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In This Issue



Can You Take a Punch?

- Michael Ryan, CFP®



Does Crypto Belong in Your Portfolio?

- Ken Robinson, JD, CFP®



Five Common Behavioral Biases that Lead to Bad Decisions!

- Frank Corrado, CPA, CFP®, RLP



The Pros and Cons of Target Date Funds

- Jane Young, CFP, EA

moving average, or other criteria that they follow. Still others have realized success using stock and/or bond mutual funds.

The investment policy that I suggest for my clients is to allocate one's investment money between equities (stocks or stock funds) and bonds and cash in a fashion that meets their individual needs. They should think of their equity portion as their growth engine; money they will not need for three to five years. The bonds and cash portion of the portfolio serves to smooth out the inevitable swings in the equity markets, hopefully provide a bit of growth, and be a source of ready cash. As the various asset classes move up or down in value, these positions would be periodically rebalanced by moving money from one position to the other to keep the initial allocation plan in place.

Of course how much you may allocate to each portion depends on your particular circumstances. You should consider your age, your future goals and financial needs, and your tolerance for risk. But once your allocation decision is made, I suggest you stick with it through the market's ups and downs. Following such a plan accomplishes at least three important things: 1) It forces one to buy low and sell high as the rebalancing process will dictate that gains are taken from positions that have grown to be too large and invested in the positions that are smaller than the original allocation called for; 2) It takes emotion out of the decision; and 3) It keeps us from trying to "time" the market by jumping in and out, which no one has been reliably able to do over the long term.

Perhaps the most important thing an investment policy can do for us is to help control our emotions. Many studies (Google it) have shown that emotions often lead us to make exactly the wrong investing decision. Rational investing decisions are best made with CNBC turned off, all of the "talking heads" tuned out, and our long-range plans in mind. This is easy to say but hard to do. It is difficult to avoid the herd mentality as everyone is rushing for the doors screaming about the sky falling and the end being near! It seems no one likes equities when they are discounted and put "on sale," but that is when they will be purchased by those who are rationally rebalancing their portfolios and following their plan.

One of the roles I try to fill for my clients is that of an emotional anchor; I try to keep them from getting too high when the markets are going up, or too low when markets turn down. Every asset class has its day, and all of them will eventually go both up, and down, in value. That is why I suggest a balanced portfolio where our money is spread over a variety of asset classes. That is also why I suggest we establish a plan, or a policy, that helps us decide when it is time to make changes to that portfolio.

So this is where Mike Tyson's observation may apply to us. We need to ask ourselves if our plan is good enough to withstand a stiff punch to the mouth by the stock market; or put another way, are we committed to stick with our plan after such a lick? A well-conceived plan, or investment policy statement, will help you do just that. You will very likely be rewarded if you do as history has shown that the disciplined investor is more likely to succeed over the long term. But through it all remember: money is not the most important thing, perhaps not even in the top ten; but still, money matters.

Can You Take a Punch?

Michael Ryan, CFP®
Hendersonville, TN

Mike Tyson, the former world heavyweight boxing champion, is not well known for making profound observations, but I believe he made at least one. Once, prior to a fight, a sports reporter asked him how he planned to handle his opponent who had said that he had a special plan to defeat "Iron Mike." His response was that, "Everyone has a plan until he is hit in the mouth!" Mike may not have realized it at the time, but his observation has meaning far beyond the boxing ring.

There is more than one way to be a successful investor in the equity markets, but the one thing that most successful investors have in common is that they have a plan. Warren Buffett, who has enjoyed a modicum of success, buys businesses that he believes are undervalued and then holds them for the long term. I am told that there are successful day traders (though I do not know any) and I suspect that they have plans that they follow to time their trades. Others who invest in individual stocks have buy and sell rules based on price earnings ratios, dividend growth rate, the markets 200 day

Does CRYPTO Belong in Your Portfolio?

Ken Robinson, JD, CFP®
Rocky River, OH

Don't be fooled by the constant stream of articles about cryptocurrency. It's true that cryptocurrencies have become more popular, and more numerous, including Bitcoin, Dogecoin, Ethereum, and more than 9,000 others.

They're still not mainstream—"everyone" isn't investing in cryptocurrencies. But are they a new asset class? Should you include cryptocurrencies in your portfolio?

No. And no.

OK, that answer sounds pretty categorical. Let's be more precise: the enormous majority of individuals and households should not hold cryptocurrency as an investment. It's every bit as suitable as currency speculation with all the intrinsic value of a non-fungible token (that is, not suitable at all with zero intrinsic value).

Are cryptocurrencies the newest asset class, another tool for greater diversification?

No. They're a new kind of cash—much less stable than the US dollar—but not a new asset class. It's very like having currency from a country you've never heard of. Or perhaps something like when exchange-traded funds entered the world of investments (but, unlike ETFs, just a lot less useful [well, pointless] for the enormous majority of us).

In the type of large portfolio (not yours) where it makes sense to stockpile some euros, pounds, rupees, or yuan, it might make sense to have some cryptocurrency. The rest of us should stick to investments in the kind of assets that have been around for centuries, like stocks, bonds, real estate, and cash—legal tender issued by the authority of a sovereign government. Here's why.

What cryptocurrency really is

Money of any kind only works because groups of people agree to believe in it. (See Jacob Goldstein's book *Money: The True Story of a Made-Up Thing*.) All money, including the kind issued by governments, isn't valuable in itself. It's an agreed-upon or accepted representation of value.

In this respect, cryptocurrency is similar to government-issued currency—it has value because numerous people agree it has value. What is different is that everyone who owns cryptocurrency receives a distributed ledger containing all the data tracking every transaction ever made by anyone in that specific cryptocurrency, and how much they have (or had) at any time. You just can't identify who each individual is in the real world because everyone's identity is hidden behind a unique string of characters, kind of like an account number.

Where does cryptocurrency get its value?

Cryptocurrency, like legal tender, derives its value from how much you can

exchange it for in goods or services. When we talk about how many dollars you can get for a bitcoin, it eventually boils down to how much bitcoin you'd need (compared with how many dollars) for a loaf of bread, a car, or a vacation.

The enormous swings in the value of cryptocurrencies stem from the fact that it's less certain how much cryptocurrencies can buy. Like the value of Beanie Babies rocketing upward and then crashing, the value changes based on what the community as a whole thinks it can get if it tries to sell (for example) one Bitcoin or Dogecoin.

There's an important similarity to another recent development, the emergence of non-fungible tokens (NFTs). An NFT is a computer file that's identified as being unique, even though it can be copied identically many times. It gets its value, if any, from the tag that identifies it as unique. How much value? As much as the next buyer is willing to pay for it (the same influence that has caused used car prices to skyrocket during the pandemic). If no one else believes it's worth paying for, its value is zero.

Why isn't cryptocurrency as good as a stack of dollar bills? Because many fewer people believe in its value. So, if you wouldn't speculate on the value of yen or euros, you certainly shouldn't speculate on the value of cryptocurrency.

Is cryptocurrency a fad?

We don't believe cryptocurrency is going away any time soon. In fact, it's likely to continue to be accepted by more and more people. And the technology that makes cryptocurrencies work—a distributed ledger of all transactions that can only be added to, and not otherwise edited, using blockchain technology—is already being used by businesses in ways that have nothing to do with cryptocurrency.

One of the major selling points of cryptocurrency is that it allows users to keep transactions private. ("Crypto" derives from Latin and Greek roots for hiding and concealment.) While there are obvious unlawful applications—ransomware criminals, for example, may only release computer files back to you if you pay in cryptocurrency—it's harder to see any essential application for people who (per our consistent recommendations) avoid committing felonies.

Cryptocurrencies and the technologies behind them aren't worthless. But cryptocurrencies are inherently speculative—they're not suitable for investing. "Investing" in cryptocurrency is applying the wrong tool for the job for almost all of us. I wouldn't use your doorstep as an investment any more than I'd use a mutual fund to keep your door open.

Investing without cryptocurrency

Anything with the promise of making a lot of money in the short run has at least commensurate risk. To make money with cryptocurrency, you'd need to be very good at timing the market (people are notoriously bad at that) or very lucky. Will a small number of people make enormous fortunes in cryptocurrency? Of course. Many, many others will lose substantial sums of money.

Investments should be boring. They're not about getting rich quickly, but building wealth slowly—very tortoise-like. And of course, most of us don't need to beat the market to succeed at investing.

Don't be seduced by articles claiming that cryptocurrency is a new asset class—it's not. It's a relatively new asset and, very much like speculating in sovereign currencies, it's marked by risks that outweigh the benefits. Like many other assets, cryptocurrency has no role in strengthening the financial security of individuals and households. Anything cryptocurrency can be relied upon to do in an investment portfolio, there's an alternative that's far less speculative that can do the job better.

If you're curious or you want to be a part of the trend, take the money from your entertainment budget, and consider it already spent at the time you buy cryptocurrency. And just like a bet at a casino, don't consider it part of your portfolio.

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Five Common Behavioral Biases that Lead to Bad Decisions!

Frank Corrado, CPA, CFP®, RLP
Holmdel, NJ

Investing one's hard-earned money can be stressful, especially given current market volatility and constant media attention. To make matters worse, Behavioral Finance experiments have documented biases – our unconscious beliefs that sway our judgments and can lead to irrational missteps.

Here are five of the more common behavioral biases that influence our money decisions. We all possess them, but are more likely to avoid bad decisions if we are aware of the bias.

1. Mental Accounting

Mental accounting is the concept that we treat money differently depending on its source and what we think it should be used for. The mental accounting concept means that we do not treat all our money as interchangeable; we link how it's spent to particular "budgets." This mental accounting exposes us to making irrational decisions.

Consider the rationale for these real-world situations. Do any sound familiar?

1. "My bonus is different than my paycheck. I deserve to be extravagant with my bonus money!"
2. "Can I have a higher amount of tax withheld from my paycheck? I always take a trip with the refund."

In each of these examples, people make rationalizations about their money, leading to sometimes irrational decisions.

2. Loss Aversion

Loss aversion is the tendency to be so fearful of losses that a person's focus when making decisions is more on avoiding losses than making gains. Research estimates that we fear the pain of a loss twice as strongly as we feel the enjoyment of a gain.

Consider the rationale for these real-world situations. Do any sound familiar?

1. "I know the position has gone down, but I will lose money if I tax-loss harvest and sell now."
2. "We fell in love with the vacation home, and our broker said there were many people interested in it. I want to make a bid over the asking price with no contingencies. We don't want to let this one get away, and who knows when there will be another one quite like it!"

Loss is inevitable because those seeking rewards must take a risk. Loss aversion tilts the scale toward avoiding loss vs. potential gain.

3. Overconfidence Bias

Overconfidence bias is the tendency to see ourselves as better than we are. Holding a false or misleading assessment of our skills, intellect, or talent can be dangerous in finance and capital markets.

Consider the rationale for these real-world situations. Do any sound familiar?

1. "You asked us to rebalance our portfolio considering the recent downturn. I think the market is in a downward spiral, and I am not interested in adding to the portfolio until we hit bottom!"

2. "Yes, I am still waiting for that promotion, and my bonus is down a bit this year, but I am confident that if I just 'hang in there,' I will be successful at this company."

I am a big fan of a positive self-image and an optimistic outlook about life, but overconfidence bias can have disastrous results.

4. Anchoring Bias

Anchoring bias occurs when people rely on pre-existing information or the first bit of information learned when making decisions.

Consider the rationale for these real-world situations. Do any sound familiar?

1. "There is no way I will spend \$1,200 on a wedding cake. My first car didn't cost \$1,200." (Steve Martin in the movie "Father of the Bride")
2. "This house for sale is a steal. There is one on the cul-de-sac that sold for 35% more."

In our fast-paced world, our anchoring bias uses quick information to reduce the cognitive load on our brains. This might not be effective in arriving at a college savings plan for your children based on what you paid for college.

5. Herd Mentality Bias

Herd behavior happens when you follow what others are doing rather than making your own decision. Herd mentality is often the root cause of the creation and subsequent bursting of economic bubbles. From the Dutch Tulip Mania in the 1700s to the Crash of 1929 to the 2007 Housing Bubble, we have had plenty of opportunities to learn from past mistakes. FOMO – the fear of missing out – is now part of our vocabulary, and it sounds better than herd mentality.

Consider the rationale for these real-world situations. Do any sound familiar?

1. "Why don't you recommend I invest in cryptocurrency? Everyone is making so much money."
2. "All my friends are downsizing and moving to Florida to save on taxes. I'm thinking of contacting a local realtor."

Researchers discovered that it takes a minority of just five percent to influence a crowd's direction – the other 95% follow the herd without realizing it. I would never think about starting "the wave" at a sporting event, but I will stand up when it comes my way!

Conclusion

We all face these psychological biases in everyday life, and if we don't recognize them, we will likely make suboptimal decisions. For important decisions, make sure the primary reasons do not include "everyone else is doing it", loss aversion, overconfidence, too little or outdated information, or letting spending decisions vary depending on the source of the money. Seek out competent financial guidance from someone you can trust, get a second opinion, or seek an alternative way to think about the impact.





The Pros and Cons of Target Date Funds

By Jane Young, CFP, EA
Colorado Springs, CO

Most 401k plans offer target date funds as an easy way for participants to start investing. A target date fund is a mutual fund that is composed of several other mutual funds and ETFs. These funds include domestic and international stock funds and fixed income funds. The target date represents the date when the investor plans to retire. The allocation changes over time as you get older. The allocation is more aggressive when you are younger and becomes more conservative as you age.

Target date funds are good for novice investors or individuals who do not want to spend a lot of time researching and selecting investment options. Simplicity is one of the biggest advantages of target date funds. You can select a fund based on when you plan to retire, and your money will be allocated in a manner deemed appropriate for your retirement plans. You don't need to analyze, select, and monitor individual funds. It will automatically rebalance your portfolio as the market fluctuates and it will adjust your allocation to become more conservative as you get older.

This type of fund keeps you diversified across different investment categories and encourages participation from those who are reluctant to contribute to their retirement plan. It also helps investors avoid market timing and extreme investment behavior.

Conceptually, target date funds work well for many investors. Participants like the hands-off approach where you can set it up and forget about it. However, this also presents one of the biggest downfalls. People select a fund and forget about it without understanding the asset allocation and how it will change over time. When you begin investing, the allocation may be appropriate but as you approach retirement, target date funds can become too conservative.

It is common for target date funds to use an allocation of 50% in stock and 50% in fixed income upon retirement and gradually transition to over 75% in fixed income. This is a very conservative allocation for many retirees who anticipate spending 20 to 30 years in retirement. Monitor and understand the asset allocation of your fund to be sure it meets your investment goals.

Target date funds are not customized to your situation, everyone is treated the same based on age. The allocation of the fund does not take into consideration other financial considerations in your life and your tolerance for risk.

Some additional disadvantages to target date funds include potentially higher investment expenses. With a target fund you pay the investment fee for the fund itself as well as fees for the underlying mutual funds held within the fund. Target date funds are generally concentrated in one fund family, providing less diversification and there may be tax inefficiencies if used in a non-retirement account. Do not use target date funds for Roth accounts which should generally be invested more heavily in equities.

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