On Course Financial Planning
Facing the Future with Optimism and Courage
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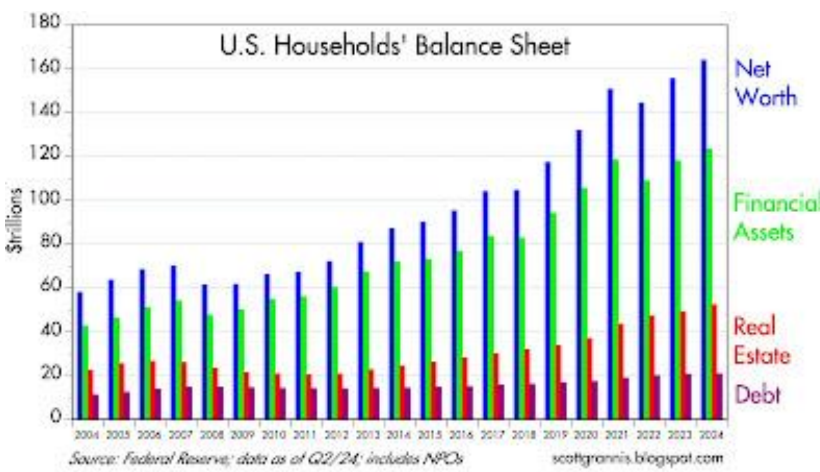
# It Was 20 Years Ago Today

No, I'm not talking about Sgt. Pepper's Lonely Hearts Club Band, I'm talking about the 20th birthday of On Course Financial Planning. The past two decades have been challenging, rewarding and stressful enough to keep me fully engaged. I've been proud to work in a fiduciary capacity with my clients to help them get and stay on course to achieve their long-term financial goals. The strategy in our collaborative adventure has been to maintain a long-term focus, ignore short-term market gyrations, shun any temptation to time the market, keep an appropriate percentage of assets permanently invested in stocks and maintain an optimistic view of the future. Along the way I've learned a lot about investors, advisors, and some things that never change.


On November 1, 2004, the Vanguard Total Stock Market ETF (VTI) closed @ $54.93/share. On October 31,2024 it ended the day @ $281.00/share – an annualized average return of 8.5%, not including dividends. Add 1.5% for dividends and you get a total annualized return of about 10% for the past two decades. Over the past twenty years, inflation has averaged 2.5%, according to the US Bureau of Labor Statistics. Thus, VTI yielded a real (inflation adjusted) annualized return of 7.5% over the past two decades. Yet, over the past 20 years, there have been times when investors saw their portfolios experience uncomfortable losses. The S&P 500 fell 57% during the Global Financial Crisis in 2008/2009, 34% in the Covid crisis in 2020 and 25% after the inflation spike and rising interest rates in 2022. These market declines were accompanied by claims that "This time it's different!". It never was different, but we didn't know it at the time. Every captain is Lindbergh in calm skies, but the real test comes when the ride gets rough. The past twenty years provided one of the best economic and investment environments one could hope for, yet many people were stuck in a mood of perpetual negativity, assuming that the USA was falling into ruin.

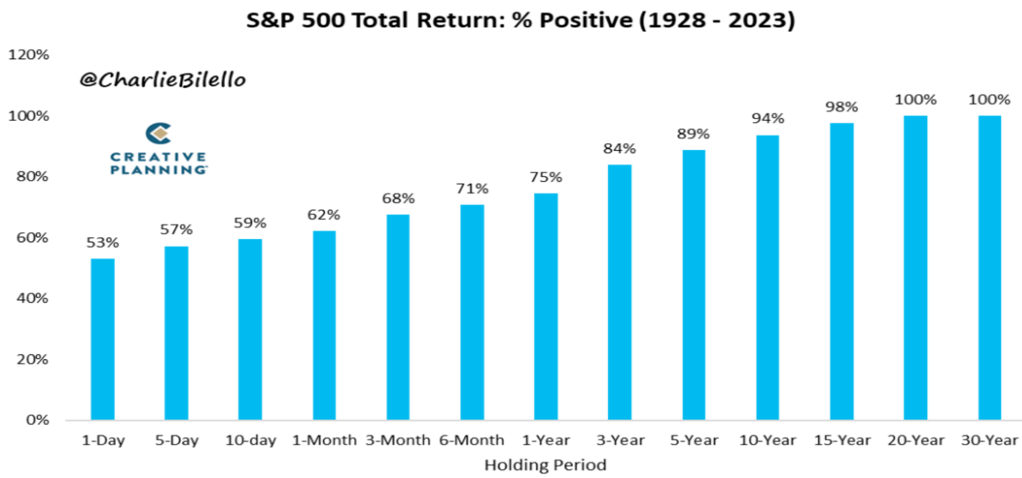



This chart shows the growth of the net worth of individuals and non-profit organizations since 2004 (blue column). As of June 2024, the total net worth of the U.S. private sector was $164 trillion, and the per capita net worth (total net worth divided by population) was $481,000. If we exclude all billionaires from the total, the per capita net worth would be about $425,000, far more than most of us would imagine. Private sector net worth has increased 167% over the past 20 years. Financial assets (green column) have increased 149%. Real estate assets (orange column) have increased 144%, while the amount of debt (red column) has risen only 44%. The federal government is a reckless spender awash in debt, but its citizens, not so much.

Many investors have paid too much attention to the relentless negativity of the financial media in the last twenty years and have not experienced a similar increase in net worth. They were misled by forecasters who insisted that stock market rallies after sharp declines were mere "dead cat bounces". After every new all-time high in the S&P 500, they were told that a market crash was just around the corner. But the stock market does not fall simply because it has risen. There is no way of knowing what the stock market will do next week based on what it has done in the recent past. Although the historical record reveals that the stock market oscillates between periods of excessive enthusiasm and excessive pessimism, it does so on its own unpredictable schedule. Recommendations to manage risk by fleeing to cash until "things get better" appeared after every stock market decline. But the talking heads rarely mentioned that drawdowns are a normal part of investing in stocks and that you must endure them to capture the upside of the stock market. They ridiculed "stay the course" recommendations but, lucky for you, they possessed the knowhow to get you to the promised land of wealth without risk - for a price.

Sadly, these charlatans will always be with us, trolling for more suckers who will fall for their "I can see the future" or "market returns without market risk" lies. And what's worse is the financial media's willingness to give these pretenders a global microphone. And don't get me started on all those end-of-the-USA, collapse of the dollar loonies on YouTube. The dollar remains among the strongest global currencies and has sharply increased in value relative to the Euro and the Yen over the past decade. Some investors see the glass as half-empty, and others see the glass as half-full. The historical record, including the last twenty years, reveals that the half-full crowd has been correct more often than the half-empty crowd. This is because our economy is not a house of cards. It is the product of centuries of free-market capitalism. Unlike a house of cards its stability increases as it gets larger, and more citizens enjoy the prosperity that it offers.

Stock funds are your best weapon against inflation. By avoiding or fleeing stocks, investors suffer opportunity risk – missing the potential long-term gains that stocks have yielded. Investors must be willing to accept short-term losses in their equity holdings to earn inflation-beating gains over the long term. Those poor souls who listened to the naysayers and spent too much time hiding in cash over the past 20 years missed substantial gains in the stock market and lost significant purchasing power to inflation that cannot be recouped. There's no free lunch in investing. If you want the upside of stocks, you have to be willing to stomach the downside along the way.




This chart might be the most important chart of the past 20 years. On any given day, your odds of a positive return in the S&P 500 are just 53%, a little better than a coin flip. Increase your time horizon to a year, and your odds of success jump to 75%. For holding periods of 16 years or more, there has never been a negative return in the S&P 500, with dividends reinvested. On October 18th, the S&P 500 reached a new all-time high for the 47th time this year. This turned all previous declines in the index to mere temporary interruptions in its long-term advance and made every decision to sell over the past 20 years "until things get better" a big mistake.

People who say that investing in stocks is gambling don't understand the difference between investing and gambling. Gamblers deal with risk, but investors deal with uncertainty. The two words are not synonymous. Bet on a roll of the dice and you have a known probability of winning. But since there are so many variables that influence asset prices, investors will always be at the mercy of the unpredictable and unexpected. The gambler may lose all his money but an investor with a globally diversified allocation to equities cannot (short of the end of the world) lose all his money. One disheartening trend in recent years has been the "gamblification" of investing. Investors are being encouraged to trade more actively and take more risks. We now have animated brokerage apps, free trades, streaming market updates on our phones, and easy access to traders lying about their gains on social media. An analysis of more than 2,700 video posts on YouTube, TikTok, and Instagram by Social Capital Markets revealed that more than 80% of the videos omitted disclaimers informing viewers of the risks of investing. What's worse, almost 60% of videos promised guaranteed returns, while just 13% of the videos were from sources with the relevant qualifications or credentials to offer financial advice. As Warren Buffett observed, *"Markets now exhibit far more casino-like behavior than they did when I was young. The casino now resides in many homes and daily tempts the occupants."* Never before has the madness of crowds been shouted so loudly or more widely. Listen to the cacophony at your own peril.

There is no single portfolio allocation or investment product that is right for everybody, and no investment strategy will work 100% of the time. Your allocation should be based on your age, risk tolerance, job security, investment time horizon, family circumstances, health, values, and long-term financial goals. Accounting for all these variables requires comprehensive financial planning. Planning, or lack thereof, your behavior and emotional responses to the headlines will have a greater impact on your retirement lifestyle than anything that happens today on Wall Street. Most people have no idea how much money they'll need to retire at the time and in the lifestyle of their choosing or even how to calculate it. Investors don't know where to begin and the amount of information available is too vast to absorb and evaluate. The financial media's short-term; market focused reporting is of little or no benefit to them. Yet many people are reluctant to pay for comprehensive financial planning, unaware that good financial planning is worth a multiple of its cost.

I am an advocate of Leonardo da Vinci's dictum, "simplicity is the ultimate sophistication". Any important investment concept can and should be explained to clients in a clear and concise manner. I've devoted much of my writing attempting to simplify investing without being simplistic. Simplicity is the product of mastery while simplistic solutions and strategies often ignore crucial details. I've never regretted sticking to these simple concepts -- portfolios should be widely diversified, hold transparent, understandable, liquid assets in an allocation determined by your financial plan.

The most notable change in the financial advisory business over the past twenty years has been the rise of the independent fiduciary financial advisor who promises to always act in a client's best interest. The traditional product oriented, commissioned sales model is slowly becoming obsolete. It is not coincidental that the rise of the independent financial advisor, who isn't obligated to recommend specific investment products to clients, has coincided with the increasing popularity of index funds over these past twenty years. When index funds first became available in the 1970s, the response from Wall Street was derision. *"It's un-American to settle for average!"* Today, the folly of that response is obvious to anyone who's been paying attention. According to S&P, more than 85% of actively managed domestic stock funds failed to beat their benchmark index over the past 15 years, through 2023. The market-equaling returns provided by low-cost tax efficient index funds have been enough for most investors to meet their financial goals. Investors are seeing the light. Index mutual funds and ETFs saw inflows of $754 billion compared to outflows of $298 billion for active funds over the trailing 12-month period ended Sept. 30, 2024. The domestic equity category experienced the largest disparity, with active funds shedding $297 billion compared to inflows of $407 billion for index funds. Advisors who promote index investing are battling against the multi-billion-dollar marketing budgets of the big-name Wall Street firms. Each year they create more intricate, illiquid, expensive financial products. Few clients understand how these investments work or realize that complex investments have more failure points, making them more fragile than simpler, transparent investments.

If I have learned anything after twenty years in the business, it is to distrust and disregard all forecasts. Market timing strategies didn't work in 2004, and they don't work today. Market timing is the modern-day equivalent of alchemy, the pursuit of an illusion. Market timers need to be right twice – getting out before the decline and back in before the recovery. Unfortunately, absent divine revelation, the day a decline starts and the day the rebound begins can only be known after the fact. Investors share a disturbing trait – uncertainty makes us anxious. The apparent randomness of world events is frightening; we yearn for someone to make sense of it all. Unfortunately, the record of most forecasters is underwhelming, at best. Forecasters work in a dark room where only those who overestimate their insight dare to venture. There will always be someone who becomes famous for making a noteworthy prediction that came true. Soon thereafter, they'll offer numerous flawed predictions, to the dismay and impoverishment of their acolytes. John Bogle, founder and former CEO of the Vanguard Group, made this observation that all investors should heed --*"After nearly 50 years in this business, I do not know of anybody who has done it (market timing) successfully and consistently. I don't even know anybody who knows anybody who has done it successfully and consistently."*

Financial markets are dominated by institutional investors who earn a fortune speculating with other people's money. Their upside potential is unlimited, yet they assume almost no personal financial risk. Some gain prominence by producing superb short-term results but there is no way of knowing if these results came from exceptional skill, or a dose of exceptional luck. No better example of this is the saga of Cathie Wood who created an extensive media presence and enthusiastic following after her ARKK ETF generated a 152% return in 2020. That was then. Today, she resides in third place on Morningstar's list of "The Top Wealth Destroyers of the Past Decade", having demolished $7 billion in shareholder wealth over the ten years ending 2023.

Outperforming fund managers eventually lose their luster because market beating performance is the by-product of taking on more risk -- typically with an undiversified portfolio -- which contains the seeds of future underperformance. Risk is always proportional to expected return, which is not the same as saying that taking extra risk leads to greater return -- a distinction that you ignore at your peril. No investor is guaranteed a higher return simply because they take more risk. If riskier assets could be counted on to produce higher returns, they wouldn't be high risk investments and would yield the same return as Treasury securities.

My most disheartening observation of the past twenty years is that so many advisors fear that they won't attract new clients if they don't explicitly or implicitly offer market beating performance as part of their value proposition. No advisor can control your portfolio's performance -- it will be the returns that the capital markets yield in proportion to its asset allocation minus the fees that you pay. Few financial advisors are forthright enough to admit this fact. None can identify funds that will outperform or securities that are being mispriced by the market. Their value proposition attracts performance maniacs -- the worst clients imaginable. They have no loyalty and will switch advisors if promised a higher return elsewhere-– adding client replacement to the to-do list of these continually stressed advisors. In my experience, most clients don't ask for this market beating performance bonus. They are looking for a trustworthy financial professional who can provide perspective, advice and the peace of mind that comes from having a comprehensive, goals based financial plan.

There are few fields of human endeavor in which history counts for so little as in investing. Each year, the amount of past data increases but it doesn't enhance our ability to forecast future market returns. We can calculate the historical performance of any portfolio but what it will yield from today forward cannot be predicted. Be skeptical of any analysis that uses past data to predict the future. When it comes to investing, the rearview mirror is always clear, and the front windshield is always obscured.

Since human nature doesn't change, each generation of investors will repeat the mistakes of prior generations. There is nothing new under the sun and the financial markets will continue to remind investors that foolishness carries a high price. Each new generation will be gullible, greedy, and tempted by promises of quick riches; easy marks for unscrupulous charlatans who promise wealth without risk. That's why bubbles, panics and crashes have been with us for 500 years.

The most important investment advice I can give to young people is to begin investing as early as possible. For example, if you invest $12,000/year for 35 years at an annualized average return of 7%, your ending balance would be $1,659,000. Do the same for 40 years and your ending balance would be $2,396,000. An increase of $737,000 for an extra $60,000 in contributions. Put another way, it is a 44% increase in return from a 14% increase in lifetime contributions. When you first begin investing, your portfolio won't yield big dollar gains with typical market returns. Throughout the years, the most important action you can take is funding your portfolio on a regular basis, especially during times of market volatility. Your savings will exceed your investment gains for many years. Eventually, your investment returns will exceed your annual contributions, and the growth of your portfolio will start surprising you.

To succeed as an investor these past 20 years, you had to ignore the pessimists and continue funding your plan, come what may. It's easy, in hindsight, to say that but few investors had the emotional makeup to do so. Be careful to whom you listen. When it comes to investing there are no short cuts, easy answers, or rewards without risk. Flee from anyone telling you otherwise. The cost of good financial advice is a fraction of the money that will be lost without it; it's worth more than its weight in gold. Bad financial advice is worth less than its weight in sand. This is probably the simplest, most valuable truth that I've written in the past 20 years.