The 3 Key Reasons to Avoid DIY Financial Planning

BY ANDREW ROSEN
The DIY (Do-it-Yourself) approach often comes in handy. It’s useful and can save you a pretty penny. For instance, you could do your own nails vs. going to a salon, do your own home maintenance vs. paying a handyman, or even mow your own lawn vs. paying a lawn service. In each of these examples you could certainly make a case for not doing it yourself. However, when you look at their common thread, they all have one thing in common. The risk to you if you do a poor job is quite benign.

Conversely, there are many areas where the DIY rewards don’t outweigh their risks. For instance, going to a surgeon vs. trying to do your own surgery, representing yourself in court vs. hiring an attorney, building your own home vs. paying a licensed contractor, and doing your own financial planning vs. working with an independent Certified Financial Planner. The commonality here is, if you get them wrong you can end up with serious repercussions. You could be permanently injured, behind bars, living in dangerous conditions, or making poor financial decisions which leave you broke and not able to achieve your life goals. With the advent of WebMD, Legal Zoom, and YouTube, everyone (in some ways) tries to be a “do-it-yourselfer” (sometimes for better or worse).

The focus here; however, is something many tend to overlook - the **costs** and **dangers** of doing your own financial planning.
Financial Planning Doesn’t Happen In A Vacuum

When it comes to financial planning, most people lack the time, education, resources, and expertise to do it sufficiently themselves. Traditionally, the majority of us have planned financially for one person in our lives – ourselves (or two people, including your spouse).

But, you have access to Google, what else do you need?

Google is great for gathering information, both correct and incorrect. However, Google lacks in knowing your personal circumstances and the implications of your decisions. Essentially, we are constrained by our own knowledge and availability to get things done correctly (or efficiently).

A good financial partner (not Google) will help quarterback your financial landscape, act as a sounding board, and give tailored advice based off your unique facts and goals. With years of experience seeing others in your similar shoes and the implications of their actions, this is an extremely valuable resource you don’t otherwise receive (especially doing it yourself).

Our firm has three highly-trained Certified Financial Planners, as well as an amazing staff of industry experts and resources. We go to several groundbreaking industry conferences a year and have access to a plethora of strategic partners who top their field. Despite all these things; however, we still find ourselves consistently researching; it’s our duty to figure out the best applications and advice tailored to each and every client. How any one of us can tackle this glut of esoteric information alone seems challenging at best, let alone if you aren’t an industry professional.

Sounds Cheap But At What Cost?

The reason most of us try to do anything ourselves is to save money, right? Well, in my world a penny saved isn’t always a penny earned. Rather, it may end up costing you substantially more in the long run. Let’s look at this from two different perspectives. First, I’ll quantify the investment advice context, then from the planning and behavioral finance angle.
Several different, highly-credible institutions (Vanguard, TIA-CREF, Russell Investments) have calculated the actual added alpha (or value) working with an accredited professional may have on your long term investment portfolio. They’ve quantified this alpha to be, on average, between 3%-5%. It’s important to note, investment advice alpha is not a linear value. In some years it is much greater, while in others it’s not as pronounced. We believe in lifelong partnerships. Therefore, the below is used as an average benefit over the life time of money management.

### The Value Of Financial Advice On Your Investments

1. **Added Value of Working With Accredited Professional**
   - 3% to 5% Increase

- **Cost Effective Implementation**
- **Behavioral Coaching**
- **Asset Location**
- **Spend Down Strategy**
- **Suitable Investment Product Selection**
- **Rebalancing**
1. **Cost Effective Implementation** - 45 basis points (.45%) is the estimated value of working with a professional; one who finds the right mix of managers and/or products at the most cost effective prices.

2. **Asset Location** - 0-75 basis points (.75%) is how much alpha on average can be added by working with an expert to make sure you own the proper asset classes in the most appropriate vehicle. For instance, owning tax inefficient investments in tax sheltered vehicles while allowing less tax efficient investments to be held in non-tax efficient vehicles. There is also much to be said about utilizing tax savvy strategies when it comes to your investments.

3. **Rebalancing** - 35-95 basis points (.35%-.95%) have been attributed to ensuring your investment portfolio is kept in line with your original risk profile. Investments tend to leak over time and can end up being out-of-weight (leaving you unbalanced).

4. **Behavioral Coaching** - 150-220 basis points (1.5%-2.2%) attributed to the single biggest item an experienced financial advisor can bring to the table. This is something often unknown to both new and existing clients, and can have devastating consequences if left unchecked. The most recent DALBAR study reports the average DIY investor underperforms their respective index by over 4% annualized over the past 20 years.

5. **Spend Down Strategy** - 0-70 basis points (.70%) is typically added depending on your stage of life. If you are in the “spend down stage” (which we all will get too inevitably), partnering with someone who can help you recognize what products and strategies will maximize your draw down is truly a weight lifted off your shoulders.

6. **Suitable Investment Product Selection** – This one is hard to value. Thus, let’s leave it as “undetermined.” However, I don’t suggest there isn’t real economic value in helping one select, monitor, and adjust their most appropriate investment vehicles. Keeping abreast of the ever changing investment world (and the coinciding products) can be a full time job in and of itself. This is why we stress both working with a planner in general and finding one that is independent of any larger firm (or firm that produces their own products). That way you can get true objectivity.
So, what is behavioral finance anyway? Behavioral finance was founded by psychologists Daniel Kahneman and Amos Tversky, as well as economist Richard Thaler. It is the science of understanding cognitive biases in the way humans think. Sometimes in life these biases are an innate way of survival. However, these biases often become extremely costly and lead to detrimental financial decision making. The benefit of behavioral finance coaching has an immense effect on your financial health. In general, a financial partner can help you avoid many traps that psychologically we are unable to avoid by ourselves. Below you’ll find a handful of behavioral tendencies which could have a direct impact on your financial wellbeing:
1. Herd Mentality – Ever notice how people are influenced by their peers to adopt similar decisions and preferences? For example, have you ever talked to your colleague and asked them how to do something, then immediately proceed to follow exactly what they are doing? This may be helpful when filling out a form at work; however, why does this qualify them to be a financial expert, and thus give you specific advice as it relates to your unique circumstances.

2. Confirmation Bias – All of us are guilty of this short coming; many of us on a daily basis. Simply put, this is how we seek out answers (or advice) which agrees with our preconceived notions. Is it laziness, lack of time, or experience? It’s our human nature to want to be right; and that, of course, brings satisfaction. Think about the political universe. Regardless of your affiliation, you’ll almost always justify the stance of one party, while bemoaning the viewpoints of another. You’ll even search the internet looking for articles to send your extremist friend which shows a viewpoint that directly refutes their stance. This bias may be a great way to win an argument, but it is a horrible way to approach your finances.

3. Gambler Fallacy – This tendency overweighs past events and leads to a belief they will have an effect on future outcomes. Don’t believe me? Go to an Atlantic City roulette table where the sign shows the past 10 rolls were black. The majority of people will look at that board and use it to make a bet. Does that make sense? Absolutely not! The percentages are still equal that the next roll will be red or black. The casinos aren’t built on people behaving prudently, so let’s not let it affect your finances in the same way.

4. Buyers Stockholm Syndrome – I know, this one sounds strange, doesn’t it? Buyers Stockholm Syndrome is often referred to as post-purchase rationalization. In essence, you purchase an item (which really isn’t that great). But, since YOU bought it, you convince yourself it IS great. It’s one thing to hold onto (and convince ourselves) that the new trinket is amazing. It’s an entirely different thing when that bias can lead to financial ruin.

5. Status Quo Bias – It’s human nature to hate change. Some deal with it better than others, for sure. Think back to grade school and Newton’s first rule of motion. An object in motion stays in motion, unless acted on by an unbalanced force. Good financial professionals are that unbalanced force. Often, I’ll ask a client why they do something (investing, savings, etc.) a certain way. Their answer is almost always a shoulder shrug and an “I don’t know. I’ve always done it that way.” Great advisors will strip you of those confines.
Just because it’s how you’ve always done it, doesn’t make it outstanding (or even right). We help enable a more open mind, so you can achieve excellent results.

6. The Anchoring Trap – Sometimes, our mind gives disproportionate value to the first group of data we receive. As an example, let’s say you invest in your 401(k) and your first two years happen to be great. You receive a 12% rate of return. After that, you switch to a financial professional and the next 5 years are lackluster; you only receive 6% (or less) rate of return. What might happen is our brains now associate the 401(k) as a great investment. Additionally, the financial planner is now seen as poor investment planning. The anchoring trap rules out all the other relevant factors. Even the most sophisticated investors fall victim to this. Keep an open mind to all the facts.

7. Current Moment Bias – Have you ever wanted something now – a must have that can’t wait until later? If so, you might be guilty of this bias. It’s not uncommon to forget about how our current actions may alter our future status. It’s truly a major benefit of working with a financial professional; we could all use someone who can help model out the consequences of actions. Most times, this professional has real world examples (and sometimes experiences) to help relay the important factors. This is often why we amass credit card debt as we purchase that immediate want with no regard to our future needs.

8. Bandwagon Effect – If everyone jumped off a bridge, would you? Actually, the studies show you would! The bandwagon effect influences so many of our day-to-day decisions. It’s why I remember a plethora of Chicago Bulls fans from my childhood. Michael Jordan was setting the world on fire and everyone wanted to cheer for a superstar. Bandwagons help bring people together – sports fans, movie buffs, music lovers, etc. Culturally, the bandwagon is somewhat benevolent. Financially, one should be introspective, however. What are YOUR goals? What are YOUR unique circumstances? Financial planning is very intimate and customized, thus what is good for the goose isn’t necessarily good for the gander.

9. Negativity Bias – Without a doubt, it’s human nature to weigh negative news greater than positive news. Any decision process can be altered based off one bad experience. Tune into the evening news one night and you’ll see exactly what I’m talking about. Or, think about a bad restaurant (or vacation) experience. It’s entirely too common to see clients have their entire investment portfolio invested based off negative experience. Most often, we see
portfolios invested fully in cash. When asked why, the answer is almost exclusively they’ve been this way since the crash in 09 (or worse even earlier). Their negativity bias still weighs the loss from years ago. That inability to look away from the negative hindered the substantial gains they would have received otherwise.

10. Sunk-Cost Trap – Have you ever thrown more money at a bad purchase, rather than just let it go? We tend to show favoritism to past decisions in our current thought process, regardless of the detrimental outcome. It is a very common theme in investment psychology, and can have an adverse outcome on your financial health.

11. Overconfidence – It’s not uncommon for an individual to overestimate their ability. Unfortunately, it leads to overstatement, or an inaccurate, precision on their personal forecasts. The average DIY investor quite often does poorly because they’ve acted on their hubris. They’ve convinced themselves they know more about markets than the markets themselves. A good coach is sometimes all that is needed to help investors see the big picture clearly.

At the end of the day, having a partner who can help you avoid many of these traps (both those above and many more not mentioned), and keep your goals to the forefront, will have a life altering affect.
We’ve covered two of the three most valuable areas of partnering with a financial professional. But, what is that third? There’s true benefit to having someone build, update, and help implement a financial plan which utilizes a fully comprehensive approach. On a recurring basis, this “plan” has a value of approximately .85% (Russell Investments). Let’s dissect this approach more closely.

3 An Abundance Of Value In Financial Planning

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01  Modeling
02  Family Planning
03  Financial Catalyst
04  Expert Advice
05  Family Mediator
06  Proactive & Reactive Advice
07  Tragedy Mitigation
1. **Modeling** allows us to really understand the implications of your actions. Thus, our advice is tailored to your best-suited options.

2. **Family Planning** grants financial planners the ability to not only plan for you and your spouse, but also your children, grandchildren, and parents. In addition, a financial advisor can help carry out your wishes should tragedy strike. Allowing the ship to stay on course is invaluable in stressful times.

3. **Financial Catalyst** is a way a financial planner will add value. A plan is only as good as the implementation. Great intentions without action are just that - intentions. Having a partner to both encourage you to keep saving (or investing) and force you to get planned items implemented is what we do. We use coaches in so many other areas of life, but rarely when it comes to financial planning.

4. **Expert Advice** a financial planner brings to the table can’t be discredited. It takes years of study to become a Certified Financial Planner and requires endless, ongoing research in order to stay on top of all the trends, tax laws, technology, strategies, and solutions.

5. **Family Mediator** provides that unbiased individual who can help find balance between two opposing views.

6. **Proactive & Reactive Advice** allows us to both reach out to you as things change in your plan and provide that all-important sounding board as life throws you a curve ball. We’ll talk through it and find the best course of action together.

7. **Tragedy Mitigation** doesn’t necessarily occur on a regular basis (thankfully). But, when it does, it has an everlasting affect. Whether it be protecting against a future tragedy, dealing with a current tragedy, or helping put the pieces back together post tragedy, we offer our guidance.