

April 2014

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# MALLARD ADVISORS

Comprehensive Financial Planning  
& Wealth Management Solutions

## THE QUARTERLY MALLARD CALL

### Notices

Bill will be on vacation with his family the week of April 14th in Myrtle Beach, South Carolina. Time will be spent rotating between becoming tense on the golf course, then unwinding on the beach.

Bill will also be attending the NAPFA (National Association of Personal Financial Advisors) conference in Salt Lake City, UT. This conference provides continuing education in taxes, investments, retirement planning, estate planning, and practice management. Therefore, he will be out of the office May 13th—16th.

Are you receiving our e-mail newsletters (which are different from this quarterly newsletter)? If not, let us know by sending an e-mail requesting to be added to our [e-mail newsletter list](#).

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### To Thine Own Self Be True

William D. Starnes

We all want to make the best financial decisions; and many of us have the financial knowledge to do so, but having this knowledge does not necessarily prevent us from making mistakes. It is not easy because money is fraught with emotion, family history, and financial trauma. On top of this it is also influenced by our core values and beliefs (and some of our beliefs may not be rational). We must know ourselves. In fact, managing yourself – your moments of euphoria, envy, fear, and insecurity can only be achieved once you've obtained some self-awareness.

#### Why Knowing Ourselves is Critical & Comforting

Financial decisions are easy when we are *crystal clear* about who we are -- and we remain true to this. Being true to ourselves will bring us closer to financial security. Even better, knowing and accepting who we are is relaxing and comforting. We are no longer striving to be someone we are not, or living a life we cannot currently afford.

Just think about how confident and secure you would feel if you were absolutely certain about who you are, what you want, what you can afford, where you are going, and what decisions would need to be made in order to get there. You would not be swayed by the media, family, or friends. You would be better able to withstand the forces that try to bully you into making

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### Announcements

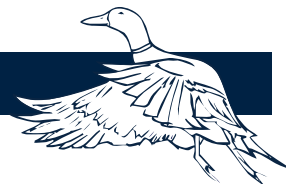
#### Cheryl Starr Joins Mallard Advisors

Cheryl joined Mallard Advisors in January 2014 as a Financial Paraplanner. She is responsible for providing client relationship support and for executing deliverables including tax preparation, trading, and reporting. Prior to her joining the firm, she was a Tax Associate for *Cornerstone CPA*, specializing in individual tax returns. Her professional experience includes working for Concord EFS as a senior systems developer and for JP Morgan in both an operational and systems developer role.

Cheryl graduated from the University of Delaware with a Bachelor of Sciences Degree in Finance. She lives with her husband and two children in Landenberg, PA.

#### New Fax Number.

Please note our new fax number is 302-763-3718.



poor financial decisions. With stronger convictions, you will stand firm when your emotions (or others) attempt to sway you into making bad financial decisions.

So, knowing who you are (which may include our beliefs, values, identity, foibles, weaknesses, strengths, etc.) and always making financial decisions that are congruent with who you are creates confidence, power, and strength. This strength is needed in the face of external pressures and influences.

### Three Areas Where Knowing Yourself Will Impact Your Life

I would like to talk about three areas where being confident and true to ourselves would have a massive impact upon our financial futures. They are: being true to your values, income, and your investment personality.

#### 1. Being True To Your Values

One of the fastest ways to BOTH get to know yourself and be true to yourself has to do with **values clarification**.



Have you ever had difficulty making a financial decision? If so, if you look close enough you will see that it may have to do with a lack of clarity around what you think is most important (i.e. values clarification). Just think – what if your strongest values were *financial security* and *freedom*. Wouldn't this automatically rule out a lot of purchases that would conflict with these values?

Ask yourself, “Is this the best possible use for this chunk of money, if my goal is creating lifelong happiness for myself?”

**Knowing what you really want is a way of wearing blinders to all the “bright shiny objects” that try to lure us away from our true goals.** Con-

stantly revisit what is important to you by keeping them in the forefront of your mind. Whether it is a saying, a picture, or a personal mission statement, review it each day and keep it urgent in your mind.

#### 2. Being True To Your Income

As a young man, I fell in love with a beautiful curvaceous automobile called a Mazda MX-6. I wanted to be the one behind that wheel and to live the life of someone who would drive that sexy sports car. I bought it in a rush of euphoria. **The problem was that I was neither sexy nor rich!** And after the rush faded, I was left with a liability that crowded out my ability to do all the other things I really wanted to do – save, change careers, and buy a

home. I tried to live the lifestyle of someone else – someone with a high income. Pretending to be someone I was not, was a sure fire way to ensure that I would never be the person I wanted to be. I was not being true to my income or myself.

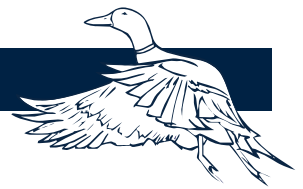
Finally, living within your means is honest. How do you know if

you are living beyond your means? If you have more than one dollar of REVOLVING credit card debt, you are living beyond your means. If you do, stop using them. Credit cards only make it easy to spend money on things you don't need and can't afford.

Now, what if you not only lived within your means, but also created a budget that was based on your values. Now that is a powerful combination. We want our values to dictate our spending rather than allowing our spending to dictate our values.

Budgeting is not simply a tracking exercise designed to deprive you. Instead look at it as a process to determine if you are in

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harmony with the things you hold dear, rather than as a process of tracking or trying to do without. If you are not true to your income, you are trying to live a life you can't currently afford. As I learned, acting rich will never make you rich.

**3. Being True To Your Investment Personality**

Are you a saver who prefers certainty, or an investor who desires the opportunity for higher returns at the expense of safety? Which emotion do you feel more when you think about investing: fear or euphoria? How much of your portfolio are you willing to subject to the risk of the stock market for the chance at achieving higher returns? Knowing this – your tolerance for downward fluctuation in your portfolio – and investing accordingly is critical to your life-long investment success.

Risk tolerance is fairly stable. The problem lies in the fact that our *perception* of risk changes with the markets. For example, let's say a conservative investor with an appropriately conservative portfolio is watching the stock markets rise for a couple of years. This investor may not only feel envy over a friend's higher returning portfolio, but also *perceive there is lower risk* when the stock market has been rising. He may then abandon his true investment personality out of envy and inverted risk perception. He may even load up on stocks just prior to the bear

market. What then? He will very likely bail out of the very stocks he just bought after suffering substantial losses. The risk of bailing out of a weak market is the most critical risk to avoid; and this is best done by understanding your own risk tolerance and being true to this tolerance. So, as you can see, **being true and steadfast to your risk tolerance is far more critical than choosing the right/best investments.**

Once you get your risk tolerance right, and accept this, investing is easier and higher returns are far more likely. You then begin receiving the returns you deserve based upon the risk you have accepted. Envy is eliminated and market timing is eliminated. Changing investments or strategies (in the pursuit of higher returns) is eliminated. Risk and return go hand-in-hand. You will no longer feel like you didn't receive the returns you deserve.

Getting crystal clear about what you value, living the lifestyle you can afford, and accepting your investment personalities are three areas where being true to yourselves will propel you towards the life you really want.



*Bill Starnes is the founder and senior advisor at Mallard Advisors, LLC*

**Investment Commentary**

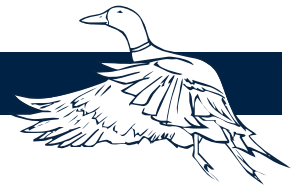
The U.S. stock market reported respectable gains in the first quarter of the year, with the Vanguard 500 Index earning a return of almost 1% for March and almost 2% this quarter. Bonds had a similar quarter—which for bonds was quite good. Over the last year, U.S. stocks have earned 22% and U.S. bonds have earned nothing.

However, clients don't invest purely in either U.S. stocks or U.S. investment grade bonds. They are globally diversified. Therefore, as you can see in the table at the right, a globally diversified portfolio of 60% equities earned 11.4% over the last year; and one of 40% equities earned 7.5% over the last twelve months.

Economic growth remains modest but steady with the most notable rebound in the area of housing.

Total Return as of 3/31/2014			
	March	1st Qtr	Last 12 Months
<b>PORTFOLIOS**</b>			
60% Equity	0.3%	1.8%	11.4%
40% Equity	0.2%	1.9%	7.5%
<b>STOCKS</b>			
Larger-Cap	0.8%	1.8%	21.7%
Smaller-Cap	-0.3%	2.6%	25.1%
International - Developed Mkts	0.4%	0.8%	12.7%
International - Emerging Mkts	3.9%	-0.4%	-3.0%
Real Estate	0.5%	9.9%	4.1%
Inflation Hedges*	0.6%	2.7%	8.7%
<b>BONDS</b>			
Investment Grade Bonds	-0.2%	1.9%	-0.3%
Emerging Local Market Bonds*	2.7%	1.8%	-9.2%
<b>TOTAL CASH</b>			

\*Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for "Natural Resources" is used, and for Emerging Local Market Bonds where PIMCO Emerging Local Bond is used.  
\*\*Each portfolio is represented by a Vanguard LifeStrategy Index fund.



## Future Testing\*

The financial news purports to be about the future but is really just an account of the past. As a result, many investors project what has already happened onto an imagined future. There's another way of framing this problem.

It's understandable that investors, with the help of a necessarily short-term-focused media, will tend to focus most of their attention on what has happened in financial markets in the past month, week, day, or even hour.

When stocks have fallen heavily in price, for instance, this is routinely reported as, "More bad news for investors today..." In fact, unless you plan to liquidate your portfolio that particular day, it is unlikely to be bad news at all.

The media could just as easily say, "**Stocks went on sale today**, as falling prices offered investors higher expected returns..." If you are a long-term investor, the key issue is how your portfolio performs from now on, not what happened yesterday.

In this way, investment is about the future, not the past. And because the future is unknown, we should strive to manage the uncertainty by diversifying across stocks, sectors, asset classes, and countries. While diversification does not eliminate the risk of market loss, to do otherwise is to take unnecessary risk.

When stocks have fallen heavily in price, for instance, this is routinely reported as, "More bad news for investors today..." In fact, unless you plan to liquidate your portfolio that particular day, it is unlikely to be bad news at all.

The second assumption the financial media makes is that the future is the same for everyone. In reality, of course, our futures diverge depending on our age, family circumstances, jobs, incomes, and other factors.

One person may be focused on paying for a college education for their children or caring for aging parents. Another may be looking toward buying a home, saving for a vacation, investing an inheritance, or changing careers.

Everyone's future is different, which means the investment strategy each of us adopts will vary. Some will want a strategy that delivers regular income; others will be more focused on capital growth. Some will be risk takers, others risk-averse.

From this, it should be evident that if the future looms differently for each of us, risk is not just one thing. It is not just the volatility of the market day to day or a simple statistical metric that can be measured. Risk can be felt differently depending on your age, your dependents, the industry you work in, the country you live in, the currency you con-

sume in, and your accumulated assets and liabilities.

This is why an assessment of the future and the uncertainty surrounding it should not just be approached from the level of the overall market but from the needs of each individual. That is the role of a qualified financial advisor: to help connect each individual's circumstances and needs to their goals.

None of us can control the future. Risk can be quantified up to a point, but risks can vary greatly depending on the individual. In any case, there are other uncertainties that cannot be analyzed in terms of mathematical probabilities.

**One response** to future uncertainty is to speculate and try to position one's portfolio to take advantage of one possible outcome or another. The risk in taking that approach, apart from getting it wrong, is that we can end up acting on stale news or paying a premium to take advantage of news that is already in the price of a given security.

**Another response** is to stay highly diversified and to use the information in market prices to stay focused on dimensions of expected return.

This latter response doesn't require speculation, forecasts, or second-guessing the market. It just requires an understanding of what we can and cannot control. So while we can't control the future, we can control the structure of our portfolios, we can ensure we are broadly diversified, we can manage fees and taxes, and we can regularly rebalance to ensure the risk allocation stays within our chosen parameters.

Yes, the future is unknowable, and how it unfolds has differing implications for each of us, depending on our circumstances and needs.

While we cannot prepare the future for our portfolios, we can still strive to prepare our portfolios for the future.

Much financial news purports to be about the future but is really just an account of the past. As a result, many investors project what has already happened onto an imagined future. There's another way of framing this problem.

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\* Jim Parker, DFA. This article reproduced with permission.,  
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