

# The Art of Advice

DAVID B. LOEPER, CIMA  
*CHAIRMAN/CEO*

I recently received an email from an “expert” reviewing the Financeware diagnostic systems for potential use within a major financial institution. Obviously, the review was not very complimentary or it would not have ended up as the introduction to this white paper. We occasionally encounter these types of less than favorable reviews due to the basic premise of our company and how that premise rubs certain people the wrong way.

To be fair, this expert really didn’t review the Financeware methodology or philosophy as much as they reviewed one example in a previous advisor email demonstrating the value of what we call “Custom Advice.” The email showed a scenario where the investor had a very small chance of meeting their lifetime financial goals based on the results of our historical market backtests. The same example also demonstrated how automated tools would have solved the problem and increased the investor’s chances to an acceptable level. Since most of these “Cyber Advisor” tools focus on solving for one variable such as retirement age, asset allocation, annual savings, etc., we demonstrated how painful the consequences of any of these automated answers would have been for the investor.

All of these obviously painful scenarios were then compared to a “Custom Advice” plan that was artfully created by a financial advisor, using common sense, experience, intuition, and a little creativity on the Financeware.com site. This is what rubs certain people the wrong way. Most of those characteristics have yet to be recreated in an algorithm or computer program as they are based on human traits. Current technology has its limits. For instance, if computers and their programmers are so brilliant, please tell me why the spell check in my computer always wants to correct the spelling of my last name from “loeper” to “leper” when my name is clearly registered throughout the operating system which is made by the same company that made the spell check program? Why doesn’t it know me?

I know that people make the exact same mistakes as this spell check program does. I can attest to my childhood experience having been called “leper” by several classmates. Teachers however, had a little more tact and generally attempted some other butchered version of my family name none-the-less avoiding the awkward “leper.” They would address me with David Leo-purr? I would respond with a simple low-purr, my family’s chosen pronunciation.

So does that mean that the developers of the spell check program had the same intelligence as the third graders that either intentionally or un-intentionally converted my name into a serious disease? Of course not...they are limited by the fact that computers lack those human traits demonstrated through art or problem solving. Do you think computers can create art? Why then has Bill Gates amassed a huge collection of art and digitized it? Why didn’t Bill, the world’s icon of computing technology, simply have a bunch of his programmers and computers in Redmond, WA “create” a mountain of masterpieces? Or, maybe that’s why he did accumulate them, so he can make artists obsolete by “teaching” computers about great art.

*Is Your Financial Plan a Masterpiece? Your Advisor an Artist or an Automaton?*

This may sound a bit trite, but the similarity to art cannot be ignored. Have you ever seen a “masterpiece” that really didn’t do anything for you? Art, even masterpieces, still is subject to personal preferences. As individuals, we should be entitled to such personal preferences and within the realm of accepted arts, this matter of varying tastes is generally accepted.

The reviewer’s opinion of our site, however was that there are “rules” that should be followed and any financial plan should follow these rules. Rules such as, “save more than you are currently saving” or “avoid investment product fees at all costs” (pun intended). This reviewer’s opinion was basically that the investor wasn’t entitled to their own preferences because the reviewer was the expert. This is not too dissimilar from what many art critics come to think of it.

The example investor's problems were solved. Not by dramatically delaying retirement, radically shifting asset allocation, saving absurd amounts of additional money each year or dramatically lowering retirement income as any "Cyber Advisor" or dogmatic critic would have suggested to them. Instead, this investor's advisor found a unique product (no-load) that had only slightly higher expenses than their current mutual funds. After considering the special tax benefits of this product, and adjusting the scenario for the somewhat higher expense ratio and an \$8,000 fee to the "professional artist advisor" the scenario provided the same level of confidence of meeting their goals as if they had increased their annual savings by \$70,000 A YEAR!

To the critic, this outcome was absurd. How dare this investor not want to follow the rules "of thumb" and increase their savings to a level that could dramatically alter their lifestyle? Simply enjoying a little bit of life now, the investor's preference, was not an option apparently even worth considering. Why pay that fee to the advisor and incur a slightly higher expense ratio to maintain your lifestyle when you can save the fee and have a program spit out an answer that says all you need to do is cut your annual spending by seventy grand?

This may sound ridiculous, but it is none-the-less akin to the absurd answers that can be generated by "Cyber Advisors" for investors that check their brain at the door and let the computer take over.

An artist's brush is a simple device. The canvas is primitive relative to today's technology. Advancements in artist's oils have been limited. Yet, all these things are merely tools. Simply having the tools available does not an artist make. To make art, all one has to do is plunge the brush into some paint and smear it on the canvas. Of course, how appealing that art may be is dependent upon the eye of the beholder and the skill, intuition and knowledge of the artist in applying which brush strokes where on the canvas and selecting which colors to apply for the most effective combination to achieve the end result – the painting.

Computers and technology, like brushes and oils, are only tools. Neither of them can create art without a skilled operator. If you are a financial artist, then you won't fall into the trap of accepting the colors that come out of the tube, or the plans that are spit out from an algorithm. Financial artists creatively blend the variables of your financial goal package to make a masterpiece that meets your specific goals just as an artist blends oils. Critics may tell you that you could have paid less for the advice, just as your art could have been purchased at K-Mart instead of a gallery.

Some basic premises of economics still apply. The \$75 "auto-plan" will no doubt be as appealing to you as a poster rolled in a shrink wrapped tube. You still get what you pay for. Your life is something you only live once. While the poster and the Picasso will both take space on your wall, and both may be somewhat appealing to the eye, your financial goal package dictates many aspects of how you can live your life and it is too costly to leave your life in the hands of "Cyber Advice." (how about a Picasso print?)

If you've found a financial artist whose results for you are personally very rewarding for a fee you find fair, keep them. If not, make sure you do not risk sacrificing your lifestyle and individual financial goals by not knowing what you don't know and finding the right financial artist for YOU.