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Building blocks of a successful financial plan

By Valerie B. Dugan

Miniature master builders and budding engineers will soon have the chance to explore the world of the iconic plastic building block. The LEGO KidsFest, stopping at the Hartford Convention Center Dec. 6-8 will give fans a chance to see some of the world's most inspired creations, from entire cities and programmable robots to life-sized models of Harry Potter and Hagrid.

The interactive programs of this festival will have attendees grabbing for blocks by the bucketful. Even the most inexperienced will have a chance to create unique, imaginative masterpieces, one brick at a time.

One brick at a time. It is the same for investors. Even for first-time investors, it's not that difficult to build a masterful portfolio when using the correct combination of financial building blocks.

1. *Design a blueprint for construction*. You will have to embark on your portfolio creation by composing a comprehensive budget. Monthly, weekly, and daily expenses should be detailed, from rent, transportation and insurance all the way down to clothing and coffee. Then you can begin to calculate how much will be available to invest.

2. *Lay a solid foundation.* For a stable foundation, it is just as important not to lose money as it is to make money. Cement your foundation with an asset class that is often less shaky -- highly rated corporate or even municipal bonds, for instance. And, often muni bonds are federal tax free and, sometimes, state tax free as well.

3. *Consider your tolerance for risk*. Every day, it seems, there is a new set of conflicting economic news. Home sales are up. Then home sales are down. Manufacturing is improving but then not improving so much. Just like youngsters with plastic blocks, a misplaced "brick" can increase the risk beyond what is tolerable. For many investors that means a thoroughly researched mix of domestic and emerging market securities, including those with long histories of dividends.

4. *Consider the neighborhood.* Few people want to live on a street where every house is identical. In your portfolio, failure to diversify can increase risk.

5. *Plan for renovations.* Young investors, especially, must consider their liquidity needs to make sure cash is available when necessary -- for the down payment on a house, an engagement ring, a wedding, and children's expenses, for example.

6. *Build in spring, not fall.* Investors who wait until their "autumn years," a decade or so until retirement, unfortunately are the majority. But waiting so long to enter the investment world can be costly in that older investors might not be able to weather a poor economic cycle. Far better to begin building in one's "spring," during the first year of employment, whether independently or through a 401 (k) plan.

7. *Add the crowning piece.* The final building block of your new portfolio might well be the most important one: realistic expectations. It's essential for investors to look long-term, to remember that pull-backs are part of a normal cycle. Trading on every news report or friendly "tip" can undermine your long term strategy.

If a portfolio is built piece by piece, with the proper blocks, chances are it will not only stand the test of time – but will fulfill all your unique financial goals as well.

Valerie B. Dugan, is a senior vice president and financial advisor in the Hartford office of Morgan Stanley Wealth Management.