

Let's see a show of hands for those of us who would like to simplify things in life. Isn't that the trend these days? Little wonder with all the complexity that is forced upon us. Have you tried to fill out your own tax return lately? Does anyone work on their own car any more as some did in the 1960's? Financial matters also fall into the category of things that have gotten complicated. How many of the following do you have?

- Checking account for him; checking for her; joint checking account
- Money market account; credit union account; brokerage account
- Regular IRA; Roth IRA; 401(k) from the prior job; 401(k) from current employment
- Money invested in a hodge-podge of mutual funds (especially the ones that a friend may have recommended or you found on the list of The Hottest Latest Best Ever Funds)
- And if you are really lucky you might be an investor in a limited partnership, a family business or be incorporated yourself

Isn't it exciting to check the mailbox around the 10<sup>th</sup> of each month and to sort through the numerous statements? How about in January when all the tax information comes in?

Complexity adds hidden costs. Sometimes these hidden costs are small and at first glance insignificant. However, these costs are relentlessly systematic. A bucket with a small leak will empty surprisingly quickly. So, too, these small hidden costs add up in a hurry.

### Complexity adds hidden costs.

What is the cost of just one additional money market account? It does not sound very complex however; it adds more cost than most of us realize. First it is cash that perhaps could be applied elsewhere more effectively. \$10,000 in a money market account earning 5% could be used to pay down an 8% debt or invested and earning 10%. That loss in earnings is \$200 to \$600 annually. Perhaps that is not much, but \$400 a year compounded at 8% for 40 years is over \$100,000!

But, lost earnings is not the only cost of an additional money market account. It is one more 1099 you have to keep track of and give to your tax-preparer. It is one more statement you have to give to your financial planner. It is one more statement you have to open every month and file. It is one more junk mail list you get your name on. Who knows how much more junk mail you have to sort through just because of one more account? Who knows how many phone solicitations interrupt us during dinner because of one more account?

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That example is just for one money market account. Imagine the labyrinth of financial complexity that results from:

- Each additional investment account
- An additional trust account
- A limited partnership investment
- A charitable remainder trust
- A family limited partnership
- An irrevocable life insurance trust

Does this mean you should have only one bank account and one investment account? Does it mean that you should have no trust accounts? Does it mean that you should not have a family limited partnership? Not necessarily. They are useful in certain cases. However, many of them are overused. Many people become so overwhelmed by complexity that their personal lives suffer.

An automobile engine can generate more horsepower with a turbocharger. But if you are looking for a car that will provide reliable performance over time will a turbocharger help? Or will it mean that your car will wear out faster and spend more time in the shop?

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that their personal lives suffer.

Some complicated strategies can be like the turbocharger on a car. The economic advantages can be eliminated by the additional burdens of bookkeeping, tax filing, phantom income and restricted access to your capital. The impact of such costs are not always addressed up-front but become evident once in place. Sometimes the economic advantages are even uncertain or unmeasurable in advance. The non-economic impact can reduce the quality of life to a degree that more than offsets the economic advantage.

Individuals who engage in complicated planning strategies run the risk of creating burdensome complexity for a strategy that fails to produce the desired economic result. When adding complexity to your personal finances make sure that the advantage that is realized is sufficient to pay for the cost of the complexity.

Perhaps you are detail-oriented and don't mind the extra complexity. Have you wondered what would happen if you were to become incapacitated and a spouse or family member had to take over for you? Would that helpful person be able to keep up with it all? How much extra time does it take your tax preparer to assemble your return with all those different entries? Does the sheer volume of paperwork create a greater possibility that something will be overlooked or incorrectly handled?

Why do we put up with this mess? At one level we probably believe that a more simple approach would not be as financially rewarding. We may be trying to turbocharge our money by spreading it around to different investments. Surely one of them will do well, we hope. At another level it has just gotten out of hand and would require effort to fix it, if we even knew what to do with it. Most of this stuff sneaked up on us a little at a time as the

years went by. However, this is an area where it is probably within your control to significantly simplify things. Here are a few ideas.

- Consolidate your banking, savings and investment accounts to as few accounts as possible.
- Maintain all of your investment accounts with an Investment Advisor who will track your basis and measure your overall performance.
- Organize your affairs so a spouse or family member can easily locate your financial information and know your wishes in the event of your incapacity.
- Prepare a financial plan so you will know what your goals are and can focus on them.

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your control to significantly simplify things.

Adding complexity to personal finance is like adding a turbocharger to a car engine. It adds a certain kind of performance but it does so at a cost. In personal finance the cost is not always obvious. It can be a time cost. Complexity can mean that we spend more time at home managing our finances and spend less time with our families. Complexity can take an emotional toll. Even complexity that is handled by another can distract us, reduce our focus and cause us to be less effective in our professions. In choosing to add complex personal finance solutions, the elegant efficiency of simplicity is often overlooked.