Jill Schlesinger on Planning (Sept. 4, 2019)

Several years ago, the columnist Jason Zweig interviewed the financial analyst Peter Bernstein, author of *Against the Gods*, a history of risk analysis. Bernstein identified for Zweig fundamentals of investing that he felt the public often disregarded. “Understanding that we do not know the future is such a simple statement, but it's so important,” Berstein said. “Investors do better where risk management is a conscious part of the process. Maximizing return is a strategy that makes sense only in very specific circumstances. In general, survival is the only road to riches. Let me say that again: Survival is the only road to riches.”

The financial planner Jill Schlesinger would undoubtedly agree with these propositions. The author of the just-published *The Dumb Things People Do With Their Money*, Schlesinger repeatedly emphasizes the need for careful planning in mapping out your financial survival. There is little in the book that is startling or new, but most of what she says bears repeating, especially for readers new to the subject. Those familiar with the author through her newspaper columns and TV appearances can find here a more comprehensive approach to money management.

Back in the 1980s, when I was starting out as a business reporter, the assumption many made was that overspending and credit card debt were responsible for the public’s financial troubles. Later on, by the 1990s, attention shifted to the role played by the cost of health insurance and medical treatment. Later on, the cost of education emerged as another serious issue. This is why Schlesinger emphasizes “minding the big three”—paying down debt, amassing sufficient funds to cover living expenses for six to twelve months out, and contributing the most you can to retirement accounts.

The falling away of defined benefits retirement plans, the standard retirement vehicle for decades, has placed a greater burden than ever on individual workers. It makes planning and knowledge more essential than ever. Anticipating future expenses, including those for college education, and identifying potential sources of inherited income, are other elements of the picture. Plan carefully, remembering to rebalance the portfolio on a regular basis, annually or perhaps less frequently. Many brokerages and financial advisory services offer online retirement calculators. People entering middle age need to consult these religiously.

One of the most frequent errors the public makes is overestimating the returns they can expect from property ownership or a portfolio of stocks and bonds. The great bull market in securities over the last decade presented favorable and misleading returns. We forget all too quickly that equities can crash as readily as housing prices, and that twice in ten years they have—in 2000-02 and 2008-09. That is why maintaining a strong cash balance is so valuable. There is the obvious need to manage unexpected expenses. But people also need to be able to maintain their positions in the market if it becomes overwhelmed by towering waves of sell pressure. During the last great crash, the market fell to its lows when selling peaked in March 2009. How many investors sold out prematurely, unaware that the market was reaching a bottom

and approaching one of the great rallies of the last hundred years? Had they been able to hold on just a bit longer. . .

The housing crash of the last decade should have taught us that home ownership is no guarantee of security. But even seasoned professionals like Edmund Andrews, formerly a business reporter for *The New York Times*, fell for the home-ownership mania. (He describes this in *Busted*, his memoir of the experience.) Allan Greenspan himself, then chairman of the Federal Reserve, wrongly believed in the unassailable value of property. In testimony before Congressional committees, he repeatedly argued that housing prices were always governed by regional (and not nation-wide) fundamentals. Schlesinger warns her clients against committing themselves to mortgage payments that can erode contributions to a retirement plan. She argues, accurately, that there is no shame in renting property and that it often makes better sense to do so.

Financial planners routinely ask clients to assess their tolerance of risk. But people seldom know what it really is. Variations in one's health, success or failure in fresh endeavors, the social and political climate of the country, all can affect an investor's taste for taking chances. My assumption is that the better things are going in the rest of your life, the more confidence you can bring to other parts of your life, and vice versa. The well-known remedy for risk is diversification along a range of assets. Peter Bernstein, in the interview I cited above, says that diversification "is an explicit recognition of ignorance. And I view diversification not only as a survival strategy but as an aggressive strategy, because the next windfall might come from a surprising place. I want to make sure I'm exposed to it."

Like many financial planners of the last decade, Schlesinger generally advocates investing in low-cost index funds. And she urges readers to ask five fundamental questions of their planners recommending an investment: How much will the product cost me? (Vanguard's index funds have rock-bottom fees.) What are the alternatives to the product? Are there any fees to withdrawing the funds? Are there tax implications that need to be considered? And what is the worse that can happen with the investment? Questions Peter Bernstein would strongly recommend asking.

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