

# In praise of financial planning

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## In praise of financial planning (a Chief Economist's admission of defeat).

Anecdotally, when asked, Karl Marx's mother said: "I wish Karl would stop talking about capital and go out and get some". Often, specialists are notoriously poor at applying their own principles to themselves...

Recently, I finished a round of seminars regarding implications of the UK election and global growth trends for investments. Clients responded enthusiastically to big ideas: global markets, algorithms, populism, the political and economic rebalancing between the east and the west, the "Green New Deal", growth, Brexit, cryptocurrencies and how it all relates to their portfolio. Indulgently, I relished the chance to debate and philosophise on these broad themes.

Financial planning, by comparison, might seem dull. Projecting cash flows, incomprehensible Monte Carlo simulations (which unfortunately have nothing to do with cool cars, Casinos and James Bond), interminable questions about details of future plans, mind-numbing tax complexities, SIPPs, ISAs, more acronyms... Ugh! I understand why clients might believe that I am the interesting man in the room.

Unfortunately, they would be dead wrong. I might be the fun person to talk to (if one's idea of fun is to be factually exposed to impending doom on a semi-weekly basis), but it is very important to understand why the product they buy is ultimately financial planning and my great big pompous ideas are only part of their total wealth considerations.

My own "aha moment" came from conversation I had with a client.

The seminar had just finished. I had laid out why growth is set to remain low for a long time. The global economy is suffering from secular stagnation, where the propensity to save is higher, the appetite for investments lower, pulling growth down. As a result, demand-driven inflation remains subdued. Central banks have been trying to print money to reduce opportunity costs and rekindle appetite for investments, only to realise that monetary policy is good to kickstart the engine, but not necessarily to keep it going. Still, we have inundated the world with debt, which is what cheap money is, and subsequently pressuring interest rates onto the floor for a generation lest we risk defaulting on that huge debt. Meanwhile, the west is retreating. It has already borrowed from the next two generations (the east by comparison is just now borrowing from the next one) and it is suffering from increasing income inequalities which, along with slow growth, have been fuelling populism and nativism –the promise that the solution lies within our own borders. Western consumers, who have seen their real disposable incomes stagnate for two decades, are envious of eastern consumers who have seen their own double in the last ten years –even though the take-home salaries are still five times lower in the east. But it is just a matter of numbers. We built a world which rewards growth, and with 39% of global consumption coming from Asia, as opposed to 7% from the US in the next ten years, it is clear where growth is.

"So what is the answer George?", the client pressured me. "How does it all end?"

I tried to remain positive.

"Maybe a technological breakthrough turns the tables", I said, in knowledge however that China is outspending the US 10-to-1 in the race for quantum

computing, the natural home for AI.

"Maybe a leader comes along with a real vision" I continued, thinking that voting for baby boomers who make outlandish promises, or that people's desperate need to return to a pre-globalisation era is probably utopic.

"Maybe capitalism will reinvent itself" I persisted, convinced however, that the failure of fiscal policy to pick up the growth baton from monetary policy has probably resulted in a lost decade for the efforts of capitalism to transform itself into something we haven't seen yet. Meanwhile populist pressures are building, and transformation issues take the back seat in an effort to appease an increasingly angry electorate.

"Maybe, there isn't a uniform answer", I finally exclaimed. "Maybe, it's time for the western civilisation to pass on the torch. Persia did, Greece did, Rome did, Byzantium did, Spain did, Germany did, Britain and France did... Emperors gave way to feudal lords, lords lost their power to enlightened kings, who eventually had to give into democracy. Every system, every empire, eventually demised and none (with the exception of the Persian Sassanid empire in 400 AD) have come back from the dead. Maybe growth in the west is set to remain tepid because we don't have the tech tools to compete against better demographics and less demanding social contracts elsewhere. Maybe markets are really efficient and no one has a real edge, at least that's has been the experience so far. Maybe, we have destroyed the environment so much that we can only now hope for forgiveness from the future generations. Maybe, a "deus ex machina" redemption is not on the cards. Pulling a victory from the jaws of defeat makes a great story for Agincourt, but how many "Agincourts" in history were stories of glorious victory?"

My client looked at me perplexed.

"But that does not mean YOU have to suffer for it, David". I finally told him.

"How's that?"

"Well, I don't have an answer, but then again it's not my job to. THE answer may not exist, but YOUR answer might. This is really the job of financial planners. Barring a global catastrophe, our environment affects us but it does not have to define us. Yes, growth will be slow and markets may be efficient, but you can still make decent returns out of it anyway. And yes we have Japanised the global economy, but Japan is still a pretty good place to live in –and visit. And it remains eminently possible to prosper financially there."

Wealth, retirement and ultimately happiness, are a matter of individual choices, much more than they are a matter of the age we live in. Enter financial planners. People like me, economists and strategists, are the exciting research scientists. We create portfolios, we think the big ideas, we outline the environment. Ultimately however, we are happy delivering 5% real net returns per annum for a balanced portfolio. But financial planners are the "doctors". They see the whole patient and know how to use your whole wealth to create a better financial future for you. They are trained to juggle assets and make switches when times are different. They stand with the client on navigating the complexities of real wealth, while the likes of me are fixated on delivering returns.

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## THE CHALLENGE GOING FORWARD

Research shows that traditional asset managers are now turning to financial planning, understanding that wholesale solutions don't apply, only individual dynamic wealth, tax and inheritance plans. It makes sense. A 2005 paper outlines that clients often suffer from "mental accounting", the propensity to compartmentalise assets resulting in the inability to see their whole wealth. Because one's house is also a home, it has emotional value, it is very difficult to see it as a financial asset whose appreciation or depreciation might make a huge difference in one's life. Thus clients remain woefully undiversified. If specialists, like economists, need someone else to take a look at their finances, then it holds true that non-specialists also need the help. This is the real job of financial planners.

The challenge going forward will not be to beat efficient markets, a red herring as it turns out. The challenge for businesses will be to deliver true tailored advice at a greater scale, as more and more people realise that the "answer" they are looking for is individual, not systemic. Research suggests that younger generations might prefer robotic advice but it also indicates that larger portfolios need an individual human approach.

For the second year running, Mazars Financial Planning ranks in the top 5 of the FT's best financial planning firms.<sup>1</sup>

Joining it three years ago, coming from a banking environment I was worried. Knowing now where the real challenges lie, the real "so what" which is different for every client, I finally feel I've made the right choice.

So if you want to talk to us about the exciting developments in markets, or better still about your individual wealth planning don't hesitate to contact us. The team is there to help you.

<sup>1</sup><http://rankings.ft.com/ftadviser/rankings>

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