrate our brain with knowledge that most often is not geared directly towards our specific situation in first place. We are taught to "zoom in" on the different areas of our financial world by hiring experts that can handle each component of our finances. Examples include hiring a Financial advisor, investment advisor, banker, mortgage broker, CPA or tax advisor, real estate agent, insurance agent, etc. This approach I would classify as microeconomic. What I mean by that is these experts typically give advice in their own individual silos of expertise. What happens often as a result of working with a microeconomic philosophy in my experience is that clients end up with various financial products, each from different institutions and advisors. However, this approach lacks a well-designed strategy on how to actually utilize those products and institutions to work together in harmony to increase wealth, protection, liquidity, and decrease debt.

Have you ever asked yourself "*who is managing my managers*?"

Most often it's you! With balancing life, work, kids, family, exercise, hobbies, travel, and more, managing everyone on your financial team creates its own set of challenges. For one, how do you measure the results of all these independent micro decisions and how those decisions affect other areas of your financial life?

Let's consider an example of purchasing a home. The micro decision in purchasing a home mostly involves the mortgage choice. After negotiations on home purchase price, it's time to deal with a mortgage broker or bank for your mortgage. The two main aspects of any mortgage decision are the interest rate and term of that mortgage. If the interest rate is fixed, then the

question becomes for how long is that rate fixed? Assuming it's not an adjustable rate mortgage, that interest rate can be fixed for typically 10,15,20 or 30 years. In a micro financial decision, one might only focus on the interest rate of that loan. If monthly cash flow can afford the shortest duration loan, only focusing on the amount of interest paid to the lender can infringe on other areas of financial importance. Yes, it's true that the sooner you pay off that mortgage, you would then have that freed up monthly cash flow that was once servicing that mortgage to save or invest. However, have you ever considered the cost of that decision in how it might affect other areas of critical importance? Are you unknowingly holding yourself back?

Let's now look at the same example through a macroeconomic lens. When you consider making macroeconomic financial decisions, this can help to address other areas of critical importance with the same cash flow. Purchasing a home on a longer-term mortgage like a 30-year loan will require less outlay monthly than a shorter duration mortgage such as a15-year loan. If disciplined, you can save the difference monthly to create more liquidity and increase wealth. This liquidity can be positioned for emergencies or potential opportunities that might come your way. If the goal is to be mortgage free in 15 years, you could have enough money saved and liquid to be used to pay off the remaining balance of that loan. This can be accomplished by having discipline and saving the monthly difference between the two mortgage payments (15 vs 30-eyear payment) into an account for exactly that purpose. On the 15th year, you should have enough money to pay off the remaining loan balance. Like I said earlier this does take discipline, but so does making a mortgage payment, so it's no different. This also can create more financial flexibility because let's face it, life happens! Sometimes life throws a curve ball, and not being tied to a higher mortgage payment can be beneficial some months.

But what about the interest cost? This is typically what the bank or lender will say to you and show you that you will pay more interest over time with a longer amortizing loan. This is true, but only half the story. Sure, banks love getting more of your money monthly because they can then borrow more money and loan more money out to other people for loans. This is how banks create wealth and stay in business. Yet what can you create by having more liquidity monthly and saving it? What can you save on taxes by extending mortgage deductions and earning interest on your money that you would have given up to the bank? You see there is always an interest cost. You are either earning it or losing it to someone else. It's what the financial industry calls Lost Opportunity Cost.

Another example is addressing other areas of critical importance in your 4 financial domains of protection, assets, Liabilities and cash flow. Making macroeconomic financial decisions allows for the examination of how those 4 domains of importance are affected by one micro decision. Perhaps there is the need for more life insurance protection because you may lack proper death benefit coverage. Most people I consult with are grossly underinsured in this area. What's kind of funny to me is people have maximum protection on their cars, boats, and

homes, but only have enough death benefit protection to ensure 5 years of not earning income due to a premature death. Ask yourself, is it more important to pay off a loan early or pay off that loan while increasing protection and increasing liquidity simultaneously? Perhaps there is the need for protecting the greatest asset, YOU, and the ability to earn income by implementing an income protection policy. This way if you become sick or injured and cannot work to earn a living, there is tax free dollars to come into your cash flow from an insurance company disability policy payout. This ensures that under any circumstances you have enough cash flow to actually pay that mortgage payment. Perhaps there is other debt such as credit card loans, or student loans, and considering those debts and your mortgage decisions simultaneously, can allow for monthly cash flow to be used more effectively in paying of multiple debts at once faster, vs just paying down a mortgage faster.

My point in all of this is that it is simply not effective when you only think micro. Micro decisions are a part of your financial strategy but many micro decisions all going on at once can be challenging to manage. Therefore, a macroeconomic approach is more successful as it touches on every area of importance.

What I have found to be the most helpful in making macroeconomic decisions is to utilize a financial model that can test your many micro decisions. This allows you to see the potential outcomes of those decisions. This process of working with a financial model enables you to not only test a financial decision before you implement it, but also the impact of that decision and how it affects other areas of financial importance. Does that decision help to increase wealth, or liquidity? Does that decision reduce risk and increase protection? Does that decision put you and your family in greater control over your money? Lastly, does that micro decision help you to create more retirement cash flow?

Over the past 17 years many clients I have coached towards optimal financial wellness at first did not realize the importance of thinking this way. It wasn't until we examined the many micro decisions they have been making and how those decisions have unknowingly been negatively affecting them in areas of protection, assets, liabilities and cash flow. One of the best outcomes of having a macroeconomic approach to financial wellbeing is that it gives you total clarity, eliminates financial opinion of others, and allows for fact-based decision making. As I have said many times before and will continue to say until I am no longer on this planet, most people make financial decisions based on the opinions of others. Perhaps it is time to take charge of your finances, test your current micro financial decisions and come to factual conclusion on how your current financial strategy is working for you!

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