

# FINANCIAL PLANNING REALITY

## MAY 2006

*In the Book of Genesis, God gives Adam and Eve dominion over all the earth, forbidding them only from tasting the fruit of the knowledge of good and evil. And for a moment, their innocence is perfect. Then, being only human, they succumb, and bite the apple. This is the original transgression, and when they have committed it, everything bad about earthy life comes rushing into the world: sin, shame, toil, sickness and death. They made just one mistake, but it was the one and only thing they were forbidden to do.*

*I think that, in a strange way, good investing is a little like that earthy paradise. Because, when it's done right, long-term investing is seamlessly aligned with the lifetime goals of the investor and his family. There is perfect integrity, innocence, if you will, about goal-driven investing. It is an appropriate means to a healthy end: financial peace in the current generation, and important legacies to the generations that follow.*

NICK MURRAY

Conventional wisdom can be poisonous. This is a belief that we hold and is ever evident concerning the state of counsel individuals are receiving in regards to their finances. Financial advice, whether it be from journalists or Wall Street brokers, is often the inverse of what is prudent for individuals. Wall Street and the business press are enriched when people are essentially brainwashed into a culture of buy/sell and hold. Like narcotic dealers, wirehouse brokerage firms make greater amounts of money when people are essentially doing the wrong thing. A third item that plays an enormous part in the downfall of investors happens to be one of the seven deadly sins, greed. Greed, along with materialism are the best friends and partners of con artists, unscrupulous brokerage firms and journalists. Without greed and materialism, the most tempting of sales pitches would be futile.

For Wall Street, teaching individuals to have goal oriented portfolios is not nearly as lucrative as keeping investors chasing the next hot investment vehicle. Whether it be an IPO, mutual fund, hedge fund, or the next hot sector trend, Wall Street makes a great deal of money by creating these vehicles to nowhere, and conducting in many cases, needless transactions.

Financial journalism is an oxymoron if there ever was one. Whether it be: CNBC, another business publication with an article on "*The Top Stocks to Own For 2006*," James Cramer of *Mad Money*: or one of the many call-in talk radio host *gurus* who knows everything about every stock and can tell anyone what to buy or sell in a thirty second conversation, teaching goal oriented investing is not news, and therefore is ignored. Nick Murray states, "***The primacy of asset allocation may be the immutable truth, but it isn't news, and therefore journalism can't cover it. The truth is not merely different from the news, it is antithetical to it.***"

### GREED AND MATERIALISM

John Crudele of the *New York Post* in an article entitled **Take it From a Mobster: Greed Sets the Trap** encapsulates the power of greed.

*I know this guy - a mobster and proud of it - who in his day put together some pretty creative and ingenious stock scams. And he was plenty proud of being able to fool the public. In one particularly notable scam, he and some of his unscrupulous friends created fake financial statements for a company that purported to have developed a beer can that*

*would chill itself when it was opened. They even held a demonstration for the press at the World Trade Center, and, sure enough, when the can was opened it got cold. Scattered around the room were a bunch of Securities & Exchange Commission investigators. One was whispering questions in my ear that he wanted the supposed president of the company (not my mobster friend) to answer. Eventually the FBI and the SEC shut this company down, but not until millions were stolen from investors. And I use the word "company" loosely, because it never really existed. I once asked the mobster how it felt to steal from people like that. He said, "John, I couldn't have done it unless they were greedy. You're not greedy, so I could never steal from you."*

The moral of this story is buyer beware. Regulators are reactive and don't prevent much of any fraud, and we at Markowski Investments can only accomplish so much through the radio show and newsletter. We live in a free society, and with freedom comes responsibility. Individuals need to take ownership of the decisions they make. A life rule that will keep people out of trouble is accepting that anything in life that is worth something involves work, time and effort.

Get rich quick con-artists are the world's second oldest profession. Whether it is boiler room mobster, a large investment bank, an annuity salesman, or media outlet, they are well aware of the power of greed and use it to sell their merchandise. When I was first starting out on Wall Street, the bulk of our training was not devoted to proper asset allocation and portfolio management, it was sales. We were made to sit for hours listening to a sales manager preaching on how to push an individual's greed button, ignore common sense, and to buy exactly what the firm wanted.

Materialism is the evil sidekick to greed and is fast becoming a force more powerful than the gravitational pull of a black hole. Unfortunately in our contemporary society money has become god in the eyes of too many Americans who worship and pay homage with credit cards and home equity loans. Once you are sucked into this black hole it becomes very difficult to escape because the reality is no one can have enough. Someone will always have more, a bigger house, a fancier car, a better television etc. The materialism god has a voracious appetite that enslaves its faithful. It is easy to fall into this trap and we recommend that everyone on a regular basis ask themselves the question: ***Do you own your "possessions" or do your "possessions" own you?*** One of our most important purposes as advisors is to act as an antidote to the disease of materialism and greed that can infect anyone.

## **UNDERSTANDING RISK**

Scenario: You need to drive to a neighboring city on a regular basis. The drive will take 1.5 hours at 70 miles per hour. However, if you decide to drive at 95 miles per hour, you will shave 20 minutes off the drive time. If you decide to drive at 95 miles an hour your chances of getting into a horrible accident are significantly higher. Is taking on that additional risk worth the 20 minutes?

Most investments rolled off the big brokerage assembly line promise fantastic returns with glossy brochures and colorful marketing campaigns. What is missing, with the exception of some microscopic disclaimers is the risk involved with the said investment. What is sold is the ***"expected return."*** The bottom line: The higher the investment return, the higher the risk. Salesmen always gloss over the risks. Market timing doesn't work. It may be all the rage and very appealing due to plays on fear and greed, but, inevitably investors see a substandard return due to poor choices and higher costs. Wall Street knows this and profits from it. Proper asset allocation and a balanced financial plan that includes real estate will mitigate risk and allow the investor to meet his or her goals.

## **GOAL ORIENTED INVESTING**

*When we bite into the apple of “out-performance” when the focus of our portfolio shifts from our financial goals to the markets themselves, that is the original sin, the mother of all mistakes. And when we give into temptation, every classic, return destroying, soul-murdering behavioral proclivity to which human nature is heir comes rushing into our financial and even our emotional life.*

NICK MURRAY

Successful investors are those who have their portfolios managed in the service of their life's goals, instead of trying to *beat the market*. We understand the trap. The toxic drumbeat of materialism coupled with lyrics of “**YOU CAN BEAT THE MARKET... DOUBLE DIGIT RETURNS... PROVEN TRADING SOFTWARE...FINANCIAL GURU EXPLAINS HOW...LATEST TRADING SOFTWARE...ETC.**” All of these are temptations that are difficult to ignore. We always try to bring the highest level of returns for our clients however, we realize that out-performance is desirable but is not the goal. Funding a long retirement is a goal, paying for your children's education is a goal, leaving a lasting legacy for your family is a goal. Goal oriented investing is simply about accumulating and growing ones assets to meet ones goals. The portfolio is always the servant of ones goals. A goal oriented investor acts. A market driven investor reacts.

## PERFORMANCE

**Out-performing the market is not a difficult thing for us to accomplish over time.**

If you decided to invest in the Dow Jones Industrial Average in January 2000 as of April 2006 you will have put together a gain of 12% including dividends. However, if you decided to invest \$100 in the Dow every month from January 2000-April 2006 your return according to Morningstar would be 23%. **Dollar-cost averaging** like we just described is one example of how it is done. **Compounding** is another. We always take advantage of the best safe yields we can find, and stick with them. It might be boring, but it works. **Always look for value**. Asset prices move in long patterns. Wait until an asset goes on sale, so you get more for your money. Last but not least is **asset allocation**. Asset allocation, diversification and rebalancing we believe are responsible for at least 95% of a portfolios performance. Timing and selection is the rest. The reason why you never hear the financial journalists or pundits discussing these items is because they are not **news**, but truth. They want you watching their programs and buying their magazines. Once you understand the truth, you no longer have any use for their **news**.

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We are not stock pickers, mutual fund handicappers, or fortune tellers. We are financial planners; we deal in reality and understand the truth about our profession. What it is, what it can do for people, and what our limitations are. Truth of the matter is there is not a soul alive who can tell what direction the markets are going to go, or stock is going to trade over the short-term. If you are looking for someone to guess where XYZ Corp. is going to be trading next month look elsewhere, and might we suggest a casino. If you want someone to help you realistically reach your life's goals we can help.