

[The Problem -- Straight answers about personal financial and investment planning are difficult to find](#)

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The Problem -- Straight answers about personal financial and investment planning are difficult to find

Summary: In this article, The Skilled Investor summarizes some of the significant problems faced by ordinary individuals, when they attempt to plan their family finances. This is the first in a series of articles that will provide scientifically grounded decision rules that address these problems. Even if they are intent upon doing better with their personal planning, many people are confused and frustrated about how to approach personal financial and investment planning. To rise above the confusion, you must have a durable and scientifically grounded understanding of personal financial planning and investment management. Very often, people do not have access to disinterested and reasonably priced advice and information. Financial advisors are expensive, whether or not you pay them directly. No advisor can work without compensation. If you do not pay your advisor directly, then the industry will. When the industry pays your advisor, your best interests may quickly fly out the window. Most competent advisors prefer to focus their attention on the wealthy who can more easily afford their services. People of more modest means often receive inferior "free" services. Many find that these free financial planning services quickly focus on the sale of expensive and often inappropriate financial products. An endless stream of books and articles flows with contradictory recommendations on ways to "beat-the-market." The various financial media chatter on and on about daily minutia regarding one company after another, but they provide little useful synthesis. On-line financial information rarely has enough depth to be very helpful. Free on-line tools provided to individuals tend to be simple and superficial one-size-fits-all calculators. They are designed primarily to funnel "retail" sales prospects into a website purchasing process. These tools provide little real insight for individuals who are trying to decide what to do for the long-term. When individuals attempt to make sensible decisions about purchasing financial and investment products and services, the potential for confusion is astonishing. Uncertainties about investment value and risk give rise to substantial ongoing securities price volatility and sometimes to extreme outcomes. Any consumer product characterized by such great uncertainty and such wide fluctuations in potential value must necessarily cause substantial buyer confusion. Current securities prices reflect the market's fluctuating auction consensus about potential asset values in an inherently unknowable future. Nobody really knows anything about what will actually happen to asset values in the future. Many individuals are so caught up in the pursuit of superior returns that they do not stop to think about the true auction nature of public securities markets. Instead of being trapped in continuing ego games of personal investment triumph, they should think far more about protecting their wallets. (See: [How investment securities are valued -- snapshots in time](#) and [The confusing investment securities market motion picture](#)) In many respects, the financial services industry is among the most competitive in the world. Yet, when it comes to delivering advantageous, cost-effective products for individuals, let the buyer be extremely aware. The vast spectrum of retail financial products and services ranges from excellent to abysmal. Asset price volatility and misinformation allow inferior

products to flourish along with those that objectively are better. The industry does not train its people to tell you what is best for you. It trains them to be persuasive and to sell to you what is profitable to them as quickly as possible. Most information provided by the financial industry is self-serving and is designed largely to ease this sales process. Because realized investment values will be known only in the sometimes very distant future, individuals can hear both good and bad advice, and they may have no way to tell one from the other. Unfortunately, investments do not have warranties. If your financial plan and your investment portfolio fall short in the future, all you will have is an empty wallet, when it may be far too late for you to recover. Directly or through insinuation, the “we are superior” mantra of the financial services industry has been never-ending. Securities price volatility permits the false appearance of skill among industry practitioners, when most lack superior skills. Claims of superiority are based predominantly on the selective marketing of investment products that happened to have done better than average historically. Other products with inferior performance from the same organization are forgotten conveniently, or they are relegated to small print in a footnote. (See: [How Morningstar Ratings for mutual funds are used as a marketing tool](#)) Because financial product quality is so highly variable, many individuals cannot objectively determine who is and who is not expert and honest. It is difficult to find another industry where ignorance, self-interest, and double-speak are so prevalent. Is it any wonder that millions of people are confused and frustrated about personal finance and investing? (See: [The illusion of superior professional investment manager performance](#)) As a result, many people are very distrustful of the financial industry. A 2002 U.S. public opinion survey of trust in various industries indicated that distrust of the financial services industry is deep and widespread. This Golin/Harris survey of 700 Americans found that the average industry had a -20% rating on an opinion scale of -100% to +100%. The “Brokerage/Wall Street” (-58%) and “Insurance” (-59%) industries ranked near the bottom of all industries in terms of public trust, with only the “Oil & Gas” (-63%) industry scoring lower. (See: [How can individual investors trust, when so much information about investing is rubbish?](#)) With this rough and tumble world that you face when you try to do reasonable personal financial and investment planning, you are much better off with a well-considered viewpoint. A stable and scientifically grounded set of beliefs can keep you focused and on track throughout your life. It can help you to ignore all the rubbish that seems to come with this territory.

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