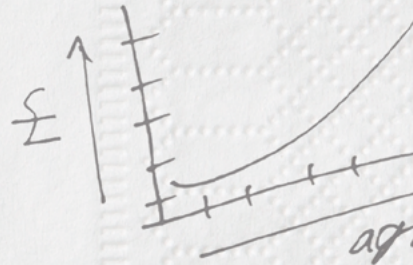


$W_t = 0/S$   
do I have permission to  
~~enjoy~~ what I've built?

Rule of  
375  
£1.00

# The Back of a Napkin Financial Plan

and Other Essays



What am I doing  
increase w

- salary  
- dividends  
- pensions etc.

Earn	Spend
Own	Owe

Expenses  
- mortgage  
- bills  
- holiday

- properties  
- pensions  
- cars



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# Introduction

This collection brings together many of the articles I've written during my Dimensional career. Essentially, they all try to convey the same simple message: financial advice is valuable and transformative.

At its heart, financial planning is a storytelling profession. Behind every pension calculation, cash-flow projection or investment portfolio is a human story—a hope, a fear, a transition, a dream. The numbers matter, of course, but it is the narrative that gives them meaning. A good financial plan is really a story about a life: where it has been, where it is going and what it could become with clarity, discipline and a little courage.

That is why stories have played such a central role in the way I've written and spoken about Dimensional's work with the financial planning community over the years. A well-crafted story cuts through complexity. It makes the abstract feel understandable and the overwhelming appear manageable. And although I have often leaned on my own experiences as the lens through which to explore these ideas, I know from the feedback I've received that these stories reflect a shared experience that has resonated with many readers.

At the heart of the collection is “The Back of a Napkin Financial Plan.” It is adapted from a presentation I’ve delivered many times, and I wrote it to answer a simple question: How do you explain the value of financial planning to people who don’t realise they need it? Often, the answer could be illustrated using nothing more than a piece of paper, a pen and a few simple sketches. That article—and the pieces surrounding it—capture something essential about how I think about financial planning: it doesn’t have to be complicated to be transformative. It establishes a sense of control. It gives shape to choices. It anchors people to what matters most.

Some pieces in this collection have become particular favourites of mine. “The Time Traveller’s Financial Planner” explores the sometimes uneasy relationship between our past, who we are today and who we hope to become. “The Flight Plan” compares the role of a financial planner to that of a commercial airline pilot, illustrating how shared language and familiar frameworks help communicate unfamiliar concepts. And “Navigating a Whiteout,” a tale of being lost on a mountain and guided to safety by an expert, became a metaphor for the steadiness and judgement advisers bring to their clients’ most uncertain moments.

A consistent theme that runs through all these essays is that financial planning is a human profession supported by technical components—not a technical profession with occasional human interactions. It requires technical competence, of course, but also empathy, curiosity, patience and the courage to ask meaningful questions about what people truly want from their lives. As I wrote in the closing piece of this collection, “The Last Day”:

***“Great financial planners are not simply advisers, they are the architects of freedom, the curators of possibility and the guardians of peace of mind.”***

If these articles resonate, it is because advisers recognise themselves in them: their dedication, their clarity, their compassion and their ability to help clients face the future with confidence. My final hope is that these stories, if nothing else, will inspire you to write your own.

David Jones  
December 2025

*David Jones joined Dimensional in 2009 and retired at the end of 2025 as Head of the UK and Ireland Advisor Group.*



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## CHAPTER 1

# The Financial Planning Formula



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# The Financial Planning Formula

How do you explain the value of financial planning to people who don't know what it is? Why it matters, and why it's worth paying for?

On the one hand, it's simple.

On the other, it's really not.

The concept of financial planning is straightforward: help people use their money to live better lives, especially once they stop working. But the practice of doing that well, and the ability to explain its value to someone who's never experienced it, is anything but. It's a problem I've wrestled with for years, so much so that I even attempted to write a PhD dissertation on the subject.

One afternoon, as I was grappling with how to condense all the aspects of financial planning into an easily communicated framework, I wrote this formula in my notebook.

$$V_{fp} = (K_a + O + Bm)^r$$

Of course, it's not a formula in the true sense of the word. I can't plug data in to get a result. What it does allow me to do is explain to someone what financial planning represents. And, since that first afternoon, I've tried unsuccessfully to improve upon it.

However, before we examine the formula in more detail, let's take a step back. Because to understand where this idea came from, you need to know a bit about how I learned to think in the first place.

## **Filters and Prisms for the Mind**

When I went to university, part of my undergraduate degree and, later, my master's degree were in military studies. Contrary to what you might think, this wasn't focused on the history of battles and campaigns but on the psychology of decision-making, the complexity of organisations and the logistics of strategy. Most importantly of all, we were taught the power of critical thinking and analysis under some of the most extreme conditions humans can experience.

On our very first day of class, our professor told us something I've never forgotten: "Everything you've learned until now has been about memorising what other people told you and reproducing it in an exam. That's how you got here. From now on, your job is to think for yourselves. And to do that, you're going to need filters and prisms for the mind."

He explained that filters help you sort information. They sharpen your perception. They help you decide what to keep, what to discard and what to question. And prisms? They change how you

see. They allow you to take the same raw material as everyone else—but view it from a new angle, with different light, and uncover something others might miss. The process of learning, he said, was to craft increasingly refined filters and prisms.

That first lesson changed the way I approached everything from then on, and I've carried it with me nearly half a century. It has been especially useful for my professional life in the world of investments and financial planning.

## **The Problem with Talking About Value**

Fast-forward a few decades, and back to the aforementioned PhD on the value of financial advice (abandoned for reasons of time and sanity). I was driven by a question I couldn't shake: what is it that financial planning represents that creates tangible value? Not just in terms of performance—but in terms of clarity, confidence, behaviour, organisation, outcomes.

I wanted to strip the work back to its essence. To build a framework: a filter or a prism. I tried mind maps and charts. I tried layering concentric circles in overlapping Venn diagrams. Nothing felt quite right.

And then one afternoon, I found myself sketching the formula I mentioned above. As I've said, not as a mathematical construct, but as a compressed idea. A shorthand. A memory device that could hold a lot of meaning in a small space.

Breaking it down into its component parts, here's what it means:

$$V_{fp} = (K_a + O + Bm)^r$$

**V<sub>fp</sub>** = Value of financial planning

**K<sub>a</sub>** = Application of domain-specific Knowledge

**O** = Organisation

**Bm** = Behaviour management

All raised to the power of **r**—the relationship.

Let's take those one at a time.

### ► **Knowledge, Applied (K<sub>a</sub>)**

Most clients are smart, and many are well educated, highly literate and/or highly numerate. They may be lawyers, accountants or experienced businesspeople. But they are not financial planners, and what they lack is the domain-specific knowledge about pensions legislation, tax wrappers, risk profiling, asset allocation, portfolio construction and estate planning that a planner has accumulated through their years of study and real-world experience.

For the planner, their technical knowledge is their tool kit. But this knowledge isn't enough on its own. The key is in its application. That means knowing how to use the right tool, at the right moment, in the right way to create the right outcome for a specific client. In other words, the application of domain-specific knowledge to a client's unique situation—that's where the real value is.

## ► **Organisation (O)**

This part is often underestimated, especially by clients themselves. People don't just need advice—they need order. Their paperwork is everywhere. Their investments are scattered. Their goals are vague. Their understanding is incomplete. They're overwhelmed.

One of the greatest gifts a planner provides is structure: sorting, simplifying, prioritising, coordinating. Helping people move from "I haven't a clue what all this means to" to "I now understand where I'm at."

I'm sure all planners are familiar with the scenario where prospective clients come to the first meeting with carrier bags of financial paperwork—everything from pension statements to the gas bill. It happened to me all the time when I was a planner, and it never failed to surprise me just how much peace of mind you could create for a client by sorting through their paperwork, neatly filing the important stuff and discarding the rest. It taught me that providing clients with the feeling of being organised was the basis for them to give me their trust.

## ► **Behaviour Management (Bm)**

Clients don't always make rational decisions, especially when stressed. Markets drop, the news is screaming at them to "get out now" and the impulse to do something—anything—is strong. The planner's job is often to help them by providing clarity, not emotion.

In many cases, this is the difference between a successful plan and a derailed one. It's not just about managing money; it's about managing behaviour.

### ► **Relationship (r)**

Already, our formula,  $K_a + O + Bm$ , is strong. But placing it in parentheses and raising it exponentially by the power of (r)—the relationship—is really transformative. Because you can have all the technical knowledge you'd want, provide perfect organisation and coach impeccable behaviour, but if there's no relationship, none of it sticks.

When trust is high, everything works better. Conversations go deeper. Your advice is accepted. Decisions get made, and your client relaxes. The value of everything—knowledge, organisation, behavioural coaching—is amplified. That's why the formula ends with an exponent.

## **Why This Formula Matters**

The Value of Financial Planning formula isn't perfect. It's not mathematically precise—you can't plug numbers into it and get a result. But that's not the point. It's a tool for communicating complex concepts in a simple format. A prism for seeing your work, and its value, more clearly.

Once you've got that clarity, it becomes easier to explain your role to clients, to colleagues, and even to yourself. Because financial planning is more than picking funds, setting budgets or completing paperwork. It's a profession that sits at the intersection of money and meaning—where skill, structure, psychology and relationship combine to create something that genuinely improves people's lives.

And it all starts here, with one formula:

$$Vfp = (K_a + O + Bm)^r$$

The value of planning is what you know, what you organise and how you guide behaviour—all raised to the power of trust in a relationship with someone who cares about the outcome for each and every one of their clients.



## CHAPTER 2

# The Back of a Napkin Financial Plan



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# What Clients Want, and What Clients Need

How often does a client or prospect come to you with a simple request—"I just want this ... [fill in blank]"—but you know that what they need is something very different?

Imagine a doctor confronted by a patient who says to them: "I just want to get this prescription renewed." It's wise to ask them some questions first, which in turn start to ring alarm bells. What this person actually needs is a thorough medical examination, some comprehensive blood work and perhaps a prescription for some better lifestyle choices.

It's no different for financial advisers. Many conversations with a new prospect start with what seems like a straightforward request:

"I just want to sort out this old company pension I'd forgotten about."

"I just want to invest this small inheritance in an ISA."

"I just want ..."

The client believes they're facing a simple task. A loose end to be tied up, a form to complete, a product to be selected, a transaction to be done. But the financial professional knows that it's rarely that simple. A few questions later, and alarm bells are going off in the adviser's diagnostic brain. This person has no meaningful pension provision; they are woefully underinsured and their spending is unsustainable. What they need is a comprehensive financial plan, some appropriate financial products, a prescription for some better financial lifestyle choices and the discipline to implement them consistently. All things that the adviser is best placed to help with.

And herein lies the adviser's quintessential problem:

How do you communicate the value of financial planning to someone who doesn't think they need it?

In the 20 years I worked as an adviser, I found that you couldn't tell people they needed a comprehensive financial plan; you had to provide them with a simple, yet profound, demonstration of its value. This would lead them to that "a-ha" moment of revelation—a financial plan was exactly what they needed.

I fully acknowledge that financial planning can indeed be complicated—and very daunting for the uninitiated. It requires qualifications and experience, and an understanding of the technicalities of pension legislation, tax, asset allocation, investment selection and insurance. Moreover, it requires the ability to employ the right tools, such as cash-flow planning software, to illustrate potential outcomes and model uncertainty.

Fundamentally, however, I believe the basic elements of a financial plan to be simple. So straightforward, in fact, that I could sketch them on the back of a napkin in the time it takes to have a conversation over a cup of coffee. A few basic levers—what you earn, what you spend, what you own, what you owe—summarised in a clear illustration that leads to the big reveal: “In the future, when you are no longer working and earning, what you have saved and invested will have to pay for what you spend.” It’s enough to make them pause and think: “No one’s ever shown me that before.” And in that moment of clarity, that’s when they start asking the right questions—like: “Do I have enough?” Now they’re ready for planning.

I would always tell people that the simple plan I sketched on the back of a napkin is not a financial plan—it’s the doorway into a proper conversation and the start of a financial planning process. When they would ask, “What can I do about it, what’s the next step?” I would invite them to come to the office with their financial documents and their partner, if appropriate, so we could start the process of getting them on the right track.

When you show them something they’ve never seen before—a clear view of their financial life on one piece of paper—they stop saying, “I just want to ...” and start asking, “Can you help me figure out if I’m going to be ok?”

And that’s when you know you’ve earned the right to do the real work.



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# The Back of a Napkin Financial Plan

In the years I worked as a financial planner, I frequently observed that many of the people who came to me for advice didn't have a clear picture of their financial lives. Indeed, most are so unconscious about their money (provided they think they have enough) that they can't answer basic questions about their finances, like how much they spend on a monthly basis.

People often have a very fragmented view of their finances. Obviously, they have bits and pieces: income, bills, savings or investments, pensions. But unless they work with a professional who can create a comprehensive financial plan for them, they seldom look at the whole picture. They assume it's going to be complicated. And in some ways, they're right.

That is why, when I was working with a new potential client, I often started with a simple framework sketched literally on the back of a napkin.

The reason this is possible is because the core of every financial plan—the beating heart of the whole thing—is actually incredibly simple.

It fits on a napkin.

It fits in your head.

It fits around four words:

Earn. Spend. Own. Owe.

That's it. That's the model. That's the map. Everything else—the spreadsheets, the platforms, the pensions, the asset allocations—is just detail.

So to take you through the actual sketch, I would start by drawing a simple cross, creating four boxes.

In the top left, I write "Earn."

Top right: "Spend."

Bottom left: "Own."

Bottom right: "Owe."

That's it. Four words. Four moving parts. The entire shape of a financial life. Now, if you've got a background in finance or accounting, you'll recognise this as a hybrid of an income statement and a balance sheet. But I don't use those terms with clients—because most people don't. This is simpler. More human. Everyone understands earn, spend, own and owe.

Earn.	Spend.
Own.	Owe.

The whole of your financial life on a napkin—and a simple rule for working out what you’ll need.

## A Quick Tour of the Four

If we look at the four key elements, **Earn** is everything coming in: salary, dividends, rental income, pensions. It’s what funds your lifestyle today.

**Spend** is everything going out: the mortgage, food, heating, Amazon, holidays, nights out, the works.

**Own** is what you’ve built up: your home, pensions, individual savings accounts, investments, savings—everything that has value and belongs to you.

And finally, **Owe** is everything you’ve borrowed: mortgages, credit cards, car finance, student loans.

These are four simple ideas. But when you map them out on a napkin, the effect can be surprisingly powerful. Suddenly, your potential client sees their financial life as a whole. They can spot imbalances. Patterns. Risks.

And that's when I offer the reveal—the idea that shifts the conversation completely:

“When you retire, what you own will have to pay for what you spend.”

## **The Shift That Changes Everything**

This is the moment that lands hardest. Because most people, for most of their lives, rely on the Earn box to pay for their Spend box.

They don't think much about the bottom two boxes—Own and Owe—because they don't need to. As long as the income keeps coming in, everything feels manageable.

But when work stops—or slows down—the Earn box shrinks. The Spend box doesn't. If anything, it might get larger: travel, hobbies, helping family, health costs, inflation.

So what's going to fund it?

That's the shift. The dependency moves from Earn to Own. Your assets—pensions, savings, investments—are now responsible for delivering the income you'll need. If they're not up to the task, you have a problem.

## So ... How Much Is Enough?

The question that follows, almost every time, is:

“OK, but how much do I need?”

That’s when I introduce a simple rule of thumb. It’s not a formula. It’s not exact. But it’s memorable, and it gets people thinking in the right way.

I call it the Rule of 375.

The idea is this:

To generate £1,000 per month in retirement income, you’ll need roughly £375,000 in capital set aside.

So if your desired retirement income is £3,000 per month (after the state pension), you’re going to need around £1.125 million.

Now, before the planners and compliance teams panic—yes, this is just a heuristic. It’s based on a set of reasonable but simplified assumptions: a 4% sustainable withdrawal rate, adjusted for inflation, net of fees and taxes, starting at retirement age.<sup>1</sup>

It’s not a plan. But it’s an eye-opener.

Because suddenly people realise:

Their retirement spending target needs to be specific.

---

1. The Rule of 375 is based on the “safe withdrawal rate” concept, where a retiree can sustainably withdraw 4% of their capital per year without depleting it too quickly. To generate £12,000 a year (£1,000 per month), divide £12,000 by 0.04 = £300,000. Add a margin for taxes, fees and a cushion against market volatility and inflation—and you arrive at a practical rule of thumb: £375,000 per £1,000 per month.

The capital required to support that lifestyle might be higher than they thought.

They now have a reason to pay attention to the Own box.

And they start to ask better questions:

“How far off am I?”

“How long have I got to close the gap?”

“What am I doing today to increase what I own?”

## **Why This Matters**

People come into financial planning conversations with fragmented ideas—questions about pensions, investments, ISAs, tax, retirement ages.

But when you start with a napkin and a pen and give them this framework—Earn, Spend, Own, Owe—everything starts to make sense. And when you layer in the Rule of 375, they suddenly have a way to connect the present with the future. Their money starts to have context.

That’s what they really need from us. Not just product selection or performance reporting.

Clarity. Structure. A way to think.

And it starts with four boxes, one big insight and a rule that fits in your back pocket:

When you retire, what you own will have to pay for what you spend.

The Rule of 375 tells you how much that might be.

Simple. Clear. Transformational.



---

# Unconscious Money: The Four-Question Test

A simple Back of a Napkin Financial Plan can be used to communicate the value of financial planning to people who don't think they need it. Of course, this isn't a real financial plan—more the doorway into a proper financial planning discussion. It's designed to ensure the audience experiences the "a-ha" moment of revelation about the value of financial planning, so that they will then take some positive action.

Alongside providing an understanding of the mechanism by which financial planning works, communicating the value of planning is critical for a second reason: the vast majority of people who think they have enough money are woefully unconscious about it.

This seems so counterintuitive, doesn't it? You would think that people would know where their money goes. They earn it. They spend it. They owe it. Some even save or invest a bit of it. But time and again, when I ask four simple questions to test my theory that people are "cash clueless," I get the same result: almost everyone fails. Over the past 25 years I have asked these questions of thousands of people, in venues ranging from small seminars to large conferences. And yes, in case you were wondering, the financial planning community fares no better than the general population.

## An Uncomfortable Truth

The four-question test evolved out of many conversations I had with clients back in my advising days, when I was trying to shift their attention from the minutiae of investment selection or fund performance to focusing on the basics: their spending patterns or whether they were even saving enough. If they didn't have a grasp of that in the present moment, I thought, what were the implications for their spending needs in retirement some 10, 20 or even 30 years down the road? Not good! And asking the four questions generally revealed to them the uncomfortable truth—that they were indeed unconscious about their money, and they needed to wise up.

When I used to demonstrate this with large groups of people, I would invite everyone to stand and then sit down if (when) they couldn't answer a question. So that you can experience the power of those questions for yourself, let's ask them now.

The first question is really simple: "How much cash do you have on you at the moment, in your pocket, your purse or wallet? Not "about" how much—exactly how much?"

The second question is related, but a little more challenging: "The last time you took £100 from a cashpoint machine, what did you spend it on, exactly?" Typically, in a large group, about half the audience would have sat down at this point. But more recently almost everyone stays standing. What's going on? Of course, technology has changed the way we interact with cash, so nowadays I have to ask a supplemental question: "The last three times you tapped your phone or watch on a card reader, what did you spend, exactly?" That does it: more than half of the room is now out of the game.

The third question accounts for almost everyone else: “What did you spend last month—and I’ll cut you a little slack—to the nearest £100?” Often, at this point, everyone has sat down, looking somewhat ruefully around the room at each other.

I ask the last question for the one or two still up: “What do you plan to spend next month?” Game, set and match.

How did you do?

Occasionally, if someone was still standing at the end, I would have the opportunity to ask them, “What’s the benefit of knowing?” The answers were very consistent:

“I can enjoy my money knowing that I’m in control of it.”

“I don’t have to worry about whether I’ll have enough to retire on.”

“We never argue about money.”

Isn’t that interesting? Rather than the penny-pinching Scrooge-like characters we might have imagined passing the four-question test, we have people who feel relaxed and in control of their futures. People who have peace of mind about their finances.

Then I would ask, “Who do you think does know the answers to these four questions? Who has to be very conscious of their money?” The answer is, of course, those who do not have enough. People who scrape by from month to month. Not for them the nice choices about where to go on holiday, or where they might eat out tonight. No, they are having to make heartrending tradeoffs between eating and heating, or whether they can afford the extra cost of a school trip, or fix the boiler without resorting to a payday lender.

## Tradeoffs in Retirement

The problem for people who are comfortable enough to be unconscious about money is that without proper planning, a life of conscious tradeoffs awaits them in retirement. And the behavioural finance literature tells us that change in circumstances is likely to feel very painful. As Professor Robert Merton has often remarked, people want to enjoy a standard of living in retirement similar to that which they enjoyed in the latter years of their working lives.<sup>2</sup> Sadly, for many, this is not going to be the outcome.

Ultimately, what the Back of a Napkin Financial Plan is designed to do is provide a salutary wake-up call encouraging people to start the conversation and take positive action whilst there is still time. And it all starts with four simple questions.

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2. For example: Robert C. Merton, "Observations on Financial Education and Consumer Financial Protection," *Life-Cycle Investing: Financial Education and Consumer Protection*, corrected January 2013.

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# Wt = 0 / S: How to Help a Retiree to Enjoy Themselves

My father never talked about money.

He was of the generation born in the 1920s, whose childhood experience was shaped by the legacy of the Wall Street crash and the Great Depression that followed. He believed firmly that money was a private matter. You didn't talk about what you earned or what you had, and you certainly didn't talk about what you owed.

Even when I became a financial adviser, we never had a real conversation about his finances. He just didn't think that way.

But that all changed after my mother died and I helped my father, as executor of her estate, complete the probate application. I had built a simple Excel model to help with the valuations and, for the first time in his life, he saw the power of a spreadsheet in action. From that moment on, something shifted. That simple spreadsheet opened a doorway into deeper conversations about his finances.

Soon I was helping him track his investments. Every month or so, I'd give him an update: how things were going, what was changing, how it all fit together. It became our routine—almost a bonding ritual. Then, one day, while reviewing his portfolio, I said something that surprised him: "Dad, you know ... you really are a wealthy man."

He was startled. He didn't see himself that way at all. He had no mortgage, a good final salary pension and a decent amount in savings and investments. But "wealthy"? That didn't sit right with him at all.

"Don't be ridiculous," he said. "I've got some money, but I wouldn't call it wealth."

That's when I realised we had two completely different perceptions of what it meant to be wealthy. He was thinking in terms of quantum—the absolute size of the pot. I was thinking in terms of time—how long that pot could sustain his lifestyle.

So, I picked up a scrap of paper and drew a formula.

$$Wt = O / S$$

Wealth, measured in time (**Wt**), is what you own (**O**), divided by what you spend (**S**).

It's a simple idea, but it changed the whole conversation. Because now we could talk about wealth in terms of time, not just money.

"Dad, if you have £1 million in the bank, are you wealthy?"

"Absolutely."

“But if you spent £100,000 a week, you’d run out of money in 10 weeks. By most people’s standards, that’s not wealthy at all. On the other hand, although you have a modest portfolio and a reasonable income from your pension, you actually spend very little, and so you may have far more ‘time-wealth’ than you realise. In fact, unless you suddenly start spending like crazy, you will never run out of money.”

That back-of-an-envelope formula unlocked one of the richest conversations I ever had with my dad.

We talked about his real concerns—not just about his share portfolio or the markets, but about leaving a legacy for his children and grandchildren. About the rising cost of care homes. About whether he could afford to replace his ageing car. About whether it was “indulgent” to take short holidays now that he was on his own.

And gently, I used the formula to reframe the situation:

“You’re not going to run out of money.”

“You can afford to upgrade your car.”

“You can afford to enjoy yourself.”

Eventually, he did. He booked more trips. He replaced the car. He gave more freely to his grandchildren and to charities that were dear to him. And I think he enjoyed it, not just the spending but the permission to do it without guilt or fear.

That’s the power of helping someone see their money in terms of time rather than just pounds and pence.

## Framing the Conversation

Advisers tell me all the time that one of the biggest problems they have with retirees is getting them to spend and enjoy their money. Many clients struggle with the idea of “how much is enough.”

The  $Wt = O / S$  formula is not a financial plan. But it’s a powerful way to frame a conversation. It prompts questions such as:

- ▶ How far could my assets take me?
- ▶ Am I spending at a sustainable rate?
- ▶ What lifestyle could I afford if I made a change?
- ▶ Do I need to grow my assets—or just manage my spending better?
- ▶ And perhaps most importantly: do I have permission to enjoy what I’ve built?

As planners, we often work with complicated cash-flow models, spreadsheets and projections. But sometimes, what clients need is a simple framework, something they can hold in their head:

Wealth, measured in time, is what you own, divided by what you spend.

That’s it. And when that idea lands, it opens up space for deeper conversations about security, freedom, purpose, generosity and peace of mind.

That’s where real planning begins. Sometimes, all it takes is a scrap of paper—and a little courage to talk about what really matters.

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## Don't Get Fooled Again: Assessing a Friend's Big Investment Idea

Picture the scene: you're at a social gathering, perhaps a dinner party or a barbecue. After the small talk is exhausted, someone brings up their latest investment enthusiasm—maybe a new cryptocurrency, or their friend's new venture in distressed real estate tokens—and they talk excitedly about the stellar gains to be made with minimal risk because (all together now) “this time it's different.”

Then someone remembers you work in something to do with money. They turn to you and ask: “What do you think? Is it a good investment?”

I've had this conversation many times. And I've learned the hard way that people aren't looking for a lecture or an education. They're looking for affirmation or endorsement. So I usually say something like this:

“I'm sure you've done your due diligence, but for me personally, I like my financial life to be uncomplicated, so whenever I'm evaluating something new, I ask myself four questions. If I can't answer them clearly, I don't touch it.”

My four questions are:

- ▶ Will I get my money back?
- ▶ When will I get my money back?
- ▶ What are you going to pay me for the use of my money?
- ▶ How will you do that, exactly?

These aren't technical questions. They're basic, but they cut through hype and FOMO (fear of missing out). Importantly, they allow you to point to a few important definitions that can get lost in the noise. Like, for instance, understanding the differences between an asset (pays you), a liability (costs you), an investment (owes you), a speculation (tempts you) and a scam (fools you).

## **Assets and Their Behaviour**

If I'm going to let other people use my money, I want to understand how they are going to pay me for it and at what risk to my capital. I want to use the basic asset classes that share similar characteristics and that can be expected to behave in similar ways in the market. Cash, property, bonds and equities are the four traditional ones. They each have different risk profiles, income streams and liquidity—but they all meet the basic test of being assets: you are owed a return.

### **Cash**

Pays you interest. It's liquid. It's insured up to a point. You know how and when you'll get it back.

### **Property**

Pays you rent. The value may fluctuate, and it may take time to sell, but everyone can understand how it works.

### **Bonds**

Pay you interest (a coupon) and your capital back at maturity—assuming the issuer is sound.

### **Equities**

Give you a share of company profits via dividends and capital growth. The risk is higher, but so is the potential reward.

These are real assets. You know broadly what you're being paid, and you know how the return is generated.

Now try applying the same questions to something like your friend's latest investment fad.

- ▶ Will I get my money back? Maybe—if I can sell at a higher price.
- ▶ When will I get my money back? Depends entirely on market conditions and sentiment.
- ▶ What are you going to pay me for the use of my money? Nothing. There's no rent, no yield, no income stream.
- ▶ How will you do that, exactly? There's no mechanism. A profit depends on someone else paying more.

This is speculation: putting money into something not because it generates income, but because you hope to sell it for more later. Speculation isn't necessarily wrong—but it's not the same as investing. There's no inherent cash flow and no guarantee of return. It's not an asset. It's a bet. And you're relying not on the thing itself to produce value but on finding someone else, the so-called "greater fool," willing to pay more for it than you paid.

## **As for Scams ...**

If speculation is a grey area, scams are black and white. They often come wrapped in complexity, secrecy or urgency, and they fail the four-question test completely.

They tend to promise high, consistent returns. They discourage questions. They might hint at exclusivity—"you're lucky to be invited"—but when you dig deeper, the business model is missing. There's no audited data. No regulated oversight. No credible pathway to delivering what's promised.

Think of Ponzi schemes, like the one operated by Bernie Madoff. For years, investors believed they were earning high and steady returns. In reality, they were being paid with new investors' money until the whole thing collapsed.

If you can't explain how an investment generates its return, or if the explanation doesn't make sense, then it probably isn't an investment at all. And the more urgent or secretive it feels, the more likely it is to be a scam.

## **Straight Talking**

Ultimately, my simple approach to due diligence doesn't require a Chartered Financial Analyst qualification or a finance degree to protect you from harm. You just need to ask the right questions—and insist on straight answers: Will I get my money back? When will I get my money back? What are you going to pay me for the use of my money? How will you do that, exactly?

If you can't answer those—or if the person pitching the idea can't—you owe it to yourself to walk away. Because good investing isn't about being clever. It's about being clear. If it's not an asset, don't treat it like one. If you stick to that principle, hopefully you won't get fooled again.



## CHAPTER 3

# Listen to the Voice of Experience



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# Something's Gotta Give: The Three-Constraint Problem and the Sunk-Cost Fallacy

*“Two roads diverged in a wood, and I—  
I took the one less travelled by,  
And that has made all the difference.”*

**“The Road Not Taken,” Robert Frost (1874–1963)**

Financial planning, at its best, is not just about investing client assets and growing wealth; it's about helping people make informed choices that align with their goals and priorities. However, helping people make decisions is often much more complex than making a choice between two paths. In fact, it frequently comes down to a tradeoff between several competing priorities. This is where an understanding of the classic three-constraint problem, borrowed from the world of project management, can help provide a useful framework for helping clients make informed choices.

To understand the three-constraint problem, imagine a simple triangle, with cost, quality and time at each of the corners. You can often get a combination of two, but achieving all three simultaneously proves much more difficult. So, if you want to get high quality on a tight deadline, you should expect much higher costs. If you seek to keep costs down, you might need to compromise on quality or allow more time. We can observe the same effect when trading in the stock market, where the three constraints might be the price of a stock, the number of shares you want to buy and the time allowed. Depending on the motivation of the investor, the priority given to one of those elements will impact the others. A focus on price, for example, will require flexibility on quantity or time.

The three-constraint problem—or trilemma—is certainly useful for understanding project management or trading, but how can we apply it to making real-life choices? Here, I can provide a personal example.

Just like any other financial professional with a busy work life and family responsibilities, I am always juggling priorities. However, when I chose to pursue a part-time PhD as well, the addition of another ball in my already precarious juggling act put me squarely in the path of the three-constraint problem. Trying to find time for research while working full time and being there for my family took a heavy toll, where the quality of my work, my PhD or my family was compromised.

Of course, something had to give. I had invested countless hours, money and emotional energy into my PhD, and the thought of letting it all go felt like failure. But I recognised that there was another factor at play, a cognitive trap that's all too common—the “sunk-cost fallacy.” The significant commitment I had put into my PhD urged me to persist, despite the imbalance it was causing. To be comfortable with my decision to withdraw from the programme, I had to separate my past commitments from my present choices and future well-being. Recognising that, I was able to make the difficult decision to abandon my doctoral pursuit, choosing to focus on my work and family instead.

Every day, financial planners are working with clients to help them resolve their own three-constraint problems. They might want to enjoy a secure and comfortable retirement, retire early, but not compromise on their current lifestyle. Well, guess what? Something's gotta give. Life is a perpetual negotiation between our desires and our resources, and the idea that we can have it all is pure fantasy for most of us. Living with the three-constraint problem has taught me that. In addition, the sunk-cost fallacy has shown me the importance of weighing decisions based on their current and future repercussions, rather than clinging to the past.

As I move forward, I carry these lessons with me—in my professional practice and my personal life. The perpetual dance with cost, quality and time continues. But now, I am more prepared, more aware and, perhaps, a little wiser. I know I can't avoid tradeoffs, but I can better choose which ones to make. Standing in the wood, Robert Frost was presented with a simple dilemma—which path to take. But, as we have seen, a trilemma is more challenging and requires a better decision framework. Coming to terms with the knowledge that you can't have it all and being honest with yourself about your limitations allows you, ultimately, to make peace with letting go. And that, really, has made all the difference.

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# Navigating a Whiteout

I took to skiing quite late in life. The first week I spent on the slopes of the French Alps, the weather was perfect: great snow conditions, sunshine and beautiful blue skies. It fooled me into thinking this skiing lark was easy. What I remember most vividly about my second week was being on the mountain in similar blue-sky conditions when the weather changed suddenly. Within a few minutes, I was lost and disorientated, caught in a complete whiteout. By sheer luck, I was found by a ski instructor who let me follow her group and got me safely off the mountain.

**The lesson was clear: if you are going to venture into that environment, you need to be properly prepared, and if you don't know what you're doing, you need to be guided by someone who does.** She was very emphatic on that point.

Navigating the world of investing can be as tricky as skiing down a mountain in a sudden whiteout. Without proper preparation and guidance, you could easily find yourself lost and disorientated. Even when markets are performing well and are relatively benign, you need to be prepared for those times when market conditions—just like the weather on the mountain—can turn without warning.

That's why the role of an adviser is so important, both in preparing clients ahead of time for the unpleasant shocks that will predictably occur and being a trusted guide when they do. It is at times when things are at their worst that, as a profession, we need to be at our best. And there is no better time than during a market downturn to demonstrate the value of your knowledge, skill and experience.

It is experience that is key, because over and above your professional qualifications and expertise, it is also your life experience that can make all the difference to the client relationship. Nowhere is this more valuable than when it comes through helping clients through a storm.

I started working in financial services in 1990. Since then, the UK stock market has achieved an annualised average return of around 7%. Positive years outnumber the negative years by more than two to one, but the negative years tend to stick in the memory: 2000 (dot-com crash), 2008 (Global Financial Crisis) and 2020 (global pandemic).<sup>3</sup>

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3. MSCI United Kingdom Index (net dividends, GBP), 1 January 1990–31 December 2024. MSCI data © 2024, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

For the first one, I was mentored by an experienced adviser who educated me on the value of staying disciplined. The second one, the GFC, was more challenging, but I learned to stick to the plan, tune out the noise and help my clients. By 2020, I was familiar with the routine—staying in my seat had become a habit. So if, as Sir John Templeton said, the four most dangerous words in investing are “this time it’s different,” then perhaps the four most comforting are “we’ve been here before.” To which we might add: “and you’re going to be ok.”

I learned a number of important lessons that afternoon in the Alps, but perhaps the most valuable was that if you are going to venture into an unfamiliar and potentially dangerous environment, go along with someone who knows what they’re doing. And whether it’s skiing down a mountain in a whiteout or navigating the vicissitudes of the stock market—it helps if they speak with the voice of experience.



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## Your Annual Health Score Is Due

Every year, I schedule my regular medical checkup. As I always attend the same clinic, it has become a familiar ritual. The surroundings are calm, the medical staff are efficient and friendly and the doctor who discusses the results is reassuringly objective. After a couple of hours, I leave feeling that almost everything is ticking along nicely. Maybe there are a couple of points I should pay more attention to. But the operative word is *should* rather than *must*.

However, this state of tranquillity doesn't last. Why? Because it seems that alongside my annual checkup, I experience an episode that I have come to know as my "annual health scare." It starts innocuously enough with a minor nigggle that wouldn't usually merit a second thought. Then, however much I try to resist the urge, I inevitably turn to Dr. Google, whose analysis of my symptoms indicates a potentially dire condition. Now, my initial curiosity is rocket-fuelled by anxiety, and I am convinced that something is seriously wrong. Is this a thing? Is this *the* thing? *That* thing?

Fortunately, so far, whenever I have eventually consulted a medical professional, my fears have been allayed and my dread disease explained away with a simple, benign diagnosis.

## Parallels with Financial Advice

Reflecting on these experiences, I see clear parallels with the world of financial advice. The annual review meeting is not unlike the routine medical exam. Everything is orderly and by appointment; the environment is controlled; the data evaluated dispassionately. Hopefully, clients leave these meetings feeling confident and secure about their futures and the financial plans that underpin them.

Contrast this with the anxiety caused by a sudden market downturn or a life event that seems to threaten a client's financial future. Understandably, the initial response is often emotional, sometimes bordering on panic. Like my health scares, the feeling that the financial sky is falling can seem overwhelming. The urge to react, to do something—anything—to stop the perceived pain can be powerful.

Yet, just as with health, financial fears are often based more on emotion than fact. The market dip that looks like a crash. The unexpected event that feels like financial ruin. Without a professional to provide perspective, the situation appears far worse than it is.

Emotion clouds judgement; it distorts reality and amplifies concerns. Just as fear of a serious illness can lead to a spiral of anxiety, the fear of financial loss can lead to hasty decisions that may jeopardise long-term financial health. This is where advisers can serve enormous value to their clients, providing a calm, informed perspective that tempers emotional responses. They can remind clients of the long-term plans in place and the reasons for them, much like a doctor reassures a patient that symptoms are often not as dire as they seem.

It is worth noting, however, that emotional reactions like fear and anxiety are not without their benefits. They can serve as powerful catalysts, urging us to act rather than remain passive. A heightened state of concern can sharpen our focus and expedite decisions, ensuring that important health and financial issues are addressed promptly. Those lifestyle changes we should make, that we promised ourselves we would make, can become the positive new habits we actually do establish.

## **The Antidote to Panic**

Whether it's health or finances, the importance of professional advice cannot be overstated. It is the antidote to the overwhelm or panic that can lead to poor decisions. Whether facing a mysterious health symptom or a sudden financial downturn, the key is to remain calm and consult a professional. Just as the medical diagnosis is rarely as bad as Google suggests, the financial outlook is often not as grim as it appears in a moment of fear.

So, Mr. Jones, when you get your next annual health scare, remember the lessons from your financial experiences. Do not let emotion drive your decisions. Instead, rely on professional advice, stick to the plan and trust the process. This approach not only leads to better health outcomes but also to a more secure financial future.



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# The Flight Plan: How to Tailor Your Message for a Client

## **“This Is Your Captain Speaking ... ”**

One of the essential skills to develop as a financial planner is the ability to tailor your messages to your audience. The problem is that we become so accustomed to the technical terms and financial jargon that we use every day that sometimes we miss that our clients fail to understand us. This informational asymmetry makes it difficult for them to relate what we are talking about to their personal experience.

## **Not All Clients Speak “Finance”**

Over the two decades I worked directly with clients as a financial adviser, I covered an extensive cross section of the community—from dockworkers to doctors, actors to engineers. They all brought varying degrees of existing knowledge and experience to the table. Still, in almost all cases, I found that under the surface, they had huge gaps in their financial understanding. They lacked the requisite domain-specific knowledge that would allow them to deal with all their financial affairs. They were outside their comfort zones, and they needed qualified, professional help.

I found that one of the most effective ways to connect with people, put them at ease and help them understand what I was trying to do for them was to meet them where they were. Specifically, I would start the conversation with what was familiar to them in their world, as that was where they were the most comfortable.

This idea—meeting them where they are—was one of the most powerful lessons I learned from one of my early mentors. It's the ability to connect the financial points you are trying to make with something they are familiar with in their profession. Then, you can accelerate their journey to understanding. But creating the correct analogy or extended metaphor takes a little imagination.

## **Planning Your Trip**

Let me give you an example.

At a recent family wedding, I had a long, pleasant conversation with my nephew, Dan, who has been a commercial airline pilot for a few years. After telling me a few amusing stories about some of his more hair-raising experiences, we got onto the subject of finances and his somewhat rueful admission that he should be doing more to prepare for the future. "But," he said, "I just find it all so confusing; I just don't know where to start or who to trust." Does that sound familiar?

"Relax, Dan," I told him. "It's much more straightforward than you might think. You need to take a structured approach."

"In fact," I said, "planning your financial future is very similar to what you do for a living."

“Really? How?” he asked.

“Well, before you even take off on any flight, what’s the first thing you must do?”

“File a flight plan.”

“And what’s on the flight plan?” I asked.

“All the information, like the starting point, the destination airport, proposed route, the number of passengers, the fuel you’ll need, hazards you need to consider, weather, contingency plans. All of that stuff.”

“Right! Just like a financial plan,” I said. “You need to know where you’re starting from, where you’d like to get to, over what time, how much fuel—I mean savings—you’re going to need, and some contingency planning in case it doesn’t work out exactly as anticipated. If you work with a good financial planner, they take the time to understand your desired destination and put together the plan to give you the highest probability of getting there.”

## **Checking the Fuel Gauge**

“Now, let’s think about your office. By which I mean the flight deck. Whenever I’ve looked through the cockpit door and seen all those instruments you must deal with, I find it scary. There’s just so much information you need to process. How do you even know what you need to look at? You must have a compass, an altimeter, an attitude indicator, an airspeed indicator—I know they are all important, but what’s your most crucial dial?” I asked.

"That would be the fuel gauge," he said without hesitation. "In fact, after taxiing, takeoff and landing, most of the work we do during a flight is spent on fuel calculations and contingency planning, as most of the time, the aircraft is on autopilot. But, of course, there are always times when we have to make adjustments."

"Again, just like financial planning," I said. "You can plan the best flight ever, but the plane isn't going anywhere unless you have enough fuel to get you there and allow you to deal with unexpected emergencies along the way. But the key thing, like on the plane, is to ensure you put enough fuel in the tank. In a financial context, that's your commitment to saving regularly enough. But even if you do save in a highly disciplined way, it's unlikely that you will be able to achieve the sort of returns you need for a successful outcome without investing some of your funds in the stock market."

## **Dealing with Turbulence**

"But that's the scary bit, isn't it?" Dan complained. "You can lose a lot of money if the stock market crashes."

"Well, yes and no," I replied. "Again, your world gives us another great analogy. Every day you are flying people around the world, and if you were to survey the people onboard, what are you going to find? Some of them have a fear of flying. Well, most likely it is not so much the fear of flying, but a fear of crashing!"

"True," he answered.

"Then, during the flight, you experience some turbulence. What does that do for our aerophobic? It confirms all their worst fears about getting on the plane in the first place. But for you, as a pilot, is turbulence a problem?"

"No, it's just a normal part of flying. Most of the time, you aren't really dropping much, it's just the sensation that makes it feel like you are. Like on a roller coaster at the fairground. Plus, modern planes are more than capable of handling even extreme turbulence," said Dan.

"So, what do you tell people?"

"When the seat belt sign is on, stay in your seat with your seat belt fastened."

"Because?"

"Because the people who are going to get hurt, or who are going to hurt others, are going to be the ones out of their seats," he said.

## **Do You Trust Your Pilot?**

"Yet again, Dan, you've just described the typical investing journey as well. Along the way, you are going to experience turbulence—or volatility—and as financial experts, we know to expect it and deal with it. But to the uninitiated, it's scary and confirms all their worst fears, especially about crashing. The answer, again, is to stay in your seat, and the one thing that can help here is the reassuring voice that comes over the intercom:

“This is your captain speaking; just a little turbulence, folks. Things could be a little bumpy for a while, so we do ask that you stay in your seats while the seat belt signs are on.”

The same thing applies when the markets are looking scary—the voice of calm and experience makes all the difference.

“So, Dan,” I said, “if you think about financial planning like your day job, you’ll find it easy to grasp. In simple terms: have a plan, put fuel in the tank, don’t worry about turbulence because it’s all part of the journey and work with someone who understands the importance of regular communications and calm reassurance. And that is the point. Just as I wouldn’t expect to fly myself on holiday, you shouldn’t expect to do this all on your own. A good planner will help you get where you want to go.”

“Since you put it like that, Uncle David, it does seem pretty straightforward. I guess the next question would be: ‘Where do I find someone?’”

As a financial planner, you invest a lot of time and energy to acquire the specialist information you need to be a consummate professional. However, it is not just knowledge for knowledge’s sake. To be effective, you need to be able to apply that knowledge to your client’s unique situation. The more you can tailor your messaging by building upon what is familiar to them, the more successful you can be.





## CHAPTER 4

# Go "One Step Beyond"



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## “One Step Beyond”: Learning the Art of Anticipation

One of the privileges of a long career is the opportunity to pass on some of the lessons from my journey to people who are just starting out on theirs. One question I’m often asked in these mentoring conversations is: “What should I do to be successful?”

Whilst there are many possible answers, I’ve observed that success is positively correlated with three key factors: a capacity for hard work, an appetite for acquiring and applying knowledge and, crucially, the skill of anticipating and fulfilling the needs of others.

The first two attributes, hard work and learning, perhaps need no further elucidation. However, the third one—the art of anticipation—could benefit from some further exploration.

## The Nature of Customer Experience

Let's start with a simple thought experiment, one that I have run with hundreds of people in conferences and workshops over the years.

"Think of a time," I ask the audience, "when you've enjoyed an amazing customer experience, something that really exceeded your expectations. What was it?" As we go around the room sharing examples, a pattern emerges; most of the stories relate to some type of hospitality, often a restaurant or a hotel. Each story, whilst unique, expresses similar themes: it was personal; it was empathetic; it made them feel special. When I explain to the audience that the hospitality industry does an amazing job of building systems and training people to deliver those experiences consistently, I ask them whether, even knowing that, it still feels good to be on the receiving end? The answer is, of course, yes.

Years ago, when I ran my own business, I would start our monthly team meetings with a track from the band Madness, "One Step Beyond." It was our theme song for delivering a great customer experience. However, I remember one new team member who struggled with the concept at first and thought playing the track at the start of the meeting was, literally, madness.

I explained it like this: imagine you've had a hard day at work, followed by a long and tiring commute. When you get home, your partner has made you a drink, run you a bath and dinner is already in the oven. How does that make you feel? "Well," she said, "that would feel pretty special, like they knew what I needed most in that moment."

“Exactly,” I said. “And that’s how we want our clients to feel. Because we are able to go one step beyond and really show them that we care. We care enough to think about who they are and what they need, sometimes before they even realise it for themselves.”

## **The Importance of Empathy**

What does it take to successfully anticipate and fulfil the needs of others? Above all, it takes empathy. You need to have an understanding of who that person is, what motivates them and what is important to them. It requires you to get out of your own head and into theirs, so that you experience the world as they experience it. Going “One Step Beyond” means projecting yourself into the future to look back from there and see what is needed.

Say you are early in your career, and you are an associate supporting a senior adviser ahead of a crucial client meeting. Knowing they are busy, you make sure you understand the depth of preparation required, organise all the necessary documents and prepare a brief on potential questions that might come up in the meeting. This proactive approach not only facilitates a great experience and impresses the client with the team’s efficiency, it also helps the adviser feel more relaxed so they can focus on the client’s needs, rather than meeting logistics.

Similarly, as an experienced adviser, you understand that you can significantly enhance your client relationships by acutely observing what is important to those clients and how they react in different situations. For example, knowing that someone is approaching retirement and is anxious about the impact of portfolio fluctuations on their income, you can react quickly in a market downturn to provide reassurance before the evening news freaks them out. Give them what they need before they know they need it.

"One Step Beyond" served as a constant musical reminder to my team to make "exceeding our clients' expectations" our No. 1 priority. When we did, the feedback and, importantly, the referrals we got from our clients went off the charts.

As the song itself says: "Hey you, don't watch that, watch this." I can't think of one area of business, indeed of life, where a focus on anticipating and fulfilling the needs of others isn't going to help you to be successful.

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# The Most Important Meeting

Which is the most important client meeting? The initial chat and goals exploration? The plan presentation and implementation meeting? Or the regular review? Throughout a lifetime relationship, a planner might have many interactions with their clients. Still, I would argue that the review meeting stakes the claim as the most important.

Why? Suppose we put this in the context of a romantic relationship, for example. In that case, you might ask why an anniversary dinner is more important than a wedding day, the day you got engaged or the first date? The reality, of course, is that they are all important. Without a successful first date, you don't get to a second date, a third and so on, leading ultimately to a long-term relationship.

It's the same with working with a new client. Without a successful first meeting that leads to further engagements where financial plans are built and presented, resulting in the planner being hired, there wouldn't be a client to begin with. So why is the review meeting so important?

Planners should always be working to strengthen the connection with their clients, build enduring partnerships and demonstrate how they continue to add value to their clients' lives. When you consider the lifetime value of a client relationship, as contrasted with the one-off value of a transaction, then the regular review meeting is essential to the ongoing health of the relationship, not least because there is so much going on.

You must cover all the ongoing planning issues. Enquire into and incorporate any changes in the client's circumstances into the plan. You need to deal with all the queries and questions that might come up about issues ranging from fees and service to investment performance. When the world becomes scarier and more uncertain and markets are unsettled, you must deal with real fears and concerns. Ultimately, you want to have your clients walking out of your office with peace of mind and feeling confident in their adviser. Along the way, you will have continued to educate them on the value of an ongoing relationship with you and your firm. As a result, they are happy to continue paying your fees, and they are motivated to introduce new clients into your practice. Therefore, it is no surprise that when I asked one of the UK's leading planners which meeting he thought was the most important, he replied: "The review meeting is 95% of the work."

What, then, are the ingredients for a successful review meeting? According to the leading UK planners I asked, there is no right way to do it. Still, a successful review meeting will typically blend some key ingredients, and the one thing they all emphasised was that preparation is key.

So, let's start with the preparation, or the "mise en place" as it's called in a professional kitchen—meaning literally "to put in place." Chefs spend most of their time on the preparation that goes into cooking a great dish. That's the same for an advisory practice. First, you and your team will gather all the information together, the various reports and talking points you want to go through with the client. Then, you will update the cash-flow report and maybe even prepare a fire drill or a few "what if" scenarios.

Secondly, there is an agenda for the meeting itself. This may be a formal agenda sent in advance and inviting input from the clients or a more informal list of things that you want to get covered during the meeting. However, if you choose to do it, a well-structured plan will keep everyone on track. In addition, it is an effective way to communicate your professionalism and the seriousness with which you take your responsibilities.

Next up is the Financial Plan Progress Report. When I was a financial planner working directly with clients, I used to think I could deconstruct almost all client questions in review meetings into just these two: "Are we going to be OK?" and "How are we doing so far?" This is where you can demonstrate a lot of value to clients by, for example, combining a series of powerful graphical reports to show them where they stand in respect to their personal balance sheet, cash management, protection, tax and estate planning.

Then we come to the investment update. This helps you answer their question “How are we doing so far?” Depending on where we are in the market cycle, this might be when clients have questions about fund performance. Again, this is a great opportunity to reinforce client education on how capital markets work, how their portfolios are constructed for the long-term and the importance of maintaining discipline. Many advisers I speak to comment that fund performance is always set in the context of what the various asset classes are doing and the client’s personalised benchmark. In other words, what they need by way of annualised returns to achieve their goals.

Sometimes, clients will raise questions about fees and service, but that is really a question of actual and perceived value. No matter what you charge your clients or in what form you charge it, it is a small fraction of the value you provide. Sure, there will always be clients who are fixated on price. However, if they perceive that they are paying more than they believe your service to be worth, then clearly there is either work to be done on your side to raise your game or perhaps a conversation to be had about whether you are a good fit for their needs.

Ultimately, the key is to stand behind your fee and prove yourself worthy of your hire. You got hired on the promise that you could help the client achieve their goals and deliver a great service. You retain the client by fulfilling the promise, and there is no better place to demonstrate that than in the most important meeting.

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# Monopoly Money

Every year families come together for the holiday season and find themselves reenacting the same treasured traditions that have been passed down the generations. In my family there was always the early chaos of the present opening, followed by a long walk, lunch and the Queen. Then, without fail, the Monopoly board would make its annual appearance. I'm sure we're not unique—for many families, this timeless board game is often the centrepiece of games night. We fight over our favourite tokens, distribute the money, buy and sell properties and sometimes go directly to jail.

The Monopoly game makes the world of high finance seem accessible but, actually, for many it might be one of those rare occasions when money—even if it's just play money—is discussed openly. Outside of the game, the subject often remains hushed and secretive, especially within families.

Of course, we know that the subject of money comes with a complex set of emotions; pride, shame, fear, greed and ambition can all intermingle, making it a sensitive topic. For older generations, who perhaps grew up with parents who survived the Great Depression, there's often a reticence to openly discussing money matters. "We don't talk about money" might have been the unspoken rule. It was certainly what I experienced when I was growing up.

Younger generations, on the other hand, might feel overwhelmed or ill-equipped to initiate these conversations, especially if they feel they don't yet have a grasp on their own financial affairs. For them, the world of money might appear as a jigsaw puzzle, with pieces inherited from family traditions and values, but without a clear picture of how it's all supposed to fit together.

This is where financial advisers can play an important role in opening up essential dialogues between family members, and they are uniquely positioned to help bridge this generational gap. Advisers can be the neutral party, initiating conversations about intergenerational wealth and the values that drive family financial decisions. Here are a few ways you might help your clients have more open conversations:

▶ **Family Meetings**

Facilitate family financial meetings where multiple generations can come together. Set an agenda that covers topics such as wealth transition, philanthropy and family values. When everyone has a seat at the table, it encourages open dialogue. Of course, money is just one facet of a family's legacy. Be prepared to discuss the values, traditions and principles that have guided financial decisions. This can help younger members align their choices with the family's broader ethos.

▶ **Storytelling and Legacy**

Encourage clients to share stories behind their wealth. Was it a small family business that grew over time? Or perhaps wise investment choices? Knowing the history of how wealth was built can instil a sense of pride and responsibility in younger generations, framing wealth not just as money, but as a legacy.

▶ **Create a Safe Space**

Recognise that opening up about money can be difficult, so by creating an environment where all questions are valid (and there's no judgement), family members will be more open to uncomfortable topics such as death, legacy or financial constraints.

In the Monopoly game, passing “Go” and collecting £200 is a simple transaction. But in real life, the accumulation of wealth, and its transfer across generations, is much more complicated and can be influenced by many conflicting emotions and family stories. Financial advisers can have a vital role to play in shaping the conversation to ensure that a client’s legacy isn’t just one of money, but of shared values. This festive season, as the Monopoly board makes its annual appearance, let it serve as a reminder of the essential conversations that need to happen after the box goes back in the cupboard for another year.

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## Who You Gonna Call?

Some years ago, my wife and I were finally able to take our first overseas holiday without our children. Although they were old enough to be trusted to take care of themselves, the cat and the house for a week, the question my wife asked just as we were about to take off got me thinking: “What happens if the plane crashes and we don’t make it back?” “Don’t worry,” I replied, “we have all the right things in place—wills, life insurance, investments—if we die, they’re well provided for.”

But then it hit me—how would they sort any of it out? Did they even know who our executors were, or where to find the most basic information? Who could they rely on to help them? And where would they access money to feed themselves and pay the bills? It was at that moment that I realised my family—indeed any family—needed more than just investments and insurance policies. We needed a clear plan for what to do should the worst happen and someone, a trusted adviser, who would make sure the plan could be implemented. So, along with the 24-hour plumber and the local pizza delivery, it was clear that we needed a number on our fridge door which would connect to our family’s financial emergency service.

It is in moments of crisis that we truly understand that the real value of a financial adviser lies not in the cash-flow forecasts, asset allocation advice and investment selection but in the intangibles, such as a relationship built on a solid foundation of mutual trust and understanding. Imagine how valuable it is to have a trusted family adviser whose phone number represents a gateway to peace of mind, practical advice and sage counsel. And, of course, those moments of crisis can come in many guises: the death of a breadwinner, the loss of a job, the breakdown of a relationship or, sometimes, a stock market crash which throws retirement plans into disarray.

When clients choose an adviser, it's not just for the menu of services they provide but how they feel about the adviser. It's a decision based more on emotion than on logic. The perception of value is intricate and multifaceted. However, if you are going to be the trusted adviser at the end of that phone call, what has to be true of you and your business? How can you live up to the peace of mind promise that comes with being the "One Number" on the fridge? Whilst by no means an exhaustive list, here are some questions you might want to ask of yourself and your business:

- ▶ Do we have a complete understanding of our client's financial landscape, from wills to insurance to investments? Do we have a comprehensive, integrated practice supported by a solid network of professionals that can ensure that, no matter the issue, we either have the answer or we can put the client in touch with someone who does?
- ▶ Have we taken the time to build relationships between the client and the broader team so there is always a continuity of service, even if the primary adviser is unavailable?
- ▶ A client's trust is founded on more than just technical expertise, so are our advisers emotionally intelligent individuals who genuinely understand and care for our clients? Are they prepared to have open and candid conversations to address even the most delicate financial concerns, so that clients feel heard, understood and respected?
- ▶ Are we prepared to demonstrate that we walk our talk? Can we confidently advise our clients knowing that we have our own financial affairs in order? After all, integrity isn't just about honesty, it's also about living in congruence with the principles and strategies you recommend.

In a world where financial services are becoming increasingly commoditised, and digital tools challenge the essence of the human touch, let's not forget the unparalleled comfort that a trusted adviser can bring to a family at their time of greatest need. After all, in a crisis, who are you going to call?



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## Here's the Prescription

As much as I value the unfettered access to information the internet provides, I recognise the potential harm that too much information can cause.

Take, for example, a friend of mine, who was experiencing some troubling medical symptoms. Typing her symptoms into a search engine led to an evening of research and mounting consternation. By the end of the night, the vast quantity of unfiltered information led her to conclude that something was seriously wrong.

One of the key characteristics that distinguishes an expert is their ability to filter information and make increasingly refined distinctions about the situation at hand. For example, you might describe your troubling symptoms to a doctor simply as a pain in the chest, but a trained physician will be able to ask questions and test several hypotheses before reaching the conclusion that rather than having the cardiac arrest you suspected, you have something completely different. While many of us may have the capacity to elevate our understanding to a high level within a chosen field, reaching this point takes time, dedication and experience.

My friend, having convinced herself that something was seriously wrong, booked an appointment with a physician. The doctor asked several pertinent questions, performed some straightforward tests and recommended the following treatment plan: reassurance and education. Not surgery. Not drugs. But an understanding of why and how she had experienced her condition. The consultative nature of a relationship with a trusted professional—both when a situation arises and as we progress through life—is one of the key benefits that an expert can provide.

There are striking parallels with the work of a professional financial adviser. The first responsibility of the doctor or adviser is to understand the person they're serving so that they can fully assess their situation. Once the plan is underway, the role of the professional is to monitor the person's situation, evaluate if the course of action remains appropriate and help to maintain the discipline required for the plan to work as intended.

Like my friend's doctor, advisers may have experienced conversations with clients that are triggered by news reports or informed by unqualified sources. In some cases, all that is required to help put the client's mind at ease is a reminder to focus on what is in their control, as well as providing reassurance and (re)education that they have a financial plan in place that is helping them move towards their objectives. The benefits of working with the right adviser are demonstrated through the ability to both help clients pursue their financial goals and to help them have a positive experience along the way.

Trouble might arise when we confuse simple and complex conditions. Probably no harm is done when a person, recognising the onset of a common cold, takes cold medicine, drinks plenty of fluids and rests. But had my self-diagnosing friend not made an appointment with a specialist, and instead moved from self-diagnosis to self-medication, she may have caused herself real harm. Similarly, thinking that all aspects of your own financial situation can be handled through a basic internet search or casual conversation with a friend might result in a less than optimal financial outcome.

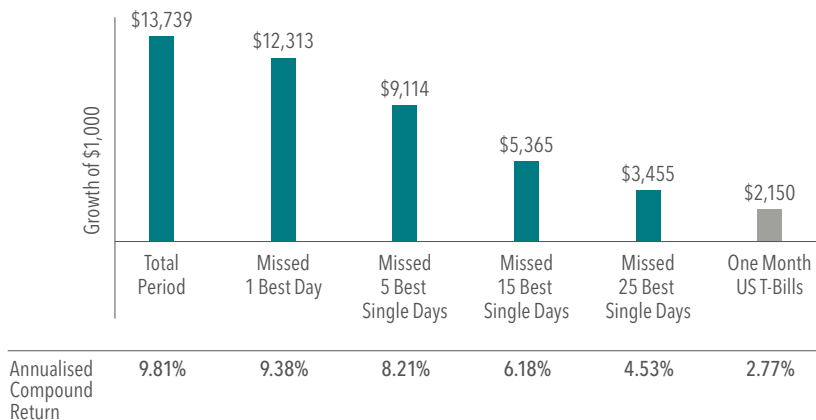
Without the guidance of an adviser, the self-medicating investor might overreact to short-term market volatility by selling some of their investments. In doing so, they risk missing out on some of the best days, since there is no reliable way to predict when positive returns in equity markets will occur.<sup>4</sup> One might think that missing a few days of strong returns would not make much difference over the long term. But, as illustrated in **Exhibit 1**, had an investor missed the 25 single best days in the world's biggest equity market, the US, between 1990 and the end of 2017, their annualised return would have dropped from 9.81% to 4.53%. Such an outcome can have a major impact on an investor's financial "treatment" plan.

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4. The 2018 *Mutual Fund Landscape* report compiled by Dimensional showed that for the 15-year period through 2017, only 14% of US equity mutual funds and 13% of US fixed income mutual funds survived and outperformed their benchmark after costs. Refer to <https://eu.dimensional.com/en/perspectives/mutual-fund-landscape-video-2018> for more information.

## Exhibit 1: Reacting Can Hurt Performance

Performance of the S&P 500 Index, 1990–2017



Past performance is not a guarantee of future results.

In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s) and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualised returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero.

S&P data © 2018 S&P Dow Jones LLC, a division of S&P Global. All rights reserved. “One-Month US T-Bills” is the IA SBBI US 30 Day TBILL TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Improving someone’s financial health is a lot like improving their physical health. The challenges associated with pursuing a better financial outcome include diagnosis of the current situation, development of the appropriate course of action and sticking with the treatment plan. Many advisers are trained on the intricacies of complex financial situations and work to understand how their clients feel about money and how they might react to future events.

By providing the prescription of reassurance and education over time, we believe the right adviser can play a vital and irreplaceable role in investors' lives.



## CHAPTER 5

# The Real Magic Lies in the Details



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# E + R = O: A Formula for Success

Combining an enduring investment philosophy with a simple formula that helps maintain investment discipline can increase the odds of having a positive financial experience.

## **An Enduring Investment Philosophy**

Investing is a long-term endeavour. Indeed, people will spend decades pursuing their financial goals. But being an investor can be complicated, challenging, frustrating and sometimes frightening. This is why it is important to have an investment philosophy you can stick with—one that can help you stay the course when things get rough.

This simple idea highlights an important question: how can investors maintain discipline through bull markets, bear markets, political strife, economic instability or whatever crisis du jour threatens their serene progress towards their investment goals?

Over their lifetimes, investors face many decisions, prompted by events that are both within and outside their control. Without an enduring philosophy to inform their choices, they can potentially suffer unnecessary anxiety, which may lead to poor decisions and outcomes that are damaging to their long-term financial well-being. When they don't get the results they want, many investors may blame things outside their control. They might point the finger at the government, central banks, markets or the economy. Unfortunately, the majority may not do the things that might be more beneficial—evaluating and reflecting on their own responses to events and taking responsibility for their decisions.

Some people suggest that among the characteristics that separate highly successful people from the rest of us is a focus on influencing outcomes by controlling one's reactions to events, rather than the events themselves. This relationship can be described in the following formula:

$$E + R = O$$

$$(\text{Event} + \text{Response} = \text{Outcome})^5$$

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5. Jack Canfield, *The Success Principles: How to Get from Where You Are to Where You Want to Be* (HarperCollins Publishers, 2004).

Simply put, this means an outcome—either positive or negative—is the result of how you respond to an event, not just the result of the event itself. Of course, events are important and influence outcomes, but not exclusively. If this were the case, everyone would have the same outcome regardless of their response. Let's think about this concept in a hypothetical investment context. Say a major shock, such as the failure of a bank, causes a market to fall (event). In a panicked response, potentially fuelled by gloomy media speculation of the resulting uncertainty, an investor sells some, or all, of their investment (response). Lacking a long-term perspective and reacting to the short-term news, our investor misses out on the subsequent market recovery and suffers anxiety about when, or if, to get back in, leading to suboptimal investment returns (outcome).

To see the same hypothetical example from a different perspective, a surprise event causes markets to fall suddenly (**E**). Based on their understanding of the long-term nature of returns and the short-term nature of volatility spikes around news events, an investor is able to control their emotions (**R**) and maintain investment discipline, leading to a higher chance of a successful long-term outcome (**O**).

This example reveals why having an investment philosophy is so important. By understanding how markets work and maintaining a long-term perspective on past events, investors can focus on ensuring that their responses to events are consistent with their long-term plan.

## **The Foundation of an Enduring Investment Philosophy**

An enduring investment philosophy is built on solid principles backed by decades of empirical academic evidence. Examples of such principles might be: trusting that prices are set to provide a fair expected return; recognising the difference between investing and speculating; relying on the power of diversification to manage risk and increase the reliability of outcomes; and benchmarking your progress against your own realistic long-term investment goals.

Combined, these principles might help us react better to market events, even when those events are globally significant or when, as some might suggest, a paradigm shift has occurred, leading to claims that “it’s different this time.” Adhering to these principles can also help investors resist the siren calls of new investment fads or, worse, outright scams.

## **The Guiding Hand of a Trusted Adviser**

Without education and training—sometimes gained from bitter experience—it is hard for non-investment professionals to develop a cogent investment philosophy. And, as we have observed, even the most self-aware find it hard to manage their own responses to events. This is precisely why a financial adviser can be so valuable—by providing the foundation of an investment philosophy and acting as an experienced counsellor when responding to events.

We know that investing will always be both alluring and, at times, scary, but a view of how to approach investing, combined with the guidance of a professional adviser, can help people stay the course through challenging times. Advisers can provide an objective view and help investors separate emotions from investment decisions. Moreover, great advisers can educate, communicate, set realistic financial goals and help their clients deal with their responses even to the most extreme market events.

In the spirit of the  $E + R = O$  formula, good advice, driven by a sound philosophy, can help increase the probability of having a successful financial outcome.



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## A Day at the Races

Sometimes it is easy to distinguish luck from skill. Other times, maybe it's not so straightforward.

Let's try a simple thought experiment designed to calibrate our appreciation of the problem. Let's say someone calls 20 coin tosses in a row correctly; is that luck or skill? I think we'd all agree it was luck. However, if a champion darts player hits 180, we'd probably say it was attributable to their skill and countless hours of practice. Winning at the roulette table? Luck. A professional player winning at poker? Skill, and some luck. Me hitting a hole-in-one in my first, and only, game of golf? Pure fluke—as evidenced by the rest of my scorecard. Tiger Woods getting a hole-in-one? Some luck, but he certainly has the ability to get near the pin consistently, so skill definitely plays a major role as well.

What about fund management? If a fund manager is highly successful, is it because they are skilful enough to zig when the rest of the world zags? Are they simply lucky with their calls? Or some combination of both? Successful managers would certainly want to lay claim to being skilful. Just like Tiger Woods getting on the green, it is, after all, what they are aiming for. And, having enjoyed the financial rewards and elevated social status that accrue from a successful track record, they are hardly going to be incentivised to admit to their investors that, at the end of the day, they just got lucky.

The question of luck versus skill has intrigued academics for decades, and unfortunately for fund managers, the results of their studies find investment outperformance to be largely attributable to luck rather than evidence of superior skill. Indeed, as far back as the 1960s, Michael Jensen (1968) produced one of the first empirical studies to challenge the prevailing notion that professional fund managers could consistently outperform the market through security selection and market timing. The main conclusion of his study was that the average actively managed mutual fund was unable to outperform a benchmark portfolio that was adjusted for risk, even before taking into account fund expenses and fees.

In a more recent attempt to disentangle the question of luck versus skill in mutual fund performance, Eugene Fama and Kenneth French (2010) drew a similar conclusion. Specifically, a small fraction of the managers in their study did in fact appear to achieve returns that were not merely due to luck after accounting for fees, expenses and risk exposure. However, there were fewer of those managers than would be expected by random chance alone.

But if, as the evidence appears to show, outperformance is more attributable to luck than skill, why is it that some people still want to believe so fervently that it is otherwise?

The behavioural finance literature reveals the influence that psychological and emotional factors can have on investment decisions, often leading investors to overestimate the role of skill. This overconfidence can be partly explained by our innate desire for control and our preference for narratives that attribute outcomes to human agency rather than to random chance. For some, it's comforting to think that with enough knowledge, expertise or information, one can consistently beat the market.

When you do experience success, it can prove to be a heady cocktail. I experienced this myself when, a few years ago, the team went for a day at the races. By pure luck, and much to my own astonishment, I managed to pick the winner of several races in a row. Despite my strenuous efforts to convince them otherwise, my colleagues started to suspect I had some secret knowledge or skill that would explain my mounting pile of cash. Indeed, some of them started to offer to buy me drinks, or a share of the winnings, if I would confide in them my picks for the remaining races.

Of course, my winning streak came to an end—and with it my reputation as a tipster. The team realised what I had been telling them all along was true: I had just gotten lucky. But when you are riding the wave of good fortune and enjoying its rich rewards, it takes some measure of self-discipline to resist the thought that you might indeed have the Midas touch. You start to experience why it might be so tempting to blur the lines.

Understanding the balance between luck and skill in fund management is crucial. Investors and advisers alike should approach fund performance with a healthy degree of scepticism. We believe the best approach is a systematic one that ensures you are not paying for luck disguised as skill but, instead, making decisions informed by sound theory, empirical evidence and a robust investment philosophy. Whilst it may lack the drama and excitement of a day at the races—or the fund management equivalent—this approach perhaps has a higher probability of delivering a successful, rather than a stressful, investment experience.

Fama, Eugene F. and Kenneth R. French. 2010. "Luck versus Skill in the Cross-Section of Mutual Fund Returns." *Journal of Finance* 65, no. 5: 1915-1947.

Jensen, Michael C. 1968. "The Performance of Mutual Funds in the Period 1945-1964." *Journal of Finance* 23, no. 2: 389-416.

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# Will England Win the Euros? Don't Bet on It.

*“It is difficult to make predictions,  
especially about the future.”*

—Yogi Berra

The UEFA EURO 2024 European football championship kicks off this weekend. Like millions of football fans, my family will be looking forward to an entertaining tournament, some exciting games and, hopefully, a successful outcome for our team.

Of course, we all hope for the win, but what about our reasonable expectations? I asked my son-in-law, a passionate supporter of the English national team, whether he took any comfort from England's current position as pretournament favourites—based on the odds at least.

He didn't. Perhaps, like me, he has suffered through too many years when our dreams of success have foundered on the reef of yet another penalty shoot-out. But, aside from the history of England's performances in the knockout stages of major championships, was he right to be pessimistic about the pretournament odds having any predictive power as to the eventual winner?

To answer the question, we ran a simple experiment where we looked at the last five European Championships and compared the teams' finishing positions with their pretournament betting odds. Unsurprisingly, we found that it is indeed difficult to predict winners ahead of time. Of the five tournaments, there was only one year when the bookies' favourite ultimately triumphed—Spain in 2012.

This will be no surprise to us in the investment world, where the parallels are blindingly obvious. Decades of empirical observations and academic studies have shown that trying to pick winners ahead of time—whether individual stocks or star fund managers—has a very low chance of success.

However, there was another lesson to be drawn. We expanded the study to look at how well the pretournament winner odds predicted the makeup of the last eight—the quarterfinalists—and here the predictions were much more accurate. In fact, of the 40 quarterfinal places available between 2004 and 2020, the pretournament predictions got 27, or 68% of them, correct. It seems that the market does a better job of weighing the characteristics of teams that are more likely to win than it does of picking eventual winners, given the amount of noise and randomness that can occur in individual games.

Here again there are lessons that we can take into the investment world. At Dimensional we believe that there is information in market prices that allows us to identify the subgroups of stocks in the equity market which have an elevated probability of winning—or, more specifically, have higher expected returns. We are not trying to predict whether an individual stock will be a winner. Rather, we are looking at how the characteristics of stocks sorted by their size, their relative price or their profitability can tell us something about their collective performance over the longer term. And this is what we see in the data: the intuition and the theory are supported by the evidence.

Whether or not your team wins the final on Sunday 14 July, we hope that you enjoy the beautiful game for what it is—a game. But if you were interested in a bet, then perhaps the best tip I can offer, based on this analysis, is: England to make the last eight.



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# Will England Win the Euros?

## Part 2.

In my first article about the Euros, written before the first ball was even kicked, I explored how pretournament betting odds do a poor job of predicting eventual winners compared with their ability to identify the likely quarterfinalists. The lesson we took into the world of investing is that whilst it is hard to pick winners, we can harness the informational processing power of markets to identify characteristics of stocks that are more likely to produce higher expected returns.

Now the Euros have progressed and, at the time of writing (the morning before the semifinal game against the Netherlands), the outcome for England is still unknown. It might not be by the time you read this, but that isn't the point of this article. There is another investing lesson we can learn.

The 2024 tournament has certainly had its share of exciting games and surprising results. For the England fan, their team's journey to the semifinals was at times painful to watch and not without its nail-biting moments. Indeed, based on some of the performances in the group stages, a semifinal appearance seemed unlikely. However, England's progress through the tournament is an example of a crucial concept: the power of updating our predictions based on new information. In the beginning, odds might have been set based on historical performances, team composition and expert opinions. As the tournament progressed, each match provided new data points—goals scored, defensive stability, individual performances and other information that we can use to refine those predictions.

This is a great example of Bayesian statistics at work in the real world, providing a framework for updating the probability of an outcome by incorporating new information. Imagine you have an initial belief—your “prior.” Then you gather new data and, finally, update your belief, taking into account both the prior and the new evidence. In the context of EURO 2024, that's exactly what happens, because each game is a new piece of evidence that helps to refine our expectations about the remaining matches.

This aligns closely with Dimensional's approach to fund management. Unlike traditional indexing, which is static, akin to using only the odds available at the beginning of a tournament to make your bet, Dimensional's approach is inherently dynamic. We adjust our trading positions daily to incorporate new information in market prices. In both football and investing, early opinions—whether from fans, pundits or investors—can be drastically altered by new events. This demonstrates the value of maintaining a dynamic and responsive approach to managing investments based on the most current market data.

EURO 2024 offers more than just entertainment; it provides valuable lessons in probability and prediction. By this evening, we will be able to incorporate new information to better assess whether England will win the Euros. One thing is for certain: the odds have changed since the tournament began.



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## You're a Professional— So Are You Using Professional Tools?

How do you distinguish a professional from an amateur, aside from the obvious point that a professional gets paid?

“The difference between an amateur and a professional,” one of my mentors once told me, “is that the professional can make way more distinctions about their subject than the amateur.” This simple yet profound insight has stuck with me through the years and has had a significant influence on how I view expertise and mastery in any field.

There is another way that we can identify the professional, and that is by the tools they choose to do their work. Let me provide an example. Recently, my daughter asked me to help her install a flat screen TV on the chimney breast of her new house. Armed with my new drill from the local DIY store, I went straight to work. But, despite my best efforts, the drill made barely any impression on the reinforced concrete wall.

Finally, we admitted defeat and called in a professional installer. He arrived with a van full of serious kit and a drill that was clearly built for the job. In a few moments, he punched through the wall like a hot knife through butter and soon had the TV securely in place. The job was done efficiently and effectively, thanks to the right tool and someone who knew how to wield it.

## **Tools of the Trade**

Learning and experience teach professionals to understand that not all tools are created equal. At Dimensional, we apply the same thinking when building investment solutions for clients. The design, implementation and ongoing management of our strategies is very different from those that are created to track simple, vanilla indices.

Whilst a passive index strategy might be diversified and low cost, Dimensional strategies offer similar benefits but are built on decades of insights derived from academic research and empirical data, allowing us to systematically, and reliably, target sources of higher expected returns.

Our construction process goes far beyond the obvious differences of size, value and profitability by thinking about how these long-term drivers of return interact with each other. There are potentially hundreds of other factors from the short-term effects like momentum and corporate actions to the flexibility that comes from daily trading. This attention to the details allows us to focus on beating indices, not matching them, without trying to pick individual winning stocks or time markets.

Whether you're a TV installer, a professional adviser or any other kind of professional, mastery is achieved through a deep understanding of your field and by applying advanced tools for specific tasks. Dimensional has been making increasingly refined distinctions among and between the types of securities we select for over four decades now, and the solutions we create give the professionals we work with the tools necessary for delivering a successful investing experience.



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# *A Night at the Opera*: Fostering Innovation in Your Business

What does innovation mean to you? When I ask people this question, they often talk about new inventions, groundbreaking technology or scientific breakthroughs. One iconic individual who is often cited as the archetypal innovator is Steve Jobs, as much for the theatrical way in which he introduced new Apple products as for the technology itself.

For almost everyone, innovation is an act of creation. I have been studying the subject for many years, and one of the things that has always fascinated me is this perennial question: why is it that some innovations take off and become wildly successful whilst other equally great ideas never make it? What I've come to realise is that there are two other essential ingredients to innovation that sit alongside the creative component: implementation and adoption.

## Taking “Bohemian Rhapsody” to the Masses

Let me illustrate with an example. In 1975, the rock band Queen released *A Night at the Opera*, an album that featured what would become one of the most legendary tracks in the history of rock—“Bohemian Rhapsody.” At just under six minutes in length, it defied every convention of popular music, especially the widely held belief that songs couldn’t last more than three minutes to be played on the radio. Indeed, Queen’s record company famously resisted releasing the track as a single, convinced that no radio station would touch it.

However, the song found an enthusiastic champion in the maverick broadcaster Kenny Everett. His repeated playing of the track on his radio show was pivotal, helping to ignite public interest and ultimately propelling the song to the top of the UK charts, where it remained for nine weeks.<sup>6</sup> As Queen’s drummer, Roger Taylor, said, this one song promoted the band from the Championship to the Premier League of rock.

The story of “Bohemian Rhapsody” can teach us a lot about innovation. It was conceived by Queen’s creative genius, Freddie Mercury, but it required the other members of the band as well as their producer and recording engineer to implement Mercury’s ideas and put them on tape. Without Kenny Everett, however, millions of listeners may never have been aware of the song’s existence. So it is that these three elements—innovation, implementation and adoption—work together to produce a successful outcome.

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6. After Freddie Mercury’s death, “Bohemian Rhapsody” enjoyed a further five weeks at No. 1 on the UK chart.

## A New Way of Investing

It's no different in the investment world. In the 1960s, Eugene Fama's research into capital markets at the University of Chicago challenged the conventional wisdom of Wall Street. His innovative work, as well as insights from other academics, showed it to be virtually impossible to consistently outperform the market through stock picking or market timing. Those foundational concepts later resulted in the creation of a new investment concept, the index fund. But to make that work in the real world required a dedicated team of implementors. In the early 1970s, John "Mac" McQuown led the project at Wells Fargo Bank to build the world's first index fund and this, in turn, encouraged other firms to bring these cost-effective, accessible investment solutions to market.

In 1981, David Booth, inspired by Fama's research and his time working alongside McQuown on the index fund project, co-founded Dimensional Fund Advisors to systematically apply academic research to build practical investment strategies. And when adviser Dan Wheeler joined the firm a few years later, his enthusiastic promotion of this new way of investing paved the way for a broader adoption of Dimensional's approach in the global financial adviser community.

The role of early adopters in the life cycle of any significant innovation cannot be underestimated. In some ways, it is these pioneers who perhaps take the greatest risks, often staking their reputations and careers on new ideas, trusting them enough to break with conventional wisdom. The financial advisers who embraced this new way of investing in the early days played a vital role in promoting its broader acceptance in the face of scepticism and, sometimes, hostility.

## Harnessing Adopters in Your Firm

Given these examples of global success from the very different worlds of rock music and finance, you might ask how the combination of innovation, implementation and adoption applies to smaller businesses, like financial planning firms. In fact, it is no different.

Whether you are starting a new firm, developing a new value proposition for clients or relaunching your brand, these are creative acts. However, to be successful, you will have to invest huge amounts of time and resources into implementation, whether selecting the right technology or platform infrastructure to operate the business, researching the investment partners to power clients' financial plans or hiring the right people.

Innovation and implementation will help you build a world-class planning practice, but without the adopters—the clients who place their trust in you—none of the creativity or energy will count for anything. And, for those early adopters, the stakes are even higher because they are placing their future financial well-being on the line.

*A Night at the Opera* is a great album, but aside from dedicated Queen fans, who could name the other 11 tracks on the record? It was the unique confluence of innovation, implementation and adoption of “Bohemian Rhapsody” that helped it stand apart. That same recipe can also work for you as you seek to differentiate your business. Be creative for sure, build it the best you can but, above all, find those clients—the ones who will adopt and then enthusiastically promote you—to take you to the top of the charts.

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# The Imitation Game

When I was a teenager dreaming of becoming a successful rock musician, the thing I wanted most in this world was a Fender Stratocaster guitar. Celebrating its 70th anniversary this year, the Strat is arguably music's most iconic instrument. In the hands of legends such as Jimi Hendrix, Eric Clapton or David Gilmour of Pink Floyd, it is the instrument that has defined the sound of rock music for generations. In fact, so recognisable is Leo Fender's creation that if you want a guitar emoji for your WhatsApp messages, you'll get a Strat.

Unfortunately, for this budding musician, the Stratocaster displayed in the window of the local music store was light-years beyond my budget. What I could afford, after months of freezing early-morning paper rounds, was a Strat copy. It looked just like the real thing, for a fraction of the price. And, thrashing away with my band at the local village halls we performed at, who could tell the difference?

I did love my trusty fake Strat, and perhaps I should have been satisfied that it worked well enough. But then I got the chance to play the real thing, and it changed everything. The quality of the finish—that was a difference you could see. The attention to detail on the guitar neck and fretboard—that was a difference you could feel. And the quality of the pickups? Wow, that was a difference you could hear.

But it wasn't just the attention to detail in the individual components that made the guitar such a pleasure to play. What set it apart was how everything was designed and engineered to work harmoniously together. Am I claiming it made me a better guitarist? Well, yes, actually. I got to experience what it was like to work with the guitar rather than fight against it to produce the sound I wanted.

Successful innovators know that one of the ways they can measure their success is by the number of imitators they spawn. That's as true in investment management as it is in guitar manufacture. Dimensional has a long history of innovation and over 40 years' experience in applying the leading ideas in capital markets research to real-world investment solutions. And, just like Fender, its innovations are frequently emulated.

Indeed, when I was an adviser, I tried to do this myself, building portfolios of index funds to target the same sources of higher expected return as Dimensional but at supposedly lower cost—or so I thought. On the surface, these ersatz solutions might have appeared to be a close match to the Dimensional methodology. However, as I came to discover, it's the nuances, the attention to the unseen details and the refusal to compromise on quality that differentiate the original from the imitation.

Avoiding arbitrary index reconstitution dates, style drift in between rebalances and inefficient trading—these are differences that you can observe in higher returns. But, ultimately, it's the way the strategies are designed and engineered to integrate multiple reliable premiums, so that they work together harmoniously, that makes tangible differences. And that, ultimately, is the point. The aggregated effect of these marginal gains can compound over time and have a meaningful impact on people's lives, whether they are investing for retirement, supporting their children's education or saving for a special event.

Like the discerning musician who can distinguish the Stratocaster's unique tonal qualities from a slew of imitations, sophisticated investors can recognise the increasingly refined distinctions that Dimensional makes in its approach to managing other people's money so that they can enjoy a successful investment experience. As we've found, in financial markets just like in music, the real magic lies in the details.



## CHAPTER 6

# The Last Day



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# The Time Traveller's Financial Planner

Before I joined Dimensional nearly two decades ago, I ran a coaching business alongside my financial planning practice. One of the biggest challenges nearly all my clients experienced was how to manage their time, their energy and their attention. One day, during a time-management seminar I was leading, I wrote this sentence on a flip chart:

“The incompletes from your past and the obligations and commitments you have in your future compete for space in your present.”

It wasn't planned. It happened in response to a question from a participant and prompted an interesting conversation which continued even after we wrapped up the session.

The sentence has stuck in my mind ever since, and I realised that it is just as applicable to the world of financial planning as it is to time management—perhaps more so.

Financial planning is, by definition, forward-looking—planners help their clients define and refine their desired futures and build plans to realise them. But when a client sits down with you for that first meeting, you're not just dealing with a list of future goals. You are dealing with the past: a legacy of accumulated financial products, the client's values and beliefs and their decades of lived experience that shape how they think and feel about money today.

We meet them in the present, of course. But to do our job properly, we must be able to travel with them through time to understand how their past has shaped them, how they feel about their future and how both influence what they are prepared to do about it in the present.

## **The Value of Time**

Our focus in financial planning is often on the numbers: the capital values of portfolios, the tax treatment of investments, the recommended asset allocations and the safe withdrawal rates. But underneath the technical details, there is something more fundamental. Time, not money, is the real raw material of financial planning.

Yet time is rarely treated with the respect it deserves.

Take compounding—often described as the eighth wonder of the world. Einstein may or may not have said it, but either way, it is the most powerful force in investing. It works its magic if you remain constant and consistent over time. But human beings, whether driven by fear or greed, are notoriously intermittent when it comes to their investments. This is why so many financial plans fail—because investors don't stay in their seats.

There's ample evidence to demonstrate that missing just a few of the best days in the stock market can cause serious damage to long-term investment returns. But most investors are not the homo economicus we might wish them to be. Instead, they are a hostage to their emotions and behavioural biases. It's a battleground between the maths of compound interest and the weakness of human nature.

## Clients Are Shaped by Their Past

*“With a good perspective on history, we can have a better understanding of the past and present, and thus a clear vision of the future.”*

—Carlos Slim Helú

Economic eras leave their mark on people. The “Depression Babies” study by Malmendier and Nagel (2009) showed that people who come of age during periods of low market returns—like the Great Depression—carry a lifelong aversion to risk. Even decades later, their early experiences continue to shape their investment behaviour, despite their income or education. Similarly, those who experienced an economic boom in their formative years tend to carry an abundance mindset into their futures and are willing to absorb more investment risk.

Each client is a product of their financial origin story. To understand some of the factors that shape the choices they are making, you need

to be aware of their personal temporal framework. Do they dwell on the past, or are they obsessed with what's next? Do they look ahead with hope, or fear? Do they live in regret, or with purpose? Here's a simple framework to locate a client's time orientation:

Orientation	Positive	Negative
Past	<p><b>"Nostalgia"</b></p> <p>An abundance mindset: "Life's been good to me."</p>	<p><b>"Regret"</b></p> <p>A scarcity mindset: "Someone is to blame for this."</p>
Future	<p><b>"Optimism"</b></p> <p>An entrepreneurial mindset: "We can make it happen."</p>	<p><b>"Pessimism"</b></p> <p>An anxious mindset: "We're all doomed."</p>

Understanding where a client is on this map will help you meet them where they are and, perhaps, allow you to gently nudge them towards a more productive perspective. For example, a client with a scarcity mindset rooted in past regret may hoard cash or resist all risk, but they can be educated to understand the relationship between risk and return in a more positive way.

## Taking Care of Clients' Future Selves

If you've ever come across old photographs of yourself, you know it's common to feel somewhat disconnected from the person in those pictures. So much of the connection to who you were seems to have been lost. Surprisingly, our relationship to our future selves can be equally distant.

Psychologist Hal Hershfield argues that most of us think of our future selves like strangers. We know intellectually that we will grow old, retire and need money. But emotionally, we feel disconnected. That's one of the reasons, he says, why people fail to save. It's not ignorance of the consequences, it's our dissociation from the person who will have to deal with those consequences—future you!

The good news, however, is that when people are helped to imagine their future selves—vividly and emotionally—they become far more likely to act today. They save and invest more. They protect more. And when financial planning is done well, it can help to strengthen that connection.

One of the most elegant frameworks I have encountered for understanding the perspective of time in financial planning comes from George Kinder, whose three life planning questions help people focus on what really matters to them. The three questions, which ask the client to imagine three different lifetime horizons (unlimited, restricted and imminent death), are not financial per se. They are emotional and existential questions, but the answers to them form the foundations of profoundly transformative financial plans. For me, Kinder's five-day "Life Planning" workshop remains one of the most valuable and impactful experiences of my career.

## **Every Time Traveller Needs a Companion**

We are all time travellers whether we realise it or not. Some of us will be fortunate enough to work with a financial planner who understands that their real work is not just about optimising financial plans and arranging investments—it is helping their clients create

the bridge between who they were, who they are and who they want to be.

These planners help clients deal with the legacy of past decisions, confront their regrets and take responsibility for the decisions they have to make in the present. Most importantly, they help their clients visualise, and emotionally connect with, the person they are time travelling into the future to become.

Malmendier, Ulrike, and Stefan Nagel. 2011. "Depression Babies: Do Macroeconomic Experiences Affect Risk-Taking?" *The Quarterly Journal of Economics* 126, no. 1: 373–416.

Felix, Benjamin, and Cameron Passmore, hosts, *Rational Reminder Podcast*, episode 256: "Prof. Hal Hershfield: Your Future Self," June 8, 2023.

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## The Last Day: What Provides Freedom in Retirement?

Many of us will have imagined it: that final morning at work, walking into an office that will never be ours again. The desk is cleared, the inbox empty, a few colleagues stopping by for a final farewell. You hand over your laptop and your ID badge, and right there is the symbolic moment when you cash in your professional identity, so carefully constructed over the decades of a working life, and exchange it for something entirely new. Hopefully, a life of dignity, independence and freedom.

BMW captured this moment with wit and subtlety in its video tribute to Dieter Zetsche, the outgoing chairman of Mercedes, on his retirement. The video uses a look-alike of Zetsche to imagine his last day: an office emptied of its familiar clutter, a lobby filled with applause, younger colleagues grabbing a quick selfie. Eventually a chauffeur takes him home for the last time, leaving him alone on his driveway, looking a little forlorn. And then comes the twist: the garage door opens, and instead of a Mercedes, he drives out in a sleek BMW. The caption reads: "Free at last."

A nice touch of humour in suggesting that BMW's great rival would secretly wish to drive one of their cars, but the underlying message is really powerful: liberated from an old life and an old identity, one can step into a new life of retirement prepared, confident and open to possibilities.

## **Sporting Farewells**

I have been fascinated by the last days of sportspeople for as long as I can remember because, given that sporting careers come to an end so much earlier than those of the rest of us, the end seems so much more poignant. In recent times, the farewells of tennis legends like Roger Federer and Andy Murray were tearful and very public, eliciting a mixture of gratitude, nostalgia and perhaps even grief. I remember watching the pro cyclist David Millar breaking down as he dismounted his bike after his last race at La Vuelta a España as he realised that, after countless thousands of miles and all the ups and downs (literally and metaphorically), it was all finally over. I've watched countless footballers and rugby players leave the field for the last time, cheered by thousands, yet profoundly aware that a career that defined their purpose, routine and identity has ended.

I always wonder about what comes next. Unlike most working professionals, who have decades to plan for retirement, athletes face this transition at an age when the mind is eager, the body still capable, yet the familiar structure of daily purpose disappears overnight. How do they find meaning, sustain health and secure their independence when the stadium lights dim and the fans are gone? Whatever your career, the last day is an acute reminder that health, purpose and financial planning are not abstract concepts, they are the pillars that support life beyond work.

## The Role of an Adviser

This is exactly why the work of financial advisers is so vital.

Retirement is more than a date in a calendar; it is a transition from one life to another. Advisers help clients envision the life beyond the office, beyond the badge, beyond the routines that have anchored their identity. Great planners ensure that when that last day comes, their clients can step forward with confidence, knowing their finances are secure.

Freedom in retirement is the opportunity, hopefully, to rise each day with energy, to engage in activity that sustains body and mind, to pursue passions that were deferred and to invest time in relationships, learning and contribution. But it is also the comfort of knowing that finances have been managed with care and foresight, ensuring that the lifestyle that has been so hard-earned can continue, resilient to unexpected challenges. Great financial planners are not simply advisers, they are architects of freedom, curators of possibility and guardians of peace of mind. Every plan they craft, every conversation they have about pensions, savings and investments, is a step towards that last day, helping clients transition with confidence, excitement and clarity.

## **My Own Journey**

As 2025 came to an end and I reached my own last day at Dimensional, the emotions I felt were at once universal and yet deeply personal. It was a time for reflection on what had been achieved but also anticipation for what would come next. The badge, the office, the routines—they are symbols of a life lived in one chapter—and I loved nearly every minute of it.

But the true measure of success lies in what comes next: freedom, vitality, engagement and joy. It is the ability to step onto the driveway of your life's next chapter, open the garage door and know that your journey continues on your own terms, free at last.

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