Seeing the Whole Picture: How to think like the 1%

The investment world is complex and filled with noise. Making decisions on how to spend money or where to make investments can feel overwhelming. Especially in times of uncertainty, it can be useful to consider how to make these decisions as objectively as possible.

See the Whole Picture

The most important element of any financial decision is to see how it fits into your overall financial picture. If you have a financial plan, it is important to see how the current decision could affect that plan.

However, a potential trap many people fall into is that of only considering how the monthly cash flow would be affected by the decision. Rather, we need to understand the total costs involved.

A car purchase could be a useful example. When looking at such a purchase, you might be asked what your monthly budget is for car payment. Such an approach tends to ignore the actual price being paid for the car and what the total cost of the purchase is including financing costs. Extending the length of loan can decrease the monthly payment. However, the total interest paid on the car could very much be higher. In this situation, you might choose to make such a deal, but it is critical to have made the evaluation with full information.

Money is a Tool

Money is one of the topics that can evoke a lot of emotion. However, it is important to first recognize that money is a tool that can help achieve goals. When certain emotions arise around financial topics, emotions of fear and anxiety are not uncommon. By coming back to the idea that money is a tool, you can evaluate how you can use it to help align with your goals.

When making financial decisions, it is also important to keep in mind that there might be other options. Many professional investors include opportunity costs in their evaluation. They routinely ask, “What else could we do with our assets?” Such an approach can help ensure that important decisions are not made in a vacuum.

Strategically Manage Debt and Taxes

Debt can be an important tool when used wisely. It can help manage cash flows and it can help avoid selling financial assets at inopportune times. However, we have to remember not falling into a trap of getting over leveraged. We have to come back to the idea that loans can be tailored to fit a monthly budget at a potential cost of increasing the total cost of a purchase.

Managing the potential tax consequences of financial decisions is also important. While complex tax decisions require the assistance of tax professionals, tax consequences clearly exist with investment decisions. While we generally don’t want to sell investments when they are down, doing so tactically can make sense when we can create a tax loss benefit to be used to offset taxable gains incurred with other investments.

Consider Liquidity as an Asset Class

One final area of consideration is that of liquidity. The term liquidity fundamentally refers to how quickly you can sell your assets and turn them into spendable cash. Many people put much more emphasis on accessibility of their assets than professional investors do. It is always important to match the timing of assets and liabilities to help avoid mismatches that might lead to poor decision making. However, for truly long-term purposes, leaning too heavily on accessibility to your investments can limit potential investment opportunity.

In an increasingly complex financial world with increasing uncertainty, it is important to review the strategies and tactics employed by professionals. We might not always be able to employ these ideas, but being aware of them can help you make better decisions to help remain on track.

Ted Berry
Senior Vice President, Financial Advisor
Senior Portfolio Manager
NMLS# 1261936

The Ternion Planning Team at Morgan Stanley
1747 Pennsylvania Avenue NW #900
Washington, DC 20006
Direct 202.778.1588
eFax 202.470.5763