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Special Commentary

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"Financial Success Shouldn't be Hard"

By Craig Pulliam, CFP® and Michael Comstock, CFP®

Our industry is as complex and sophisticated as just about any field you can imagine (consider "derivatives", "alternatives", Federal Reserve policy, foreign markets, etc.), yet achieving success can be surprisingly simple for many investors if they just follow a few basic principles.

Develop a Financial Plan

We write about this 2 or 3 times year. And we mean something much deeper than just calculating how much you need to save for retirement (less than 45% of workers do, according to the Employee Benefits Research Institute). Factoring in social security benefits, pensions, inflation, longevity, investment returns, inheritances, possible health care expenses . . . can be a hard task for the casual but earnest investor. And balancing all this against a budget (which changes as people age), makes it even more challenging. So, get some help.

"You wouldn't take a trip without knowing how to get there, so why would you gamble your financial wellbeing to chance? "

Look at different scenarios and commit to a written plan. It can always be modified later, as things change. But at least lay out the course. You wouldn't take a trip without knowing how to get there, so why would you gamble your financial wellbeing to chance? If you choose not to wing it, you'll be taking a big step toward success.

Expect Bad News and Bad Markets

Markets take massive stumbles periodically, and we can't reliably predict when they will occur. We've expected a drop of 15% or more for a year now, and have been premature. While we know the average investor won't embrace these declines as "buying opportunities" (which they can be), we remind you not to be surprised or thrown off course by such events.

Corrections, bear markets, and recessions are facts of the investing world, as they've been for 150 years, so don't allow the prognosticators and financial talking heads to scare the heck out of you every couple of months. The fiscal cliff? The government shutdown and debt ceiling debate? Bad theater for sure, but the markets went on to hit new highs.

Expect bad things to occasionally happen (the *average* intra-year decline in the S&P 500 for the last 33 years has been -14.7%; source FactSet, JP

Morgan). Market swoons are normal, so don't allow such temporary calamities to derail your plans. Mature investors accept the inevitable. As David Kelly, Chief Global Strategist for JP Morgan says "Trying to guess what will throw the markets is like trying to see a black swan flying at night." You can't do it, and no one else can either, so don't fight it.

Recognize That Physical Wellbeing can be Transitory

A friend gets cancer in his 40s; a parent develops dementia and needs your help; an accident takes you out of the workforce. These are just a few of the unpleasant health issues that can befall us at any time, but that few of us willfully consider when we plan for the future. Each has a considerable financial as well as emotional cost; families can be thrown into situations that they never fully recover from if they're not prepared.

Look at your preparedness through savings and insurance for events that are unthinkable. Events that don't *always* happen to someone else. We've seen what unpreparedness can do. Readdress your insurance needs in 2014, and analyze your policies. If you're in your 50s and 60s, talk to us about long-term care insurance . . . and if you're younger, ask your parents to do so. Hope for the best, but prepare for the worst.

On a brighter note, we also believe it's our job to help clients plan to enjoy life now while they're healthy (hopefully) . . . whether you're a family with 3 kids, a couple preparing to retire, or a 70 year old widow. We can get so caught up with the cult of "save, save, save" that one day we find we're too infirm to enjoy the things we were saving for. So, talk to us about your dreams (as well as your fears), and let's see how we can make them happen and still have money for the long run.

Too Much Cash Can Hurt

Some people are just more fiscally conservative than others. They sleep better with a bushel of cash in the bank. Earning nothing. And there's the rub. At times the balancing act of keeping funds on hand for an emergency, and putting the rest to work can get . . . well, "unbalanced." Each family's needs for an emergency fund are going to be different based largely upon your employment picture and expenses. So, the old rules of thumb of keeping 3-6 months expenses on hand in cash may not be very useful in many cases.

Take a look at what you have in cash. Do you really need to keep it all there? After all, the 30 year average real return after inflation and taxes for T-Bills (a cash proxy) is *-0.80%* (Thornburg Investment Management). Or can you access some of your other "working/invested money" if you needed to do so? In most non-qualified accounts, you can sell an investment and get cash within 5 business days or sooner (check on this first). Most of you are not so wealthy that your money doesn't have to earn significantly above inflation and taxes over time . . . or you'll run out. Deploying your hard-earned funds in the right manner is really important, and having a quarter of your "portfolio" (for instance) earning nothing may not cut it for you.

As we say, everybody's different . . . but we also know that there's a lot of "lazy cash" lying around doing nothing. It could be an old savings account, a CD you keep renewing, or even cash value in a life insurance policy that has outlived its usefulness. Have a look.

You're Probably Smarter than You Think

You know that many politicians, newscasters, and journalists spin, embellish, exaggerate, and even lie. At times, they do it more often than they tell the truth. People who seem exceedingly intelligent and who speak with great authority may often be wrong.

"Successful people tend to stick to the basics, the stuff we're talking about here . . ."

There's a reason we don't have our office TVs tuned in –ever- to the business and investment stations: it's because they often manipulate information to make a story seem that there is great immediacy to it. That it's something you need to know *now* and must act upon. That you must be concerned. That you've got to stay tuned to see what develops the next hour, and tomorrow. What passes for news may be hype.

People don't get wealthy or achieve financial goals based upon 2 minute sound bites in the news, and most of it hokum. Successful people tend to stick to the basics, the stuff we're talking about here, and they learn to filter out much of the baseless and silly.

You're probably good at filtering, and smart enough to know when you hear that ring of truth. And, we're here to help you put it all together.

We hope you'll consider these simple, modest suggestions in 2014. If you do, we think you'll move that much closer to your financial goals.

*The S&P 500 Index is an unmanaged index and cannot be purchased directly by investors. Unlike investments, an index does not incur management fees, charges, or expenses. Past performance does not guarantee future results.

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