



When financial complexity starts working against you

In recent years, the rapid growth of financial tools, financial influencers, investment types, online trading platforms and wealth-building options has many investors struggling to keep up. Add to that the pressures of inflation and market volatility, and you may be tempted to continue layering on more and more financial strategies.



However, an overly complex financial management approach can result in unintended risks and inefficiencies, not to mention the added stress of managing it all. Here, we highlight the potential dangers of financial complexity and offer some strategies that may help you streamline your financial life.

How complexity creeps in

Much like lifestyle creep, financial complexity tends to build up gradually over time. As a young professional, you may begin your financial life with a checking account, 401(k) and a single credit card. As your life evolves, you may add credit cards for additional rewards, multiple investment accounts and online apps for diversification, crypto currency wallets, auto loans, automated subscription services, multiple 401(k) balances at different employers...the list can go on and on.

Add to this complexity the stress of market volatility, inflation, interest payments, administrative burdens, reporting and tax requirements and other financial considerations, and you may wake up one day to realize you're potentially missing out on significant wealth building opportunities.

If you find yourself in this situation, you're not alone. In fact, a survey found that 77% of Americans report feeling anxious about their finances.¹ Fortunately, there are some effective steps you can take to simplify your finances and potentially improve your long-term outcomes.

When sophistication becomes friction

While sophisticated financial strategies, such as alternative investments, hedge funds, derivatives, margin accounts and multi-layered tax planning strategies, have the potential to help you build your wealth, they may also introduce friction if they're not aligned with your overall plan and potentially slow progress toward your goals.

A complex, carefully designed investment strategy could also lead to overconfidence if it's not regularly reviewed and coordinated with your broader financial plan, potentially eroding your returns.

Ultimately, sophistication can become counterproductive when it prioritizes complexity for complexity's sake. A strategy designed with clarity and purpose is often more effective than one built on complexity alone.

The hidden cost of overengineering

Intricate financial designs can often come with high fees that have the potential to erode your wealth-building potential. Following are just a few examples of how overengineering your financial life can lead to additional costs:

- **An overly diversified investment portfolio:** Maintaining appropriate investment diversification is an essential risk management strategy; however, it's possible to overdo it, especially if you invest in mutual funds or exchange-traded funds (ETFs).

Some investors seek optimal diversification by accumulating 20 or more mutual funds and ETFs among multiple accounts. The problem with this approach is that many funds share similar underlying holdings, which can actually lead to over-concentration in particular stocks. And, because actively managed mutual funds typically charge higher fees than passively managed investments, you could end up paying more for less.

Consider working with your advisor to develop a low-cost, diversified investment allocation that meets your needs and is positioned to help optimize your long-term returns.

- **Multiple credit cards for different expenses:** While it may seem smart to carry multiple credit cards that offer rewards for different types of purchases, this strategy can be difficult to manage in the long run due to the complexities of managing multiple payment schedules, late fees and interest charges. Consider simplifying your debt management by using a single card for all purchases and be sure to pay off your balance each month.



- **Multiple investment accounts at different institutions:** Holding assets at multiple institutions can, in some cases, lead to management challenges, overlooked fees and tax complexities. If you have old 401(k)s at different employers, investment accounts at multiple brokerage firms or checking/savings accounts at more than one bank, it may make sense to consolidate your assets. Not only can doing so streamline your financial management and reporting, but it can also, in some cases, provide you with a better understanding of the particular assets you hold and how they work together (or don't) in pursuit of your financial goals.

Simplicity as a strategic advantage

Embracing financial simplicity may help boost your investment returns, reduce your fees and improve your long-term wealth-building potential. Fewer financial accounts may result in less tracking, lower fees and reduced potential for errors. Investing in a streamlined portfolio of low-cost index funds can significantly reduce your investment fees and tax liabilities, which could result in enhanced returns over time.

Simplicity can also lead to clarity and a better understanding of how you're progressing toward your goals, which in turn may help reduce your financial anxiety and allow you to feel more confident in your financial future.

The role of intentional design

Intentional design is critical for establishing a streamlined, yet effective, financial strategy. One way to help ensure intentionality is by establishing a comprehensive financial plan to guide your decision making.

A financial plan is designed to help align your financial strategies with your goals and support coordinated decision making. A comprehensive approach to planning integrates the various aspects of your financial life and can include a wide range of strategies related to investment management, asset protection and risk management, tax planning, education planning, large purchase planning, retirement planning and estate planning.

Estate planning is an essential part of that intentional design. Work with your advisor to review your estate and wealth transfer plan in plain language—rather than legal terms—to help bring clarity and confidence to your decisions. When you understand how your estate documents work together and how assets will flow, uncertainty can give way to peace of mind.

A comprehensive financial plan serves as a blueprint to guide your decision making, helping you streamline your finances, access efficiencies and ensure your financial strategies are working together to achieve your goals.



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