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The Power of Planning

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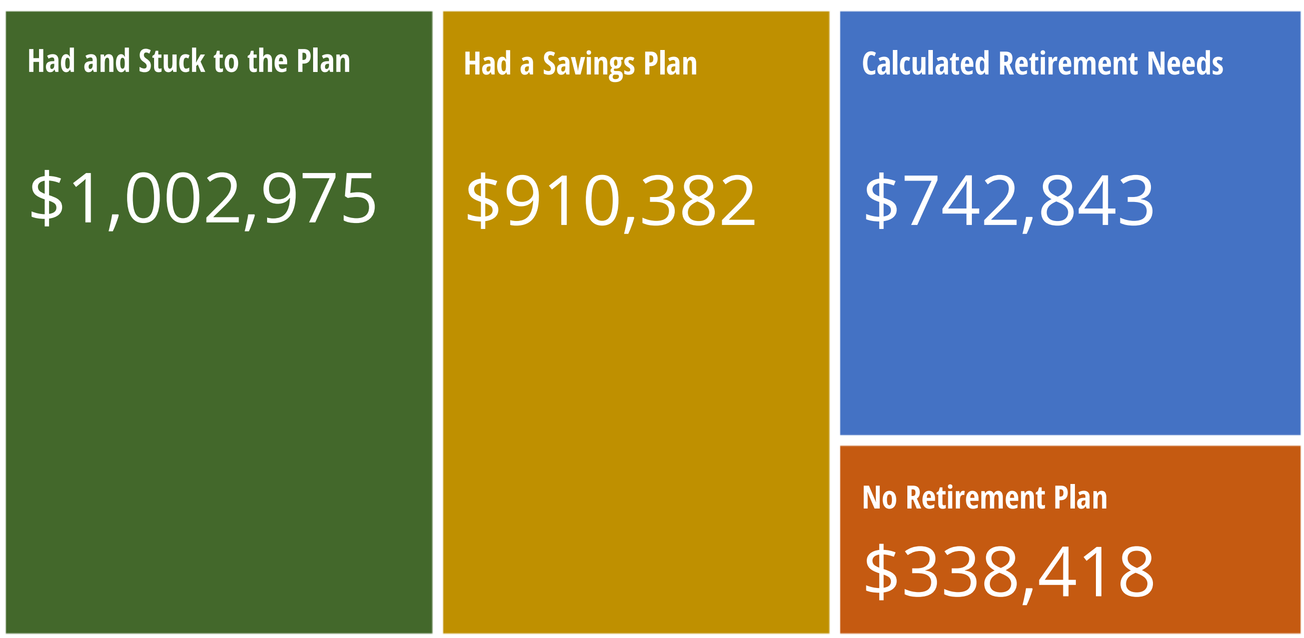
Now, more than ever, planning is a powerful tool to help investors succeed and achieve better outcomes. The table below highlights the benefits of planning taken from a study on retirement planning among Americans over age 50, over a wide range of market conditions. The results show that having and sticking to a plan results in three times the net worth when compared to those who don't have a plan.

TOTAL NET WORTH ACROSS DIFFERENT PLANNING TYPES



Source: Lusardi, Annamaria, and Mitchell, Olivia S., "Financial Literacy and Planning: Implications for Retirement Wellbeing," May 2011

The study analyzed the following four categories of planning and their impact on net worth:

- Those who had no plan.
- Those who thought about planning by calculating how much they needed for retirement.
- Those that had a plan for how to save the money needed.
- Those that had a plan and stuck to it.

Not surprising, having and sticking to a plan generates the best outcome. What may be surprising is the magnitude of the impact of planning and that any amount of planning results in two to three times the wealth. Even just calculating the amount of money needed for retirement improves results dramatically.

Having a plan simplifies investing and allows investors to focus on things they can control. Contributions, withdrawals and the amount time invested are all drivers of long-term wealth. These actions are enabled by planning which creates awareness and encourages long-term thinking along with consistent action over time. Putting current events in a longer-term context and focusing on what you can control with practical planning can help to relieve stress and avoid costly mistakes.

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From the Behavioral Viewpoint

What is going on?

1. Strong emotions and behavioral biases including, **anchoring**, **loss aversion**, **cascading** along with **recency** and **availability** bias can cloud our thinking.

2. We are prone to **emotional overreaction** when under stress because our cognitive functions are diminished by our emotions. This can lead to poor decisions at precisely the wrong time and often results in costly mistakes.

3. Building wealth requires discipline and **delayed gratification**, where current benefits are traded off for long-term benefits. We are unlikely to engage in this trade off without **systems 2 thinking**, requiring a conscious process that identifies future value and a method for obtaining it.

What can we do?

1. Develop a needs-based plan as a financial roadmap and to help Illustrate the value of following the plan.

2. Engaging in realistic practical planning discussions along with relevant behavioral coaching can provide essential support during these challenging times.

3. Take a longer-term perspective and focus on what you can control with predetermined courses of action designed to build and maintain discipline.

4. Learn to understand that progress toward goals is often more important than short-term investment performance.

5. Work with a financial advisor who can provide valuable perspective and guidance to help you stick to the plan.

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