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# Exact numbers only confuse financial matters

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In financial planning, we are bombarded by literature and financial “plans” that contain sheets of exact numbers. Perhaps many people like this, wanting some certainty into how we’ve done and how we’ll do in the future. But it drives me crazy.

Nothing about life or finance is exact. Records of investment returns from the past rarely conforms to the particular time money was invested or cash flows in and out any particular investment (especially as the time period gets longer). Even if the “exact” numbers are correct, they mean little about the future performance of the investment. And, if they mean anything at all, it is usually the opposite of the assumption.

We know that “reversion to the mean” often causes asset classes that have done poorly for a few years leads then to the best odds to do well in the future (for they are now the cheaper investment). We also know that the “best fund managers of the last X years” trumpeted in the press are bound to have some bad years in the near future.

Nothing about the future is exact. Life brings so many variables and so do your investments. When I’m shown a “financial plan” generated by software with beautiful graphs and charts of numbers I cringe. How many financial plans were thrown out in 2008-9? Who looks at these things a year later? Even when the plans include “Monte Carlo” simulations that involve probable outcomes, they have lots of numbers.

We have no idea how our money will grow. At best we can make some very rough assumptions based on the past, and with the knowledge that the changes will come in bursts up and down and never smoothly. As much as we’d like the certainty of exact numbers, we instead need to be comfortable with just generalizations:

• Financial planning is a long term process that needs regular reassessment. It is not something a “checkup” on your portfolio will accomplish.

• Financial planning is much more than how your portfolio is invested, and it can make a tremendous difference in the mistakes you make and the opportunities you take.

• Stocks will usually outperform bonds and cash, especially over long periods of time.

• Stocks will be volatile up and down, be prepared for that.

• Stocks are your best bet to beat inflation and taxes over long periods of time.

• How much you save is more important than how much your investments earn.

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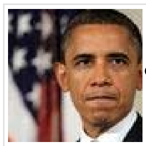
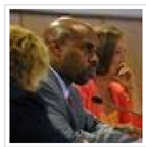
- 
- 

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