The Aspirational Investor

MJK Finvestment
Simplicity Trumps Complexity

Book summary 2019-2020

This book offers an entirely new approach to managing wealth—one based not on the markets but on achieving personal goals and carefully managing risks. The primary focus is around defining your personal objectives and then optimizing your financial assets and your human capital, or earning potential, around those objectives. Since none of us can predict the future, successful investing requires planning and discipline.

The author discusses several pitfalls that investors face. Too mention a few, *concentration* and *leverage* are the biggest mistakes in finance theory. This was felt in 2008 how excess leverage led to global crisis. Due to expansive and speedy availability of information and analysis investors have frequently become victim to *behavioral* pitfalls. Speedy technology and easy availability in information, *right or wrong*, serves to alternately entertain and confuse, amplifying the noise and adding barrier to sound financial decision making.

An organized financial plan that incorporates personal goals and carefully managed risks is a must. Exposing your entire net worth to the risk from financial markets in a quest for outsized returns is hardly a sensible strategy for achieving what is important in your life. Pensions and defined-benefit plans seem headed for extinction, healthcare costs continue to skyrocket, and the future of Social Security benefits in their current form is in doubt.

An investor may be tempted to withdraw money from his portfolio given the demands on your portfolio increases over time, yet you must be able to sustain your living standard and meet your financial obligations throughout your lifetime and likely long retirement, regardless of prevailing market conditions. The book does not focus on or mentions anywhere that an investor must solely invest into risk-free assets and protect capital. Rather it discusses, whether it's launching a new business, holding on to a large, single-stock position, or investing in a promising project, there should be a place in your portfolio to pursue your aspirational ventures without jeopardizing your financial security.

The author presents a Wealth Allocation Framework to accommodate the three seemingly incompatible objectives that should underpin every wealth management plan.

1) The first is the need for financial security in the face of known and unknowable risks.
2) The second is the need to maintain your living standard in the face of inflation and longevity.

3) Third, but not last, is the need to pursue aspirational goals, be it for personal wealth creation, to create positive impact, or to leave a legacy.

The three areas explored by the author include:

- People: Examines the role of individuals, who are often their own worst enemies when it comes to investing wisely.
- Markets: Tackles the volatile history of financial markets, which, contrary to popular belief, are often unstable even over long time periods, especially the most important one: a human lifetime.
- Wealth: Reviews some surprising facts about how some people become very wealthy.

People

"Investors are their own worst enemies"

The unfortunate truth is this: whether it comes to mutual fund investing or buying and selling stocks, individual investors have a propensity to make frequent, ill-timed, and costly trading decisions. Investors are their own worst enemies.

Amid the perennial debate between the efficient markets camp and active management proponents—an important one, no doubt—a fundamental idea has gotten lost: investing should not be about "beating the market" but rather about achieving your goals with a reasonable degree of certainty. The Wealth Allocation Framework can help you refocus your investing activities on more practical and productive outcomes.

To understand the power of the approach, let's first explore why it is the case that so many investors, despite their best intentions, end up going so far astray when they hitch their fortunes to the financial markets.

The author describes the herd mentality in the markets while comparing how a buffalo will try to stay with the herd in order to minimize its individual vulnerability to predators, investors tend to feel safer and more confident investing alongside equally bullish investors in a rising market, and we tend to sell when everyone around us is doing the same. Even the so-called smart money falls prey to a herd mentality.

Booms and busts are characteristic of all financial markets, regardless of size, location, or even the era in which they exist. Even though the role of instinct and human emotions in driving speculative bubbles has been well documented in popular books, newspapers, and magazines for hundreds of years, these factors were virtually ignored in conventional financial and economic models.

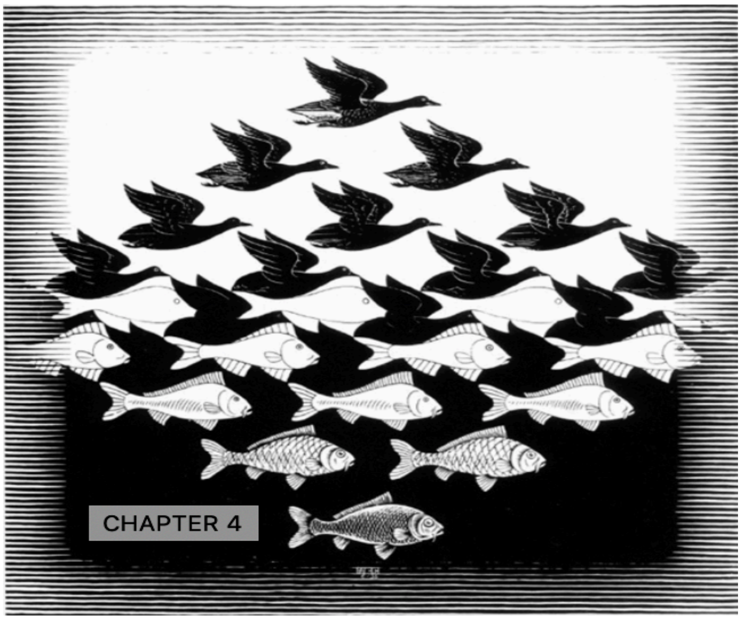
Behavioral finance and neuroeconomics are relatively new fields of study that seek to identify and understand human behavior and decision making with regard to choices involving trade-offs between risk and reward. Of particular interest are the human biases that prevent individuals from making fully rational financial decisions in the face of uncertainty. *Loss aversion* to investors' tendency to hold losing investments too long and to sell winners too soon. They called this bias the disposition effect. *Overconfidence* causes investors to hold concentrated portfolios and to trade excessively, behaviors that can destroy wealth. The *illusion of control* causes investors to overestimate the probability of success and underestimate risk because of familiarity. *Cognitive dissonance* causes us to ignore evidence that is contrary to our opinions, leading to myopic investing behavior.

The *representativeness bias* leads investors to assess risk and return based on superficial characteristics—for example, by assuming that shares of companies that make products you like are good investments. *Framing* can cause investors to make a decision based on how the question is worded and the choices presented. *Anchoring* often leads investors to unconsciously create a reference point, say for securities prices, and then adjust decisions or expectations with respect to that anchor. This bias might impede your ability to sell a losing stock. *Endowment bias* might lead you to overvalue a stock that you own and thus hold on to the position too long. And *regret aversion* may lead you to avoid taking a tough action for fear that it will turn out badly. This can lead to decision paralysis in the wake of a market crash, even though, statistically, it is a good buying opportunity. Behavioral finance treats biases as mistakes that, in academic parlance, prevent investors from thinking "rationally" and cause them to hold "suboptimal" portfolios.

A disciplined process for managing risk in relation to a clear set of goals will enable you to use the insights offered by behavioral finance to your advantage, rather than fall prey to the common pitfalls.

Markets

The twentieth century saw famine and hyperinflation, genocide, communism and fascism, two world wars, and a nuclear-tinged cold war. While it is impossible to predict with any degree of certainty what financial markets will deliver over the next hundred years, we can review how they have performed over the previous century and look for some important clues. A dollar invested in the US stock market in 1900 would be worth $862 today, even after accounting for inflation. That statistic speaks for itself.



As your eye scans it from top to bottom, the picture seamlessly transforms from a flock of birds in the sky into a school of fish in the sea, much as the news headlines can turn a raging bull market into a bear market. Such complexities make bubbles exceedingly difficult (if not impossible) to recognize during their formative stage, even harder to avoid as they gather strength, and often simply too dangerous to fight at their peak.

Some scholars contend that bubbles develop not just because of investors' animal spirits but rather because of the speculative uncertainty about future productivity that exists in the midst of a technological revolution (and that can be recognized as folly only after the fact).

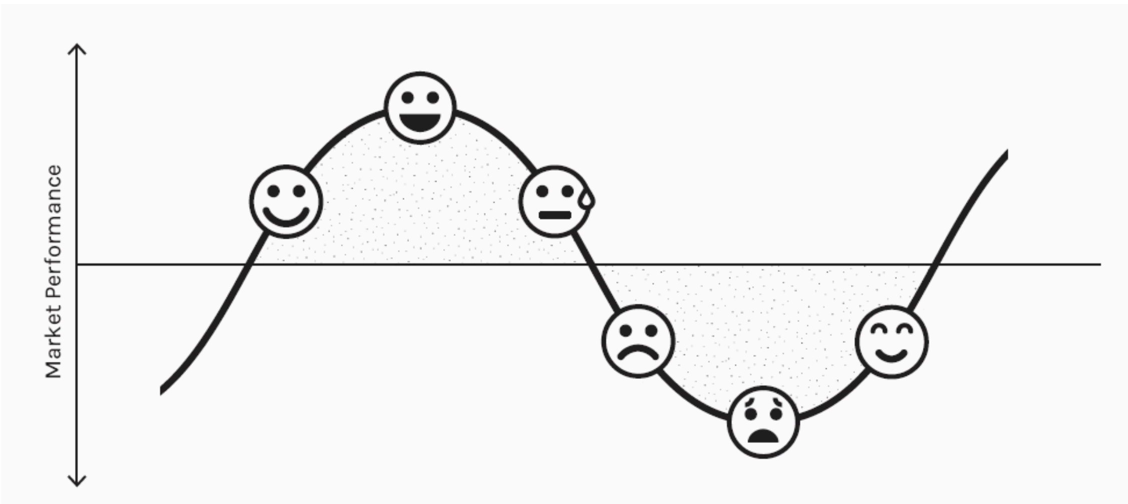
Today when we look at the current valuations of several social networking ventures, the word bubble is ever present in one's mind. As the networking economy comes into its own, one can depend on the infectious optimism of entrepreneurs, the well-oiled machines of Silicon

Valley and Wall Street, and hungry investors with dollar signs in their eyes to create a new set of sky-high valuations. Which of these companies will pan out to become the next Google, Amazon, or Facebook, and which of these will become the next great idea with bad execution or just bad luck, remains the multibillion-dollar question.

With any speculative bubble, the aftermath is devastating: those who make money in the early stages are often different from those who join in the speculation late in the game—and lose everything.

Consider how behavioral traps come together to fuel a mania.

In an initial phase, investors make mistakes in forecasting demand for the underlying technology or innovation by simply extrapolating the current situation (rising demand) into the future rather than thinking about how markets and people actually adjust to increasing prices. As increasing numbers of investors participate in the mania, everyone derives a false sense of confidence. It must be OK if everyone is doing it! This is often accompanied by a fear of being left behind. Indeed, while the bubble is inflating, such herd behavior protects those who move with the crowd and often punishes those who don't.



The greater fool's syndrome, a scenario in which buyers (the fools) purchase assets at increasingly absurd prices, convinced that they will be able to sell them later to others (the greater fools) at a tidy profit. The greater fool's syndrome is related to a behavioral bias known as illusory superiority, which describes investors' mistaken belief that they are smarter than the average investor and will be able to cash out before the bubble bursts.

To be successful in the pursuit of high-return opportunities that yield great wealth, you must frame your goals and constrain the potential risk so that you aren't pursuing your aspirations at the expense of your overall financial security.

With a disciplined process around risk allocation in place, you can improve your odds of participating in the wealth-creating potential of innovation and entrepreneurship while at the same time lowering the risk of succumbing to the wealth-destroying bubbles and manias that have afflicted investors for centuries.

Wealth

According to a recent report that carefully sources the world's roughly $241 trillion in total wealth, the richest 1 percent of adults control 46 percent of global assets and the richest 10 percent control 86 percent. The bottom 50 percent hold less than 1 percent of the wealth.

Even in America, a country whose founding mythology promises a shot at success and fortune to anyone who works hard, there is still a deep asymmetry between the sweat that it takes to build wealth and the ease with which it can all be lost. Even in one of the richest countries on earth—a country, not incidentally, with few social safety nets—money is hard to come by for most families, and even harder to hang on to.

The central lessons are clear: whatever degree of wealth you possess, you need a strategy that enables you to preserve what you have, regardless of the performance of the economy or financial markets. You must also maintain your standing on the wealth spectrum, by keeping pace with inflation and earning a return on your financial assets that is at least equivalent to the broader market return. And finally, if your aspirations include moving up the wealth spectrum or creating a lasting impact, you should be able to pursue your dreams without jeopardizing your financial safety.

Unfortunately, it is in the context of wealth creation that many investors falter. That's because the allure of creating substantial wealth leads even those with the best of intentions down a path of highly questionable investment decisions.

What do the investment strategies that yield great wealth have in common?

The point is that the super-rich did not earn their wealth by building conventional portfolios based on the principles of asset allocation and diversification. In fact, they did just the opposite. All four primary sources of wealth creation represented in the Forbes 400 involve "idiosyncratic risk"—the kind of risk that, according to the tenets of modern portfolio theory, "rational" investors can and should eliminate by diversification. Yet most of the people on the list believed, and still believe, that focusing on what they know best is the least risky strategy.

The strategies for making wealth and keeping wealth are not necessarily one and the same

Eight risk factors:

- Leverage
- Excessive spending
- Taxes
- Family dynamics
- Liability
- Currency
- Government action
- Concentration

If all the wealth in the Forbes 400 had been allocated to US Treasury bills in 1982, for example, every individual would have fallen off the list by 2003, based on the rate of return on US government debt. Thus to both preserve assets and grow wealth, it is imperative to shift from strategies built on concentration and leverage to a diversified portfolio of risks. As individuals and families move from wealth creation to wealth preservation, they must shift the types of risks that they take.

How much money do I need?

Most people make two mistakes when thinking about retirement: they usually overestimate how much money they need to be happy, and they usually underestimate how much money they will need in order to sustain their current standard of living in the future.

Equities should and historically have delivered positive real return, when averaged over long periods of time. But in the long run, as economist John Maynard Keynes famously said, we're all dead. If your standard of living is dependent on the future performance of the stock market, then you must be able to absorb extreme losses and survive the stretches of time when there are no returns at all.

What you really need is a framework to achieve your essential goals no matter what the market does: one that at least minimizes the impact of year-to-year market fluctuations on your probability of success. Using such a framework, the key to providing a satisfying answer to the question "Am I on track?" rests not on the unpredictability of financial markets but rather on how effectively you identify, prioritize, and quantify your goals and adapt your investment strategy appropriately along the way.

Maslow’s pyramid spans five categories that can be boiled down to three essentials: the need for food, shelter, and safety, that is, basic requirements for survival; the need for family, friendship, and intimacy, which creates a sense of belonging, love, and acceptance; and, at the top of the pyramid, a need for self-esteem and “self-actualization,” defined as the ability to pursue your interests, which may include charity and service to others.

ESSENTIAL GOALS:

- Safety and shelter: the certainty of protection from anxiety or poverty. Risks include loss of employment, health issues, loss of life (as a risk to other family members), accidents, and so on.
- In order to meet your essential goals, you must construct a safety net that protects you from the variety of risks listed above, including extreme market volatility.

IMPORTANT GOALS:

- Thriving within a peer group: this enables and facilitates the process of nurturing and supporting those who are important to you, including a spouse, your family, and peers.

- In order to meet your important goals, you must achieve a high probability of maintaining your current standard of living. In other words, you must achieve stability.

ASPIRATIONAL GOALS:

- A way to pursue your dreams and aspirations, including further education, starting or expanding a business, philanthropic giving, or other aspirational goals like travel.

- In order to meet your aspirational goals, you may have to allocate capital to projects that may be viewed as uneconomical or to investments that, in adverse circumstances, may result in catastrophic losses. Your pursuit of aspirational goals must therefore be sized appropriately to recognize the possibility that the capital invested in such idiosyncratic endeavors may be completely lost."

If you spend more than you earn every year—or, in this modern age of easy credit, if you accumulate excessive debt in the form of credit card balances or home equity loans—no investment or wealth management strategy can save your finances, unless you have exceptional luck.

Rule that you must remain cash flow positive, there are exceptions. For example, it may make long-term financial sense to spend more than you earn when you take a loan against what will become an important asset in the future—for example, a university or professional degree. Yet caution is in order: you must have sufficient means to stay the course and complete the educational objective, and the degree should be both professionally enriching and sufficiently marketable so that you can ultimately earn a return above both the actual cost and the opportunity cost of lost wages.

A New Framework

The very concept of "efficient" portfolios is unsatisfactory when applied to the objective of wealth creation. Since risk and return are two sides of the same coin, creating a well-diversified portfolio that seeks to eliminate all of the risk that can be diversified away might not necessarily be a good thing. If you have an information advantage—deep industry knowledge in a particular area, for example—your financial strategy should enable you to leverage this expertise to create wealth, without jeopardizing your living standard. Likewise, if your aspirations include launching a business or pursuing a vocation that is essential to your personal fulfillment and happiness, your wealth management strategy should work to accommodate this objective.

Financial markets, like floods and hurricanes, are inherently unpredictable. They are not mildly random but wildly random. A "black swan" event possesses three characteristics. First, the event is rare, an outlier, and by extension not predictable ex ante. Second, the event makes an extreme impact. And third, human nature being what it is, the event appears, in retrospect, to be both explainable and predictable.

Regardless of your own aspirations, your wealth management strategy and framework for managing risk must accommodate competing and sometimes incompatible objectives. You might wish to launch a business, while also creating a strategy to provide a financial safety net in the event of extreme downside market moves.

Every individual or family needs a framework that delivers on three principal objectives:

- The certainty of protection from anxiety and poverty, or safety.
- A high probability of maintaining your standard of living, or stability.
- The possibility of achieving upward wealth mobility and creating the potential to meet your aspirations.

The Wealth Allocation Framework provides a pragmatic, multidimensional approach to managing risk in relation to your goals

Personal Risk: You must protect yourself from the anxiety of a dramatic decrease in your standard of living. Thus, you must immunize yourself from personal risk.

Market Risk: You must maintain your lifestyle by earning a rate of return in the financial markets that is comparable to the increase in the cost of living.

Aspirational Risk: In order to create the possibility of wealth creation and wealth mobility, or to fulfill your aspirational goals, you may decide to allocate capital to investments or business ventures that involve idiosyncratic risk and the potential for substantial capital gain or loss.

Because of its diversified nature, the market risk bucket is about statistically quantifiable risk. The safety and aspirational portfolios, on the other hand, are about the risk and opportunity of uncertain outcomes.

In the Wealth Allocation Framework, risk allocation—that is, the allocation of your assets and liabilities among the three risk buckets—is more important than, and in fact must precede, both the selection of assets and the selection of investments and managers.

Investments allocated to the personal risk bucket will be selected to limit the loss of wealth but will probably yield below-market returns. Allocations to the market risk bucket will provide risk-adjusted market returns, in accordance with the diversification principles of modern portfolio theory. Finally, allocations to the aspirational risk bucket should be selected to yield above-market returns, but they will carry the risk of substantial loss of capital.

In this manner, each of the three core objectives of your wealth management strategy is assigned its own unique risk profile and requires its own carefully constructed portfolio: a safety portfolio consisting of protective assets; a market portfolio with the objective of stability for the long term; and an aspirational portfolio to help you generate wealth to achieve your aspirational goals. The best investment advice you can follow with regard to such an asset is to stop fooling yourself.

Securities that provide some degree of stability or principal protection clearly fall into the safety bucket. These include cash, short-term Treasury bonds, short- and medium-duration Treasury inflation-protected securities (which provide inflation protection in exchange for a lower yield), principal-protected notes, certain types of annuities, and option strategies used for hedging purposes. Additional assets appropriate for the safety bucket include your primary residence, offset by mortgage debt, as we will explore in more detail.

Market Bucket. Assets typically included in this risk bucket mirror those of a traditional portfolio allocated to stocks and bonds in accordance with modern portfolio theory.

Assets that fall into the aspirational bucket include venture capital and early-stage “angel” investments, as well as family-owned businesses that make up a significant portion of an individual’s net worth. In addition, the aspirational bucket includes executive stock options, concentrated stock positions, single-manager hedge funds, leveraged investments in real estate, and opportunistic call option instruments.

When it comes to investing, understanding what you own, and why you own it, is one of the most crucial determinants of success. Yet many investors treat their portfolios like a dusty attic: a place to hold items bought or inherited long ago, some with value but others that probably no longer fit their purpose.

PRIVATE BUSINESSES

Say you’re a successful business owner. How exactly should you deal with a profitable enterprise that is growing steadily, at perhaps 20 percent to 30 percent a year, and has been, and still is, your major source of wealth? The answer is simple: the business goes straight into your aspirational risk bucket because the asset is characterized by higher-than-market return and is accompanied by higher-than-market risk.

They feel, not without merit, that their business has less risk and better return prospects than investing in the financial markets, and they have the track record to prove it. In fact, many business owners, left to their own devices, draw the opposite conclusion about their company: rather than classifying it in the aspirational bucket, they attempt to place their business in the safety bucket. At the same time, they estimate a continued high rate of growth or return for the business into the future. Sound familiar? This behavior is a classic example of “illusion of control,” the behavioral trap

Nonetheless, entrepreneurs in the process of building a business often have great optimism about the future, great confidence in their judgment and abilities, and considerable pride in their track record. That is perhaps ironic, since most business owners do recognize that, as they become more successful, they must increasingly protect themselves from a variety of risks, including all of the people who come out of the woodwork looking for a piece of the pie: competitors who want to take away market share; patent trolls who want a share of the revenue; lawyers representing disgruntled customers seeking disproportionate damages;

suppliers who overpromise and under-deliver; customers who take delivery but do not pay . . . the list goes on.

Most business owners always feel that they are at an inflection point, that the right decisions and execution by their company will allow them to capitalize on great opportunity, while the wrong decisions can sink them. In short, the relentless presence of embedded risk cannot be understated.

CONCENTRATED STOCK AND EXECUTIVE STOCK OPTIONS

You simply cannot disentangle the high-risk component from high-returning assets like concentrated stock and stock options. Nor should you count on these assets to achieve essential goals like funding your retirement. For these reasons, assets such as employer stock and stock options, generally speaking, belong in the aspirational bucket.

REAL ESTATE

A rental property such as a condominium might belong in either the market risk bucket or the aspirational risk bucket, depending on the amount of leverage. If the property is instead highly leveraged, or it is a speculative bet located in an area that is "filled with potential," as a real estate agent might say, then the property belongs instead in the aspirational risk bucket. A real estate investment trust (REIT) or a real estate fund structured as a limited partnership may belong in the market risk bucket, if it is a small part of a large, diversified portfolio, or it might belong in the aspirational bucket, if it is a large position in a single fund.

GOLD

Gold prices are subject to massive supply-and-demand bubbles that often lead individual investors seeking a safe haven to buy gold at vastly inflated prices, only to suffer considerable losses. As with any asset, the reason you hold gold, the size of your position relative to your portfolio, and your choice of how you hold the precious metal are what determine its appropriate placement within your risk allocation.

Historical data suggest that, over the long term, physical gold should yield a return consistent with inflation. Thus gold held for safety belongs in the personal risk bucket.

Yet gold also provides diversification benefits. Over the long term, as part of a diversified investment portfolio, it might be prudent to own an appropriately sized position in a gold mutual fund or exchange-traded fund, or even gold stocks that provide leveraged exposure to the spot gold price.

PRIVATE EQUITY

The strategy aims to deliver excess returns by identifying public companies that are distressed or have fat balance sheets and can be taken private for restructuring. To be successful, private equity managers need long-term capital from investors who seek excess return, in exchange for investing over a long-time horizon and accepting illiquidity. Private equity investments, although illiquid, typically belong in the market bucket.

CURRENCY TRADING

Yet a currency trading fund consisting of a portfolio of different currency positions can also serve as a diversifier—in which case, as a small percentage of a diversified portfolio, it might belong in the market bucket. On the other hand, a speculative foreign exchange position naturally carries the risk of loss of principal and should clearly be categorized in the aspirational bucket.

CASH

In the safety bucket, cash is reserved for liquidity and emergency needs. In the safety bucket, cash is reserved for liquidity and emergency needs. It’s an opportunistic asset that can be deployed when the right investment comes along. This “patient capital” is best allocated to either the market or the aspirational bucket, depending on the target assets.

Performance Measurement in Wealth Allocation Framework

The Wealth Allocation Framework more broadly is to shift your primary objective from “beating the market” to maximizing the probability that you will achieve your goals, you must still measure your progress objectively. There are two important and complementary ways to do so: first, you should use separate performance benchmarks for each bucket; and, second, you should measure progress to your goals in terms of the assets you have accumulated for each goal and your probabilities of achieving success.

Your return comparisons, risk measures, and benchmarks will be different for each of the three buckets.

In the safety bucket, should actually aim for a zero rate of return after inflation for these assets.

Market bucket, when it comes to return expectations, it goes without saying that no investor can accurately predict what the long-term market return will be. Still, there is ample historical data to suggest that performance in the mid- to high single digits is a reasonable expectation as long as you are globally well diversified, are patient, and stay invested for the long term.

Assets in the aspirational bucket should significantly outperform standard market indices—when they perform at all. Indeed, when aspirational investments are successful, they have the potential to deliver several times the original investment.

So *how do you know if your risk allocation and associated benchmarks for tracking performance are appropriate?* This question can best be answered by viewing the expected performance of your entire risk allocation—and hence your portfolio itself—under a variety of market scenarios.

For example, what if your market portfolio declines by 50 percent during an extended period of market stress, and your aspirational portfolio falls to zero? Could you sleep at night? Do you have sufficient liquidity and an adequate safety portfolio to carry you through?

Let's say, for example, that your market portfolio appreciates by 20 percent in a year and your aspirational portfolio doubles in value. Exactly how important is that upside? And just as crucially, are you comfortable with the risks you are taking to achieve that degree of outperformance?

Objective Driven Investing

Far too much time focused on the performance of the markets rather than on their preparedness for meeting their life's goals. As we have seen, this focus on markets leads to an unrelenting obsession with outperformance. And that misguided focus, in turn, can lead to all sorts of misbehaviors, many unintended, that are destructive to your wealth. The reality is that turning to financial markets for outsized wealth creation—the kind of riches that deliver upward wealth mobility—is simply a fool's errand, especially if you are putting your financial security at risk in the process.

STEP 1: OUTLINE YOUR GOALS

Document all of your goals and then categorize them as essential, important, and aspirational.

STEP 2: CONVERT YOUR GOALS INTO CASH FLOWS

Starting point for organizing your goals, seems to suggest a natural ordering, funding essential goals first, then the important goals, then finally the aspirational goals.

STEP 3: CREATE YOUR WEALTH ALLOCATION SNAPSHOT

Pulling together everything you own and everything you owe—your marketable securities, insurance policies, stock options, your home, and loans (such as a mortgage)—affords the opportunity to create a unified framework for managing your wealth. You will organize your assets and liabilities across the personal risk, market risk, and aspirational risk buckets.

STEP 4: ASSESS YOUR RISK ALLOCATION

Your optimal allocation depends on a variety of objective considerations and should strike a balance between factors such as your age and earning potential, your total current wealth, and the ratio of your assets to the amount you need to sustain your lifestyle. Subjective factors such as your goals and your ability to bear losses are also key factors.

A thorough analysis of your optimal risk allocation must therefore take into account both your financial ability and your psychological ability to bear losses.

STEP 5: IMPLEMENT ASSET ALLOCATION AND PORTFOLIO DIVERSIFICATION

Once you are satisfied that your risk allocation expresses properly how much risk you can (and should) comfortably take, it's time to allocate your assets prudently across the safety, market, and aspirational portfolios, and then to diversify within each.

STEP 6: ANALYZE AND STRESS TEST

This step is crucial: ensuring that your risk allocation and supporting portfolio strategy are shockproof. A standard Monte Carlo scenario analysis tool such as those employed by many financial advisors will provide you with the probability of achieving your goals.

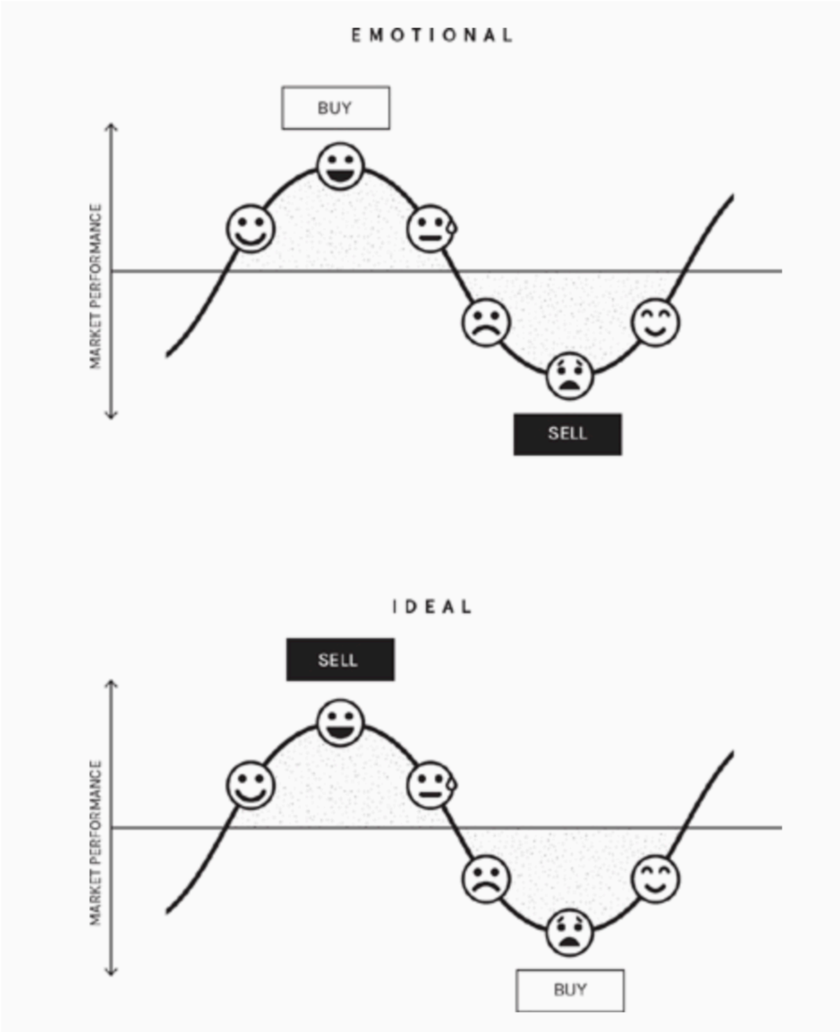
STEP 7: REVIEW AND REBALANCE

On an annual basis, it's important to track how you are doing and to reassess your goals and risk allocation throughout market cycles and in the context of your current life stage. Simply put, you must evaluate how much security you need (safety portfolio) versus capital you are willing to risk losing completely (aspirational portfolio), and then put the rest in a diversified market portfolio.

Most of your assets should be held in your market portfolio, unless there is a compelling reason to put them elsewhere.

While you may enjoy the benefits of safety in the short term, the price you pay over the long term is measured in loss of market return and a higher hurdle to cross when it comes to keeping up with the cost of living.

This point is intuitively obvious when you consider the role of cash in your portfolio. Cash is, simultaneously, an angel of safety in the short term but a devil that drags down your returns in the long term. You cannot depend on your aspirational assets for your essential goals.



Investing in the market is about tapping into drivers of return and managing risk. In many cases there is not much you can do about the market's overall performance. But a sensible strategy, based on reasonable costs, diversification, asset allocation, and tax-aware rebalancing, can help you maintain your standard of living and should enable your market portfolio to fulfill its objectives. In return, you can expect to earn the market return for market volatility.

Recap

The singular message of this book is that investing is not about the markets. Investing is about you. Your investment strategy can and must be designed to help you make progress toward the things that matter most. It should not be a blunt instrument of force, whose primary aim is to "beat the market." When executed properly, your investment strategy can fulfill your need for safety and give you a shot at your dreams and aspirations. Anything less would be, well, unsatisfying. At any stage of life, a viable wealth management strategy depends on you being cash flow positive. That is why it is crucially important to work through such a calculation for yourself and your family, perhaps with the help of a financial advisor.

The truest test of a successful investing and wealth management strategy is whether it can effectively insulate your essential goals from the whims of the financial markets, while simultaneously positioning you to achieve important goals and preserving your opportunity to achieve aspirational goals. Optimal strategy should be easy to understand and provide clarity on the steps required to get back on track, should adverse circumstances prevail.

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