

BURNS INSIGHTS

STIFEL | Burns Investment Group

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Predictably Irrational

I recently watched a clip from Jerry Maguire of the iconic scene between Tom Cruise and Cuba Gooding Jr. Tom Cruise plays Jerry Maguire, a sports agent, who is dealing with a young but talented athlete, Rod Tidwell, played by Cuba Gooding Jr. Tidwell has very little impulse control and “wants it all.” Jerry is trying to negotiate a strong contract but is spending most of his time dealing with his client’s large ego. They have a conversation that goes like this:

Maguire: Help me, help you! HELP ME, HELP YOU! Help me, help you. Help me, help you.

Long Pause...

Tidwell: (Starts to laugh) You are hanging by a very thin thread. And I dig that about you!

It is a very funny scene, and one that I can relate to in my role as a financial advisor. I think I spend most of my time managing investors’ expectations and trying to understand what emotions may be affecting our clients’ psyche at any one time. But no matter my intention of wanting what is in my clients’ best interests, sometimes I am not always successful in my helping clients to the level I’d like.

In my recent readings, I twice came across the term “predictably irrational.” The first is a book, *Predictably Irrational: The Hidden Forces That Shape Our Decisions*. It is a 2008 book by Dan Ariely, in which he challenges readers’ assumptions about making decisions based on rational thought. I saw the term again when reading about economist Richard Thaler, who was awarded the Nobel Memorial Prize in 2017 in Economic Sciences for “his contributions to behavioral economics and his pioneering work in establishing that people are predictably irrational in ways that defy economic theory.”

We humans want to be rational, emotional, social, cultural, and spiritual beings all at the same time. It’s in our nature to possess all of these attributes. However, we are also all part of the human condition. We are all subject to life’s trials and tribulations, as well as life’s celebrations and rewards. All of us come into this world, and we will all depart from it. We celebrate beginnings, such as the birth of a child or a wedding; and we mourn losses, such as the death of loved one. We need the tribulations in order to hone our humanity and increase our appreciation for what we have. No matter how we try, we cannot get away from being human.

There is no getting away from facing challenges where our emotions can get the better of us. It often happens at times of great change, such as losing a spouse, retirement, job change, or divorce; or from a sudden net-worth event, like selling a business or receiving an inheritance. These changes to our environment will likely put us in a position to make “predictably irrational” decisions.

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Continued on back...

Predictably Irrational *(continued)*

In 1997, I came up with Burns Investment Group's overriding investment philosophy of the Successful Investor Mindset — with the two main tenets being “logic over emotion” and “structure over prediction.” The “logic over emotion” part reminds me of the flipside to “predictably irrational.” We strive daily to have our clients use their brains more than their heart and stomach. Our experience has shown that when it comes to investing, better outcomes usually result from learned and experienced decisions.

Don't get me wrong. I am not saying not to have feelings. It is very reasonable to have strong emotions during high-stressed periods. There would be something wrong with you if you weren't affected by the world around you. But another good part of being human is that we can learn from our mistakes. Even better, we can learn from others, such as parents, mentors, teachers, or your financial advisors.

Please know that our team is there for you always. We feel that we provide our greatest value when we can be your advocate when confronted with one of life's challenges. We will always strive to be predictably logical, but we need to ask of you: “Help us, help you.”

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Noah's Corner



Plan for the Probable

There is an adage that states, “hope for the best, but plan for the worst.” This is a little pessimistic for my taste, so what I like to say is “hope for the best, but plan for the probable.” With social security reserves starting to deplete this year, it's time to start asking the following question: what is social security likely to look like when I retire?

The answer to the question is largely dependent on how old you are. Due to our political environment, I'd say that if you're already drawing on social security, then your benefits are unlikely to be affected. In my opinion, if a politician seriously suggested cutting social security benefits for those already receiving them, then he or she would be voluntarily shortening their career.

However, if you're still in the accumulation period of your financial life, I recommend erring on the side of saving more. Unfortunately, this is not a fun solution and often involves taking a voluntary salary decrease by increasing your monthly savings in and out of retirement accounts. Also consider having a financial plan prepared through the Burns Investment Group to see if you're saving enough and how reliable your retirement savings will be.

If you're in my generation, your circumstances are less predictable. As the world and our circumstances change, our retirement assumptions must do the same. I recommend you plan to live longer, get taxed more, work past 65, and receive smaller social security checks. All of these are likely, but the situation doesn't have to be dire. Don't let yourself get overwhelmed, as there is time to make adjustments. Take baby steps, like using your employer's 401(k) match, living below your means to increase savings and decrease debt, and investing prudently with a long-term outlook. Lastly, remain positive! With the proper tools and guidance, your retirement *is* possible, and the Burns Investment Group would be happy to help you work toward the retirement you envision.

We Care

Our team's core value is “life is about experiences and relationships.” We truly want to build lasting, joyful relationships with our clients, their families, and their trusted advisors. Our commitment is to continue to look for ways to enhance every single one of our relationships. Thank you for allowing us to be your entire family's go-to resource for personal finance questions. I know in my heart that I want to be in this business for decades to come, and it's our relationships with all of you that make it so worthwhile. Thank you for your trust.