A New Take on the SWOT for the Individual Investor

For decades, the SWOT Analysis has been the benchmark for evaluating new ventures, ideas and opportunities in the business world. By identifying Strengths, Weaknesses, Opportunities and Threats, executives have made decisions that have helped shape directions of entire companies. But when it comes to managing an individual investor's finances, applying this same model doesn't work quite as well. That's why it's time to re-think the SWOT Analysis to create a better financial focus for investors.

The categories of the traditional SWOT Analysis aren't precise enough to match-up with the specific goals of financial planning. And individuals looking to do their own financial SWOT analysis rarely have the expertise or ability to parse through the vast amount of information that could impact their financial outcomes. Using the new SWOT Analysis, investors can work with their advisors to develop a comprehensive picture of past, present and future.

State of the Market

One of the keys to investing money to maximize future returns is knowing the environment you're getting into. This is a three-tense discussion involving past, present and future. Previous trends can predict where the market is headed. Understanding where we are in the current market cycle can offer a better indication of how long conditions will remain status quo. This information isn't easily interpreted by investors, even with advances in modern technology. That makes it even more important to discuss the ebbs and flows of the markets so investors understand where they have opportunity and whether their current investments will work in the future. With the current interest rate environment, investors may ask their advisors if bonds will ever be what they once were. If not, what's going to take their place? The average investor might be unclear, but their financial advisor can help – and guide them through any bear or bull market in the process.

Wealth

Also a foundational issue, the make-up and value of an investor's assets play a vital role in determining where to put those assets. Mapping an investor's wealth is essentially a status report on the investor, and is one of the biggest indicators of how much risk an investor can, and is willing to, tolerate. Higher net-worth individuals can afford to take a few more chances with where they invest and what they invest in. Investors with less wealth may still be willing to take risk but need to understand how much they are risking in relation to their overall financial picture. Advisors and their clients need to have an answer to "where are you now" in order to even ask "where do you want to be?"

Objectives

We've made it past the preliminaries. Both advisor and investor have a sense of where the market is – and know how to best take advantage of the market – and where the investor is – and how risk-tolerant he or she is. To develop a retirement plan that gets an investor from today to years down the road, he or she needs to provide an advisor with some targets at which to shoot.

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Investors should be speaking to their advisors in terms of life goals as opposed to investment goals. Unfortunately, most people have never actually had conversations about their personal objectives with a financial advisor. Do you want to own a boat by your 50th birthday? What about college tuition for your kids? When do you want to retire? Some of these objectives are costs, and some are states of being, but all of them need to be cornerstones of an investment plan and analysis.

Trajectory

A critical component of investors' financial future is their professional future. To make the best decision with finances, investors need to understand the patterns that their career can take, based on what profession they choose. However, it's oftentimes difficult for individuals to see their professional trajectory – in terms of compensation, equity opportunities, benefits, stock options, etc. – 5, 10, 20 and 30 years down the road. In many cases, advisors have the advantage of working with multiple clients in similar or identical professions, giving them a more comprehensive view of the potential and most likely professional outcomes. For example, while they may end-up with similar incomes, a lawyer branching out to start a new practice will have a very different trajectory than a corporate executive that plans to stay in his or her current position for a long time. A career path isn't a straight line; it's curved and bumpy, but mapping out career paths early in the process can help smooth out the imperfections that can become barriers to retirement.

A financial plan is a complex undertaking, and a traditional SWOT analysis can often be too simple to help investors truly analyze their financial situation. For investors to develop a comprehensive, actionable framework for their retirement, they and their advisors should consider the new financial SWOT Analysis. By discussing the State of the Market, as well as investor Wealth, Objectives and Trajectory, investors and advisors can be on the same page and have a clearer shot at the final target. As with a traditional SWOT, this shouldn't be a one-time analysis. The new SWOT needs to be checked and re-checked, evaluated and critiqued, and constantly tracked against performance to make sure advisors and investors are addressing changes in an investor's personal situation and circumstances. Only then can investors bring the full financial picture into clear focus and make sure their financial story leads to a satisfying conclusion. These targets need to be more than just a number.

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