

J.E. Wilson Advisors, LLC

## theadvisor

## Conferences

Katie Stokes, CFP® (yep-she is now officially licensed to use the professional marks Certified Financial Planner™ as a result of completing both the examination and now the experience requirement-congratulations Katie!)

Katie attended the DFA College in early November in Austin, TX. Topics included "Methods of Capturing Size and Value; Constructing Asset Allocations; Components of Net Returns as well as presentations by Professor Eugene Fama and others.

James attended the regular meeting of his expert study group in Key West in early December. The group met here in our offices this past summer and includes members from different geographic regions of the country. He is scheduled to attend the NAPFA Advanced Planners Conference in February in Scottsdale.

## "On the Edge"

We often determine how successful client meetings and other interactions are based on how much (or little) time is devoted to "new investment products" or similar concepts. In general, we have a client base comprised of people with a long-term perspective and a high degree of trust in our abilities to determine the efficacy of specific investment vehicles. In times of financial market turbulence, however, we sometimes see this misplaced emphasis on products and concepts "on the edge". Even engaging in discussion on these topics places the emphasis in precisely the wrong place – on the "current market environment" whatever that is. The markets always contain uncertainty and this emanates from the problems of the day. Over time the problems are solved and hence the reason that in most of our clients' lives equities have risen 1000 fold since their birth.

Our core philosophy is now for clients to accept the "right measure" of risk (what sometimes is referred to as financial speed) in their portfolios in order to achieve/maintain financial independence. In the retirement context this translates into understanding that retirement is a purchasing power issue rather than an invested principal issue. Pushing the risk levels far beyond the range of "enough" runs counter to this philosophy and many times places financial independence in peril without good reason (what sometimes is referred to as "uncompensated risk"). We are not psychologists of course but it seems that certain personality types lean much more in this direction than others and this pre-disposition is difficult to completely eradicate. These investors are almost constantly in search for the angle or edge of the investing landscape even though in most instances this works against their long-term objectives.

The recent debacle surrounding Collateralized Debt Obligations (CDO's) and hedge funds that invested in sub prime mortgages is a good example of how these packaged products  
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## New Firm Positioning Wording

As most of you know, we have been working with a consulting firm, Quantuvis from Redlands, California on a variety of firm positioning and service delivery issues. As a result of the process we have been going through, we have isolated certain key deliverables and focused on exactly how we add value. Our current "tagline" is being shortened to the words "uncommon confidence". We believe that the confidence to make long-term financial decisions is a significant component of what we provide.

Also, to reflect our significant segment of clients who are physicians, we will be rolling out a re-named wealth management process for physicians called "Wealth Rx". We hope that you will agree that these process improvements capture the discipline and confidence that we bring to all of our client work.

*“On the Edge” cont’d*

with no track record can implode. The risk in these investment vehicles was in essence unquantifiable. The underlying belief of most of those who invested in these type products was that the market was not as smart as they were and had “mis-priced” the securities. This is always very dangerous territory and again is contrary of our belief that, for the most part, markets price securities correctly. Trying to identify “mis-priced” segments of the market is much more akin to speculation than investment. Oftentimes these same people like to tout a particular stock that that “made a killing on”. The truth is you might get rich undiversified but you won’t stay rich undiversified. The entirety of effort from the major stock brokerage firms is based on trying to persuade investors (and unfortunately succeeding much of the time) that speculation is the same as investing. In fact they are totally distinct and separate endeavors. A well-known national investment adviser has television ads running that say, in essence, that one of the “keys” to investing is knowing something that others don’t. This is a false premise built upon a foundation of the need within some individuals to indeed seek “special knowledge” so that these largely illusory marketplace inefficiencies can be captured.

In essence, what we espouse is an approach that avoids speculation because that is governed mostly by “chance” and therefore is not particularly reliable. Instead we seek to obtain the returns that the financial markets can provide through asset class diversification and structure. Rather than hunting for “the best” funds or managers, a focus on the larger portfolio picture places the emphasis on cost efficiency, smart construction ease of re-balancing and consistency. Unlike the uncompensated risks associated with out of size stock positions, alternative investments, and private equity or highly packaged investments (like CDO’s mentioned earlier), systematic risk (that associated with holding different market segments such as small and value) has proven it yields results in the long term. Risk, yes, but identifiable and quantifiable.

The lesson here is the next time you see a fancy ad for a new investment fund/manager/new product, resist the temptation and take solace in a well-structured portfolio where the long-term risks are reflected and the component returns are expected. Remember, we are financial planners not prognosticators and our primary aim is to provide you the confidence that you can sustain your lifestyle in retirement. We understand how this is done and how this can be undone.

## Fun Facts

### The New Longevity

According to current longevity statistics, the average 62-year-old couple (non- smokers with reasonably good lifestyle attributes and genetics) will have a joint life expectancy of nearly 30 years. That is, the 2<sup>nd</sup> to die will, on average, pass away beyond age 90. For a decade or so we have used age 95 as assumed life expectancies on most of our financial independence modeling. It seems we weren’t so far off after all.



The USA stamp was valued at 15 cents when it was issued circa 1980



### Purchasing Power

Since it appears we will indeed have a fair number of 90+ year olds in our midst, it is worth noting that the fundamental key to what might be called “Retirementville” is maintaining purchasing power. Every year, everything you buy will cost more. A good visual example is the First Class stamp circa 1980 and the same stamp today – A bit less than 30 years and almost triple in cost.