Portfolio Watch

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Fee Only

On a Mission

> *"Success is a journey, not a destination." – Ben Sweetland, Arthur Ashe, Yoda and probably a hundred others*

Actually, Yoda worded it a little differently. Something like, "…mmm, a destination it is not." In any case, none of these guys was a financial planner, and it's a good thing. The last thing you want a financial planner thinking is that it's more about the journey. A planner's job is to get you to your financial destination in roughly the timeframe you would like to be there. Ideally, getting to your financial destination enables you to enjoy the rest of life's journey instead of spending all your time checking on your portfolio.

Identifying the Mission

A better inspirational quote for financial professionals is Yogi Berra's, "If you don't know where you're going, you'll end up someplace else." Col. Tom Magness was an Airborne Army Ranger and now does leadership training for Eagle Leadership Group. I've heard Col. Magness speak a couple of times, and part of his standard message for leaders is to make sure every person on the team is focused on "the mission." For an Army Ranger, nothing is more important than accomplishing the mission and everyone on the team better know what it is. In the financial world, every financial plan represents an individual mission, but what are the objectives of the mission? Too often, financial goals are written as a kind of fuzzy, gelatinous wish list that makes Yogi Berra's prediction come true.

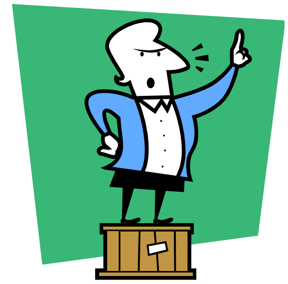
Accomplishing the Mission

The largest financial goal for most people is retirement, but what is the actual objective? What's the financial planning mission? A successful retirement plan will create a sustainable cash flow

that allows a person to maintain their standard of living throughout retirement. Generating the cashflow typically requires a specific portfolio value at a specific point in time. This is the mission: a target portfolio value followed by a cash flow. If you have $X now and you need a portfolio worth $Y in 15 years, it's easy to calculate the average return you need to accomplish the mission. Notice that "beating the S&P" does not ensure a successful mission. Neither does "low cost investing" or many of the other goals we tend to focus on but that have nothing to do with successfully accomplishing the mission.

Protecting the Mission

As is true for any complex project, things will not always go right in a financial plan. A prolonged illness, a sudden loss of income, or a badly-timed recession can all put the mission at risk. Part of the purpose of a financial plan is to identify risks and then determine which risks will be addressed and which ones won't. Maybe long-term care insurance makes sense, or maybe it makes more sense to spend down assets and replace them with life insurance. Or maybe we just live with the risk. On the investment side, should we avoid big losses with steadier, more deterministic investments, or swing for the fences and hope it turns out OK? An investment with a steady return may not give you as much to brag about at the next dinner party, but it may accomplish the mission with a higher degree of certainty (no one really wants to hear you brag anyway). The point is that these decisions should be made consciously and on-purpose, with a clear mission in mind so that we don't "end up someplace else."



Market Comments

There is little not to like about the current behavior of the market. The S&P 500 has gone up about 5% in the last quarter, and the Russell 2000 (small cap stocks) is up more than 6%. Most of the recent gains seem to be due to optimism that President Trump will help negotiate a tax break for business that will provide further stimulus to the economy. With the Republicans unified behind the president and Democrats anxious to help them accomplish their goals, tax reform should be a walk in the park (that was written with much sarcasm).

With the market hitting all-time highs and seemingly everyone talking about their favorite stock (as long as it's Apple or Nvidia), is there anything to worry about? Looking at stock prices, it wouldn't seem so. The market has been up every year for the last 8 years, every quarter for the last 9 quarters, and every month for the last 12 months. There is no evidence of inflation despite 8 years and $4.3 Trillion of money printing. The market hasn't blinked as North Korea lobs missiles over Japan, threatens to blow up Guam, and claims that war with the U.S. is "inevitable." The market seems to love President Trump conducting foreign policy over Twitter and Congress not being able to agree on when to take a bathroom break. In the middle of all of this, market volatility has flat-lined. Last week the S&P Volatility Index (VIX) was at 9.2. When I looked up a chart to see where that fell in a historical context, the chart only went down to 10. The current level of the VIX doesn't even register.

The market is at an extreme, but it was at an extreme last month as well, and the month before that. Extreme markets are perfectly capable of becoming even more extreme, but there is danger in the feeling that markets rising every year, quarter and month is somehow a new normal. The market has been driven by free money, and is now getting another boost with the promise of more free money in the form of tax cuts. No one seems willing to take profits and pay the associated taxes if there is a possibility of paying less taxes next year, and so there is practically no selling. It's fun while it lasts.

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