WEALTHCAREGDX®

Larry Swedroe, in the below article, on why the return you use when planning matters: when using expected returns in plans, if the estimate is too high, it's likely that you won't reach your goals. And if expected return estimates are too low, you could be taking more risk than necessary.

We agree that the return you plan on will impact how much risk you take and the likelihood you will reach your goals. The problem is no self-respecting planner builds a plan based on "expected" return. Why?

- "Expected" has a specific meaning: the 50th percentile of the expected return distribution
- It means planning on a 50% probability: a 50% probability of failure (less $ than planned) and a 50% probability of excess (more $ than planned); in other words, a coin flip

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Most planners think in terms of a 10% probability of failure and a 90% probability of excess. Why?

- At the 90th percentile, you plan on much lower returns than you actually expect
- This is prudent and positions the plan for upside surprises

This leads to a key point: plans require ongoing adjustment as actual returns will differ from planned returns.

Two questions advisors should consider:

1. Does your advice and planning process identify the likelihood of upside and downside adjustments?
2. Does it show the potential needed adjustments in the plan, so the client can see their options, and have control over decision-making?

Our **Comfort Zone®** process does. Check it out: WealthcareGDX - Comfort Zone