Your Other Portfolio

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A recent article in the Wall Street Journal (you can find it here: http://online.wsj.com/article/SB10001424052748704904604575262712612181000.html?mod=WSJ_hpp_sections_personalfinance) touched lightly on a subject that is being discussed at much deeper levels in the financial planning profession. Although much of our investment conversations are about portfolio returns and asset allocation, most people actually have two portfolios which generate returns.

At recent industry conferences in San Antonio and Chicago, entire sessions were devoted to issues around peoples' career assets. Broadly speaking, everybody starts out with a very large career asset--the future value of all the earnings you'll receive over a 30-50 year career for the work you do in your industry or profession. College graduates have larger career assets--that is, their potential earnings are greater than people without a college degree--and any specialized training will increase the value of your career asset.

Over time, as you move through your worklife, the career asset is monetized--that is, you're paid for the work you do. As you monetize your career asset, some of that is transformed into capital assets--your retirement/investment portfolio, which (theoretically, at least) will grow over the course of your career. One of the fundamental jobs of a financial planner is to make sure that you keep enough of the money generated by your career asset, each year, to eventually support you in retirement (to make work optional rather than necessary) and to pay for your other goals and objectives.

We call this savings and investing, but it's really a process of gradually turning your career asset into capital assets, so that when you decide to retire, and your career asset has been consumed, it's replaced by the ever-growing capital assets in your investment portfolio. Tragically, millions of people never retain enough of the money generated by their career asset (never save enough) to make work optional later in life.

This career asset is usually far more stable than the stock market; when the markets go down, you still go to work; when the markets go up, you're still earning the same income. But as millions have found out in the recent economic downturn, your career, too, can be affected by upheavals in the economy. When somebody is laid off, it interrupts the cash flow from the career asset, and raises a lot of "career asset management issues" that probably should have been considered all along:

Are you working in a stable, growing industry or profession?

Shouldn't you, every year, reevaluate your skills and value in the marketplace?

When does it make sense to change jobs or careers, or get retraining?

How much of a return will you get on the cost of taking time out from work and paying for college courses or specialized training?

Are there free training opportunities that you should be taking advantage of?

Other issues make much more sense once you understand the career asset concept. Life insurance, for instance, can be seen as a way to protect the future value of your career asset. The same is true for disability insurance. Theoretically (unless you have estate planning issues, which is another discussion), the amount of life insurance coverage you need will go down as you "monetize" your career asset over time. But you may need to adjust your disability insurance upward as you reach the later stages of your career and earn more per year.

Financial planners are beginning to take a closer look at those clients who walk in their door and can't wait to retire early, because they're miserable in their present job. What we're learning is that the solution may not be an early retirement, but either a renegotiation of the current job (less responsibility, less stress, maybe less travel, and also less income) or a career change to something much more satisfying. As more of your career asset is monetized, as work becomes more and more optional, a lot of people are looking for a more fun way to generate income. One advisor recently talked about "helping people shift from a great-paying crappy job to a crappy-paying great job"--something they would enjoy doing for many years.

Suddenly, their work-life has been extended by a decade or more, putting less stress on the retirement portfolio, putting more fun in their lives, adding new value and life to their career asset. This is the holy grail of financial planning: a win-win-win.