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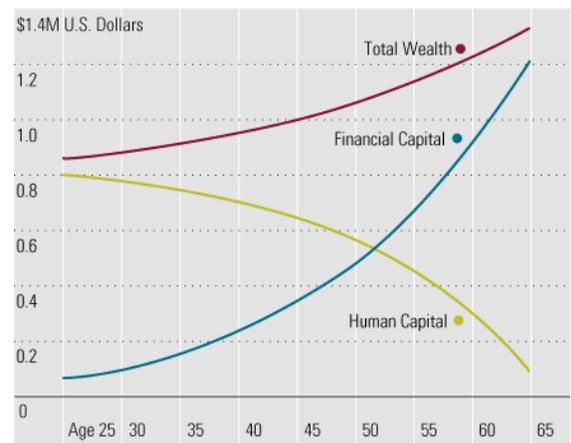
"Morningstar's Best Client Newsletter" in 2012

Understanding Financial Capital and Human Capital

- ▶ As this short article reviews, human and financial capital are inextricably linked.
- ▶ Early in our careers we expect to rely on our human capital to fund our financial capital needs later in life (e.g., the assets needed for retirement).
- ▶ However, the accumulation of our family's financial capital can be at risk if we encounter a challenge to our human capital (e.g., incurring a disability).

When calculating total wealth, it is important to consider not only financial capital, but human capital as well. Financial capital refers to an individual's total saved assets, while human capital refers to the individual's future potential savings from income earned. Looking at financial capital in isolation for retirement planning is incomplete without also considering human capital. Initially, an individual has higher human capital and lower financial capital. Over time, accumulation in savings increases financial capital, while human capital declines as the individual reaches retirement. Certain life events trigger significant changes in financial capital, such as receiving an inheritance, and in human capital, such as going back to school or receiving a promotion at work. Individuals should keep this in mind when planning their financial goals.

Financial Capital, Human Capital, and Total Wealth Over Time



Source: Roger G. Ibbotson, Moshe A. Milevsky, Peng Chen, CFA, Kevin X. Zhu. Lifetime Financial Advice: Human Capital, Asset Allocation, and Insurance, Research Foundation of CFA Institute, 6 April 2007.



Louis E. Conrad II, CFA
President

lconrad@compassinvest.com
(978) 254-7040
www.compassinvest.com

More about COMPASS Wealth Management, LLC

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

For details on the selection criteria used to determine the recipients of the FIVE STAR Wealth Manager award, please visit our web site.

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