



► GOALS ARE BIGGER THAN
SHORT-TERM INVESTMENT
RETURNS 1-3

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Cadence *clips*

FOCUSED ON WHAT MATTERS MOST.

Goals Are Bigger Than Short-Term Investment Returns

This current bull market started in March 2009, making it the second longest bull market in investment history. You can just glance at a chart of the S&P 500 and see that bull markets, especially big ones, do eventually come to an end. What has been unusual about this particular bull market is not only the duration going on nearly 9 years now, but also the relatively low level of volatility we've experienced along the way. This part of the market cycle has a sinister way of lulling people into feeling like there's less risk in the stock market than there is, despite how relatively close to the Market crashes of 2000-2003 and 2007-2009 we still are.

For investors that are paying attention to risk, 2017 was not a great year. The past several years have worked against patient investors, as the safer parts of the investment world have produced fair to poor returns while the riskier parts of the investment world have grabbed all the headlines. On top of that, a contentious political environment and an economy that somehow feels worse than it seems to be have also added to the feeling of uncertainty for many investors. It is difficult to

keep the faith that your patience will be rewarded when the downward part of the market cycle is taking so long to arrive. It's easy to get sucked into thinking that investment returns are a goal in and of themselves, but taking a bigger picture view at this point is helpful in two respects.

In one, it allows us to remember that what matters most is the long term, and not so much what investments return in a given year. By early 2000, almost everyone had bought into the tech bubble's siren song of a new economy and stocks with sky high PE Ratios somehow still being fairly valued. We know what happened when the downward part of the cycle arrived. Similarly, almost everyone had bought into the idea that home prices were going to continue rising at rates way above their long-term averages. We know what happened when the downward part of that cycle arrived too. Far too many investors bought into the promises of ever increasing returns only to have the downward part of the investment cycle wipe away years, even decades' worth of returns. Now it seems like many people are

buying into the Central Bank fueled easy money period since the last market crash. We believe we know what will happen this time around too.

Often times managing risk means short-term underperformance to avoid long-term, return-crushing market crashes. In the end, accepting lower returns in the short term to avoid those big losses is usually worth it, and successful investors know this. In this case, the long term includes something called “full cycle investing” which dictates the time to take on more risk is after big losses, and the time to take on less is after big gains. Well, we’re really far removed from those previous big losses at this point. It may feel like subpar investment returns in strong market years aren’t getting you to your goals fast enough, but nothing crushes the chances of achieving your goals quite so much as being victimized by big losses.

Which leads us to the other way in which focusing on a bigger picture helps us: it allows us to remember why we’re investing in the first place. It’s not to look at statements every month to see if we’re up or down, but to achieve goals in life that are important to us and that will make us and those we care about safe and happy. We think most people would agree that the rate of return you earn on your investments is less important than actually achieving your ultimate goals, and we fear that in extended bull markets like this one people are actually taking on more risk than they should to increase their returns but in so doing are exposing themselves to a bigger loss when the downward part of the investment cycle arrives. Reaching for a bigger return can increase your losses and actually prevent you from reaching your goals, and for defensive investors now is not the time to push too many chips into the center of the table.

Focusing on the wrong thing, i.e. short-term investment returns, can actually prevent you from achieving the right things, the things that matter to you. Here at the beginning of 2018, we would like you to focus on what is important to you. What makes you happy? Why do you work? Why do you save?

We would like you to accept a challenge from us this year: focus on what makes you happy, make sure your activities and resources are aligned to bring you that happiness, and use the energy from that process to push yourself forward. We have read that many people don’t think enough about what they actually want in life and instead are focused on the day to day problems that always seem to need solving. Solving problems is necessary, of course, but take some time this year to also think about what you are trying to achieve, and even to focus on additional things you can do to make life fulfilling. Get reacquainted with your big goals, refamiliarize yourself with the actions you can take that will increase your ability to achieve those goals, and remember some of the additional day to day things you can do, the small things, that make you happy. At the risk of really piling this on, in addition to taking a fresh look at your big goals and doing more small day to day things that make you happy, why don’t you do something in 2018 you’ve always been meaning to do but for one reason or another haven’t? Take that trip, start that hobby, get back in touch with a long-lost friend. Whatever you haven’t yet done that would make 2018 better than 2017.

It’s easy to lose sight of our goals. Wake up, go to work, go home, repeat. Break out of that pattern, at least mentally. If you haven’t done financial planning in a while, let us re-do your plan, and this time around build in things you want to achieve that maybe you left out of the standard “save for retirement, save for college, protect against premature death and disability” kind of plan. Of course that kind of plan is important, but add in planning for something you’ve never done before but want to do, especially if it is something that excites you.

The financial planning process we use for clients has a framework that can be used to achieve non-financial goals as well:

- 1) Define the goal: What would you like to achieve by when?

- 2) Identify the actions needed to achieve that goal: What resources do you need, how can you get them, and what do you need to specifically do to achieve the goal?
- 3) Start the work, including sharing your intentions to achieve this goal with someone who will help hold you accountable.
- 4) Check your progress periodically: Have you fallen off task, has anything occurred to make goal attainment easier or harder, do you need to take action on which you did not initially plan?
- 5) Achieve your goal.

That may seem simple, but that does not mean it is not effective. Sometimes it's as easy as just starting a hobby and saying "I am going to start this on Saturday and I am going to carve time out every month to do this", and it doesn't take much more than that. Many of the most pleasant things in life are like that. If you want to spend more time with someone important to you, than just get it on the calendar. Don't over-think it! Of course when Saturday comes you may need to fight off things that may prevent you from finally doing what you said you've always wanted to do. Do not underestimate the power of inertia.

But for the bigger things some more planning might be needed, and the steps above can be used as a guide to how to get there. A good point to start would be to write a list of the things you can do this year that would make you happy, choose the ones to which you would like to commit, share your intentions with someone who will both help you and to whom you feel accountable, and then do the work. Check in periodically and keep on track. Don't let life get in the way of a happier life.

Though we at Cadence look at investment and stock market returns all throughout the day, we do not want our clients to lose their focus on achieving their goals, especially in periods like this where it seems like only risky investors get rewarded. Saving and investing and planning are all just tools to help you get what you want out of life. So at the beginning of a brand new shiny year, ask yourself what is important to you and make sure your life really is aligned to help you achieve those important things. If it isn't, then don't accept that situation. Take steps to align your life to get you on track toward achieving what you want and what is important. Look for help where you need it, and go for it in 2018. Use January 1 – December 31, 2018 as the measurement period you are going to use to make this next revolution around the sun much better than the last, and don't lose faith that managing your investment risks actually plays an important role in helping you achieve your big goals.

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