ENTER MINDFUL-NESS

MONEY ADVICE IN UNCERTAIN TIMES

Jonathan K. DeYoe, AIF and CPWA

To say there is no shortage of information available to folks seeking to increase their financial intelligence would be a gross understatement.

Google terms such as “saving for retirement,” “investing,” or “the stock market,” and you’re immediately buried by an avalanche of results. But how helpful are all those articles about the retirement income crises? What exactly is a fiduciary? Who is the DOL again? And why should we care? Which hot stock of the thousands being recommended by a hundred pundits will make us richer quicker? Is it just plain crazy to pay a fee for financial advice, or essential? Where is the next big economic catastrophe going to hit? Since the world is going to hell, should we ditch the market and bury our cash in the backyard? How can anyone navigate their way to anything truly helpful through so much flotsam & jetsam?

Although we now have unparalleled access to an unfathomable amount of data, little on the internet or airwaves improves real outcomes for real people in real life. Many of us are more confused, anxious, and scared than ever about our financial futures—even when we don't need to be. According to a recent CNN/ORC poll, the majority of Americans believed that the United States was still in a recession in early 2016, despite the fact that we've been out of recession for over half a decade. For the first time in our history, a 2013 Pew Research Center survey found that most Americans are convinced their children will be worse off than they have been at similar points in their lives. And 47% of us would not be able to come-up with $400 in an emergency, a fact laid bare by Neal Gabler's article, "The Secret Shame of Middle-Class Americans," in the May 2016 issue of *Atlantic Monthly*.

Pundits talk, bloggers blog, regulators write new rules, and financial firms create new products, while ordinary folks get more and more terrified and less and less ahead. Something in our approach to personal finance must shift. The search outside ourselves for answers is getting us nowhere. We're drowning in a salty sea of information without a single drop of clear common sense. What we need is not more *financial* intelligence. What we need is *emotional* intelligence. What we need is mindfulness.

I know that the whole notion of being mindful about money sounds a little hokey. Believe me, as a Buddhist practitioner of some twenty years, I have a visceral response to "mindfulness" being recommended everywhere, to everyone, all the time, as a cure-all for anything and everything. Mindfulness is linked in my mind to the four noble truths and eight fold path that teaches restraint, cultivation, and practices that stop craving, halt karmic accumulations, and ultimately lead to "enlightenment." It demands hours of meditation and quiet reflection. Yet, I accept that our version of "mindfulness" in the United States is far more secular than my Buddhist Studies professors taught me, and can alter lives just as profoundly.

As a financial professional and practicing Buddhist, I'm convinced that the practice of mindfulness is a simple solution offering far better financial outcomes for real people than an internet search ever will. I believe now is the time to embrace mindfulness as a powerful tool for improving our relationship with money.

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Mindfulness is not a gimmick that will attract dollars into your life. It doesn't work like vision boarding, and it will not unveil "the secret" to financial success. Instead, it is a clearing of the deck to remove beliefs and behaviors that cause problems, so we can quit seeking things we don't need (or even want) and focus on behaving appropriately and practically with money.

Most definitions of mindfulness describe a moment-by-moment awareness of both the sensory inputs coming from the world around us *and* our internal thoughts and feelings about those inputs. Many definitions also include the acceptance of reality and a non-judgmental awareness of our senses, thoughts, and feelings.

In our lives, especially around the area of money, it is often the *misunderstanding* of reality, rather than anything that is actually happening, that causes us harm. Many times our vision of reality is clouded by how we WISH it was or BELIEVE it to be. When we pay attention to our experiences without judging them as "good" or "bad," we are able to see the present moment more clearly and avoid making the big mistakes that derail most people.

That said, all the great Western philosophers—Descartes, Locke, Kant, Berkeley, Hume, and Heidegger—acknowledged that we infer reality from our senses, so we cannot truly know what exists outside of the sensory filters our body provides. What we consider "knowledge" is just a general social agreement on how we comprehend and communicate about the world around us. In other words, we cannot be certain of anything outside of what we experience.

A humbling thought, but this limitation has never stopped us from making judgements that we cannot possibly know are true or having knee-jerk reactions that are easily proven false if we look a little closer. Practicing mindfulness is a way of deliberately concentrating our thoughts on what we are sensing in the present moment, rather than misinterpreting those sensations as a perfect grasp of reality or judging them based on prior experience or some imagined future.

After years of practicing meditation, I have learned that I have no idea where my thoughts will lead and very little control over what my brain decides to dredge up from my unconscious. I don't control what it shows me, but I *can* control what I pay attention to. Understanding that the brain is designed to secrete random thoughts into our stream of consciousness affords us the opportunity to recognize and attend to those thoughts or let them go. This understanding can prove pivotal when applied to personal finance in general and investing specifically. The fact that every ounce of your being is screaming "You need to flee the stock market when things turn volatile," does not mean you have to listen.

Mindfulness is not just a technique for squelching the-fight-or-flight-response during difficult market environments. In fact, investing is not the place where the average citizen screws up their finances. Remember those 47% of Americans in the "Secret Shame" article who lack sufficient savings to weather a $400 emergency? These folks are not investors and their personal anxiety about financial markets is not the issue.

Their issue begins long before they get around to investing. It begins when they make their first financial decisions: when they consider a degree program at college, when they get their first paying job, when they first prioritize spending over saving, or when they get their first credit card and subscribe to Amazon Prime, giving them access to immediate gratification like no generation before us has ever experienced. Their issue, in short, is spending more than they earn, which has become incredibly easy to do.

Today, armed only with my cell phone, I can get almost anything I can imagine delivered to my door in just under twenty-four hours. With an Amazon Echo, even five-year olds can pull this off. Technology has turned the immediate gratification of retail therapy into a bazooka aimed squarely at our individual and collective financial futures.

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This desire for immediate gratification is just the beginning. Our whole society unconsciously subscribes to a series of collective beliefs poised to fall into one another like dominoes and topple our financial lives. By carefully repositioning ourselves and being mindful whenever these collective beliefs are about to catapult us into a big financial mistake; we can avoid the mistake, improve our relationship with money, and achieve better financial outcomes.

Here is how I see the “dominoes” falling:

1. We have a tendency to believe that markets and the economies surrounding them are fragile, unstable, and vulnerable. We have no sense of history, so we think that current economic, political, and market events are likely to bring about our financial demise.

2. This mistaken belief in the fragility of markets and economies causes us to spend far too much time, effort, and energy on today’s financial headlines. Our focus turns away from the saving and earning we must all do to reach our financial goals, and even farther away from what truly makes us feel productive and happy in the long-run. Instead we focus on THIS election, THIS Fed meeting, THIS earnings report, and THIS war because we believe they may bring the END of days.

3. This short-term headline focus (rather than a long-term history focus) causes us to believe that all market VOLATILITY = HUGE RISK that can and should be avoided at all costs, rather than accepting volatility as the evolution of the markets.

4. Since we misguidedly believe that volatility will destroy us if we're not careful, we scour the internet to determine the "best" financial advice for managing and protecting our nest egg. We would rather believe some guru can offer us a magic investment bullet than accept the research that shows this pursuit to be folly.

5. This mistaken belief that the right investment approach will make or break us leads to the even more mistaken belief that our portfolio and, even worse, its short-term performance are the dominant variables in our financial success. When our portfolio doesn't perform to our unrealistic expectations, we change it. But every time we change our portfolios, we get further and further away from our desired outcomes and spend more and more time trapped in our mistaken beliefs.

Once the dominoes start falling, the chain reaction keeps going, unless we make a conscious decision to step out of line. We either waste huge amounts of time reacting to pointless headlines or we bail on the whole "risky" idea of saving and investing, convinced that the entire world economy is headed for collapse. We start thinking that the short-term zigs and zags around the market's fairly steady historical trendline are more important than the trendline itself. And we forget that this trendline is supported by the wants and needs of a growing number of people on our planet who are living longer and coming into greater means than at any time in history. Frustrated by our inability to get ahead with our investments, we jump from market outlook to market outlook. We don't trust ourselves, but we blame the markets, the economy, pundits, or politicians for our financial failures. We focus on buying the "right" things at the right time, and selling them at the right time, which isn't even possible.

We take all this action, get nowhere, and repeat the whole sorry process until we have had "enough." This cycle is horribly destructive and completely pointless because nothing could be further from the reality of what actually makes personal finance work.

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No matter what you believe, the reality is:

1. Markets are DURABLE.

2. Daily headlines are MEANINGLESS.

3. VOLATILITY ≠ RISK. Markets zig and zag. That's just what they do. Human Reactions = Risk. We get excited by the Zig and panicked by the Zag, which doesn't serve us. Emotional intelligence is far more important than market intelligence.

4. You DO NOT need a pundit or a short-term market outlook. You need a long-term investment philosophy that you follow religiously.

5. YOUR BEHAVIOR is the single greatest determining factor of your financial success. Earn more, spend less, save and invest as much as possible, and PLAN where you want to go. If you make a solid plan and follow your plan, you WILL realize your financial goals. No portfolio or market outlook can make that promise.

Here's where mindfulness comes into play, helping you bridge the sometimes huge distance between what you believe and reality. The best starting point is a non-judgmental moment-by-moment awareness of your senses, thoughts, and feelings as you consciously walk along the path towards a more secure financial future.

Mindfulness of **Context** (Viewing This Moment in the Context of History)

When my grandmother was born in 1920, the S&P 500 was at 7.6; earned $.84, and paid a $.52 dividend.

When my father was born in 1942, the S&P 500 was at 8.33, earned almost $1, and paid a $.66 dividend.

When I was born in 1971, the S&P 500 was at 92.78, earned $5.61, and paid a $3.08 dividend.

When my son was born in 2004, the S&P 500 was at 1117.21, earned $58.03, and paid a $19.25 dividend.

At the end of 2016, the S&P 500 was at 2160; earned $95.98, and paid a $45 dividend.

As I write these words, companies' sales, revenues, earnings, and dividends are knocking the ball out of the park. Average family wealth levels are at all-time highs in the United States and developed world, the global middle class is larger than it has ever been, and more people are working today than ever before. This is my historical context: my story, my big picture, my forest.

Still, I know that an average year will give us a market decline of about 15% at some point. On average, one year out of five will give us a market decline of two-to-three times that amount. Two of those every-five-year-type events were the dot com blowout and the Great Recession, which both tipped the "loss" scales at over 50% a piece.

I also know that North Korea will rattle their sabers, Russia will spy on somebody, a European country will need a bailout, an American industry will be caught in unforgivable sins, a politician will show his private parts inappropriately, China will do something with their currency, the Fed will talk about rates, someone will declare war, the American middle class will suffer, and GDP growth will be grindingly slow. We may even elect a buffoon as President. All of which seems critical in the moment, almost none of which will prove a big deal in the long-term. They are just punctuation marks and transitional sentences in my story. Disposable frames in my picture. Trees.

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A non-judgmental awareness of the present moment in context acknowledges what is happening without ascribing either excited or fearful meaning to it. We recognize that right now, in this moment (which may be years in duration), a difficult thing is occurring, but we are mindful that this moment is not the whole story. Difficult things happen, and then they pass. Many difficult things have already happened, and the market marched on to new highs shortly thereafter. This difficulty too shall pass. The myriad potential changes in the short term do nothing to affect the long-term picture. The forest doesn't mourn the loss of a single tree.

Mindfulness of the **Limitations of Our Knowledge** (Admitting We Can't Know the Future)

Sometimes, a small fraction of the investable universe starts getting lots of investor and media attention. Often a new technology (like the internet or fracking) or a new investment product (like the CDO—Collateralized Debt Obligation) captures the collective imagination. The growing attention attracts investors' dollars and folks begin overpaying a little at first, and eventually overpaying a lot. The more folks are willing to overpay, the better these companies and their investors (often our neighbor or brother-in-law) appear to be doing, based on stock price alone.

Our attention is then drawn to the huge returns our brother-in-law's portfolio is experiencing that our own diversified portfolio is *not* experiencing. Feelings of jealousy and missing out move us to sell the holdings in our portfolio that have not been working lately and buy whatever appears to be making our brother-in-law rich. In hindsight, we can see how well this strategy works:

- The internet stock boom led to a dot.com bust
- The CDO led to the Great Recession
- Fracking led to a massive oil glut in the United States, decimation of the energy sector, global turmoil, a United States earnings recession, and untold environmental damage.

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On the flip side, we may not be motivated by greed at all. We may be losing money, or fear losing money, and decide to sell our current portfolio to “protect” ourselves from this possibility, which does not work any better. There is no escaping these six fundamental investing truths:

1. We will experience both greed and fear when we invest.
2. The reality is that markets are inherently unpredictable.
3. This unpredictability doesn’t stop anyone from trying to predict them.
4. Some of those who try will get it, be right, and scream it from rooftops
5. No one can know in advance which predictions will be right because the future of markets is inherently unpredictable. Those who do get it right are lucky; not skillful.
6. Most Important of all: YOU DON’T NEED TO GET IT RIGHT TO BE SUCCESSFUL.

A non-judgmental awareness of our limitations allows us to separate our diversified portfolio’s relative short-term performance from our belief that we are doing something wrong. The siren song of outperformance is always incredibly attractive, until we crash on the rocks.

Mindfulness that **Risk & Volatility are NOT the Same Thing** (Not Even Close)

Wall Street and the Financial Media have hoodwinked investors into believing that the inevitable up and down movement of investments is the definition of risk. But this up and down movement is actually volatility, and short term volatility is totally natural.

These professional salespeople, who don't know you, your life partner, or your life plans, have created an ever-changing risk for you to worry about that has nothing whatsoever to do with you achieving your life goals. Here is the kicker: the investments that they deem risky—shares of stock/equities—are arguably the BEST vehicle for reaching your long-term financial goals, even though they are more volatile in the short run. Another travesty: those low earning CDs/Bonds they steer you towards for "safety" may offer short term stability and predictability, but they are often the WORST method for reaching your long-term goals, after you factor in inflation. By convincing us that volatility = risk, they have us marching en masse to our financial demise, as we invest to protect ourselves from something most of us need to get where we want to go.

The only way volatility = risk, is if we add human error to the equation. Volatility + Human Error = risk. When we forget that markets are durable in the long-run and unpredictable in the short-run, or over-react to wacky self-serving headlines, we may lose our heads and change our investment behavior in a way that puts our long-term outcomes at risk.

A non-judgmental awareness of "volatility" begins with a trust in the future, includes a passive reading of headlines, and ends with an acceptance of volatility as a natural phenomenon of markets. We cannot receive the joys of long-term performance without the pain of short-term volatility. The reality is the stock market zigs and zags. And it is precisely because of this zig and zag that we can get greater returns by investing in equities. If we want the greater return, we must WANT (or at least accept) the zig AND the zag. We can have it no other way.

Mindfulness of the **Evidence** (We Need an Investment Philosophy NOT a Market Outlook)

So, if markets are durable, headlines aren't helpful, and volatility isn't the same thing as risk, how should we approach investing? We are so conditioned to believe that the right market outlook will improve our outcomes that it can be hard for us to accept that something as simple as evidence-based investing works better. But there are numerous academic studies of long-term investment returns and how to get them, and short-term market outlooks are not the answer.

Evidence indicates that markets efficiently compensate us for broad diversification. In other words, embracing the investment philosophy of owning the whole market, instead of using market outlooks to help us cherry pick individual companies, sectors, or indices, like the S&P 500, tends to work better for investors. When we buy a single company, index, or specific industry stock, we take the risk that something bad (or amazing) will happen to that specific investment. A portfolio with a limited number of holdings will act differently than the broad market (for better or worse,) based on the individual happenings in that company or industry.

When we widen our focus to own the entire market (broad diversification), we diversify away these specific company risks. Owning a little bit of everything improves the odds of holding the best performing companies. Widening our focus also leaves us with a large sample size of companies that we can own, so no one company has a major negative impact on our returns.

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Evidence also indicates that owners will earn more over the long-term than lenders. Owners invest their money and receive a share of current business profits and future growth. Lenders invest and receive a fixed return on their money until their principal is returned at a future point in time. Throughout time, owners have compounded their invested dollars at multiples of what lenders have received. But in order to achieve those superior returns, they've suffered "volatility." Notice I did NOT say "risk." Lenders have received their interest payments and their principal back at maturity. Both expect an adequate return for the terms and risk of their investment.

The fact that owners have done better (over long periods of time) than lenders is so well known, it even has a name—"the equity risk premium." We get paid more for taking more risk.

Still want more evidence? Mountains of academic research has been conducted to identify other persistent sources of premium. Thousands of potential sources have been evaluated, but only three additional sources of premium have been confirmed and re-confirmed. Each of these three sources has been shown to provide a statistically significant return premium in markets around the world and across different time periods over long (twenty-plus years) periods. They are:

1. **Small Company Premium**—small companies have more room to grow
2. **Value Premium**—buying solid companies on sale works
3. **Profitability Premium**—a healthy bottom line is good for investors

A non-judgmental awareness of the investment evidence helps you avoid big time sucks like researching market outlooks. It also keeps you focused on the things you can control that can actually add portfolio value over time, like embracing the investment philosophy of broad market diversification. It is beautiful in its simplicity. It is easy to deploy. And, while nothing works over every time period, evidence indicates that it works reliably well over long periods of time.

Mindfulness of **What Gives Your Life Meaning** (Make a PLAN and Stick to It.)

Despite all this talk about investing, the most important thing you can do for your financial future is create a written financial plan and stick to it. But before you can take that crucial step, you need to figure out who you are and what matters most to you.

I discuss the eight pillars of happiness in my work. These pillars represent just eight of the things research has suggested make us happy and lead to a “meaningful life,” which is the ultimate goal for most folks I know. You need to figure out what makes you tick. If you strip everything away, what will make you happy? When you look back on your life from your deathbed, what will have made it meaningful? Until you know what you value most, you can’t begin to plan or consider the trade-offs we must all make.

Unfortunately, it is all too easy to skip this crucial step and follow the crowd, do what you are told, and live someone else's version of the dream. While you may be happy enough, you will never find that place of deep fulfillment and gratitude for a life well-lived without thinking about it first.

Once you know what the life you want looks like, you can begin taking concrete steps to realize your vision. Your plan becomes your guiding light, helping you travel from here to the future you envision for yourself. It literally pulls you through the darkness. When your spouse loses a job, or your eldest son gets injured, or one of your parents dies, these life challenges won't destroy you. They are just things that happen to you on the path, as they happen to us all. Nonetheless, during your darkest days, it can be easy to give up on your long-term dreams, unless you mindfully return your focus to your plan.

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A plan encompasses your deepest beliefs about what you want to be in the world, what you want to build in the world, and what you want to change in the world. It defines the people and principles you want to sustain and the legacy you want to leave. Mapping out the specific steps you need to take to live a successful life full of happiness and meaning helps you adjust your behavior when you find yourself straying off the path, during good times as well as bad. But a plan is not just a beacon in the darkness. It also serves as our operational guidelines for life. For example:

> *I want to work this many hours, continue learning and advancing in my profession, make this much money, save this much money, and live this way. When my kids are born, I am going to support them this way, and when my parents get ill, I can support them this way. And when all my other life milestones have been met, if I do it right, I will have an income stream in retirement that I can never outlive and I will leave a legacy at my death that will support my family for generations to come and/or sustain the non-profits I supported during my lifetime so that they can continue their lifesaving work.*

Finally, a plan is a touchstone you can return to again and again. When you momentarily lose your faith in the durability of markets, you can review what your plan says you need to do. When you are distracted by today's ominous headlines, your plan will help you clear your head. When you confuse today's market volatility with risk that you must steer clear of at all costs, you can look to your plan for calm reassurance. When your friend, neighbor, or father proclaim that they have found a new market outlook, you will remember the carefully constructed investment philosophy in your plan and stay the course.

Financially successful people ACT based on their plan. They do not REACT when markets act-up. They have considered the knowable long-term investment results and consciously choose to behave as their plan dictates in the face of unknowable short-term volatility, fear, and greed. Are you ready to be financially successful? Quit looking outside yourself for the answers, take personal responsibility, and BEHAVE your way to financial success. **Let mindfulness—the calm, non-judgmental awareness and acceptance of whatever is occurring in the present moment—be your guide.**

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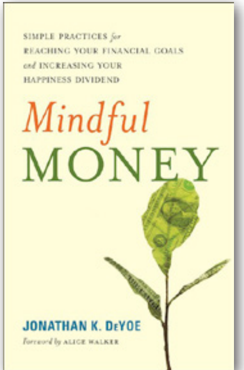

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ABOUT THE AUTHOR | Jonathan K. DeYoe, AIF and CPWA, is the founder and president of DeYoe Wealth Management in Berkeley, California, and blogs at the Happiness Dividend Blog. Financial planning and investment advisory services offered through DeYoe Wealth Management, Inc., a registered investment adviser.

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