EDWARDS GROUP OF WELLS FARGO ADVISORS

RATIONAL REFLECTIONS

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What's Your Benchmark?

- As more advisors embrace the moniker *wealth management*, the term has become so diluted that it has lost much of its true meaning.
- Clients have real-life problems and concerns that they need a solution for. The questions are often times complex, sometimes emotional, and always unique. The answers to these questions cannot be provided by a basic asset allocation.
- Life and markets change over time, sometimes suddenly. Without a game plan that takes into account steep reversals in markets, how do you know where you stand, or how to react?
- Our team believes that successful investing is goal-oriented and planning-focused, while most failed investing is market-oriented and performance-focused.

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"Don't chase the number. It will always set you up for failure."

I heard this microcosm of wisdom in one of the most unsuspecting places: a spin class. The spin class instructor was referring to the way some strive to constantly stretch for new milestones:

> *I ran a marathon in four hours last time so I want to run my next marathon in 3:45.*
>
> *I burned 300 calories last class so I want to burn 325 calories this class.*

Sound familiar? The point the instructor was trying to make was that **the chase for a number is a game of diminishing satisfaction that will make you forget why you started in the first place**. The same can happen in investing.

Financial advisors, much like fitness instructors, are tasked with keeping clients on track to help achieve their financial and life goals. The industry broadly defines what advisors do as *wealth management*. Yet, as more advisors embrace the moniker *wealth management*, **the term has become so diluted that it has lost much of its true meaning**. Are these advisors more focused on getting you more or are they focused on making the most of what you have? The journey to becoming *rich* typically has no destination, as there is always someone who always has more. Someone who is merely rich will only be so until the money's gone. But becoming *wealthy* includes the ability to accumulate the financial as well as intangible resources that *sustain* a full and meaningful life — defined on each client's terms.

When I entered the financial services industry over a decade ago, the focus was on delivering an asset allocation that was suitable for the client's risk tolerance and objectives. We'd start with a complimentary consultation to discuss the client's current financial state and future goals, we'd ask a few follow-up questions, and then we'd propose an asset allocation strategy consisting of numerous investment strategies. Voilà! That same consultation process today can now be completed on a smart phone, and similar asset allocation strategies can be picked up for free at every retail brokerage website. But that was the way it was and that was way I was trained.

Today, I have a different outlook on how clients should be best served.

I have come to understand that clients have real-life problems and concerns that they need a solution for. The questions are often times complex, sometimes emotional, and always unique. The answers to these questions cannot be provided by a smart phone and an asset allocation. In my experience, I've found that clients do not lose sleep wondering if their target asset allocation outperformed its respective benchmark this quarter, or if their portfolio's Sharpe Ratio is fully optimized.

Particularly as the economic effects from the global coronavirus pandemic ripple through financial markets and the economy, **the big, scary question that keeps clients up at night is, "Am I going to be okay?"**

I believe that the answer to this question has to start with building a strong investment plan. Sports teams of all levels and businesses of all sizes compete in their respective fields with a well-defined game plan. The coach or CEO — much like a trusted financial advisor — is there to understand the goals-at-hand, set the strategy, and then employ his or her resources to execute on that plan. If game plans were not important than the team with the most talented roster or the company with the smartest people would always win. But it doesn't work that way. So why would we approach our family's finances any differently?

In my experience, the costliest mistakes are not made from inadequate research or poor analysis but rather from a lack of planning. Life and markets change over time, sometimes suddenly. Without a game plan that takes into account steep reversals in the markets, how do you know where you stand, or how to react?

If we define success as the number on a financial statement, then I believe we are destined to fail. This isn't to say that how an asset allocation is assembled or maintained is not important. It is very important, but it shouldn't be the starting point. Our team believes that successful investing is goal-oriented and planning-focused, while most failed investing is market-oriented and performance-focused. The asset allocation should be the by-product only after **thoughtful and intentional planning**. As circumstances change, sometimes you need to re-evaluate your approach and, if necessary, make adjustments. This why we work with clients at the outset to have a clear understanding of who they are, what is most important to them, and what they want to accomplish in their life—the reasons we invest in the first place.

So, what's your benchmark?

Sharpe ratio: Sharpe ratio measures the additional return that an investor could expect to receive for accepting additional risk.

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