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Words of Wisdom

NOTHING WORTH HAVING COMES EASY

Standing back row: Robert Nash, James Nash, Justin Heaton
Standing front row: John Bean, Greg Heaton, Curtis Ford, Michael Wiegand

Our Wisdom message:

For ten years of my life I prayed for unseasonably warm and sunny Saturdays in the spring. It was one of those days in March when it felt like someone plucked a day out of summer, re-wound time, and delivered it fresh in the spring. The temperature was in the 80's. The sky was bright blue and cloudless. The grass had just been cut, too. I wanted so badly to spend the day outside relaxing. Instead beads of sweat were forming under my hoodie as I went through the same track warmup drills I had done in college. Even though it's been six years, they take no effort to recall. I performed them one after another like the day of a track meet in the dandelion-peppered lawn outside Muncie High School's aquatic center in Indiana. Today was the second day of the Illinois State Meet for Masters Swimming (yes, the Illinois meet was held in Indiana). So many things about this event reminded me of weekends spent around the track. The butterflies were in my stomach, my St. Ambrose track bag was filled with mostly the same snacks: peanut butter, bananas, honey, and protein bars. This time goggles, towels, and swim gear replaced track spikes, ankle wraps, and tape.

If anyone has ever been to a road race or track meet, they might notice everyone jumps around a little differently to stay sane. I found myself doing the same bounce and arm circles as I had before a 400 meter dash, keeping my nerves at bay behind the blocks. 50 and 100 yard swims were all I had done up to this point. I decided it was time to stretch my limits and swim the 200 Individual Medley; 50 yards of all four strokes. The whistle blew. I snapped my goggles onto my swim-capped head uncomfortably tight, stepped up to the blocks, and hunkered down into start position as I waited for the weird beep I'd heard on TV while watching the Olympics. The weird beep sounded and my body sprung forward in the water. After six dolphin kicks I broke out into butterfly and was halfway across the pool. After finishing butterfly, I blasted off into backstroke. As I neared the flags on the far side my quads burned and my arms didn't want to turn over. By the last 50 yards of freestyle with no speed or grace left, my body lurched through the water on auto pilot. I came in dead last in my heat. Arms feeling like Jello, I pulled my body out of the water, only to meet the lane judge - hands on hips like a displeased recess supervisor. He scolded me for making an illegal touch and I had been disqualified. I mustered a smile in between gasps for air and told him I was just happy to be done. So many thoughts buzzed through my brain as I comprehended what happened. The embarrassment quickly faded as I remembered the 3rd and 5th place finishes in breaststroke the day before. I was reminded that I learn so much more from my worst races than from my best ones. I had forgotten that every race was not always a personal best. After all, I could have been doing worse things than exercising on a weekend.

Part of what I always valued about being a student athlete is the unique perspective sports give on learning life lessons. These were lessons unique to sports that aren't taught in the classroom. Many of these lessons about life apply when developing your mindset about a life-long approach to investing. And I want to share some of them with you in this newsletter. Think of these as your swimming lessons for the summer.

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Nothing worth having . . . .*continued from page 1*

HAVING PATIENCE IS NOT FUN OR EASY

Everyone wants results without doing the work. Wouldn't it be nice if I could insert a microchip into my brain to hard wire my body to swim exactly like Michael Phelps? He's so good he became the most decorated Olympian with 22 medals, and on a mission for more this summer in Rio. But he spent his entire life in the pool training to get there. Not just five or ten years, a lifetime. His coach Bob Bowman was quoted in a recent Forbes article saying, "Michael Phelps trained for 365 days for six years" referencing the 2004 Olympics. "For Christmas, New Year's, and birthdays. Michael worked harder than I've seen anybody work in any endeavor," said Bowman. In my very limited experience, swimming for only four years, none of them with a team or coach, what should I expect? Training on Christmas? Forget about it. In reality it will take years and years of practice and help from a coach if I want to improve. Going to the YMCA three to four times per week without a structured workout can only get me so far. Unlike Michael Phelps I have a job, hobbies, and try to have a social life. In any sport it's easy to lose patience, get frustrated, and quit. After spending five years at Wisdom Financial, I have learned that just like athletes, investors don't have patience either! Is it normal for people to watch the value of their house every day? How about their farm? If someone's home drops in value, do they panic and buy a different one that won't go down in value? Of course not. Farmers don't sell their farm if they have one, two, or five lousy years of crop yields. Your investment money for retirement should be treated exactly the same way. We marvel at the value of what real estate property and farm ground was in the past compared to today's prices. Clients tell me all the time they wish they had bought all the farm land they could in the 80's if only they had known how its value would grow. How did it go from $1,200 per acre to over $10,000? Most people don't know if you would have invested $100,000 in an aggressive globally diverse portfolio in 1973 and left it alone (that's right no changes) for over 40 years, it would have grown to over $16 million dollars! That's an average of over 12% per year. Think of all the terrible world events that have happened since 1973, all the presidents we've had, all the wars and struggle, yet markets still go up. If the next 40 years are anything like the last 40, wouldn't it be nice to be patient? If you don't have 40 years, your children or grandchildren do. One of the biggest problems with most investors is that they get frustrated and quit. It's their behavior that's the problem. According to the DALBAR study most people change investments every three years averaging 3.79% returns over their lifetime while taking massive risks. Owning equities (companies), diversifying, and rebalancing (buy low sell high) are three incredibly simple rules. Yet with our 24 hour news cycle and instant gratification-based society, very few investors are patient enough to achieve long term market rates of return.

KNOWING THE RULES IS NOT THE SAME AS FOLLOWING THEM

After watching videos of my races in Indiana, it was apparent that I had never had any technique work. A month later, I'm slogging through the pool with tennis balls in my hands as Coach Frank repeats to our class "Slow is smooth, smooth is fast". Every time we got done with a drill he would instruct us to "do the same thing but go slower". This drill felt terribly awkward and I wasn't good at it, but it was absolutely one of the best things I could do to help me pull water with my forearms instead of only my hands. As much as I wish I could do this drill once and be done, that's not a reality. I'm going to have to do the tennis ball drill over, and over, and over again for years to get better. Rebalancing is done automatically by Matson Money for a reason. Selling what's high and buying what went down goes against all of our instincts. It feels terrible in the moment, even though we know it's the right thing to do. Buy low, sell high is one of the golden rules of investing yet no one wants to do it. Our job as coaches is to keep clients disciplined to the fundamentals for the rest of their lives. It does no good for an investor to be disciplined for one or two years and then bail just because the year they started the market happened to be down or flat. Annuities, interest rate gimmicks, and commodity products are high commission traps meant to pray on investor fears when markets go down. It's in moments like these that years and years of saving and investing can be destroyed in an instant. We have clients who say they "get it", but are constantly searching for something different outside of their accounts at Matson Money. Please do not drown in your emotions. If you have doubts or fears, contact your coach and come to our next event. Suffering in silence is the last thing we want our clients to do.

YOU'RE GOING TO LOOK DIFFERENT AND THAT'S OKAY

Flippers, a snorkel, kick board, a pull buoy, and hand paddles are a few things to have sitting on the side of the pool during practice. The drills Coach Frank prescribed feel very awkward at times, and to the average pool goer I probably look pretty awkward, too. But that's the only way I will improve. Steve Miller, President of Matson Money, was our guest speaker at our May coaching event. He showed us how Matson Money builds portfolios tilted toward academic premiums in the market (they include more small, value, and micro-cap companies than most mutual fund companies). The vast majority of other investors gravitate toward US and International large companies. In any given year your return could look totally different than your friends, family, or neighbors. Steve compared the S&P 500 (US Large companies) and the Matson Money Aggressive Portfolio because they are close to the same risk level. In 1977 it would be fun to look different when the S&P 500 was down -7.18%, and the Aggressive Portfolio would have been up 30.5%. It felt uncomfortable being different in 2014 when the S&P 500 was up 13.69% and the Aggressive Portfolio was only up .93%. Matson Money's portfolios are built using academics for a reason, and it's easy to see why when looking at longer periods of time. From 1973 to 2015 the S&P 500 had an average annual return of 10.33% and the Aggressive Portfolio higher at 12.57%. Only a 2.24% advantage due to portfolio engineering you might ask? That's the difference between $6.3 million and $16.2 million if you started with an initial investment of $100,000. Think of the $16 million like training for the Olympics for 42 years and winning a gold medal. It would take an awful lot of discipline and coaching to get there, but definitely worth it in the end. Even if you didn't have the optimal portfolio and only had US Large and earned over $6 million, we could call that bronze. And that is nothing to scoff at either. Because in order to achieve it, you still would have had to stay disciplined for 42 years. Hardly anyone has the guts to do that. This is why portfolio engineering is only part of the story.

The vast majority of investors have not been able to stay the course from 1973 through 2015. Imagine how different people's lives could have been if they had a coach in their corner, keeping them disciplined from reacting to ups and downs. It all comes back to behavior. I doubt Michael Phelps or any athlete would be where they are today without a strong team supporting them through the rigors of everyday training.

Congratulations on making it through your swimming lessons! You didn't even have to get wet. I hope you use them to stay afloat the next time you see a shark on TV predicting the collapse of the dollar, or the end of humankind after the 2016 election. We wish all of you and your families a safe and happy summer. We can't wait to see you at the Symposium in July!

Sincerely,

Wisdom Financial Services, L.L.C.

IMPORTANT CHANGE TO IRA REQUIRED MINIMUM DISTRIBUTION CHARITABLE ROLLOVER RULES

On December 18th, 2015 the President signed into law legislation that extends the special IRA rollover incentive for gifts completed in 2015 and permanent in future years. Up to $100,000 can be transferred directly from a traditional IRA to one or more qualified charities. Amounts given in this way count toward required IRA minimum withdrawal amounts for the year of the gift.

- To make such gifts, it is important not to withdraw funds prior to a gift, but have the gift amount distributed directly from an IRA to the charity.
- The donor must be age 70 ½ or older on the day of the gift.
- Donor transfers any amount up to $100,000 directly from the IRA to one or more qualified charities. This only applies to IRA's and not to other types of retirement plans.
- The donor does not receive any goods or services in return for the rollover gift in order to qualify for tax-free treatment.

***REMINDER**

1099's for reporting dividends, capital gains, and rollovers will not be mailed by Charles Schwab until February 15th. This is due to government regulation. If you would like to download and print your 1099 on February 15th, you may do so by logging in to www.charlesschwab.com. Please call at any time for assistance.

UPCOMING EVENTS

JULY
INVESTOR SYMPOSIUM
July 28, 29 & 30 • Cincinnati, Ohio

AUGUST
Workshop • Stoney Creek
Tuesday, August 30

SEPTEMBER
Workshop • Lavender Crest
Tuesday, September 20

OCTOBER
Workshop • Lavender Crest
Thursday, October 27

DECEMBER
HOLIDAY OPEN HOUSE
Sunday, December 4 • Wisdom Office

To RSVP Call 800-959-8485

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for Joining us at our 8th Annual Appreciation event!

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