On Course Financial Planning

Facing the Future with Optimism and Courage

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Vectors

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Inflation



Inflation explained in one picture. From 1976, a Bicentennial Spirit of 76 first class stamp set. Inflation is the gradual rise in the price of goods and services. Companies raise prices to offset higher costs and maintain profitability. Its effect on a portfolio is invisible, the dollars in your account do not shrink, but their purchasing power does. At the historical 3% annual inflation rate over the past century, purchasing power is cut in half in about 24 years. It takes seven 13 cent Spirit of 76 stamps to mail a first-class letter today.

US Treasury Inflation Protected Securities, (TIPS) adjust their value in line with the CPI. They preserve purchasing power and typically yield a low interest rate – currently about 2.6% for the 10-year TIP. Another inflation fighting investment is a simple total stock market index fund. It would be hard to find an easier or less expensive way to build real wealth over time than owning a diversified portfolio of stock index funds. The wealth destroying impact of ongoing inflation doesn't disappear in retirement. This is why an appropriate allocation to equities should be part of your portfolio, regardless of age. To quote Sir John Templeton –

"Long term, because we have more and more democracies in the world, we're going to have more and more inflation. Politicians who are willing to spend too much are the ones who get reelected."

S&P 500 Total Return vs. CPI July 4, 1976, to July 4, 2026

Over these 50 years, the S&P 500 with dividends reinvested, grew roughly 260 times, while consumer prices (CPI) rose about 5.9 times. After inflation, the S&P 500 grew roughly 44-fold.

	Growth factor	Total change	Annualized
S&P 500 total return (including reinvested dividends)	**Approx. 260x**	**+26,000%**	**11.8%/yr**
CPI (inflation)	**Approx. 5.9x**	**+486%**	**3.6%/yr**
S&P 500, after inflation	**Approx. 44x**	**+4,300%**	**7.9%/yr**

$1,000 invested in the S&P 500 in 1976 would be worth about $260,000 today. What could have been purchased for $1,000 in 1976 costs about $5,900 today. This month's evidence that every cloud has a silver lining is that the inflation adjustment for Social Security recipients in 2027 will be 3.6%.

The Prognosticators

Most people would be afraid to leave their house if they realized just how uncertain the future is. Life and investing would be a whole lot easier if there were people who could tell us what will happen next. This accounts for the continued popularity of market forecasters and roadside palm readers. Media discussions of financial topics inevitably lead to forecasts and intelligent, hardworking financial professionals can make very persuasive predictions. The more you listen, the more reasonable they sound and the more likely you'll tinker with your portfolio. That's the number one reason to ignore them. Deep down inside, we all know that no one knows what tomorrow holds.

Pessimists have the loudest voices and often sound smarter than optimists. Perhaps it's because they appear to be trying to help us avoid impending doom while optimists seem to be ignoring the obvious storm clouds on the horizon. It seems that the best way to get quoted in the financial media is to overestimate negative economic circumstances and declare that frightening days are just around the corner. Every day in the financial media, social media or in YouTube videos you

can find some “expert” commentating on the apocalypse of the week – the latest big, bad event that’s going to knock the stock market, the economy, or the world off its course. Eventually, when the world doesn’t end, we are presented with a new apocalypse to worry about. There are too many pundits trying to get their 15 minutes of fame predicting the imminent end of everything that we hold sacred. These frauds and charlatans don’t know what’s going to happen any more than you do, but since their followers never hold them accountable for their failed predictions they have nothing to lose. Apparently, if you tell people what they want to hear, you can be wrong with no consequences.

Listening to pessimists has never been a winning strategy for investors and I doubt that that will change anytime soon. Consider all those people who listened to the pessimists and shunned stocks the past four years. They’re still waiting for hyperinflation, the crash of the dollar and the end of the financial world as we know it. What has been obvious in my 22 years as a financial advisor is that using current concerns of economic, financial, or political instability as an excuse to flee stocks has been a money-losing endeavor.

Folks in the media don't care a whit about you. They'll do whatever is necessary to keep you tuning in and nothing attracts eyeballs, ears and clicks like financial Armageddon. The mainstream media is the mortal enemy of every financial advisor who is trying to help clients reach their financial goals. Alberto Brandolini is an Italian software engineer. In observing the amount of misinformation on the internet and how quickly it can spread he coined what he called Brandolini’s Law. It postulates that the amount of energy needed to refute misinformation is an order of magnitude greater than the effort required to produce it. Financial advisors must keep assuring clients that things aren't as bad as the fearmongers claim and must continually remind them that –

- Successful investing is goal focused and plan driven. Successful investors act continuously on their long-term financial plan.
- Failed investing is market-focused and current events driven. Failed investors react continuously to changing market and economic developments or, even worse, what they think the future holds.

You can never make rational long term investment policy out of current events. You can never achieve your long-term financial goals by reacting emotionally to the never-ending succession of real or imagined current events crises that are shouted by financial journalists and social media finfluencers. The US economy is incredibly resilient, and it continues to grow and generate higher profits, despite the growth in government and predictions of its doom. Slow progress amid a drumbeat of bad news is the normal state of affairs.

There are no prescient forecasters. Not in sports, not in politics and not in economics. One of the biggest mistakes you can make as an investor is to think that you have found a guru with a clear crystal ball. Let’s call him Big Ed. If he existed, he would be the most popular and richest person in the world. Stop looking. Big Ed doesn’t exist. It’s time that we collectively admit that all the easy answers lie in the past and the tough questions about the future aren’t likely to be answered by anyone any time soon.

It's not hard to join the Pessimists Club. It takes faith in the future -- optimism and courage -- to attempt to create a better world for our children and grandchildren. The first step on this path is to ignore the naysayers. But as long as we continue to ask the so-called experts about the unknowable future, their braying voices will continue to afflict and mislead us. I believe that investors who realize that the pessimists have always been wrong will be rewarded for staying focused on what is positive. How refreshing it would be if, lacking an audience, these false prophets had to find legitimate work. The truth is that the past wasn’t as good as we remember, the present is really pretty good, and the future will likely be better than what the doomsters are predicting.

“It isn’t in your power to turn down the noise. It is, though, in your power to turn up the quiet.” ~ Nick Murray

Things I Know To Be True

We pursue financial goals to attain enough wealth so we can retire at the time and in the lifestyle of our choosing and not worry about running out of money. To achieve this goal, remember these truths –

- Diversification can be defined as practicing investing humility. It is not simply a defensive measure used to minimize downside risk; it is a strategy that allows you to reap profits wherever they arise. You might get rich quick by under-diversifying your portfolio -- but it's almost impossible to stay rich by doing so. Simply stated, store your eggs in many baskets.
- Hard times lie ahead. So do good times. Your investment strategy must accommodate both.
- People tend to align their investment outlook with their political outlook. Every two years some Americans are disappointed and concerned by election results, while others are elated. There are often strong feelings that accompany political outcomes, which tend to be detrimental to investment decision-making.

- Beware of confusing speculating with investing. Chance often brings success to foolish speculations, but time is the ultimate judge of all speculations.
- Avoid anyone who tries to predict the future without the benefit of divine inspiration. No amount of education or experience can open the curtain that hides tomorrow. The future will be full of surprises -- count on it.
- There are few things more dangerous to your financial welfare than taking investment advice from someone who is knowledgeable, but who lacks virtue. The financial industry has too many personnel who make investment return promises to their clients that they cannot deliver. Quite often, "do nothing" is the right investment advice. But someone who earns a living via sales commissions has little incentive to offer this advice.
- Past performance is a perishable product with an expiration date of…… today. Sadly, chasing past performance is the most common investment strategy employed by investors – including many fund managers.
- All too often, prophecies of economic doom are just preparation for a sales pitch. Do not plan life around your worst fears - you will be immobilized. Rather, focus on what is probable and move forward. If you can distinguish between what is possible and what is probable, you'll be less susceptible to making big investment mistakes.
- Nothing is guaranteed in the markets but if you know what you own and why you own it, you can set reasonable performance expectations and have more confidence in your plan. That way you'll be less likely to jump in and out of different investments on an ongoing basis.
- If you wish to be a successful investor you must enhance capital in rising markets and preserve capital in declining markets. This is why the 60% stock/40% bond portfolio is such a popular allocation recommendation.
- Life is funny sometimes. One of the hardest things to do when you're young is to save money. And one of the hardest things to do when you're old is to spend money.
- More money has been lost chasing higher returns than at the point of a gun.
- I'm changing my mind. More money has been lost trying to beat the market than at the point of a gun.
- I hate to say this, but I'm going to change my mind again. More money has been lost when greed, FOMO and wishful thinking override clear judgment than at the point of a gun.
- Anything that happens today on Wall Street that doesn't make it into tomorrow's history books isn't worth your attention.
- The wealth of a nation lies in the minds of its citizens, not in its natural resources or the gold in its vaults.
- You can make a lot of money and pay taxes. You can make a little money and pay almost no taxes. But be wary of any scheme promising lots of tax-free money.
- There are smart sounding foolish ideas, just as there are smart sounding fools. It is easy to come up with a new investment idea. Wise investors realize that their great new investment idea has likely been considered and rejected by someone far wiser. The success of a fool does not prove that his course was wise or that his success will endure and nothing causes foolish speculation faster than the lure of easy money.
- The dominant emotion in investing is fear. It can overcome the weight of the historical evidence and all intelligent analysis.
- I believe that following social media finfluencers is the most dangerous and least productive way to learn about investing. It's like picking up pennies in front of a steamroller, which may not be worth the effort considering the downside risk.
- Patience is the most important ingredient in wealth accumulation. This, sadly to say, is a big factor in why most people are not wealthy. There's no way to accelerate compound growth and many financial mistakes are the result of attempting to get rich quickly.
- Information overload complicates investing. Simplicity is the ultimate sophistication and the key to seeing things clearly.
- Napoleon's definition of a military genius was *"The man who can do the average thing when everyone else around him is losing his mind."* It's the same in investing.
- It's easier to lie with numbers than words because people understand stories, but few understand the language of mathematics. This is one reason that so many annuities are sold at free dinner seminars.
- I don't spend much time worrying about stock market concentration because that's how the stock market works. The long-term gains tend to be driven by a small handful of winners.
- All financial bubbles have these things in common – debt financing, unrealistic optimism, rapidly rising prices, and people shouting, "This time it's different." Sadly, about once a decade people forget that financial bubbles form and burst about once every ten years.

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