

## Essentialism; If You Don't Prioritize Your Life, Someone Else Will.

I often find myself in discussions with individuals and families regarding the personal and financial priorities that seem to continually push and pull on people. I try to get people to think and focus on what is essential to them and the lives that they want to lead. This focus is about making the wisest possible investment of your time and energy to achieve your lifestyle and financial objectives.

A related book on this very subject, *Essentialism* by Gregg McKeown, stresses that by investing in fewer things we have the satisfying experience of making significant progress in the things that matter most. Essentialism is a disciplined, systematic approach for determining where our highest point of involvement should be and then to make execution of those things almost effortless.

McKeown breaks Essentialism into three “core truths” that help to reduce, simplify, and focus on what is essential by eliminating everything else. “The right thing, the right way, at the right time.”

### 1. “I choose to”

- While we may not always have control over our options, we always have control over how we choose among them.
- Essentialist requires a heightened awareness of our ability to choose.

### 2. “Only a few things really matter”

- The overwhelming reality is: we live in a world where almost everything is worthless and a very few things are exceptionally valuable. As John Maxwell has written, “You cannot overestimate the unimportance of practically everything.”

### 3. “I can do anything but not everything.”

- The reality is, saying yes to any opportunity requires saying no to several others. Ignoring the reality of trade-offs is a terrible strategy. Economist Thomas Sowell wrote: “There are no solutions. There are only trade-offs.”
- Reject the idea that we can fit it all in, grapple with real trade-offs and make tough decisions. Instead of asking, “What do I have to give up?” you ask, “What do I want to go big on?”

		→	
	<b>Nonessentialist</b>		<b>Essentialist</b>
<b>Thinks</b>	<b>ALL THINGS TO ALL PEOPLE</b> "I have to." "It's all important." "How can I fit it all in?"		<b>LESS BUT BETTER</b> "I choose to." "Only a few things really matter." "What are the trade offs?"
<b>Does</b>	<b>THE UNDISCIPLINED PURSUIT OF MORE</b> Reacts to what's most pressing Says "yes" to people without really thinking Tries to force execution at the last moment		<b>THE DISCIPLINED PURSUIT OF LESS</b> Pauses to discern what really matters Say's "no" to everything except the essential Removes obstacles to make execution easy
<b>Gets</b>	<b>LIVES A LIFE THAT DOES NOT SATISFY</b> Takes on too much, and work suffers Feels out of control Is unsure of whether the right things got done Feels overwhelmed and exhausted		<b>LIVES A LIFE THAT REALLY MATTERS</b> Chooses carefully in order to do great work Feels in control Gets the right things done Experiences joy in the journey
<small>Source: "Essentialism" by Greg McKeown Summary Graphic: Michael Kitces, <a href="http://www.kitces.com">www.kitces.com</a></small>			

Systems help us to make decisions by design, rather than default. Below are a few suggestions from McKeown's book to help you design a better way to help you determine what is essential.

- **Find your deal breakers**
  - Cut your options and set boundaries. Recognize boundaries as empowering which protect your time from being hijacked and freeing from the burden of having to say no to things. Allow boundaries to proactively eliminate the demands and encumbrances from others that distract you from the true essentials.
- **Bring Forth More by Removing Obstacles**
  - Significantly reduce friction from what you really want to achieve by removing obstacles one by one.... at any one time, there is only ever one priority. Removing arbitrary obstacles can have no effect whatsoever if the primary one still doesn't budge.
- **Do the minimal viable preparation**
  - Take a goal or deadline you have coming up and ask yourself, "What is the minimal amount I could do right now to prepare?"
- **Visually reward progress**
  - When we start small and reward progress, we end up achieving more than when we set big, lofty, and often impossible goals. The act of positively reinforcing our successes allows us to reap more enjoyment and satisfaction out of the process.

McKeown also offers a simple, systematic process you can use to apply selective criteria to opportunities that come your way.

1. Write down the opportunity.
2. Write down a list of three "minimum criteria" the options would need to "pass" to be considered.
3. Write down a list of three ideal or "extreme criteria" the options would need to "pass" to be considered.

If the opportunity doesn't pass the first set of criteria, the answer is obviously no. But if it also doesn't pass two of your three extreme criteria, the answer is still no to the opportunity.

Another evaluation method would be to think about the single most important criterion for that decision, and then simply give the option a score between 0 and 100. If you rate it any lower than 90 percent, then automatically change the rating to 0 and simply reject it. This way you avoid getting caught up in indecision, or worse, getting stuck with the 60s or 70s.

It takes asking tough questions, making real trade-offs, and exercising serious discipline to cut out the competing priorities that distract us from our true intention. There is also a need for planning and to prepare for different contingencies which go hand in hand with developing a wealth management plan. The effort can be certainly worth it due to the clarity of purpose and peace of mind that having a plan can bring.

To discern what is truly essential we need space to think, time to look and listen, permission to play, wisdom to sleep, and the discipline to apply highly selective criteria to the choices we make. Albert

Einstein once said: “When I examine myself and my methods of thought, I come to the conclusion that the gift of fantasy has meant more to me than my talent for absorbing positive knowledge.”

Two other quotes that stood out to me while reading this book were by Lao Tzu who said, “In work, do what you enjoy. In family life, be completely present.” and “Beware the barrenness of a busy life” by Socrates.

If you don’t prioritize your life, someone else will.

### State of the Portfolio

While I still have a very strong tilt towards investing in small and mid-cap companies (those with market values under \$10 billion), most of the portfolio changes made in Q2 have been new investments in large cap companies. (See below the updated asset allocation model)

The shift to larger cap investments has been driven by two factors;

1. Stability – bigger companies tend to be less volatile especially those that pay consistent dividends or continually buy back their own shares.
2. Valuation – frankly it has been harder to find small and medium sized companies that are trading at investable valuations. Contrary, I have been able to find better values in larger companies.

My focus on stability and valuation is driven by another two factors;

1. The overall market seems to be fairly or fully valued. While no one can ever tell, the markets appear to continue to trade on proposed government policies that at this point have no realistic chance of getting passed.
2. While I have been focused on getting portfolios closer to my ideal asset allocation, holding excess cash and bonds has not been a favorable investment for clients. By focusing on a stable crop of new investments that offer a marginal discount I have been able to put more capital to work.

### Insider Trading

**6.7**...Percentage that U.S. equities have gained annually the past 10 years (Money)

**20**...Percentage of all the gains in the total stock market since 1924 that were created by 14 stocks (Bloomberg)

**61**...Percentage of millennial women who said that their finances were “stretched too thin to save for retirement (Wells Fargo)

**\$4 Trillion**...Amount need to update U.S. bridges, roads, tunnels, water plants, and other public amenities, leading to a trend in infrastructure as a long-term investment (American Society of Civil Engineers)

Category	Aggressive Allocation		Moderate Allocation	
	Current	Model	Current	Model
	80/20	M 80/20	70/30	M 70/30
US Small	27.0%	39.0%	25.0%	35.0%
US Large	17.0%	7.5%	14.0%	7.5%
Sm Intl/EM	8.0%	7.0%	6.0%	5.0%
Lg Global	22.0%	10.0%	19.0%	10.0%
Industrials	0.0%	5.0%	0.0%	4.0%
Financials	2.0%	4.0%	2.0%	3.0%
REIT	2.0%	4.0%	2.0%	3.0%
Biotech	2.0%	3.5%	2.0%	2.5%
U.S. Bonds	7.5%	7.5%	15.0%	10.0%
Intl Bonds	0.0%	2.5%	0.0%	5.0%
TIPS	0.0%	2.5%	0.0%	5.0%
Cash	12.5%	7.5%	15.0%	10.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Another asset class that I have been aggressively expanding into has been international and global assets. This again is a direct play on diversifying portfolios from both a risk and performance standpoint. While the U.S. has been the best performing part of the world these last 5 to 10 years, these trends usually have a way of evening out. While international markets have done well this year, they are still well below their mean average over the past 10-year period.

## Personalized Investing; Wealth Planning Requires Flexibility

During some of my more recent new client on-boarding meetings, I have been emphasizing to clients that even when we develop a wealth management plan today, be prepared to have that plan change over the course of time.

Similar to stock markets, no one can predict what will happen in the future. Life events such as a new baby, death in the family, or a medical issue can derail the best laid plans. Therefore, it is critical to not only be flexible when it comes to wealth planning but also in life planning as well.

By doing the boring but critical every day steps that lead to a financially healthy life such as maintaining a high savings rate, paying down debt, avoiding credit card debt, and preserving a high credit score, you can have the financial and personal flexibility you may need when life throws you a curve ball.

Here are some of critical aspects to keep top of mind when managing through an unexpected situation;

- **Wealth planning is an ongoing process.** As your life evolves, so to must your wealth plans. What may have been a focus in your 20's and 30's, won't likely be your focus in your 40's and 50's. Stay nimble and don't hold tightly onto the plans of today which could negatively impact your future.
- **Goals can and will take a back seat to priorities.** I never could have imagined having four kids let alone triplets. Goals and plans that I had pre-kids suddenly changed overnight. Theresa and I had to focus on our immediate priorities which were many. This doesn't mean that you should kill your goals if they still fit within the life that you ultimately want. You may have to delay them a bit to focus on what you must do today.



- **You can't prepare for everything and that is okay.** Have you ever been through a job change that wasn't by choice? You may not have had any time to prepare for a change of that magnitude. However, everyone that I know of that has gone through a situation such as this has bounced back stronger than before. With a healthy mind, spirit, and strong support system just about any situation can be overcome.

That last point I believe is very important as our personal lives are so intertwined with our financial lives. Having a strong support system whether it is a spouse, partner, close friend, or advisor can be critical to staying on the right path both mentally and financially when flexibility is required the most.

For questions about any wealth and asset management topics, do not hesitate to contact me to find out what options may be best for your own personal situation. Financial relationships are built upon trust. Your continued support in having conversations and making recommendations to family, friends, and co-workers regarding your relationship with me at TAMMA is always greatly appreciated and welcomed.



Paul Fenner, CFP®, ChFC  
President  
Registered Investment Advisor