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NEWS

'Evidence-based' investing: What are the facts on this approach to financial security?

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For FLORIDA TODAY

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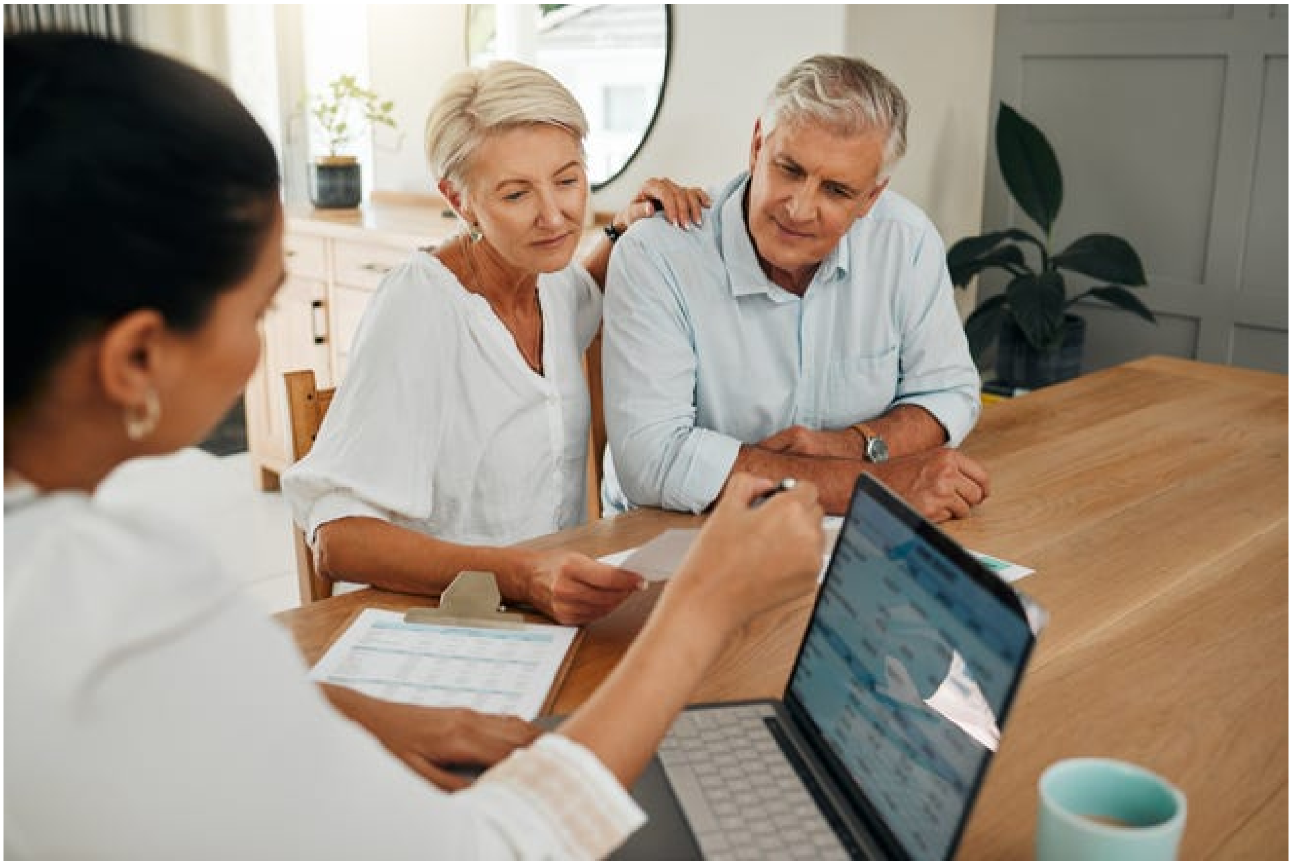
SKIP

- Long-term returns on stocks are likely to be higher than those of fixed income or cash.
- It is crucial to have emotional discipline when investing and avoid making rash decisions based on market fluctuations.
- Building financial security is a lifelong endeavor that requires careful planning and saving.

Q: How do I know what is “true” on investing? It seems that there are conflicting opinions constantly in the financial press.

A: As a physician, I found that there was always some “latest and greatest” study purporting that I should be using some new form of therapy. Invariably, with time, other studies would emerge that would invalidate the early ones. We’d find that the “latest and greatest” was a mistake and could be doing harm to patients. Part of the process of being a good physician was having the skepticism and discipline to discern what information was “true." Luckily, there has been an increasing prominence in evidence-based medicine, in which multiple studies are subjected to careful review before recommendations are made.



As a financial planner, I find the same is true. There exist some great dogmas that are vastly misinterpreted as well as a constant flow of academic studies and opinions suggesting different investing behaviors all the time. Markets move in long cycles and much of market movement is related to investor psychology, a variable that makes empiric truths hard to prove.

But we can rely on “evidence-based investing," putting some beliefs based on history and observation together. Some of this is backed by some good academic research and some is just learning over time.

Some of these beliefs follow here.

Stocks are likely to have higher long-term returns than fixed income or cash.

We must all fight strong behavioral tendencies to panic and sell just when we should be buying, and vice versa.

Asset protection should be done prospectively, or it will often be too late. It is easy to brush off the risk of lawsuits for a variety of reasons, but being sued will immediately focus the mind, and for a long time. Every family is different, and every state has different laws.

More: Fixed income: What is it, and what do I need to know to safeguard my security?

Estate planning is so very important, especially if not done before it is needed. It is also somewhat state dependent and very aligned with asset protection in most cases.

Schemes to save on taxes that seem too good to be true are just that.

Mentally preparing yourself and your children for what type of college you are willing to pay for far in advance is a major investment concern (often the most expensive thing you will buy).

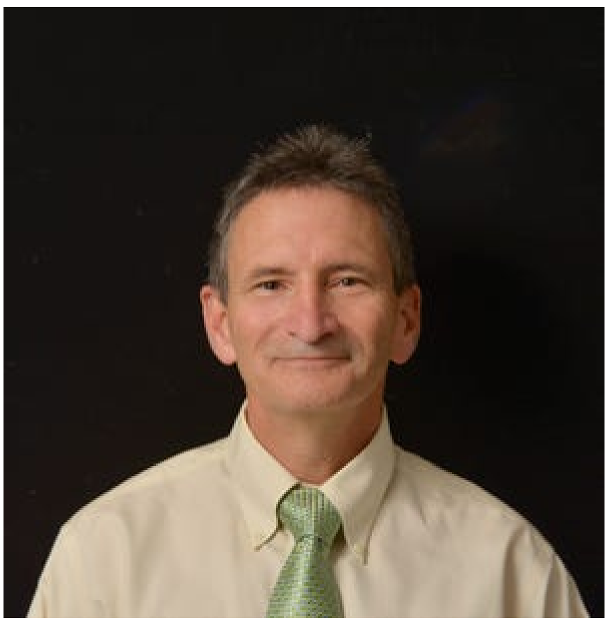
You should have no debt in retirement.

Getting advice from a salesperson is fraught with danger.

If you don't save enough and early enough, market returns can't begin to save you.

Believing that any "investment" in a small business you don't directly control will work out well is quite risky.

The only relatively safe way to make money in real estate is to directly own rental property that you manage carefully over decades. This rarely is the case.



Finding competent and trusted advisors in the many aspects of your financial life is worth doing, and not easy.

Building financial security takes a lifetime; trying to accomplish it quickly leads to mistakes. Almost everyone has the potential to retire with "enough" depending on how they control their spending versus saving during the working years.

Financial planning is so much more than investing. Understanding the complexity of asset protection, estate planning, tax planning, retirement planning, educational planning, business planning and more is not simple. Actually, investing is relatively simple if you have emotional discipline.

I hope that these thoughts help you be successful!

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