

ALBION FINANCIAL GROUP

GUIDING CLIENTS TO A LIFETIME OF GOOD DECISIONS



DISASTER WAITING TO HAPPEN OR DISASTER AVERTED; YOU CHOOSE

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***“Earthquake Strikes Salt Lake City. Buildings Destroyed:
Utilities down for a Month”***

What comes to mind when we think about disasters and cataclysmic events; floods, earthquakes, fires and the like. And while it is essential to plan for these dramatic possibilities there are far less newsworthy yet much more likely “disasters” that can impact us in adverse ways. So prior to confronting the daunting task of planning for an unlikely large scale disaster spend some time planning for the more likely, and far more mundane, inconveniences that could rock your world. A side benefit to this planning is that your efforts can be used as building blocks when creating a large-scale disaster recovery plan. Disaster mitigation strategies cover a broad range of topics from planning places for your family to meet in case of an emergency to maintaining adequate supplies of food

and water. While the full range of disaster mitigation topics is essential to review, this piece will be limited in scope to essential preparations you should make to avoid crippling problems with your financial affairs.

Have you ever had your purse or wallet lost or stolen? If so, you know well those moments of concern as you attempt to recall exactly what was in it and what damage the thief might do before you are able to take mitigating steps. Having your mail stolen brings the same response with the additional uncertainty of not knowing what exactly was in the mailbox that day. What about that sinking feeling when due to business volatility bank balances are too low at the end of the month to meet your living expenses? Do you have adequate liquidity outside your company if the problem persists? What about your health? Do you have a mechanism in place in the event you are unable to conduct your own affairs due to a temporary disability? Who can you turn to for help in the event of an emergency? Let's categorize and address these issues.



CHECKING AND ORGANIZING YOUR FINANCIAL INFORMATION

Begin by organizing your financial data, recording the relevant account information, and storing it in a safe place. Know where your deeds, titles, and insurance policies are located and have them stored securely in a place where you can quickly grab them on your way out the door. Document the possessions in your house; walk through your home with a video camera recording images and describing the contents of each room. If possible have copies of the relevant documents, the video of your home, and account information secured off site and accessible by a trusted friend or advisor who you can reach on short notice. This will prove invaluable should your home be damaged or destroyed and also very useful if putting a hold on your assets or cancelling credit cards or debit cards becomes necessary, particularly if you are out of town and unable to access the information on your own.

"We are dependent on our financial system to function each day."

Make sure your planning documents are current and allow for someone you trust to make decisions on your behalf should you be unable to do so. Many of the tools to do this are relatively simple to execute but may have complex repercussions; be careful about whom you grant these powers. Make sure your health care powers accurately reflect your wishes and are properly executed. While you're at it a review of your estate planning documents is in order to make sure they still match your situation. Don't neglect your Social Security, Passport and Driver's License numbers. Add copies of these documents to your file of must have items.

These documents are not very useful if they are not available when needed. Be sure someone you trust knows how to get the documents and can, for example, get an executed copy of your health care directive to the hospital should you be unable to do so yourself. At least annually obtain a credit report from each of the three reporting bureaus. There are also services available that, for a fee, can keep you apprised of any credit activity under your Social Security number on a daily basis.



MAINTAINING ACCESSIBLE RAINY DAY FUNDS

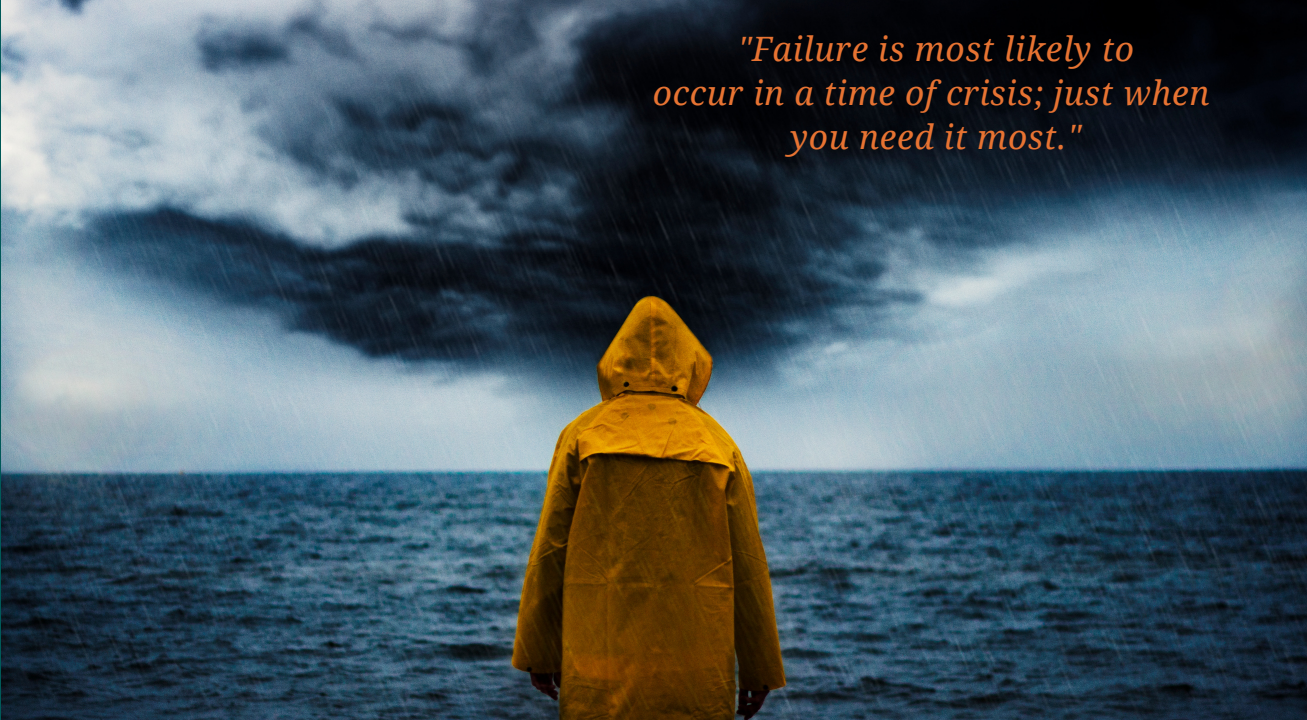
The other day when driving to work I pulled into a gas station to fill up. As we all now do, I got out, slid my credit card through the reader, and placed the nozzle in the filler tube. When the pump then told me my card could not be accepted I went inside and was informed that their link was down, they could not accept credit cards, and if I wanted to buy gas I'd have to use cash. Fortunately I had cash that day so was able to fill my tank but while I was doing so a half dozen cashless potential customers were turned away.

We are dependent on our financial system to function each day and the example above indicates how ingrained it has become in the fabric of our lives. While we don't advocate basing disaster mitigation exclusively around the notion that our financial system will cease functioning it is likely that there could be temporary interruptions to your ability to access funds. This could be a result of a temporary system failure as mentioned above or the result of a failure of the tools in which your funds are invested.

To protect against a temporary inability to access funds or credit lines keep several days of cash on hand. These are funds that would tide you over until the financial network in your area is up and running again. It is important to separate this cash from "walking around" cash you may normally carry in your wallet. While it is not the focus of this piece you should also have adequate food and water stored at home to tide you through a temporary period of time in the event you are unable to purchase basic supplies.

Far more likely than a systemic financial failure is an event specific to you or your region of the country that interrupts your usual cash flows from employment. Have a cash reserve set up to carry you and your family through three to six months of lean times. Keep these cash reserves as safe and liquid as possible. FDIC insured bank deposits and high quality money market funds are the best options. Yes, the yields on these tools are nonexistent right now but the purpose of this piece of your financial puzzle is safety and liquidity, not return.

Be careful of investment tools that are "similar" to money market funds but may offer a slightly higher current yield. While many of these tools may function as advertised for years, failure is most likely to occur in a time of crisis; just when you need it most.



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For example auction rate securities were very popular as a cash management tool several years ago. By trading daily liquidity for weekly liquidity investors received a higher interest rate on their money. Unfortunately many investors in these tools did not understand that these were not money market funds. In 2008 when buyers for auction rate securities dried up holders were unable to sell their positions for much needed cash.

Check your insurance coverage. A good disability policy can make a big difference for you and your family should you be rendered unable to work for a period of time. Good health insurance (and yes, we recognize this is a hot button issue) can make the difference between a health issue being a minor setback or a road to bankruptcy. As CEO you are likely the primary breadwinner in your household. What happens to your family if you pass away? Life insurance, properly used, can really help your family meet their objectives should you be unable to provide for them.

The last point about liquidity is to review whether your financial assets are adequately diversified. It is very common for CEO's, business owners, and senior executives to have the majority of their net worth tied up in their company. While wealth is often best created through concentration it is best retained through diversification. When your paycheck, your career path, much of your net worth, and in many cases your reputation is tied to a single company it is prudent to diversify a portion of your balance sheet away from that company. There are many tangible benefits to building a substantial portion of your net worth outside your company. These include the flexibility to raise funds without impacting your firm and the ability to maintain your family should the company fall on rough times and be unable to meet your cash flow needs. It also provides a lifeboat should the unthinkable happen and the company fail.

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THE BENEFITS OF A GOOD TEAM

You likely already work with an accountant, an attorney and a financial advisor. When creating your disaster mitigation plan do not hesitate to take advantage of their expertise. A solid team watching your back can not only ease the process of creating your plan but can certainly prove invaluable help should the plan ever be called into use.

Your attorney can help you correctly create legal documents, specific to you, that provide essential guidance and a framework for action in the event of a variety of disasters. He can work through asset titling issues to ensure that your assets are held in such a way that they provide the most benefit to you and your family in a variety of prospective circumstances. Your attorney can review your full slate of documents from trusts and wills to medical and financial powers to make sure they meet your current requirements and do not have conflicting passages that could cause problems in the future. Additionally, your attorney will usually keep a copy of all documents they create giving you the benefit of off-site storage for these critical items should your originals become lost, stolen or destroyed.

In addition to advice on how best to navigate the tax and regulatory environment in which your business operates your accountant is an excellent backup location for your specific financial information. Should your financial information be lost, stolen, or destroyed your CPA will have records that can provide essential guidance as the data is reconstructed. Often your CPA firm will know your corporate information as well as your personal information and can be an excellent source of aid in the event a disaster befalls your firm.

Most CEO's of closely held businesses keep close tabs on most if not all of the financial relationships of their company and some choose to forego an accounting relationship altogether, preferring to handle these functions on their own. While this can be effective for the individual CEO it quickly becomes a problem if the CEO is no longer able to function. It can be extremely disruptive to the business, to say nothing of the family members charged with picking up the pieces, to recreate this knowledge base in the absence of a quality, previously involved, CPA.

Often communications with your financial advisor occur with far more frequency than with the other professionals on the team. It is in your best interest to use that relationship to its fullest. Your financial advisor can serve as a trusted backstop if they know you, the pieces of your financial puzzle, and how you'd like the pieces to fall together in the coming years. They can be an excellent place to keep backup copies of your data, and if they adhere to a fiduciary standard, can give you the security of knowing there is a team out there that has a duty to look out for your best interests first. Your financial advisor can provide guidance regarding tools and techniques that are best suited to your individual circumstances whether it be a place to park an emergency reserve fund or the appropriate investment policy for financial assets with a longer time horizon. In the event of an emergency they are in a position to quickly help you implement steps to mitigate the damage to your financial situation.

Disaster recovery planning can be a daunting project but like so many endeavors it can be accomplished if divided into smaller more manageable tasks. The items outlined here are some of the steps that serve as building blocks to a comprehensive disaster mitigation plan. There are scores of resources available to help you design and build your own disaster recovery strategy. One of the most comprehensive sources is the Federal Emergency Management Agency. They have extensive guidance available online at <http://www.fema.gov/plan/index.shtm>. May you create an excellent plan and never have to use it.

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