Where from Here?

Thomas Schneeweis

January, 2022

At a country and on a more detailed level, the state and community level, we are increasingly being faced as a people of how we want to construct an educational program that provides a broad set of students with a means to move forward after high school and to prepare those students with the breadth of education which offers them a broad set of opportunities in the future. Herein lies a problem. In the future, the educational opportunities for many of the more advanced areas of job opportunities may be focused on a smaller subset of students. How do we offer academic opportunities (e.g., advanced math) for a set of students, with the full realization that those students may, for several reasons, represent a relatively small subset of our grade school and high school students? I fear for many students or parents that this world is not being honestly portrayed.

At the University I taught; the students who were offered freshman positions (about 250 new students) in the University's School of Management were determined by the end of their junior year in high school. But even there we were not honest about the allocation. About 50% of the new students were women and we praised ourselves that this reflected the population at large, but of that group over 70% went into marketing and management courses. Of the other 30% about 20% went into accounting and 10% into finance. Of the 10% (or about 25) who went into finance, almost all went into corporate finance and few, in fact less than five, when into advanced investments. Now for the truly unfortunate part, in today's STEM (Science, Technology, Engineering, Mathematics) world this is where the 'high paying Finance jobs' are. As a head of one of these Finance firms, it is not that women made less than men, in fact because of the competition they were often paid more then men, but given the relatively smaller percentage of women available for these higher paying jobs if one totaled the average wage for women in business in general it was often lower than the average for men. Why? More women were in the lower paying 'management and marketing' jobs than in the high finance jobs. In short, we have been less than honest. Students should be made aware of the opportunities, the set of skills required and when they have to make some of those choices. It is their life; they should know the paths.

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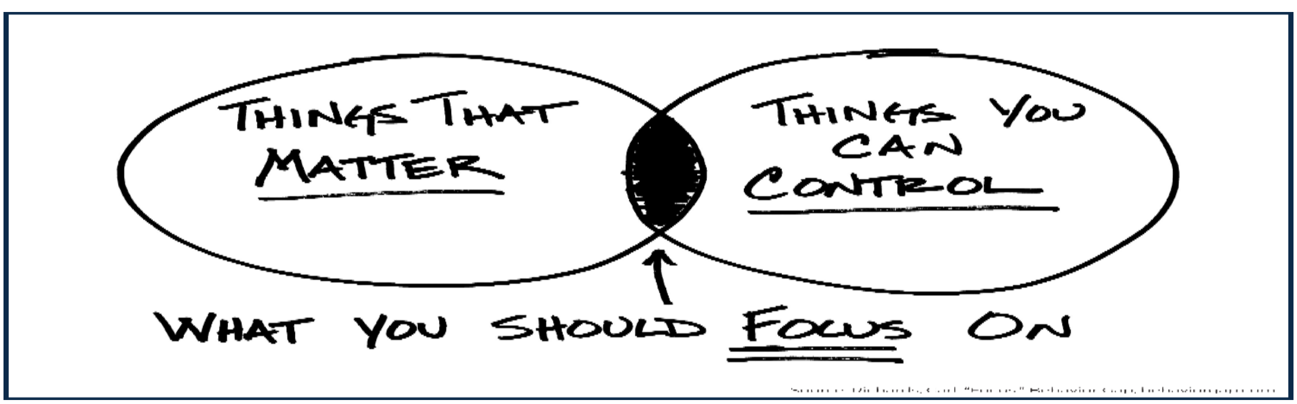
Advisor Fact over Advisor Fiction – Know the Difference

Thomas Schneeweis

February, 2022

Many financial firms produce research that suggests the value of working with a Financial Advisor. While the benefit of working with a Financial Advisor varies by person and Advisors are legally prohibited from promising returns that are not consistent with risk, some of this research suggests people who work with a Financial Advisor feel more at ease about their finances and could end up with about 15% more money to spend in retirement (A Vanguard study Whitepaper "Putting a value on your value: Quantifying Advisor's Alpha" (August 16, 2019)). This greater potential nest egg from working with an Advisor is due, according to the report, to a 3% higher annual return of an Advisor supervised investment plan than a self-managed investment plan. However, this higher return, according to the study, was not based on the higher investment return of Financial Advisors. In fact, the study concluded that from historical evidence, the Financial Advisors' benefit in terms of higher return for the portfolio is more Financial Fiction than Financial Fact. According to the study, the overall benefit of Financial Advisors was based less on their investment ability than on their personal support and relationships.

The Vanguard article itself points out that the overall benefit of Financial Advisors may vary significantly depending on the client's circumstances. The following chart by a 'well know' Financial Advisor (Carl Richards), who uses figures to promote financial advice, emphasizes that point. Your Advisor should not emphasize investment return but should help you determine those issues that are of real significance to you and focus on ways to control the risk surrounding those issues. In short, to reduce the impact of issues that do not matter and find ways to control the risk of issues that do matter.



Financial Literacy: First the Good News and Then the Bad

Thomas Schneeweis

March, 2022

In January 2021 the TIAA and the Global Financial Literacy Education Center at George Washington University conducted its on-line Financial Literacy exam. Beyond providing a measure of overall financial literacy, the *P-Fin Index* is unique in its capacity to produce an analysis of personal finance knowledge across eight areas in which individuals routinely function. The index is based on responses to 28 questions, with three or four questions for each functional area:

1. Earning—determinants of wages and take-home pay.
2. Consuming—budgets and managing spending.
3. Saving—factors that maximize accumulations.
4. Investing—investment types, risk and return.
5. Borrowing/managing debt—relationship between loan features and repayments.
6. Insuring—types of coverage and how insurance works.
7. Comprehending risk—understanding uncertain financial outcomes.
8. Go-to information sources—recognizing appropriate sources and advice.

There were a wide range of filters that could be applied to those taking the exam to get a sense of the extent of financial literacy. For those who are interested the report is available on the internet. The purpose of this short blog is to offer a brief oversight of the percent of various Americans by age, gender, education etc. who answered the set of 28 questions asked across a range of financial questions. First the good news, a portion of U.S. adults could answer at least 50% of the multiple-choice questions correctly. Now the bad news, about half of the adults asked answered at least 50% of the questions incorrectly. In short, we are asking Americans to review their financial future and to discuss that future with other adults when for all practical purposes they too may be financially illiterate.

Educational institutions, financial firms, etc. should be ashamed. We have for all fundamental purposes failed to educate Americans on primary areas of finance and yet continue to offer them financial products for which they assume the reading public have a clue as to the benefit of those products. This could be a good time to start.

The 2021 TIAA Institute-GFLEC Personal Finance Index Paul J. Yakoboski, TIAA Institute Anna maria Lusardi, The George Washington University and Global Financial Literacy Excellence Center (GFLEC) Andrea Hasler, The George Washington University School of Business and Global Financial Literacy

Who Do You Trust?

Thomas Schneeweis

April, 2022

As a Chaired Professor of Finance Emeritus, I have found that I can often and quickly give the impression that I am knowledgeable about a wide range of finance issues including investment management. In fact, since leaving the island of academia I have found that the real world of finance and in particular investments often requires a level of specific knowledge that is often not found on the island of academic. In the practical world of finance, there are a number of firms (Registered Investment Advisors) whose expertise and knowledge are more centered on the practical issues of investment and how it affects the investing public. For instance, a review of many RIA (Registered Investment Advisor) firms shows that they provide a brief overview of their process of introducing their firm to their potential clients. Often these firms maintain that they can simplify your financial life by 1) Gathering all important material, 2) Providing expertise in a set of subjects (Financial planning/Retirement income planning/Tax strategies/Investment management/Estate planning/Insurance …) and 3) by creating a financial plan that is once determined with their help will guide you through your life process overtime. In short, they will always be there – But Will They.

- Each RIA makes their promises, gives a brief review of their resources and provides a welcome introduction. In fact, most of these firms change over time, add or subtract new clientele and resources, and concentrate only on areas that clients may be familiar with. Advanced areas of investment and expertise are often left offline and are introduced only if their clients request.

- The simple fact that multiple firms may meet the above is illustrated in that firms (e.g., smart assets) exist which offer investors a list of potential RIA suitors. Questionnaires are used to determine the characteristics of potential investors and to suggest firms that may match those needs. The simple fact that the introductory questions may not provide enough information is discussed in earlier blogs, but most individuals are not educated enough to determine the expertise of the selection team or the firms selected.

- The final determination comes down to a simple who do you trust – but with little knowledge of the investment area what should be the basis for this trust. One suggestion is just ask some hard questions. For example, ask if the advisors use not only traded stocks and bonds (or mutual funds) but newer financial forms, etc. If they do not, move on.

Often two of the most often referred to sites for reference are the Barrons and Financial times references.

The follow is the comment these two sites from a large RIA (Financial Engines): The 2021 Top 100 Independent Advisory Firm Ranking issued by *Barron's* is qualitative and quantitative, including assets managed, revenue generated, regulatory record, staffing levels and diversity, technology spending and succession planning. Firms elect to participate but do not pay to be included in the ranking. Investor experience and returns are not considered.

The *Financial Times* FT 300 Top Registered Investment Advisers list is an independent listing produced annually by the *Financial Times* (July 2020). The FT 300 is based on data gathered from RIA firms, regulatory disclosures and the FT's research. The listing reflected each practice's performance in six primary areas: assets under management, asset growth, compliance record, years in existence, credentials and online accessibility. This award does not evaluate the quality of services provided to clients and is not indicative of the practice's future performance.

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Is Average Best?

Thomas Schneeweis

May, 2022

I have recently updated an earlier research piece of mine, entitled Mahtomedi Education: In Search of Excellence (2014). The results are startling. In general, across all school districts there has been a drop in test scores. There is a wide range of possible bases for this, the change in demographics, economics, covid and the related changes in American Society but that is not the specific answer for Mahtomedi. Based On test scores, the school district falls from one of the top five in the state to one that barely makes in the top third across a range of educational specialties.

Now I understand that this may not be of particular concern for all families. In fact, for certain households in the district, the relative decline in test scores may not reflect a decline in Academic Excellence but merely the problem in the use of the historical test scores as a basis for determining excellence. In fact, many individuals in the district may argue that previous academic administrations concentrated on promoting an agenda that focused on a narrow set of students. That the previous educational focus never focused on Academic equality but instead promoted a bias agenda and on a more specific level emphasized an academic agenda that reflected a bias past (e.g., STEM focus) and failed to create an environment that permitted a wider set of students to succeed. In fact, the current administration focuses on a current program in which the average student feels more in tune with the school and the society they now live in.

There are, of course, a number of other residents who believe that this focus on touching all students reflects an academic system that is willing to disadvantage the best at the benefit of the less skilled or less fortunate. They may not support the current efforts at widespread educational equality. Others see the emphasis on creating a more average set of norms as creating a more average set of students who learn to live and learn together without the historical animosity that search for the best at the potential impact on the less fortunate creates. They support a process that focuses on raising those at the bottom at the cost of lowering the number at the top was in fact more beneficial to all across a broad set of goals and may eventually create a higher level for all. While some may fall short, "Average is Best." But we must remember even the average is the mean from a set of individuals who are not all equal. What to do?

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Right Questions/Right Answers

Thomas Schneeweis

July, 2022

In recent weeks I have had the opportunity of reviewing various sources of information as to the quality of various investment sites, registered investment advisors, and other sources of information as to investment advice. The basis for this concern is that I increasingly find that many finance web sites concentrating on 'introductory' areas that may be of interest to the average investor, but which fail to present many of the real issues of concern to investors. For example, in a recent document, the firm in question attempted to show its true sensitivity to the retirement issue, by addressing the issue of when to apply for social security. Their graph simply illustrated the difference between the money received if one retired at age 65 (approximately $1000 per month or $12000 per year) in contrast to waiting until age 70 ($1300 per month or $15600 per year). According to the document this indicated their expertise in retirement by helping one decide on retiring later (after age 70) and the increase in monthly payments. In fact, the greater level of future social security income was dwarfed by the amount the investor received over the years before 70. The following are a couple of questions that might help in determining the actual qualifications of the firm or analyst.

1. What is risk and how one defines it. This firm offered some specific measures that supposedly offered measures of "statistical risk for an investor's portfolio". The firm offered a particular measure for an investor's portfolio called Standard Deviation but offered no definition of how to measure it (daily data, monthly data), what period to measure it (one year two years) or how to evaluate it (greater than 2 and what that means).
2. When asked what the sensitivity of the investor's portfolio to general market movements was, the firm was again less than specific. They mentioned a firm's beta but offered no evidence of how to measure it or what index you used to measure it against.
3. When asked for an illustration of how the beta may change over time, they simply showed us a book. When I asked if the beta changed based on the level of the index return, they said they would have to bring in a different book.

I understand that for many firms, the fundamentals of investment are of little concern if for no reason that most investors simply have little knowledge or simply never ask proper questions. The investor expects the firm to know the right answers but in fact the firm often does not even know the right questions.