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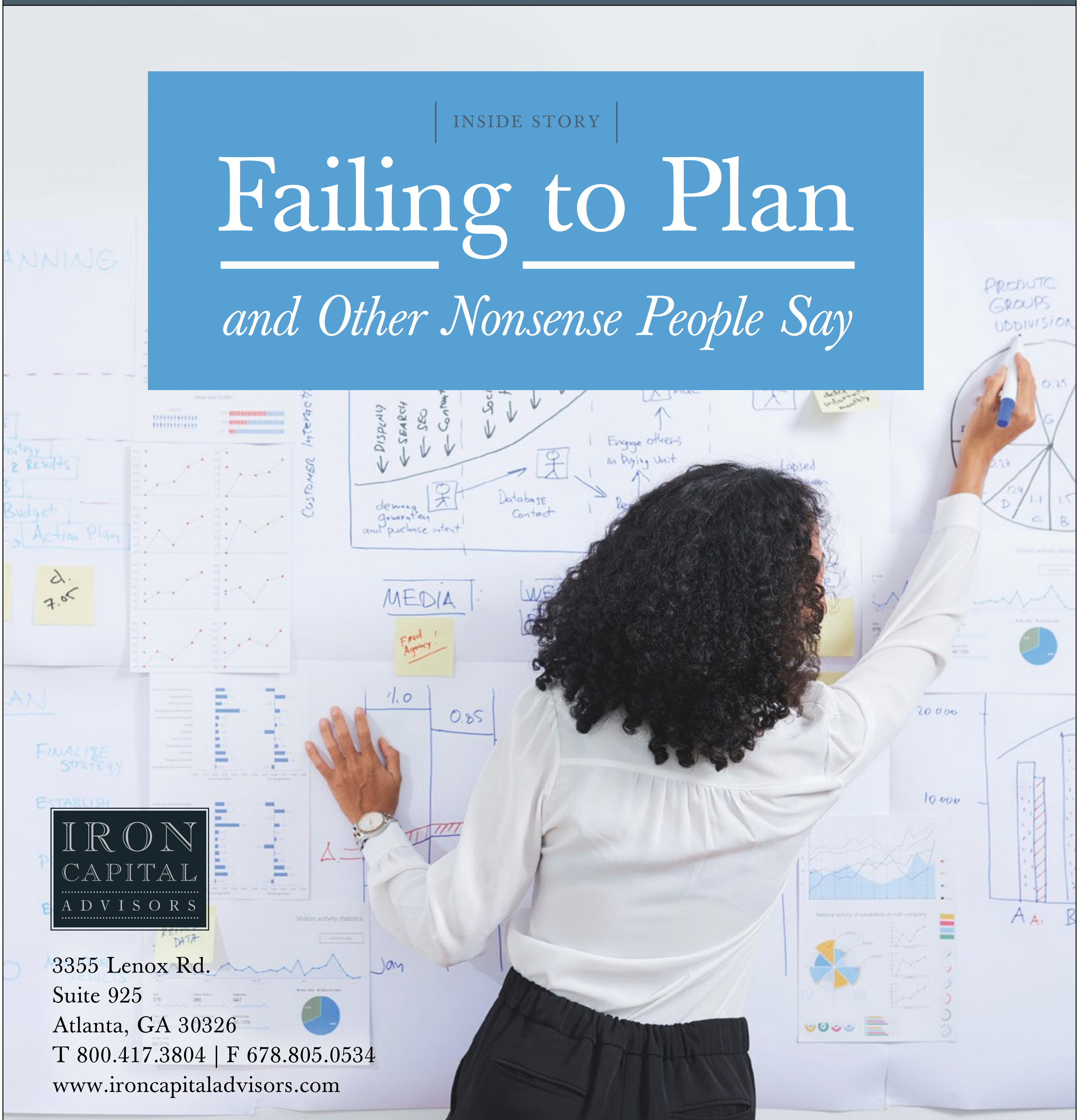

INSIDE STORY

Failing to Plan

and Other Nonsense People Say

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Failing to Plan

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My father was an athlete. He lettered in three sports in college, but football was his favorite. He loves telling the stories from his days playing, and his high school coach had an enormous influence on him. One of my favorite stories comes from a time when they had lost a tough game on the road. They were loaded in the bus ready for the trip back home when his coach, Fluffy Watts, stood up in front to address the team. He said, "They say it isn't whether you win or lose that matters, but how you play the game…. well, what a crock."

I have heard that story hundreds of times, and I laugh every time, in fact I'm giggling right now. I laugh because I believe I understand what Fluffy was doing. I played high school football myself, and like every single other person who has ever been part of a team sport, I know what it feels like to lose. It hurts, and the closer the game, the more it hurts. People who have not experienced this may not understand that statement. Many believe it would hurt more to get blown out, but they are wrong. When a team gets blown out, well it just wasn't our day or they were just better, but when it comes down to the wire and then goes the wrong way, that is the agony of defeat. Fluffy Watts was not suggesting that his team should do anything to win. I never met Fluffy, but I know my father and how he speaks of him. He was a man who demanded good sportsmanship above all else, but he also understood that when someone is in pain, empathy is often better than a speech about holding your head up.

A friend of mine I used to work with used to say that clichés exist for a reason. He is right about that. "It isn't whether you win or lose that matters, it is how you play the game" exists for a reason. It is better to lose fair and square than it is to cheat and lose your integrity, but it is also correct that, "If winning didn't matter, they wouldn't keep score." Clichés have their limits.

The investing world is chock full of clichés. Recently I was watching a commercial that recited one of the more nonsensical clichés of our industry: "He didn't plan to fail, he failed to plan." Come to XYZ financial and we will create a plan that works for you. Well, in the words of Fluffy Watts, what a crock.

I have written this many times, but I have a true dislike for the term financial planning. This lies mainly in the fact that I understand its history. "Financial planning" evolved from the life insurance industry. A few days after Cain killed Able, some neighbor went over to Able's widow and instead of offering sympathy said, "Wouldn't it be great if a company showed up at your door with some money to replace your husband?" The life insurance industry was born, and for years that was pretty much how they sold their policies.

Then one day an enterprising insurance agent realized that they could sell a lot more insurance by calculating the husband's lost wages, as opposed to taking advantage of the heart strings. Losing a husband was one thing, but losing the household income? Now that was serious. This new strategy was named the capital needs analysis. Instead of simply asking, "How much is your husband worth?", the insurance agent could say, "How do you plan to replace your husband's income?"

Capital needs analysis is simple math. If the husband made $50,000 per year and one could invest capital and receive a yield of 5 percent annually, then the wife needed a life insurance policy on her husband of $1 million. The agent would say it using his best Dr. Evil imitation, "One million dollars."

It is simple math: 5 percent of $1 million is $50 thousand. That is the income that needed replacing. This was great for the life insurance industry. Much bigger policies could be sold by using this needs approach.

Then needs analysis started getting more sophisticated. The simple example did not factor in other assets available to produce income. There could be retirement plans and home equity. Did the widow need all of her husband's income? After all there would be fewer tee times, and hunting trips. The beer budget could be cut by 80 percent or so and they could cut the cable on the TV. All of this budgeting needed to be done.

What happens if we make it to retirement? We no longer need insurance to replace income because our retirement plan is doing that. Then the insurance agent thought of something. There are three possible futures, one in which we die too soon, one in which we live too long, and one in which we get disabled in the process. He can sell insurance for all three of those outcomes. We can use the needs analysis framework to calculate how much we need to save in order to retire, in addition to both life and disability insurance needs. Financial planning was born.

For years financial planning was code for being a life insurance agent, then stockbrokers got in on it, too. So, I dislike the term financial planning because in its essence, it is a sales pitch.

Please don't misunderstand. The analysis done in the planning process can be very helpful, and we do that for our clients all of the time. Having a plan can certainly be of great value. However, there is another cliché about that. "No plan survives contact with the enemy." That is what they teach soldiers during boot camp. Mike Tyson put it more bluntly when he said, "Everyone has a plan until they get punched in the mouth."

When I saw the commercial for the poor guy who "didn't plan to fail, but failed to plan," my first response was, "On what page in the plan did they explain 2020?" The plan covered COVID-19, lockdowns, and civil unrest? I don't think that was in there. So, for the restaurant owner whose business has been shut down, was it really a lack of planning?

Plans can be very helpful, and I certainly don't wish to suggest otherwise, but the difference between failure and success in the long haul is not the plan, it is the execution. We have clients for whom we have helped make very detailed plans and they have pretty much executed those plans precisely. We also have clients who have never planned a thing in their life, but they live well within their means and have invested prudently and are financially secure. Just this past month I met – virtually of course – with a client who has been planning to retire in three years for at least five if not seven years now. Guess what she said when we talked? "I think I'll work just three more years."

The idea that success or failure is based on planning is just false. Success or failure will be based on our actual actions. For financial purposes, the first action is living within one's means. One must form the habit of spending less than she makes, period. A plan can be helpful to calculate the degree to which one must save, and it can provide many people with needed motivation; however, at the end of the day it boils down to the habit of relative frugality.

Another line that comes from the insurance industry is that you must pay yourself first. I have known people who planned and then couldn't do this, and I have known people who did not plan and did this still. The plan is not the magic.

Once one has begun saving money, he then needs to invest that money. Here again, planning can be helpful. A plan can show what rate of return is necessary to accomplish the goal, and that gives some guidance in how to invest. However,

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REVIEW *of* ECONOMY

The 2nd quarter 2020 GDP growth came in down 32.9 percent on an annualized and seasonally adjusted basis. In plain English, economic activity was down about 9.3 percent from the 1st quarter. Considering the lockdown, to only be down that much is remarkable. A strong bounce back is expected for 3rd quarter.

The official unemployment rate is 7.9 percent in September. Again, a horrible number under normal times, but experts thought it would be 20 percent or higher. Jobs are coming back at a good clip.

Inflation is 0.4 percent, based on the latest consumer price index report. Oil has normalized which has gotten us out of deflation, but we are a long way from the 2 percent Fed target. Expect the Fed to continue to be very aggressive. +

REVIEW *of* MARKET

The market bounced back. The market continued to rally. For the quarter the S&P 500 finished up 8.93 percent and small company stocks represented by the Russell 2000 index were up 4.93 percent. Growth outpaced value dramatically once again.

Bonds were up slightly for the quarter. The Barclays U.S. Aggregate Bond index ended up 0.60 percent. High yield bonds rose 4.71 percent.

International stocks rebounded as well. The EAFE index finished up 4.88 percent while the MSCI Emerging Markets index ended the quarter up 9.7 percent. +

MARKET *forecast*

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» *Continued –*

ultimately investing success comes from the habit of prudent investing. Prudent investing has three attributes. First, it is always done from the bottom-up. Each investment must be analyzed and judged on its own merits. Secondly, it is absolute return-oriented. In other words, the investor is not making decisions to compete with another investor or an index, but based on her actual long-term goals and needs. Finally, it is risk averse. There is no glory in taking risk for the sake of risk.

> *We only control how we play the game, and we play to win.*

This is where the planning community goes off the rails. The vast majority of people who refer to themselves as financial planners have no background in how to actually build a portfolio to achieve a certain goal. The planners came from product sales and to this day remain in that mindset. Some have departed from the commission-based life and that is certainly a good start, but as the saying goes, "putting kittens in the oven doesn't make them biscuits."

Going fee-only is a good thing. Conflicts of interest should be avoided at all costs, and moving away from the traditional commission-based sales approach in the financial world is the right thing to do, but it doesn't then qualify a person to actually build a portfolio. The real issue with financial planning is that its practitioners spend all their time learning how to plan, and little – if any – time learning how to execute a plan.

This brings us back to ole Fluffy Watts. "Coaches don't win games, players win games." There is a cliché I imagine Fluffy would agree with. Coaches can certainly make players better, but their role is to teach and guide. John Wooden thought of himself as a teacher. Dean Smith came from a family of teachers. Show me a coach that has a consistently winning team and I'll show you a coach who is great at making players better. The players win the games.

I know myself from the years I have spent in youth coaching, that I did not win a single game. Some games I believe I helped on the margin, and those were the good coaching days. Most games I had either no impact or worse I hurt my team. The players won the games. I could plan all I wanted, but ultimately it was up to the players to execute.

No one plans to fail; they fail to develop the good financial habits that lead to success. We are all different as individuals. Some need to plan in order to instill those habits, while others go with the flow. Regardless, it is the execution that matters. John Wooden published a poem of an unknown author. It is a story of a parent speaking to their child before the first game. There is a line in that poem that says, "But winning is not the point, Wanting to win is the point." When I read that poem it was the first time in my life that the other cliché finally made sense to me. Winning and losing a game doesn't matter because it is so often out of our control – a ball bounces the wrong way, the ref makes a bad call, the other team makes some miracle play. We only control how we play the game, and we play to win. We execute.

There are many things that we cannot control which can impact our plans, but we can develop those good habits, and if we do so we will be successful, plan or no plan.

Warm Regards,

Chuck Osborne

CHUCK OSBORNE, CFA *Managing Director*