HOW TO MANAGE A WINDFALL

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MAYPORT®
WEALTH MANAGEMENT

Dear Reader,

Thank you for your interest in *How to Manage a Windfall.*

If you're reading this—and have just received a windfall—congratulations. I created this ebook–and founded my firm–for one reason: Because I believe that the financial services industry too often makes personal finance seem more complicated than it needs to be. With your increased wealth, your financial life will have more moving parts. But, I firmly believe that there is a set of universal principles that applies to every individual. In the following pages, you will find those principles.

I hope you find this information helpful, and please contact me at any time with questions.

Best regards,

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INTRODUCTION

A little while back, life changed for 24-year-old Manuel Franco of West Allis, Wisconsin. The winner of a recent Powerball lottery, Franco took home $326 million after taxes. With this large a sum, it shouldn't be hard for Franco to make his winnings last a lifetime. But that's an extreme case. More often than not, windfalls of this sort deliver more heartache than happiness.

Consider, for example, Lara and Roger Griffiths, an English couple who in 2005 won the equivalent of $3.2 million in their local lottery. After celebrating with a spray of champagne, Lara and Roger both quit their jobs to go on a buying spree: three houses, sports cars, jewelry and an upgraded lifestyle that included vacations in Dubai, Monaco and Majorca. As a result, sadly, the Griffiths found themselves penniless just six years later.

To be sure, the Griffiths' story is also extreme. But if you are the recipient of a windfall—whether from a bonus, stock options, the sale of a home, an inheritance or even just a tax refund—it's important to employ a logical framework when allocating these new funds. Below is the eleven-step process I recommend:

STEP 1: SET ASIDE FOR TAXES

The single most important thing—and the very first step you should take—is to visit your accountant. Even if the check you receive withholds some amount for taxes, that often is just an estimate. Only your accountant knows your entire picture well enough to make an accurate estimate. Then take that amount and stow it in a separate FDIC-insured savings account.

STEP 2: DON'T SIGN ON ANY DOTTED LINES

If your windfall hits the news, your phone may start ringing with pitches from brokers and other eager vendors. My advice: Ignore them for now. At first, it's best to spend some time alone—or with your spouse—thinking about a high-level allocation for the funds. Engage in some soul searching. Ask yourself what goals are most important. What portion would you like to allocate for long-term savings, for gifts to family, for charity, for a rainy day fund or for other significant goals? Develop this high-level understanding first before you start to speak with others.

STEP 3: DIVERSIFY

If your windfall came in the form of company stock, it may be tempting to hold onto it. After all, you know the company, and you may incur further taxes to sell your shares. But I would encourage you to think about it this way: If you didn't already own the stock and didn't work for the company, how much of this one company's stock would you buy? I wouldn't let any single stock account for more than 5% or 10% of your net worth.

STEP 4: ELIMINATE HIGH-INTEREST DEBT

If you're carrying credit card debt, I would eliminate it. With the average credit card charging nearly 18%, you'll earn the equivalent of a guaranteed 18% tax-free when you pay off your debt.

STEP 5: EVALUATE LOWER-INTEREST RATE DEBT

While I wouldn't hesitate to pay off high-rate debt, you don't need to eliminate *all* debt. If you have a very low-rate mortgage or car loan, for example, it might make sense to keep that loan, even if you could afford to pay it off—for two reasons: First, you might be able to earn more, over the long term, by investing those funds. Second, and maybe more importantly, it buys you flexibility. You can always pay down debt later, but it'll be much harder to take out a new loan if you're short on cash some day down the road. (It is well known that banks prefer to lend money to people who don't need it.)

STEP 6: SET ASIDE FOR CHARITY

The next step is to think about charitable contributions. Especially if your windfall will push you into a higher tax bracket, charitable gifts are a very effective way to moderate your tax bill in a high-income year. A donor-advised fund is an easy, flexible and effective tool to support charitable causes while cutting your tax bill.

STEP 7: CONSIDER GIFTS TO FAMILY

Depending upon the size of your windfall, you might consider gifts to family members. This will depend on a number of factors, but if you do make these kinds of gifts, do so carefully. Think about equity among your recipients, and also be sure to set expectations. Is this a one-time gift or the start of regular, annual gifts? Whatever your plan, everyone will be happier if you communicate it up front.

STEP 8: DO SOMETHING MEANINGFUL

Economists caution people against “mental accounting”—that is, treating money differently depending upon its source. To a purely rational mind, money should be fungible. But most people *aren’t* purely rational—and that’s okay. I think it’s completely reasonable to use part of a windfall to purchase, or do, something that carries sentimental value. You could, for example, use part of an inheritance to purchase something special for your home, something that will serve as an ongoing reminder of the person who left it to you.

STEP 9: DO SOMETHING FRIVOLOUS

Do something frivolous. As important as it is to do something meaningful, I also advise doing something frivolous. Why? Because it is largely unavoidable. It’s the rare person who won’t be tempted to do something fun. Recognizing that reality, I think it’s better to budget for this, rather than letting it just happen. That’s what got the Griffiths in trouble: If it had been just the McMansion or just the sports car or just the jewelry, they probably would have been fine. So have fun, but within a prescribed limit.

STEP 10: REMEMBER THAT SLEEPING AT NIGHT IS A VALID GOAL

You may want to allocate extra “safe money” to ensure peace of mind, regardless of the market’s ups and downs. I know one windfall recipient who insists on keeping $1 million in her checking account. That might sound extreme, but these choices are entirely personal and subjective.

STEP 11: SAVE THE REST

After making each of the above allotments, you’ll want to save the rest, but don’t rush to invest it. Give it time. Especially when the market is at a high point, I don’t see any particular urgency to jump in with both feet. Instead, give things time to settle down. Be sure all of the above allotments are taken care of, and take plenty of time to think through your long-term plan. Also, because your tax rate may be quite a bit higher in the year you receive a windfall, you’ll want to implement as many strategies as you can to cut your tax bill.

ONE LAST THING

If you saw Lara and Roger Griffiths on the day they won the lottery, they were anything but discreet. Nothing good comes from drawing attention to yourself, and it only makes it harder to follow these steps carefully, methodically and on your own terms. This brings me to one last piece of advice: While it may be difficult, try hard to keep a low profile.

NEXT STEPS

- **Looking to learn more?** Visit Mayport's website to download other ebooks in this series.
- **To discuss how these principles apply to your own portfolio,** you can schedule a call with Mayport principal Adam Grossman.
- **For a complimentary analysis of your portfolio,** please get in touch.

ABOUT THE AUTHOR

ADAM M. GROSSMAN, CFA

Adam Grossman is the founder of Mayport Wealth Management. Adam founded Mayport with the goal of providing comprehensive service at a fair price. Specifically, this means that Mayport charges simple, fixed fees, rather than the typical 1%-of-assets fees that most firms charge.

Adam is a graduate of Williams College and holds an MBA from the Sloan School at MIT. He is a Chartered Financial Analyst and a member of the CFA Institute. Adam has several years of experience working with high net worth individual and families to help plan for a safe and secure financial future.

If you would like to discuss your individual needs, please contact Adam at adam.grossman@mayport.com or [schedule a call] at your convenience.