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Advising Your Newly Divorced Client

Learn the crucial first step for this difficult life stage.

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Stella was frantic when I first met her. She was recently divorced and knew nothing about money. Prior to the divorce she had delegated the job of overseeing the finances to her husband. Now, because of the divorce, she was forced to get involved and had no clue where to start. She was terrified and felt completely overwhelmed. She had no idea what her resources were, where the money was, how it was invested or how much she needed to live on.

After spending a few moments trying to help her calm down, my first recommendation was to get her papers in order.

"Stella, we need to get you organized. I want to help you create a notebook so you have all your information in one convenient place." I explained that in order to really take control of her finances, she had to know where everything was. I also explained that this notebook would be extremely valuable to her in case of emergency. In addition, the binder would facilitate a yearly review of her finances.

Creating a Financial Notebook

I started to explain how we were going to build her Financial Notebook.

"The first section should be *important contacts*. This includes your doctors, family members, your attorney, CPA and financial advisor. Next, put in a section for your tax returns. Put the last two years' returns there. The third section should be for life insurance. We want your policies and your ex-husband's policies (if you are his beneficiary) in this section. Put a copy of your policies there and the last statement you've received. Make sure you have contact information for the company and policy numbers handy."

I explained that the next section should include *information on any disability policies that either she or her ex-husband held*. Since her ex-husband had a legal obligation to pay support, I explained why this was so important.

"You need that life insurance in case he dies. If that happens, the life insurance payment could be invested to pay you the monthly support that he would pay if he were alive. If he becomes disabled, the disability payments would replace his income so that hopefully, he could continue making his payments to you."

Once Stella was clear on this, I mentioned that she should *place her trust or will* in the next section. That was clear enough so we moved on to investments and savings.

"You should split this section up. In fact, I'd suggest that you *have a section in your notebook for each investment*. This way it's easy to reference. Just put the most recent statement in each tab and destroy the older statements as the new ones come in."

The next section should have *information on any real estate you* own along with any mortgage information. The best way to summarize that information is to have the yearly property tax statement, insurance documents and monthly mortgage statement in this section.

The last section should *have a balance sheet and income statement*. I explained that a balance sheet is basically a summary of all her assets and all her liabilities. This is important as it gives her a snapshot of what she has and where it all is. The income statement is simply a statement that summarizes what her sources of income are and what her expenses are on a monthly basis. This is crucial so she knows what she needs to live on and whether or not her income is sufficient. If not, she'll quickly know if she needs to work or cut spending or a combination of the two.

Stella was anxious and worried about spending down her assets. I explained that an updated balance sheet and income statement was the single most powerful tool she had to prevent overspending.

Stella did put her Financial Notebook together and it gave her tremendous peace of mind. She felt calm and in control. This was important as it gave her the self-confidence she needed to move forward.

If you have clients who are recently divorced, helping them get their Financial Notebooks in order should be the first thing you do for them and will cement the significant level of trust they have in you as an advisor.

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Neal Frankle *is the author of* Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity**.** *He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, do the same for their clients. If you would like a free monthly e-newsletter (written especially for CPAs to use with their clients so they make better investments) please e-mail Neal.*