Your Other Portfolio

November 29, 2022

Your home is your most valuable asset, right? Or maybe it's your retirement portfolio. Chances are, if you're under the age of 55, there is another part of your personal balance sheet that trumps both of them.

Most of our investment conversations, professionally and informally, are about portfolio returns and asset allocation. But the truth is, every working person actually has two portfolios which generate returns. That second portfolio is what has been called your career asset.

Broadly speaking, people who enter the workforce start out with a very large career asset—which can be defined as the (unknown but probably considerable) future value of all the earnings they'll receive over a 30–50-year work life. In general, 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 a person's career asset.

Over time, as people move through their careers, their career assets are incrementally monetized--that is, they're paid for the work they do. As they monetize their career asset, some of that is transformed into capital assets—their savings, which is invested in a retirement portfolio, which (theoretically, at least) will grow over the course of their career.

One of the fundamental jobs of a financial planner is to make sure that each of us keeps enough of the money generated by that career asset, each year, to eventually support us in retirement (to make work optional rather than necessary) and to pay for our other goals and objectives. Ideally, the annual returns on the monetary assets will eventually exceed the yearly salary income, making work optional and retirement affordable.

We call this savings and investing, but it's really a process of gradually, with discipline, 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 assets (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 found out in the last 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 seemingly complicated financial 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 assets. The same is true for disability insurance. Theoretically (unless you have estate planning issues, which is another discussion), the amount of life and disability insurance coverage you need will be reduced as you "monetize" your career assets over time.

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 more satisfying. As more of your career assets are monetized, as work becomes more and more optional, some workers are looking for a more fun way to generate income and prolong their work life. 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 assets. This is the holy grail of financial planning: a win-win-win.

Sources:

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If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

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