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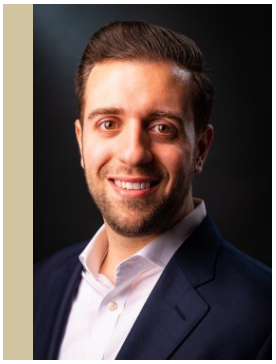
OCTOBER 2019

PLAYING THE HITS

SOMETIMES, IT'S BEST TO STICK TO THE CLASSICS.



Andrew Sasso
CFP®, ChSNC®, ChFC®
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Paul McCartney recently wrapped up his Freshen Up tour with a sendoff show before more than 56,000 fans at Dodger Stadium. The 77-year old global icon performed a setlist of nearly 40(!) songs over three-plus hours before surprising his fans with Ringo Starr and Joe Walsh for a six-song encore. While the tour received mostly glowing reviews, a common theme in the feedback from concertgoers was that the concert hit a lull whenever McCartney decided to pivot to songs off his 2018 album, Egypt Station, or other tracks from his post-Beatles and Wings discography. Poking fun at this with the crowd, he said, "When we play an old Beatles song, all the cellphones come on and it looks like a galaxy of stars out there. And when we do a new song, it looks like a black hole. But we don't care, we're going to do the new ones anyway!"

On the opposite end of the country, another group of international living legends is in the midst of their own statewide tour. The Rolling Stones kicked off the North American leg of the No Filter Tour in June, two months later than originally planned. The postponement was due to 75-year old front man Mick Jagger going under the knife for an unanticipated heart-valve replacement surgery. Fortunately, Jagger made a swift recovery and hit the ground running (quite literally) as he and The Stones continued into their 57th year of performing live. Unlike McCartney, The Stones took a different approach constructing their two-hour, 20-song setlist. Rather than risk losing the crowd to a black hole, they strictly stick to playing their greatest hits. They won't be playing anything from 2016's Blue & Lonesome, 2005's A Bigger Bang or 1997's Bridges to Babylon. If someone went into a coma after seeing The Rolling Stones American Tour 1972 and woke up today, they would be hard-pressed to believe it's nearly 50 years and 14 albums later.

[1] https://www.rollingstone.com/music/music-news/watch-mick-jaggers-post-heart-surgery-dance-moves-835705/

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GREATEST HITS OF FINANCIAL ADVICE

While I'm privileged to work for a company as versatile in wealth management as Paul McCartney is to music, I often find myself taking The Rolling Stones' route and regularly revisiting the same core pieces of advice. The No Filter Tour inspired me to reflect and dig through my own catalog of financial tracks. What follows is my attempt to build a setlist of "greatest hits" which I could play to the masses today, while being confident that I could dust them off in 50 years and still relate.

TRACK 1: THE EMERGENCY FUND

Leading off is what I believe to be the most essential piece of financial advice: having a sufficient emergency fund. General rule of thumb is three to six months living expenses sitting in a bank account, although you can stretch this further depending on age, job marketability or many other personal factors. Seems obvious, right? Nope. Far too often I'll meet with individuals whose net worth exceeds eight figures, yet are ill-prepared for a layoff, slowdown to their business/economy or medical emergency. Some may contend that the next track should be #1, but what good is a multi-generational plan if you need to start selling assets to meet next month's nut?

TRACK 2: A FINANCIAL PLAN

Unless this is your very first exposure to Creative Planning, by now you know how passionate we are about planning. Yes, every person should have a financial plan. No, this does not mean everyone needs some excessive, 1,000-page report plotting out the impact that buying a pack of gum today has on your retirement. At the bare minimum, a plan provides a snapshot of your net worth, takes future savings and/or growth into account and projects if you are on or off-track to meet your personal goals. This is how we comprehend investment recommendations: with your goals driving the plan, and the plan driving portfolio decisions. Why would you invest a single dollar without knowing its purpose?

TRACK 3: YOU CAN'T BUY TIME

I'm 95% confident that I could pick any well-known businessperson at random, Google: said person quote about time, then be flooded with inspiration. Time is an amazingly valuable planning tool squandered repeatedly. Once you have gone

[2] 'Warren Buffett quote about time' directed me here: https://www.fool.com/investing/best-warren-buffett-quotes.aspx

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through the planning process and developed an action plan, the best time to act was yesterday. The greater the amount of time until a financial goal, the less you will need to do. The opposite occurs when days of indecision turn into months, often drifting into years. You can overhaul your investment allocation in just a few clicks. And, as painful as it may be, you can cut into your budget, change savings patterns, or adjust future lifestyle goals. But, you cannot recoup lost time. This is the Universe's great equalizer.

TRACK 4: BEHAVIORS RULE

From Peter Mallouk's *The 5 Mistakes Every Investor Makes and How to Avoid Them*, "In most cases, if an investor has greatly underperformed from an investment perspective, it is not because of the markets, but because of their own, or their advisor's own, mistakes." For the past 25 years, independent financial community firm DALBAR has studied investor behavior and published an annual report on their findings. Every year, the results are the same: investors not only underperform "the market," but drastically underperform their own investments! Their March 2019 press release stated: ***The average investor[3] was a net withdrawer of funds in 2018 but poor timing caused a loss of 9.42% on the year compared to an S&P 500 index that retreated only 4.38%***. DALBAR will post their 2019 study next March, which can be purchased for $795... or, you can donate $795 to your favorite charity and take my word that investors remained on the sidelines during January's recovery, reentered equities in April/May and will underperform yet again.

TRACK 5: ESTATE PLANNING

If you: are a parent without a guardianship agreement, a business owner without a succession plan, have a beneficiary with special needs, or have charitable inclinations and have not done any estate planning, drop what you are doing and take care of this NOW.

While I'll acknowledge that I tend to jump on my soapbox a great deal while discussing estate planning, I promise my heart is in the right place. Ask any experienced financial professional: this is the area that brings about the real horror stories. More fortunes have been lost and families divided due to poor estate planning than any of the other subjects we discuss. Then why aren't more financial professionals rushing to help

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[3] When you partner with Creative Planning, you are not the average investor. This is not because we have some secret sauce, it's because you have taken the time to speak about your goals and have entrusted us to build a portfolio best suited to meet your needs.

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clients get their affairs in order? My best guesses are: a) they are also among the 60% of Americans who do not have a will or any other estate planning documents, or, b) it would get in the way of whatever they are trying to sell you, and/or, c) their firm won't let them[4].

Most people who have not done any estate planning fall into one of two groups. The first is the "it's on my to-do list" group. This could also be code for "I don't understand what needs to be done" or "I don't know how to get started." The positive news is that just about all "to-do list" people follow through once provided with proper advice and guidance[5]. All they really needed was a nudge in the right direction. The second is the "I don't need to do estate planning" group, which is a common misperception. ***Estate planning is not just a will. It also includes:***

- A durable power of attorney, that appoints a representative to manage your affairs (like paying your bills) if you become incapacitated.
- A health care power of attorney, that designates who should make decisions regarding your health in the event you are unable.
- HIPAA authorization documents ensure that your agents have access to the medical data needed to make informed decisions.
- A living will that outlines your wishes if you were in a vegetative state or incurable condition.

You do not need to have a single dollar to recognize the importance of these documents.

If you have already gone through the estate planning process, this does not mean you are off the hook. Your documents must be reviewed and updated whenever there are changes to state and federal laws. If you only have a will, you may want to consider establishing and funding a revocable living trust to avoid the costs and privacy issues of probate. Successor agents should be added to power of attorney documents once the primary agents reach a certain age or experience their own health issues. Gifting strategies should be addressed if you are projected to have a taxable estate. Beneficiaries need to be up to date. This should all be done as part of a proactive process. Ok, now I've stepped off my soapbox.

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[4] If you are currently working with a firm that prohibits their employees from discussing a topic as vital to a family's future as estate planning, time to reassess why you work with that firm.

[5] This is the opposite of the investing "it's on my to-do list" group. The person who has been sitting in cash for the last decade is actively doing what they set out to do.

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TRACK 6: ASSET ALLOCATION & DIVERSIFICATION & REBALANCING

It's been 30+ years since Gary P. Brinson and his colleagues published their breakthrough paper, "Determinants of Portfolio Performance." Their study concluded that asset allocation, the division of a portfolio among stocks, bonds, real estate, etc. as the primary determinant of a portfolio's return over time. Brinson determined that almost 90% of a portfolio's return came from having exposures to certain asset classes, whereas stock selection and market timing account only for the small percentage left.[6] A broker slinging mutual funds is basically betting (your money) that a fund manager is skilled enough to consistently prevail against stacked odds. [7] It's equivalent to Kansas City Chiefs Head Coach Andy Reid telling quarterback Patrick Mahomes that he could only make no-look passes.

Because I'm playing the hits, I'll use the most cliché description imaginable to describe diversification: *you should never put all your eggs in one basket*. We take the same steps when constructing a portfolio. Diversification spreads your risk among companies, countries and currencies. When you are diversified, you can own the best-performing stocks every single year! To be fair, you will also own some absolute dogs, but on the bright side, the lowest price these losers can go to is $0., Meanwhile, the sky's the limit on your upside!

Rebalancing is another one of my favorite 'obvious' things that most investors fail to do. For the conservative investor, rebalancing back to your target allocation prevents rising stocks from overwhelming your portfolio and keeps your risk levels in line with what you could stomach. For the aggressive investor, rebalancing can keep you from becoming overconfident, over concentrated, or from letting your winners turn into losers. What if we decided to drop rebalance from our investment lingo and replace it with: commit to selling-high and buying-low? During times of increased volatility, we will opportunistically commit to selling-high and buying-low. Okay, it doesn't roll off the tongue, but you get the point.

TRACK 7: IF IT SOUNDS TOO GOOD TO BE TRUE – RUN!

WANT TO GET RICH QUICK? STOP WHAT YOU ARE DOING RIGHT NOW AND CLICK HERE TO LEARN THE SECRET TO GETTING DOUBLE THE RETURNS OF STOCKS WITHOUT TAKING ANY OF THE RISK![8]

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[6] While I subscribe to asset allocation driving 90% of portfolio returns, I firmly believe behavior drives 90% of investor returns (Track 4).

[7] For this privilege, you are responsible for the pass-through capital gains and a 1-2% annual management fee.

[8] https://en.wikipedia.org/wiki/List_of_Ponzi_schemes

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TRACK 8: DON'T LET THE TAX TAIL WAG THE DOG

Remember the time you passed on that big promotion because the extra income would put you in a higher tax bracket? Or when you started sending your customers to a competitor because you just couldn't handle your business making more money? I didn't think so.

Worrying about taxes is a sign that you have made it in this country.[9] Taxes matter, a lot. We are always looking for ways to minimize taxes for clients throughout the year[10] whether it's through asset location strategies, aggressive tax harvesting during periods of volatility or charitable planning.[11] We have numerous tax strategies up our sleeve, but, from time to time, the Taxman Cometh. It's far more important to focus on not paying more taxes than you are legally required as an alternative to avoiding taxes entirely. If your sole effort is tax avoidance, you will likely miss opportunities to generate wealth, and then find yourself at the mercy of C-SPAN broadcasts.

TRACK 9: CORRECTIONS, BEAR MARKETS, RECESSIONS & OPTIMISM

My least favorite piece of clickbait: "Investment analyst predicts 10% pullback to stocks is coming." This serves no purpose other than to give an already wound up investing public an unneeded hit of financial catnip. Corrections, bear markets and recessions are expected and inevitable. This is baked into the risk premium of owning stocks. On an annual basis, a 10% correction will likely occur. In fact, the S&P 500 has averaged an intra-year decline of 13.9% over the past four decades, despite finishing the year with positive returns 75% of the time. About once every five years, the correction continues to drop and the decline hits 20%. This is when the financial media really starts licking their chops as we have officially entered a bear market. Historically, around once every seven years the U.S. economy will decline for two consecutive quarters, which is the textbook definition of a recession.

If we know and expect these things to happen then why aren't we acting on them now? Unfortunately, we haven't the slightest clue as to when exactly they will occur until after the dust has settled. I'd imagine there are billions of dollars of wealth that will never be created due to failed attempts at predicting when these events will happen. This speculation usually keeps investors on the sidelines, being slowly withered away by the inflation monster. What's more stunning is that the speculator is probably worse off after a successful prediction. On the chance the speculator is correct, what are the odds they will attempt to do this again in the future? I'd guess somewhere around 100%. The more time spent guessing market tops and bottoms, the greater the odds of failure.

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[9] Am I trying to put a positive spin on paying taxes? Yup.

[10] https://creativeplanning.com/blog/donor-advised-funds-an-even-better-way-of-doing-good/

[11] https://creativeplanning.com/blog/take-a-tax-season-approach-year-round/.

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So, what can we do?

Welcome the opportunity, utilize these occasions to "be greedy when others are fearful" and become buyers during a sale. Which takes us to the last part – Optimism. The reason we can be buyers is that we have long-term optimism that, as painful as declines will be, they will be temporary. We truly believe this (or next) time will not be different. I find it hard to believe that one could be both the habitual pessimist[12] and a successful long-term investor. These traits go together like pancakes and tuna fish.

TRACK 10: DEATH V. DISABILITY

You know how the evening news always finds a way to lead with the most depressing story possible? Or how CNBC covers the same 10-15 companies around the clock yet pays no mind to the thousands of others which make up the indices in the bottom right corner of their channel? We tend to pay attention to smaller and more sensational bits of information as opposed to looking at the bigger picture. For proof of this bias, look at the case of Death v. Disability. Fact: there has never been a better time to be alive in the history of mankind in terms of life expectancy and medical advancements.[13] Yet we spend an inordinate amount of time focused on our untimely demise when the odds are far greater one will experience a long-term disability than pass away unexpectedly. According to Social Security's most recent research, they estimate one in every four individuals born in 1998 can expect to be out of work for at least a year due to a disability before they reach full retirement age.[14] And, unlike death, where females are continually expected to outlive their male counterparts, gender is of little consequence when it comes to disability. This is not a pitch to go loading up on disability insurance policies, but a refresher on another thing on our minds when we plan for your family. Which leads into the final track…

TRACK 11: ADVICE IS ONGOING

As we advance through the different stages of our lives, the world around us continues to progress, often at a faster pace than we can keep up with. It's our job to be on top of this for you and your family. New laws and rules will frequently change the best way of managing taxes and estate planning. New investment opportunities will present themselves. Families will expand, and shrink, then expand again. Most importantly, goals and values will change, as will your plan. We will be here, every step of the way. Good advice doesn't expire, it continues to evolve. This is the beauty of real financial planning.

[12] I'm referring to a real Debbie Downer type of individual, not to be confused with a contrarian.

[13] There's that optimism thing again.

[14] As compared to a 6.2% probability of death.

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