



COLUMN  
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# A Holistic Approach to Your Financial Future

What does it mean to investors and how it can affect your bottom line?

**W**e all want to see Puerto Rico's entrepreneurs, leaders, family-owned businesses, organizations and trailblazers continue to grow and prosper in a sustainable way. As a financial professional, I believe it is our responsibility to support and help them reach their goals, placing their interests first and providing customized solutions after a detailed, comprehensive and holistic analysis of all aspects of their financial lives.

As we are early in the second quarter of the year, I believe it is important to highlight five important actions that investors should have in mind in the months to come.

## 1. No decision is a decision.

After being born and raised in Puerto Rico, I left for New York to work at Goldman Sachs for over a decade, being based mostly in New York, but also working in London. In my different roles at the firm, I worked, learned, and dove deep into the use of a wide array of financial instruments and opportunities helping several institutional clients with ideas and solutions to achieve their investment goals. During the beginning of my career, I was so busy I did not take the time to prioritize and focus on making decisions that would align with my goals and objectives. I lost some valuable time. Not making a decision on what to do with your finances, is deciding at the present time what your future path to wealth will be like.

## 2. Compounding is one of the most overlooked and critically important lessons of investing.

Compounding is best defined as earnings on your earnings; the earlier you start this process, the higher the impact it can have on your financial future. As an example, if we compare the value of being invested over 30 years in a diversified portfolio with a 5 percent real rate of growth, versus waiting 10 years and then investing for the last 20 years, that decision to wait (or not invest) could materially affect the potential future performance of your investment portfolio to the tune of \$2 million.

## 3. Inflation erodes your real wealth; manage this risk.

Inflation is a risk that we all need to acknowledge, even if we don't feel it on a day-to-day basis. We do know that today things cost much more than they did when we were kids and even more than when our parents were children. Investors should manage this risk in their portfolios; at GenTrust, it is our most important focus for

2021. In our latest outlook piece, our chief investment officer and investment team discuss the likelihood of inflation to increase as pressures for higher inflation continue such as: de-globalization, central bank accommodative policies, slowing labor pool growth, base effects of low prices during 2020 and a potential increase in commodity prices ahead of a reopening of the economy. This risk is particularly important to manage in a low rate environment and considering the challenges to managing risk and volatility to portfolios that a potential reversal of a decade-long trend of low rates, high equity valuations and positive stock/bond correlation might bring.

hospitality, and to a certain extent banks, to perform well due to potentially sizable pent-up demand as vaccinations increase and as the economy reopens.

It is also important to be proactive and not reactive regarding your financial plans, ensuring they are flexible and appropriate for your ever-changing life's goals and unique circumstances. In many cases, timing and structure of plans can make a big difference in your outcome no matter if you are an entrepreneur growing and with plans to expand your company, ahead of a family succession event, and/or unexpected changes to your financial circumstances.



## 4. Be proactive, not reactive.

The drawdown we saw in March of 2020 due to the coronavirus pandemic's impact on the economy provided some of what, in our opinion, are "once in a decade" opportunities. This is why I believe it is key that your investment portfolio and financial plan is being managed using a proactive approach. Be proactive and curious by asking questions to determine if your current assets are being used in an effective and efficient way. Remember, what might have worked in the past, will not necessarily work in the future. While our investment team has been overweight in the technology sector since last year, we have reduced that position since our analysis in this sector indicated that it had been a big beneficiary of the shutdown of the economy due to COVID-19, as well as of the lower interest rate environment. Last November, our team's analysis expected sectors severely affected by the COVID-19 pandemic, such as leisure and

## 5. Be a beneficiary of the fiduciary duty.

A fiduciary-focused adviser has the duty to prioritize clients' interests, goals and objectives. There is a misconception that all advisers are fiduciaries and that the Registered Investment Adviser (RIA) industry is still a small or new industry.

The RIA industry is one of the fastest growing sectors of the financial industry. According to Schwab's notes on the Cerulli Report earlier this year, assets managed by RIAs nearly tripled from 2009 to 2019, going from \$2 trillion to \$5.7 trillion.

What does this mean in practice for investors? Working with an independent registered investment adviser gives you the opportunity of being the beneficiary of the fiduciary duty, having an adviser that places your interest first. In June 2019 the Securities and Exchange Commission (SEC) adopted a comprehensive interpretation of the investment adviser's fiduciary responsibilities. As detailed by the SEC, "this fiduciary duty requires

an adviser to adopt the principal's goals, objectives or ends. This means the adviser must, at all times, serve the best interest of its client and not subordinate its client's interest to its own." In simpler terms, as investment advisers we have a moral and legal obligation to put our client interests first—always. This also aligns the incentives between the client/investor and his/her investment adviser, as compensation is generally based on a fee charged on assets under management.

I strongly believe it is our responsibility as financial professionals to place our clients' interests first, providing a detailed, comprehensive analysis of their financial lives combined with customized solutions tailored to their needs that can help them achieve and align their goals and objectives.

*Elena Hernández is a principal of GenTrust Puerto Rico, leading the firm's efforts to expand its client service capabilities on the island.*