



IZWATITZ

March 2024

*“Weather forecast for tonight: continued dark overnight, with widely scattered light by morning.”
- George Carlin*

Last weekend, Wynne and I went for a walk to get brunch. Before we left the house, we checked the weather forecast; it said that it was going to be approximately 55° all day and cloudy with no chance of sun. We dressed appropriately, wearing jackets to stay warm and in case the clouds brought some rain. After lunch, however, there was not a cloud in the sky and it felt closer to 70°. So we had a nice stroll home with our jackets tied around our waists figuring “it is what it is” (or IZWATITZ) and no one can control mother nature.

Why do I bring this up? Because the lesson here is one that we’ve been preaching for a long time to ourselves and everyone we work with: there are controllable and uncontrollable variables in life and everything we do in life, including finance. The trick is to know what is controllable and what is not. A weather forecast is really just a guess about the future, and thus by definition an uncontrollable event. How you prepare for the future is a controllable variable. Thus, when we walked to town with our coats we were prepared for the forecast to be right as well as for it to be wrong.

The markets and prognostications about their future direction are not unlike the weather and weather forecasts. Try as you might, you cannot control the course of the stock or bond markets. And anyone, including talking-heads on TV, your friends, or even financial advisors, can only make educated guesses about what will happen with the markets in the future. So, the markets are uncontrollable variables and the prognostications only a guess at best.

Which is why we tell everyone to get ready for good times and bad in good times and bad. This way you’re manipulating the controllable variables, namely your exposure to certain markets, and preparing for whatever may come in the future. This also explains why we tell everyone, after we make an educated guess about what the markets and/or economy might do in the future, that as strong as we may feel about a future outcome we are a million times more convinced that neither we nor anyone else in the world has any idea what will happen in the future. Again, the future is unknown and unknowable, and is thus an uncontrollable variable.

We also believe investment security-related fees are another controllable variable. Accordingly, we seek to utilize what we believe tend to be cheaper passive securities for the majority of our clients’ investment portfolios. Research has informed us that passive securities may not only lower internal fees of a portfolio, but also potentially create more tax-efficiency and possibly less performance drag (for a more thorough discussion of our portfolio management philosophy and the research behind it, please ask Megan Jette (mjette@lpl.com) for our Common Sense Asset Management white paper).

Speaking of fees, it seems people have become more enamored by alternative investment strategies recently, such as hedge funds and private equity. But just last Saturday (03/09/2024), Jason Zweig of the Wall Street Journal smartly highlighted that “a recent study found that, on average, for every dollar return they generated from 1995 through 2016, hedge funds harvested 64 cents in management and performance fees.” And, “[a]t private equity funds that invest in buyouts, fees tend to reduce gross returns by about six percentage points annually.” As I like to say, just because you can do something doesn’t mean you should.

As long as I’m on the subject of lines and phrases that I tend to repeat, one of my other favorites is that “it is not what you get but how you handle what you get, especially since we are all going to get something sooner or later.” Without getting too preachy, I’m bringing this up because I blew out a disc in my back six weeks ago. I could barely walk for three weeks before I had herniated disc surgery. I’m doing much better now, but every day (especially before the surgery) I tried to practice what I preach. I reminded myself that “it is what it is” and the only thing we can control is how we think about things. So, even though I was in a lot of pain, I tried all day and every day to remember that every day is a good day, no matter what happens.

I say “tried” because I truly believe that controlling a controllable variable like your mind and/or perception takes effort; in other words, controlling your perception of things is like exercising any other muscle, you must persistently work to strengthen your own resolve. I also say “tried” because I have to admit that at times the pain and frustration got the best of me. But every time that happened, I reminded myself (literally out loud sometimes) that self-pity does no one any good, least of all the person who is complaining. And then I also focused on how fortunate I was to have my best friend/wife/soulmate help take care of me and strengthen my resolve; if nothing else, I had to try and be strong for her as well.

Again, I apologize if this is a bit too preachy and personal. But life is not all about money, and sometimes the best lessons to apply in finance are actually the ones that get us through this thing we call Life. In life and finance there are variables that you can control and those you cannot. The trick is to recognize and focus your energy on the controllable ones, and prepare for good days and bad so you can whistle through the ups and downs of the markets, of life, or maybe just a bad weather forecast. Speaking of which (and I promise, this is my last cliché), remember that it’s always more fun to laugh than cry. So when life or the market or whatever gets you down, control the narrative in your head, tell yourself it IZWATITZ, and make a joke like George Carlin did about weather forecasts knowing that whatever comes the sun will rise again!

Thanks so much for your friendship and trust, and have a great start to Spring!

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