THOUGHTS FOR THE WEEK

STUPID QUESTIONS

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"There's no such thing as a stupid question."

Sources can't confirm the origin of this phrase, but it's been quoted across continents in news columns, literature, and speeches.

For centuries, "stupid questions" have made lasting marks in myriad disciplines:

- What if the Earth revolved around the Sun, rather than the Sun revolving around the Earth?
- Why does the apple fall *down* from the tree branch as opposed to up?
- What if passive resistance could be used to effect social change rather than active violence?
- What if suitcases had wheels?

At age 16, Albert Einstein allegedly asked, "What would happen if I chased after a beam of light?" This playful, unconstrained, "stupid" frame of mind gave Einstein confidence to challenge entrenched beliefs, leading to the theories of special and general relativity.

In the same vein, we believe, "there are no right answers," when it comes to making important investment and planning decisions. Almost everything we discuss with clients comes down to a series of tradeoffs, as opposed to a prescriptive set of "right" and "wrong" answers.

Investing can be simplified into owning (i) assets for potential capital preservation with lower expected returns (cash and bonds); (ii) more volatile assets with higher expected returns (stocks) or (iii) a combination of the two.

Basic rules of thumb can help guide your decision:

- The more time you have to keep your capital invested, the more stocks you *can* own
- The less time you have to keep your capital invested, the more cash and bonds you *should* own

Time is often associated with age, but some old people do not need access to their capital, and some young people rely on it heavily. So, when we discuss what type of assets clients "should own," there's no "right answer." It comes down to a set of tradeoffs. The tradeoffs being:

- Investing long term capital in cash and bonds may help you sleep at night…but it may prevent you from growing your purchasing power over time.
- Investing short term capital in stocks may increase your return…but it may also lead to a permanent loss of capital if you have to sell those assets at inopportune prices.

There is of course more nuance, but it's our job to help you understand the *simple* tradeoffs, so you can make the *best* decision.

Like investing, financial planning can be simplified into (i) the bucket of financial assets you have and (ii) the amount of money you need to take out of that bucket over time.

The basic rule of thumb to help guide your decision:

- A “balanced” portfolio of stocks and bonds has historically sustained a 3-4% withdrawal rate for 30+ year periods of time. For example, every $1 million dollars saved implies access to $30,000 - $40,000 of annual spending, increasing with inflation for multiple decades (Source: Morningstar).

So, when asked, “How much money do I need to save to sustain my lifestyle?” there’s no “right answer”. It comes down to a set of tradeoffs. The tradeoffs being:

- Spending more than 4% of your financial assets per year may increase the probability that you have to reduce spending in the future to avoid depleting your savings.
- Spending less than 3% of your financial assets per year reduces the risk of having to make sacrifices in the future, but it may lead to living a less fulfilling lifestyle today.

Again, there’s more nuance, but it’s our job to help you understand the simple tradeoffs. And to be clear, there’s nothing ***wrong*** with living below your means. It can actually be quite fulfilling 😊.

Planning gets more complicated when we start to consider more than just “your bucket” and “your spending”: funding trusts for multiple generations; gifting to charity; and selling a highly valued asset like a family business. The logic, however, remains the same: there are no “right answers”.

More sophisticated planning can be simplified into a spectrum:

- On one end, we have tax efficiency, control, and customization…which comes with more complexity and higher costs
- On the other end, we have less tax efficiency, less control, and less customization…which comes with less complexity and lower costs

Few people live in either end of the spectrum, and it’s likely you fall somewhere in between. The only way to start to understand where you fall is to understand the tradeoffs.

Whether you’re a long-time reader, or this is your first *Thoughts*, please know that we’re here to be a sounding board for your investment and planning related questions – no matter how “smart” or “stupid” they may be!

Enjoy your reading and your weekend.

Mike, Cate, Scott, Willis, Suzy, Oscar and Wes

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Sources:
What's a Safe Withdrawal Rate Today? | Morningstar

Mike Burbank's Awards:
2017-2022 **Barron's Top 1,200 Financial Advisors: State-by-State** (formerly referred to as Barron's Top 1,000 Financial Advisors: State-by-State) Source: Barrons.com (Awarded 2017-2022). Data compiled by Barron's based on 12-month period concluding in Sept of the year prior to the issuance of the award.

2013-2020 **Financial Times 400 Top Financial Advisors**
Source: ft.com. Data compiled by the Financial Times based the following time periods:
Awarded 2013-2020; data 12/31/12 - 6/30/19

2019-2020 & 2022 **Forbes Best-In- State Wealth Advisors**
Source: Forbes.com (Awarded 2019-2020 & 2022). Data compiled by SHOOK Research LLC based 12-month time period concluding in June of year prior to the issuance of the award.
Awards Disclosures

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives, and risk tolerance before investing in high-yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer.

Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.