

Financial Planning

Buddhist Economics

The typical advisory approach is to maximize assets. But other routes to an abundant life may lead to more satisfied clients.

By Jim Grote

May 1, 2006- John Lennon's song, "Imagine," asks us to imagine a world without countries or religions. Imagine if Lennon had read Burton Malkiel's *A Random Walk Down Wall Street*, and crooned to advisers: "Imagine there's no products, nothing for you to do, nothing to sell or compete for and no commissions too." With 80% of mutual funds failing to outperform the S&P 500, this ballad could appeal to investors. Should advisers despair of adding value for investors on this Pareto planet, where 20% of mutual funds provide 100% of the above-average performance? Not necessarily.

Now, imagine a world where work is more fun than shopping, hang-gliding, Caribbean cruises, the symphony or shots of tequila. The comedian George Burns imagined this world when he quipped, "Do something you love and you'll never have to work a day in your life." Without going to this extreme, many life planners are counseling their clients to focus less on retirement and more on finding meaningful work, and perhaps not retiring. Many of these clients are devouring Mitch Anthony's book, *The New Retirementality*.

Imagine now that the only thing to plan for in life was not being able to work. If work were fun, financial planning might be reduced to insurance--disability, health and LTC insurance for clients and life insurance for their dependents. Why save in a world where everyone is more interested in working than in spending and saving? This would be heaven for parents. "Mom, I don't have time for a European vacation or a college education because I'm having too much fun working double shifts at McDonald's." But would it be hell for advisers? Not necessarily.

Finally, imagine a world where all your clients had read Joe Dominguez and Vicki Robin's *Your Money or Your Life: Transforming Your Relationship With Money and Achieving Financial Independence*. These leaders of the voluntary simplicity movement counsel readers on achieving financial independence through frugality. While pinching pennies seems unpleasant, all clients suffer from the fundamental economic problem of scarcity. Resources are always considered to be scarce because desires are assumed (by economists) to be infinite. There are three basic solutions to this: (1) increase resources, (2) decrease desires or (3) find meaningful work that is desirable in itself and increases resources.

Welcome to the financial planning triad. Just as clients are cautioned not to put all their investments in one asset class, more advisers are warning clients against putting all their life energy into one scarcity strategy (e.g., increasing resources). Life planners remind clients that they are free to increase their money supply, decrease their demand, find a way to enjoy making money--or all three. Why not encourage clients to balance scarcity strategies the way the Morningstar boxes help balance investment styles and capitalization sizes?

UPSIDE, DOWNSIDE

The supply solution of conventional economics encourages clients to work at those jobs that pay the most--whether they like them or not--and invest aggressively. Upside, more money; downside, more stress. As Ogden Nash describes the dilemma: "Even those of us who desperately don't want to work must work in order to earn enough money so that we won't have to work anymore." This solution absorbs almost the entire attention of advisers and clients. For most people, supply planning is financial planning.

The demand solution of Buddhist economics says that the easiest way to be rich is to live below their means. Upside, less stress; downside, less money. Aggressive budgeting (versus aggressive earning and investing) may be the most financially efficient way to solve the scarcity problem. With a penny saved being two pennies earned in the 50% tax bracket, nothing builds a nest egg faster than frugality. Making money, paying taxes on it, turning around and paying more taxes on dividends and interest earned is a laborious path to wealth.

Unlike academic economists whose "value-free" approach assumes human desires are infinite, financial advisers and their clients live in the real world that the Buddhists describe:

- Life is suffering (credit card bills).
- The cause of suffering is desire (advertising).
- Lessening of suffering is possible through lessening of desire (budgeting).

There's nothing overtly religious about this (Buddhists don't necessarily believe in God); it's just basic Buddhist economics. "Budget" is not a four-letter word. Financial columnist Andrew Tobias encourages his readers to go long on commodities by buying tuna by the case. "Between beating inflation by buying now and buying in bulk when items are on sale [or getting a by-the-case discount], you could easily be earning 20%, or even 40% on your money--tax free." By paying off your credit card you could be earning as much as 18%. For large tax-free and risk-free returns, nothing beats demand planning.

The work solution for lifestyle economics is a personally meaningful job. Is it more efficient to spend 30 years at a highly paid job you hate or tolerate (to retire early) than to spend 50 years at a less remunerative job you love (and you don't care if you retire)? This question shows that there are no value-free solutions in the real world of financial planning. The current obsession with retirement is based on the assumption that rich is good because work is bad. But a good job adds a lot of value to life. And if work is good, rich is not so important.

A CONTRARIAN APPROACH

The financial planning triad applies the contrarian approach that works so well in investing to spending and earning. Why stress out mortgaging yourself to keep up with the Joneses' latest mansion? You could buy a smaller house instead. Why stress out chasing the highest paying job? You could find a satisfying job instead.

One adviser who looks beyond the expected to a more heartfelt solution is Sheryl Garrett, a CFP and founder of the Garrett Planning Network. Her advisers charge by the hour, rather than through commissions, fees or retainers, and help clients with all of the triad--investing, spending and earning. "We start with our clients' paycheck stubs and brokerage account statements, assume they are spending everything and run projections (with appropriate return and inflation assumptions) to see how long they can keep this spending pattern after retirement," she says. After running the numbers, clients are offered choices. Would they rather work longer or spend less? The average client will cut back on annual living expenses to reach financial goals.

And Garrett doesn't shy away from career planning: "A client in her mid-50s was unhappy with her job and only had a \$50,000 nest egg. Investment return wasn't going to make much difference. I gave her permission to do what she always wanted: She lived off her nest egg and got an RN in two years and then had the decent-paying job in her 60s that she'd always wanted. She was ecstatic."

Some planners of the very wealthy focus on career and budgeting as well. Myra Salzer, CFP, runs the Wealth Conservancy in Boulder, Colo., serving clients living on inherited wealth. "We spend considerable time helping our clients define what we call their 'nut,' the amount of money they need to set aside to support their lifestyle. For some this may be \$5 million, for others, \$25 million. If their nut cannot support their annual expenses, then we work on their spending parameters--most of our clients cringe if we use the word -budget.' "

Since they're not forced to work, inheritors have a greater challenge finding a life task. Salzer's clients must often force themselves to find a life task that gives them a sense of accomplishment. How she helps them do this is outlined in her new book, *The Inheritor's Sherpa: A Life-Summitting Guide for Inheritors*.

Finance professor turned financial planner Dr. Timothy E. Johnson echoes this approach. Johnson believes financial counseling needs to begin while clients are still in their 20s. He agrees with Einstein that the "greatest discovery of mankind is the concept of compounding." The lesson he draws from this discovery is not an obsession with investment return, but a focus on what economists call opportunity cost--that is, spending habits.

"There is a huge difference between what you pay for an item and what it actually costs you," says Johnson. "If I buy a \$25 tie, my opportunity cost in future retirement assets is only \$200 because I'm close to retirement. But if my son buys that tie, it costs him almost \$2,000 in future retirement assets that he would have had if he invested that \$25. If people knew what they were spending in lost financial security, they would be aghast.

"Everyone thinks that homes are the perfect investment, but they never factor in the opportunity cost of household repairs, maintenance and furniture," he continues. "A newly married couple in their 20s may buy \$15,000 worth of furniture. When they retire, that \$15,000 will have cost them \$250,000 in retirement assets. Was it worth it? It seems to me that too many people have their identity wrapped up in what they own.

"I tell my college students that all they need to be wealthy is to save \$1 a day from age 20 to age 70--a daily sacrifice of a cup of coffee or a candy bar. If they invest this \$365 a year in the broader market, they will have invested \$18,250 over 50 years. I ask them what this investment will be worth when they retire and they usually guess rather small amounts. The reality is they lost a \$2 million plus nest egg by frittering away \$1 a day. That's a good lesson for college students and for clients alike."

To reach their financial goals, clients and their advisers both need to diversify their attitudes about money and financial security. The financial triad points out many roads to overcoming economic scarcity. While the planning profession has emphasized increasing investment return, it may be that in the land of opportunity costs, the frugal client is king. Imagine a world where all your clients agreed to save \$1 a day or where none of your clients wanted to retire.

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