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In this issue: Test for happiness; fiduciary rule; disaster preparedness

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Have you done an A/B test lately?

A recent article in the Wall Street Journal by UCLA professor Shlomo Benartzi, “It’s Time to A/B Test Your Financial Life,” suggests that what we think we want may not actually be what we do want – and that it might be a good idea to use a tool used by the big tech companies, the A/B test, on our financial preferences before the long-term consequences of our assumptions have a profound effect upon our financial lives.

Here’s a simple example: many people assume that higher-priced, more luxurious items will give them more satisfaction than cheaper items. Research has shown that in one test wine tasters preferred the more expensive bottle when they were told the cost beforehand. When blind tasting, however, they gave the lower-cost bottle a higher score. Benartzi suggests A/B testing our choices in five important areas:

- 1.) Buying basic vs. luxury goods, as in the example above. Was the \$300 pair of shoes really three times better than the \$100 pair?
- 2.) Monitoring one’s portfolio more vs. less frequently. Will checking your portfolio daily enhance the likelihood of your achieving your long-term financial goals? Most likely, you’ll find that it hampers your ability to concentrate on the bigger picture.
- 3.) Retiring now vs. later. Take an extended vacation to golf, read, travel or do whatever you long to do when you stop working, and do it every day. Is it as satisfying or even more satisfying, or does it eventually become mundane?
- 4.) Spending more vs. less in retirement. The idea of having less income in retirement can lead pre-retirees to assume quality of life will suffer. Give it a road test by cutting your discretionary expenses for a month by 40% for one month, and 10% for another month. Evaluate how satisfied or unsatisfied you felt with both experiences. You may discover that you can live comfortably on less than you assumed.
- 5.) Spending on familiar vs. new experiences. Your favorite, or at least customary, place to vacation every year has been at the beach. What about trying a walking tour, a city abroad, or a learning vacation in a place you’ve always been intrigued by? Conversely, if your vacations have always been packed full of activity, try a quiet sojourn by the water with a few good books and see what happens.

As Dr. Benartzi concludes, “Americans are devoted to the pursuit of happiness. Unfortunately, research shows that many of us don’t actually know what makes us happy, so we end up pursuing the wrong things.” Try some of his A/B tests and find out what makes you happy.

Fiduciary rule dies

It may have seemed to some like a self-evident concept – that financial advisors should be bound ethically and legally to put their clients’ best interests first when advising them about their

retirement accounts – but when the Department of Labor introduced the “fiduciary rule” in April 2016, it roiled the financial industry, especially those financial advisors and brokers who are compensated by commissions and were worried about lower profit margins and the headaches associated with complying with the new regulations.

This past month, however, a federal appeals court [killed the rule](#). The silver lining to this cloud may be that it brought the fiduciary concept to the public’s attention. Investors might now be more motivated to conduct due diligence when selecting a financial advisor by learning about the differences between registered investment advisors and brokers, asking the advisor about how they are compensated, asking whether the advisor is a fiduciary and will attest to it in writing, and looking for transparent reporting of fees.

The Securities and Exchange Commission has taken up the gauntlet and is working on its own alternative version of the best-interest standard, but whether it will actually have any teeth in it remains to be seen. Some investment advisor groups, including the Institute for the Fiduciary Standard, are already issuing warnings that the proposed SEC language will confuse investors who will be led to conclude that brokers and advisors are for all purposes identical.

We are proud to say that at PFPG we won’t be doing anything differently than before, regardless of what iteration of the rule is adopted or not adopted. We have always operated as fiduciaries. However, for the sake of all American investors, we are very disappointed that the Department of Labor rule was overturned in court.

Be prepared

The Atlantic hurricane season started on June 1 and lasts through November 30. Are you prepared for a hurricane, or for any other natural or man-made disasters for that matter (e.g. fire, flood)?

You can begin by ensuring that there are working smoke detectors, carbon monoxide detectors and fire extinguishers installed in your home. Create an evacuation plan for your family to deploy in case of an emergency.

Prepare an emergency supply kit in a durable bag or backpack in case you need to evacuate. The American Red Cross has a “Be Red Cross Ready” [checklist](#) for a supply kit, and additional safety checklists on specialized topics such as flood safety, pet safety, fire prevention, and home heating.

Flood coverage is usually not part of a standard homeowner policy, which usually covers wind and rain damage from a hurricane, but not damage from hurricane floodwaters. The federal National Flood Insurance Program is about to lapse at the end of July and is subject to debate and an overhaul in Congress. Check out this article [“Hurricane Season Has Begun. Do You Need Flood Insurance?”](#) for further information.

Happy summer!



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