

Your financial planning and investing strategies should have a scientific basis

Category : Financial Decision Rules

Published by [The Skilled Investor](#) on Feb/16/2007

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Summary: A previous article, "[The Solution - ONLY follow financial strategies that are scientific, passive, diversified, savings focused, risk controlled, low cost, and tax efficient](#)," suggested that individuals are much better off with a well-considered financial viewpoint. A stable set of financial beliefs can help you to keep focused and on track throughout your life. This follow-up article discusses the need for these beliefs to be based upon financial practices that have been established scientifically. Without a scientific basis for personal financial decision-making, you have no way to distinguish a valid financial planning and investment strategy from an industry marketing sideshow or a trip to Las Vegas. Regarding best practices in personal financial planning and investing, objective information about what tends to work and what tends not work can be found. However to find this objective information, you must know where to look. Academic specialists in finance and economics do most of the objective theoretical and statistical research on subjects that directly or indirectly affect the financial affairs and well-being of individuals. The scientific finance literature that they produce exists in bountiful quantities and is the source of the best practices that *The Skilled Investor* uses. (See: [How does The Skilled Investor find and summarize scientific investment information?](#)) Most of this objective and enlightening information is "hidden" in academic journals and working papers. With the Internet, however, much of this information is now "hidden in plain sight." One of the primary objectives of *The Skilled Investor* is to do much of the required digging and synthesis for you. (See: [What is The Skilled Investor and who will find it useful?](#)) However, if you would like to do some searching yourself, see this article on one way to get started: [Using Google Scholar to find scientific finance articles](#). **Scientific finance and its limitations** When you decide how to plan financially and how to invest, you ought to be able to point to the high quality research work of some honest, objective, highly-educated, skillful, well-respected, and thoughtful people regarding financial best practices. These people should have: a) developed theories, b) done their homework, c) run the numbers, d) published their findings, and e) had their publications stand up to peer-level criticism. This is a crude summary of the scientific method applied to finance. (See: [What is investment science?](#)) Some readers, particularly those with physical sciences or engineering backgrounds, might read this and say that financial planning and investing is not really a science. They might contend that science and the scientific method require observable, measurable, and repeatable phenomena, explanatory hypotheses, and verifiable experiments conducted by objective analysts who publish their methods and findings for others with similar expertise to critique. One can always quibble about the degree to which the social sciences, which include economics and finance, can implement properly the scientific method. Unlike the fundamental sciences, which are focused on the study of natural and repeatable phenomenon, finance and economics are really a quantification of history, which is time linear, lacks repeatability, and can only be proven statistically. There will always some small to large level of statistical uncertainty in the findings of finance studies. Furthermore, as time marches forward, a horde of economic, social, political, demographic, technological, and other possibly influential variables keep shifting their relationships in the background. This shifting backdrop can raise reasonable questions about whether findings established using historical data will

remain valid in the future. However, the financial and investment science of the past several decades has been built on an increasing wealth of historical securities market data and on extensive survey research data. These data sets have been sliced, diced, and analyzed statistically by thousands of researchers. When studies looking at different data sets or at the same data from different perspectives reach similar conclusions, then it is reasonable to pay attention to the findings of these studies. It is also reasonable to call them scientific, while taking into account the associated uncertainties. Without scientifically based financial information, there can be no valid or invalid financial guideposts. However, even with the abundant availability of scientifically based financial information, those who do not do their homework or have ulterior motives will continue to make vacuous financial assertions. Therefore, you need to make choices about whom and what you will listen to and what proof you will require, before you commit your money.

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