Ruminations on Financial Success

I have observed over the years that *many* people have serious financial issues seemingly impervious to "financial planning." They appear to go through life from one financial crisis to another, repeatedly putting "unexpected" expenses on credit cards, not saving for retirement, and generally living from paycheck to paycheck. We are fortunate that our clients do not tend to be afflicted with these issues, and I don't believe many of our readers have these problems. The problems, however, do seem to burden most of society and to be largely unrelated to income level, educational level, etc. This is my attempt to explain what I believe the root problem to be.

One fundamental difference between children and adults (or the immature and the mature) is their time horizon. A small child has little regard for the future. He doesn't think through the long-term consequences of his actions. If you offer him one piece of candy now or two later, he will take one piece now. As they get older and if the consequences are severe enough and immediate enough, children begin to make wiser choices (whether the consequence is firm parental discipline or natural effects). In the teen years, one young person might decide to drop out of high school for immediate income from working while another might choose to study hard to get into a good college. The second teen is more mature than the first. She grasps (possibly with some parental nudging) that giving up minimum wage work to study and go to college might cause her to have less money and enjoyment in the short run but will lead to vastly superior opportunities in the long run.

Now consider the "man on the street." Today he generally feels that 1) he is not financially secure and 2) having more money would solve the problem. While I accept the first premise, I reject the second. I believe he misunderstands his situation. First, let us define financial success. At a very basic level, financial success is having more than you need. In other words, there are three potential ways to achieve financial success: 1) have more, 2) need less, or 3) both. Unfortunately, no matter how much people have, their needs tend to increase proportionately. As Parkinson's Law states: "Expenses rise to meet income." Because of this, most people never make enough money to fix their financial issues. I would submit this is true not due to a lack of money, but rather due to financial immaturity – a childish need for immediate gratification at the expense of future comfort or goals.

To give just one example, most people, regardless of income level, have not saved adequately for retirement. Most people know they aren't saving (or haven't saved) enough for retirement. However, they do not tend to take responsibility for their decisions. Everyone makes choices, and people will have different priorities for how they choose to use the resources they have been given. Make no mistake – it is a *choice*. Yet, people act as though they are passive observers of their own lives, and somehow the universe has conspired against them. They complain, "I can't save any money," or "I can't get ahead." In my humble opinion, people should simply stop saying "can't." It is *extremely* rare that we "can't" do something. The vast majority of the time we simply choose not to. Why don't people take control of their lives and say so? It is absolutely not true that people "can't" save money, rather they simply choose not to. People can't afford to retire now because they chose not to plan for retirement previously. They had other priorities. (And they typically try to compensate for not having saved enough by achieving unrealistic returns on their investments.) I realize people would argue vehemently this is not true, that they had no choice. The following observations clearly reveal it is a choice; the problem is not a lack of resources, regardless of the income level.

From a historical perspective, everyone reading this lives in unbelievable opulence with creature comforts unheard of just a few short years ago. For example, it wasn't that long ago that most households had only one vehicle, only the wealthy had a two-car garage, and people rarely went out to eat. Children didn't have their own rooms; people hung wash out to dry because they didn't own dryers (and often washers), and few people had ever been on an airplane. In 1973, the average home was 1,660 square feet. In 2008, 35 years later, the size of the average home had increased over 50% to 2,519 square feet – despite an overall decline in family size. None of these things are inherently bad, and I certainly welcome the changes, but I wish to point out that, from a historical perspective, we have no shortage of resources; we have just spent them on things considered luxuries by previous generations. Go back just 100 years ago, and we would have made do without indoor plumbing, automobiles, TV, radio, computers, air conditioning, etc. Even in our time, from a global perspective there is no question we are unbelievably prosperous. Our middle class would be considered wealthy in most of the world today.

In spite of this unprecedented wealth, most people think their financial problems would be solved if they had just a little more money. The person making $20,000 a year could really get ahead with just $25,000; the person making $70,000 would be set with only $80,000; and, of course, the person making $200,000 needs $250,000. Obviously, the ability to save (i.e. have more than you need) is mostly unrelated to the income side of the equation. Rather, the issue is attitudinal – a surrender to the desire to have creature comforts now rather than in the future. Studies have shown most lottery winners, for example, spend virtually all of their winnings within five years, and approximately one third end up in bankruptcy.

We often tell young people that financial success is conceptually simple but operationally difficult. Consume less than you produce. Or, put another way, spend less than you make. But to do that successfully seems to require a level of maturity and long-term thinking that is in short supply today.

We would probably do well to remember that while we are trying to keep up with the Joneses, the Joneses are broke from spending to keep up with the Smiths. As H. Jackson Brown's mom said in *Life's Little Instruction Book*, "It is my observation that too many of us are spending money we haven't earned to buy things we don't need to impress people we don't like."

Notes:

The analysis in this report has been prepared by David E. Hultstrom, MBA, CFP©, CFA©. Mr. Hultstrom is the president of Financial Architects, LLC, a financial planning and wealth management firm. Questions or comments are welcome. He may be reached at (770) 517-8160 or David@FinancialArchitectsLLC.com.

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Phone: 770-517-8160 • Fax: 770-517-8159 • Toll Free: 888-Fin-Arch (888-346-2724)
107 Weatherstone Drive, Suite 510 • Woodstock, GA 30188
www.FinancialArchitectsLLC.com