FALL 2016

THE JENTNER REPORT

Wealth Management Strategies from Jentner Wealth Management

Understanding the Nature of Investing ... And of Humans

"Emotional investing may provide temporary satisfaction and feel good, but thoughtful investing is good."

This is a quote from Jay Mooreland, author of a recent book titled, *The Emotional Investor*. The insights provided by Mr. Mooreland are fascinating—and helpful—to people who want to invest successfully. Here are a few more of Mr. Mooreland's insights.

"The brain can be simplified into two main functions: reflexive (hasty decisions) and reflective (thoughtful decisions). Our reflexive brain is our default response system. Its responses are immediate, automatic, and effortless. The reflective brain requires conscious engagement, effort, and discipline."

Here is the point: Markets are volatile and have always been. Most people are not comfortable with market volatility. As a result, most people earn only half of the long-term stock- and bond-market returns. But volatility can provide opportunity for long-term investors who are willing to acquire investments when they are out of favor and trading at a discount. If they can be patient, they can reap the rewards if they allow the investments to return to their relative long-term value.

We cannot control investments and markets. Additionally, most of us struggle to control our emotions, particularly during challenging times. If you are not comfortable with market volatility, you have two options:

1. Don't invest. This is a real, viable choice. But you may not reach your financial goals.
2. Quit watching the market. Work with a qualified investment professional to develop a sound, diversified, written investment plan so you can ignore the market volatility. Then, be patient.

The markets will do what they will do whether you watch them or not. The more you watch them, the more you may be tempted to make reflexive financial decisions, which hurt many would-be investors. Don't fight your human nature. Acknowledge it and take steps to avoid it.

In an attempt to avoid stock- and bond-market volatility, many people invest only in so-called "safe-haven investments" like gold, silver, annuities, and CDs even though the relative long-term performance of these so-called "safe havens" has been low. Unfortunately, history demonstrates that humans are very talented in making poor investment decisions at the worst possible time.

Is there any hope for better long-term investment success? We believe there is. Here is an idea that may help you: Develop a written investment plan.

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THE PRESIDENT'S WORD

Is the World Hopeless?

Do you ever listen to the news and find yourself thinking that the world has gone to the dogs?

It's true that the world faces many challenges, which the daily headlines reflect. Europe is grappling with a flood of refugees; numerous terrorist attacks plague the world; citizens of the United Kingdom voted to leave the European Union, creating uncertainty over the long-term market implications; and the U.S. is in the middle of a lively, sometimes ugly election campaign.

Because the news media focuses on our challenges, it is easy to overlook, even miss, some of the significant improvements made in the lives of millions worldwide. Recently, Jim Parker, vice president of Dimensional Fund Advisors, provided a few examples:

1. Globally, two billion people moved out of extreme poverty over the last 25 years.
2. Over the same period, mortality rates among children under the age of five have fallen 53%.
3. Globally, life expectancy has been improving. From 2000 to 2015, the global increase was five years, with parts of Africa increasing more than nine years.
4. Access to financial services has expanded in developing countries. Adults without a bank account in the poorest 40% of households fell by 17%.
5. The U.S. economy has been recovering. Although this recovery is slow by historical standards, unemployment has declined 50%.
6. We live in an era of innovation leading to new business and investment opportunities.
7. Over the last 25 years, $100,000 invested in a global portfolio of stocks would have grown to more than $550,000.*

Bruce Jentner, President

There is no doubt that many of these advances will experience setbacks. The human race continually faces challenges. Just as there is reason for caution, there is also room for hope. And keeping these good things in mind may help when you feel overwhelmed by all the bad news.

* "10 Reasons to be Cheerful" by Jim Parker; *Outside the Flags*; June 28, 2016

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Here are the steps to take to develop a written investment plan.

1. Identify your financial needs and goals. Be as specific as possible, and put them in writing.
2. Determine how much you can save and what realistic long-term average rate of return you need to achieve your objectives.
3. Determine how much loss you are willing to tolerate in the short term as you pursue your long-term goals. (We call this your risk tolerance.)
4. Determine what strategy you will use to take advantage of the inevitable market fluctuations and volatility.
5. Stick to your plan, avoiding short-term deviations based on emotional reactions to the inevitable market fluctuations.

In our opinion, the best way to develop a sound written plan is with the assistance of an experienced investment fiduciary who will help you avoid violating sound financial principles. Working with a fee-only CFP® fiduciary (who is not a sales professional but a financial advisor) can help you prepare a realistic written investment plan that supports your written financial plan.

If you would like a copy of *The Emotional Investor* by Jay Mooreland, please give our office a call, and we will be happy to provide a copy to you. It is well worth the read.

Are You Secretly Hindering Your Own Investments' Success?

Mark Twain allegedly said, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

Our own behavior may be hindering our ability to retire financially independent. Research on behavioral finance shows that people often act on beliefs that are not economically sustainable or accurate. For example:

1. Some people think that with enough research someone can determine when to be safely in or out of the markets.

2. Many people think the daily market news is critical to their long-term investment success.

3. Some people are unaware that costs and expenses matter in their search for superior returns.

4. Many people believe that all financial advisors are legally required to put the consumers' best interest first.

5. Some people believe that daily market volatility is dangerous to their long-term investment success.

Here is the point: People go to great lengths to convince themselves that their perspective, even if inaccurate, is better than a different perspective. Why? To avoid the mental discomfort associated with admitting their initial action or belief is wrong.* It is not uncommon for any of us to filter out information that doesn't support the ideas we already hold or that doesn't support the way we would like things to be.

Consider these two compelling examples:

> "The most difficult subjects can be explained to the most slow-witted man if he has not formed any idea of them already; but the simplest thing cannot be made clear to the most intelligent man if he is firmly persuaded that he knows already, without a shadow of a doubt, what is laid before him." – Leo Tolstoy; considered one of the greatest authors of all time

> "Most people do not listen with the intent to understand; they listen with the intent to reply. Seek first to understand, then to be understood." – Stephen Covey; American educator, author, businessman, and keynote speaker

We no longer live in the information age. We now live in the recommendation age. With so much information available, be careful who you lean on for advice and recommendations. Avoid sales pitches. Avoid conflicts of interest. Work with advisors who are legally required to place your interests before their own.

Footnote:
* "How to Break Through Clients' Cognitive Dissonance" by Michael Pompian; *Morningstar Advisor;* May 19, 2016

Seth Jentner, CFP®, MBA
Director of Operations

Escape the Status Trap

According to a recent Gallup poll called Honesty/Ethics in Professions, certain professions are viewed as more honorable than others. Doctors, nurses, high-school teachers, police officers, clergy, and accountants are among those considered high in honesty and ethics. People generally like, trust, and respect these people.

No matter what profession, some people like to display their status by accumulating material things—a nice house, fancy car, club membership, expensive jewelry, and more. According to behavioral psychologists, this is normal.

Here is the problem: Accumulating nice things is enjoyable, but it can prevent some people from accumulating the investment wealth needed to make work optional at some point in life. Buying and enjoying nice things must not take precedence over putting something aside for your own future financial independence.

Most people like to work, but too many people reach their 60s and 70s unable to afford retirement. They continue working, not because they want to but because they have to. Even though Americans are living longer, too many fear they cannot afford retirement.

Have empathy and compassion for your future self. Don't neglect your need for future financial independence. Just think of the joy and the freedom of working because you like to, not because you have to. Don't get caught in the status trap! Don't try to keep up with the Joneses if that means you will not develop your own financial independence.

Work with a CFP® professional advisor who can help you understand how much investment wealth you need for retirement freedom and what you need to do to get there. The tools for financial success are available. Don't let your own behavior sabotage you. Once you are saving and investing adequately to achieve your own future financial independence, then enjoy those extra nice things.

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Financial Literacy

Jentner Wealth Management has published this newsletter for almost 20 years. Why do we do this? Because no matter what we plan to do with our lives, we must be a good steward of our money. Whether an engineer, a teacher, a business owner, an inventor, a pastor or rabbi, a missionary, a homemaker, a professional athlete, or a medical doctor, no matter what our vocation, we must be financially sustainable.

I sit here thinking about future topics to discuss—things like:

- How patience is one of the secrets to health and wealth,
- Various tax strategies to increase net income and personal wealth,
- How Americans are living longer than ever but worry about running out of money,
- How people seek elusive financial safe havens that just don't exist, and
- That most investors only earn about 50% of what the markets deliver over the long term.

And the list goes on and on. There is much to discuss and learn to become financially literate.

As an annual guest lecturer at one of our local universities, I speak to a lecture hall of several hundred senior engineers, some of the brightest students at the university. I ask, "How many of you have had at least one class in personal finance either in high school or college?" Very few hands go up. This must change. All of us must become financially literate. Even our federal legislators are financially illiterate, burdening the next generation with more than $20 trillion of government debt.

Each of us must take personal responsibility with our own money, our own debts, and our own investments. If needed, get help from an experienced CFP® professional who puts your best interests first 100% of the time.

Bruce A. Jentner, CFP®
President and Founder

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