Consider This Program

Episode Date:

December 14, 2019 Episode

Best Of

Show Notes:

Family Bundle

If you're one of our families, you get a package in the mail and that package essentially says, “Hey, have any of these 8-12 things occurred to you this year? Have they occurred to your adult age children? Those questions are: has there been any extreme charitable gifts? Did somebody get divorced or pass away? Did you have a large income change, either positive or negative?”

When you understand that concept of we don't sell anything, we make any commissions. The only way we get paid is to manage assets that you already have. Younger people often get left out of the deal. So at the Financial Enhancement Group, we created the allocation process for younger people to come in. We family bundle. Your kids don't necessarily have to have an account with the Financial Enhancement Group, but they have the ability to call in and ask, “Should I buy or lease? Should I buy a disability policy? How much life insurance do I really need?” because the parents are part of the process.

You can't just answer questions based on a singular tax return or a singular investment, it doesn't work that way. You get into trouble. Do you think most CPAs do tax planning or do they just do tax reporting? Most just do the reporting. Not always their fault. Their model is to bill by the hour. Nobody wants to pay. Nobody wants to take the time. And at Thanksgiving, the last thing you're thinking about is filing your taxes for the year, so you're not calling the CPA firm saying, “Hey, I need to schedule an appointment so I can talk to you about year end planning that needs to be done.”

Phases of Finance

I use an airplane because I try to remind people that we're on a financial journey. I like that analogy. So you go through the accumulation, that's when you're boarding the plane, getting things in the right seats, getting the luggage where it goes, and everything's evenly distributed.

That's saving the right percentage of your income. It's making sure that you're building tax diversification, so you have some money that's in a Roth. It's very important as we progress to understand how the tax code works and why all three of those areas are important. Eventually we get to a point where what you're saving is not as important as what you've already saved. It usually happens 48 to 55. If you've been a good saver, the nest egg that you have is much larger than what you're contributing this year.

Eventually though, you're going to land the plane and landing the plane is when you want to make sure that you've got the right tax diversification. So what I'm paying attention to is: how much taxes am I paying on the average dollar that I pull out of an account?

What percentage should I be saving? Average return means exactly what it says. What is the average? The average a market's going to go up or down, over a period of time. Market is going to go down. When you start looking at people during distribution, it's not the average return that matters. It's volatility. Volatility could have been worse because people tend to put money in at the exact worst time. They tend to put money in when the market is high or they pull money out when the market is low. In market terms, what we talk about is a thing called capitulation. Capitulation means fear and almost always goes around the sell side.

Disruptions & Distortions

This headline pops out: "Medical Costs Jump in August by Largest Amount in 32 years." Right now you can put that headline there and you can share it that way. It wasn't necessarily that big of a jump, but it was the largest single month jump in one year. That is a disruption. There are things that you can obviously put together in your head that are disruptions to the market. Things we didn't expect: terrorist bombings, earthquakes in Italy, tsunami that hit Japan.

We all know that political elections come up, creating disruptions and distortions. Well, uncertainty, uncertainty. Here's the one that I want to give you just just to understand a little bit about the context of life. We all know what inflation is now: the cost of buying a good or service today as opposed to what it costs a year ago, 10 years ago, etc. You have inflation typically when you have too much money chasing too few goods. So inflation is not evil. It's not a horrible thing. Hyperinflation is when you have stuff appreciating at more than four and a half percent. Anything above that is hyperinflation. What we saw in the late seventies and in the real estate market in the past, is that the hyperinflationary area is dangerous. There's another one that's called deflation, and that's when you see the price of of things fall. There's another one called stagflation. Stagflation is when you see the prices go up without a corresponding growth in the economy. Nobody's making any more money. It just costs more to get it. It's like the demand is higher than the supply. It's not even necessarily a demand of a good or a service. It usually comes in one form and that's wages, so we talk about wage inflation.

Regulatory Wage Inflation

In the United States today, we have a form of regulatory wage inflation. The minimum wage is being increased. Change is a regulatory component that is increasing wages without a corresponding change in productivity. When there isn't a change in the productivity, you're stealing money from one thing to give it to another. Now businesses have to either lose profitability, which is not good for our market or they charge you more for your Big Mac. If you have to pay more for your Big Mac, either you're going to get paid more to do your job right or you have to spend less money somewhere else. Any time you have that type of inflationary pressure, you either have to pull money out of savings or pull money out of spending. There are business owners that are in this exact situation and they just have fewer people working. So the service component, we may not raise. If you're listening to the show, understand what regulatory wage fallacious is and how that can truly impact the things that are in your portfolio.

Five Critical Elements

What have I learned through all of the years of running the company and being in the world of finance? Our mind will move toward our most dominant thought. If I'm thinking about being healthy, I tend to be more healthy. If I think about vacation, I tend to be getting less production done at work. If I think about cooking, I'm probably overeating. Our mind will move toward our most dominant thought.

The second part of that or the corollary is that we also move toward the place of least resistance. If we knew that we needed to learn about something, we would go search out that information and learn it. Let's say you've got a job and the job has come to an end or you're retired and all of a sudden you need somebody to help you with your 401k. You may try to do some research on that. At the end of the day, most people default to what their friends tell them to do or information they get on the internet. They can't get a deep understanding of what's going on inside of their money trying to do it that way. The second part of that is that there are things we do naturally.

When I look at those things financially, we like to call them the five critical elements. Your life after work, retirement planning, tax planning, the investment playbook, the good, the bad and ugly of life, and the legacy plan. The thing that people like to talk about the least is the legacy plan. The other problem is people want to have things done right. When somebody walks into my office, they want to know that it's complete. As I tried to tell them, the only thing that is really complete is your financial vision. Your goals and objectives usually don't change unless something changes in your life: the loss of a spouse, the addition of a child, those kinds of things. Your financial vision about legacy usually doesn't change.

Why You Need a Fiduciary, Not More Data

I have to have a lot of data in front of me to be able to manage your money. I have to have access to what the pricing of the individual holdings is: what's going on with reports, what's going on with the technicals. If you go back with me in the time machine back in 1995, you got a statement once a year. Now there are some places that may have given them a little more often than that, but it was once a year. If you had a brokerage account, you were able to cut a statement once a quarter, if you had activity. If you didn't have activity, you got it once a year.

If they're managing their own money or if they're working with a stockbroker, they need to have the same access as a fiduciary.

What I do is show you over the last 20 years, essentially from 1993 through 2013, there's about 35 different things that a person could have bought and invested in and outperformed the average investor at Fidelity, Vanguard and Charles Schwab. There are only three things that you could have bought and held and done worse than what the average investor has done since that time period. More data without more wisdom does not give you any better guidance at all. This takes absolute discipline and commitment.