



THE LUBITZ
FINANCIAL
GROUP

Wealth Planning Strategies

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[Q3 2018 Newsletter](#)

Behavioral Economics and Prospect Theory - Rational or Irrational? That is the Question.

Traditional economic theory suggests that when people make decisions regarding their money, they do so *rationally*. Borrowing from models of psychology, a new breed of economic theory has cropped up in the last few decades in direct conflict with classic economic theory. Called “behavioral economics” it seeks to explain how and why people seem to continually make *irrational* financial decisions. Prospect Theory, a founding component of behavioral economics is gaining acceptance among economists and financial professionals today. In fact, one of the founders of behavioral economics, Dr. Daniel Kahneman, was awarded the Nobel Prize in Economics in 2002 for his groundbreaking work on the topic.

A principal tenet of Prospect Theory is that people are more motivated to avoid the pain of financial losses than the prospect of making similar gains. As a result, they will devote more energy to avoid a loss than to achieve a similar gain, even if it means that their decisions are irrational. Furthermore, people may accept a higher level of risk simply to avoid the potential for loss.

For example, investors may well hang onto a falling stock simply to avoid selling it at a loss, even though there may be an economic advantage to sell (i.e., a tax deduction). Likewise, investors are just as likely to sell a stock early, simply to realize a gain while they’re ahead. Ultimately they avoid a potential loss. Clearly, this type of behavior reveals that when it comes to money, people are often more focused on the short-term rather than the long-term: not a good strategy for sustainable financial success.

A study by the Boston based consulting firm, DALBAR illustrated how investor behavior can sabotage good investment returns. Their Quantitative Analysis of Investor Behavior study shows that investors continue to chase investment returns to the detriment of their pocket books. Motivated by fear and greed, investors pour money into equity (stock) funds on market upswings and are quick to sell on downturns. Most investors are *(continued on page 3)*

My Money Life

Our new website www.LubitzFinancial.com has step-by-step videos on how to use our client portal. Remember, you can use the **vault** for safe storage of your important documents. You can also learn how to connect your accounts for a full financial picture. For more information, please contact: Madeline Jusino at 305.670.4440

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Are you interested in having an LFG expert present to your office, study group or community group? Topics include:

- * Cat food or Caviar—what will it be for your retirement?
- * After-disaster planning
- * Blended families with baggage

Our advisors and professionals are dedicated to financial education. Some presentations can also be delivered in Spanish. Let us know if you’d like to know more. Nancy Mele 305 670 4440 ** NancyM@LubitzFinancial.com

Are you on [LinkedIn](#)? If so, [connect](#) with **The Lubitz Financial Group** page for more articles!

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AROUND THE OFFICE

In the News ... **Linda** was quoted in msn.com on the topic of “What to do if you find out the person you’re dating is deep in debt.” **Linda** was also quoted in *Financial Planning* magazine on talking about politics with clients. The Commonwealth Institute (TCI), an organization devoted to advancing business women in leadership positions, recently honored **Linda** as one of the Top 50 Women-Led Businesses in Florida. **Phil** authored August’s *Journal of Financial Planning* column, “Estate Planning for Pets.” You can view the article [here](#).

Giving Back to the Community ... One of our special sponsorships each year is the Florida Lions Installation Dinner. You can learn more about this organization and join us in our support by clicking [here](#).

Furthering the Profession ... **Jorge** continues to be involved with a variety of boards within the Financial Planning Association (FPA). He attended the national board meeting earlier this month (September) to continue shaping the future of the association. **Debbie** attended a two *active* FPA networking events this quarter. She had fun at both a power yoga and a spinning event from the FPA NextGen group. She learned that spinning is not for her and you sweat a lot during power yoga!



Education ... **Linda** recently hosted a private luncheon for businesswomen on the topic of “Everything You Ever Wanted to Know about Financial Planning.” **Debbie** is looking forward to attending the Financial Planning Association Residency Program next month (October). The residency program builds experience in financial planning scenarios and establishes mentor relationships with preeminent thought-leaders in the profession for new certified financial planners or soon-to-be CFP® professionals. She is excited to learn as much as possible and apply it to her work here at LFG. **Phil** attended the August 14th FPA of Miami Breakfast, “Selling your Advisory Practice Businesses.” **Nancy** had the opportunity to attend a marketing conference in Toronto where the subject matter of content marketing was the focus. **Jorge** and **Debbie** attended Media Training from FPA, getting updates on social media strategies and tips on how to speak with media and reporters. He also finished a class on *Coursera* on “block chain basics” to begin learning about the potential of this new technology in our world. Our advisors had a “lunch and learn” with Carey Vasallo, CPA, on business valuation essentials and how the new tax law will be affecting business owners.

Family & Personal Matters ... **Madeline** looks forward to her sister’s destination wedding in the Dominican Republic.



Exotic Travel ... **Linda** and her husband Norm, recently went on a “forced march” across the Cotswolds in June. What was advertised as a 4-6 mile daily walk turned out to be 10-12 miles! The countryside was peaceful and just like a Beatrice Potter book. Then, a week in Wales, an undiscovered gem, that included playing golf at Celtic Manor, the site of the 2010 Ryder Cup. Needless to say, they would never have qualified, but it was fun walking where greats like Rory McIlroy, Bubba Watson, Dustin Johnson and Phil Michelson who sadly lost the cup to the European team. Though the town of Nashville, TN was not as exotic, **Nancy** enjoyed a weekend filled with music, fun and friends.



Office Happenings ... **Nercys** looks forward to interacting a bit more with our clients as she begins to coordinate and schedule more client meetings. **Madeline** has taken on additional responsibilities, as well, and her new duties will have her even more involved with clients. Back in June, our team took on a team building exercise ... We were successful in “escaping” a room filled with challenges in record



time! July brought us **Jorge’s** birthday, and we chose to celebrate in style during a World Cup Semi-Final, matching France with Belgium. In our usual style, we had a potluck consisting of French & Belgium food.



Behavioral Economics and Prospect Theory ... *(continued from page 1)*

unable to profitably time the market and are left with **equity returns lower than inflation.**

The average stock investor earned a paltry **2.57%** annually compared to inflation of 3.14% and the 12.22% the S&P 500 index earned annually for the last 19 years.

We believe that our approach of having an investment policy, which defines the client's objectives, time frame, liquidity needs, restrictions, rebalancing procedures and asset allocation, all serve to keep us from acting in a 'behavioral fashion'. As a result, the investment policy protects clients from making emotionally based and often irrational decisions. The numbers speak for themselves.

Getting to the Bottom Line of Risk and Reward

Now is the time to revisit two components of investing — return and risk. Since this spectacular bull market began, many investors have been focusing exclusively on return, making investing in stocks look easy. We have tried to construct client portfolios to provide the best return we can get coupled with the lowest risk.

To see how significant this risk factor is, take a look at these two portfolio return histories with the **same average annual return.** The difference lies in the extremes of the positive and negative returns. Or, to frame it another way, if you have a portfolio that drops 25% (\$100 drops to \$75), it will have to go up 33.3% to get back to \$100.

\$5000 Invested	Portfolio A		Portfolio B	
Annual Return	Value	Annual Return	Value	
Year 1	30%	\$6,500	15%	\$5,750
Year 2	20%	\$7,800	20%	\$6,900
Year 3	-10%	\$7,020	-5%	\$6,555
Year 4	30%	\$9,126	25%	\$8,194
Year 5	20%	\$10,957	15%	\$9,423
Year 6	-30%	\$7,666	-10%	\$8,481
Year 7	<u>25%</u>	<u>\$9,582</u>	<u>25%</u>	<u>\$10,600</u>
Average Annual Return	12%	\$9,585	12%	\$10,600*


*10% more!

10 Ways to Save Money on Food



- 1. BYOB (your own bag)**- A growing number of communities require a 5- to 10-cent charge per bag provided by the store. Use your own bags and you could easily save \$25 a year.
- 2. Skip organic if you peel it** - You want organic fruits/veggies when you're eating the whole thing. But, skip it for bananas and other foods that you typically peel. Save \$1 on the price of an avocado.
- 3. Go small** - Research shows that when the size of your shopping cart is doubled, you buy a whopping 40% more. Grab a small cart and save.
- 4. Max out couponing** - Use more than one grocery store app per item.
- 5. Learn patterns** - Grocery chains put certain products on sale at regular intervals. A store may offer a "buy one, get one free" deal on your favorite ice cream or snack every sixth week. Discover the pattern and save.
- 6. Get wine by the case** - Most wine stores will take at least 10 % off your purchase if you buy 12 bottles. You'll save \$48 on two cases of \$20 wine, and you'll always have a housewarming gift handy.
- 7. Be a ninja shopper** - You can save \$10 or more a week on produce costs by planning specific needs, rather than randomly selecting. Go to the Farmers Market late, when sellers slash prices. Buy overstocked produce at a discount. Use a grocery store loyalty card to get the best prices.
- 8. Eat for Cheap**—There are many discounts offered at restaurants; you can do the "research" before you go ... or ask! Seniors who are members of AARP have many discounts at theseniorlist.com. Groupon.com. and Miamion-thecheap.com are a few more.
- 9. Drink office coffee** - If you spend \$4 a day at Starbucks on a couple of tall coffees, that's \$1,000 a year just for workdays. Or, you can make your own. A pound of \$4.99 coffee makes 25 tall (12-ounce) cups.
- 10. Another dine out for less** - check out Restaurant.com.

We welcome the opportunity to help you, your family and friends achieve peace of mind related to wealth and life transition planning.

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Thoughts to Live By ...

"We must look forward to the future as that is where most of us will be spending the rest of our lives."

~Charles Kettering

"Great minds have purposes, others have wishes."

~Washington Irving (1783-1859)

"Live life to the fullest, and focus on the positive."

~Matt Cameron

"A day without laughter is a day wasted."

~Charlie Chaplin