What About History? It's key when considering financial planning

Steven Podnos, Financial Q&A Published 6:42 a.m. ET Sept. 17, 2018

(Photo: Provided)

You might think I'm a financial planner, but I'm really a historian. It is my job to learn my clients' histories and apply general financial historical information to help them succeed in their goals.

Without a clear understanding of both, success may be elusive.

Let's start with your history. How have you succeeded (or failed) in saving enough money for your future? What has been your experience with investments and other advisors? How did you react to the market volatility of 2000 and 2008-9? How do you view "money"-as a measure of security, of freedom, and/or as a marker of success?

Next, I must remember the history of what I have heard and learned from financial study. What happened to families that did not have enough life insurance or disability insurance when disaster struck. Who did not have enough liability coverage when an accident occurred. What college degrees didn't work in today's marketplace?

Who was investing in products so expensive that they did not stand a chance of success? I must keep the historical perspective on how emotions lead to bad investment behavior. I remember the euphoria of the tech stock boom of the late 1990s, and the lines of people seeking to buy increasingly expensive real estate in 2005-7. I know of the panic selling of equities at the worst possible time in 2001-3 and then again in 2008-9.

I need to know the history of investment returns, and of inflation, and taxes. We know that over long periods of time (which is what really matters), only stocks return a decent level of growth after taxes and inflation. Bonds and other fixed income can barely keep up with these drains on wealth (and often fail to even keep up.)

But, history also teaches that the price we pay to make decent returns on stocks is both a long-term commitment and the tolerance of marked volatility. Markets drop in price up to thirty percent on average every five to six years, but they also recover and have nice net gains over time on a regular basis. Permanent "loss" is never a result of what you read on the investment statement or page-it is only a result of panic and the subsequent sale of your investments at a bargain price to others. Indeed, those who can't tolerate downward volatility effective subsidize those who can.

History also teaches that no one (this can’t be emphasized enough) can time market moves effectively, and attempts to pontificate on this should be shunned, much less acted on. History teaches that those investments that are doing “great” right now, are likely to lag in the future, and vice versa. History teaches that we have occasional bouts of inflation that can destroy the purchasing power of a family.

Even “regular” inflation is a steady erosive destructor of wealth and must be considered all of the time. History also demonstrates that market movements don’t always correlate with world events, with who just was elected, or even how well the economy is doing.

Steven Podnos MD CFP is a fee-only planner in Brevard County. He can be reached at wealthcarellc.com or Steven@wealthcarellc.com.