

**REINCARNATION,
GROUNDHOG DAY,
AND
FINANCIAL PLANNING**

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I've been reading "Misbehaving" by Richard Thaler. Thaler is one of many writers tackling the subject known as Behavioral Economics, the study of people and their relationship with money. The following essay paraphrases one of the tenets in Thaler's book.

At the turn of the century, when I began studying financial planning, I quickly discovered that the greatest challenge I faced was getting my clients to even think about planning for the future, much less changing destructive behaviors. Who wants to think about, you know, getting old? And why should I give my money away to some old person when I can have fun with it now?

Since then, I have read every article and book I can find on the subject of behavioral economics in hopes of discovering the magic words to get my clients to plan for the future.

I haven't found those magic words yet, and probably never will, but the quest continues.

Did you see Groundhog Day? Bill Murray repeats the same day over and over again. He knows what's going to happen because it happened yesterday and the day before and the day before that. He practices his responses to the things that happen in order to increase his chances of achieving his goal which, in this case, is getting the girl.

In other words, he learns. And he is able to learn because the events happen on a daily basis.

Do you ever get lost driving to work? Of course not. You could almost do it with your eyes closed (but don't try that). You know exactly how to drive to work because you've done it so many times.

Have you ever bought a loaf of bread and found that you didn't like it? Next time you bought something else and, if you liked it, you bought it again. Learning objective accomplished. Bread problem solved.

What about buying a car? Is that something that comes easily to you? Have you bought enough cars that you have "learned" how to buy a car? At some point you

will have bought several cars and will have a pretty good idea how to do it. But you won't be an expert.

What about marriage? Some people choose the right spouse the first time. Some are not so lucky and may need to choose several before (we hope) they "learn" how to choose a spouse well.

In order to learn how to do something, we need to do it many times. Note that we are more likely to get things right at small stakes (bread) than at large stakes (a spouse). As the stakes go up, decision-making quality is likely to go down because of a lack of learning from experience.

What does this have to do with financial planning?

Preparing for retirement is something we get to do only once. (Even if you believe in reincarnation, there's no evidence that knowing how to prepare for retirement transfers among one's lives.) We don't get multiple opportunities, many of which we would screw up, in order to learn the best way to prepare for retirement.

According to economic theory (which deals with rational beings, not with actual humans) when the stakes are high and the choices are difficult, people will go out and hire experts.

But they don't. Well, very few do. Many will go to banks and brokerage houses to buy whatever products those institutions are selling. People can be persuaded to buy anything on a prayer and a promise, from magic potions to Ponzi schemes to multi-level marketing to high fee mutual and hedge funds.

But what if you get it wrong? What if you discover that the stuff you bought is not a substitute for long term comprehensive financial life planning? What if you discover that the stuff you bought cannot make up for your own bad financial decisions and behavior? By the time you figure this out, it will be too late. You will have learned a lesson, but you won't be able to apply what you've learned because there's no opportunity to do it again. It's not Groundhog Day. And reincarnation won't come to the rescue.

You have only one chance to get this right.