

How I Think About Managing Your Money

A few years ago I read about an interesting survey done in Boca Raton, one of the more well-off retirement communities in Florida. Somebody went around asking retirees a simple question. "How did you afford this?" Almost every single person said the same thing: they had a plan, they executed it with someone they trusted, and they did not panic when times got challenging.

Then came the follow up question. Did your investment portfolio's returns beat the S&P 500s? And the answers were all over the place. Some had no idea. Some said probably not. A few even laughed at the question, like it had never once occurred to them to ask it.

That stuck with me because it reveals something I think much of the financial industry gets backwards. The people who reached what I'd consider one of the more comfortable retirement communities in the world weren't the ones chasing the latest hot investment strategy or the firms making the biggest promises about performance. In my experience, the loudest voices are often trying to sell a product or an investment story.

Instead, the retirees who seemed the most confident and financially secure had something much less flashy: a thoughtful plan they understood and the discipline to stick with it through good markets and bad. Their investment portfolio mattered, but it was only one piece of a much bigger picture.

This document is my attempt to explain that philosophy, and ten ideas behind it.

1. The plan comes first.

Nobody should build you a portfolio before they know what you're actually trying to do with your life. What does retirement look like? Are you unwinding a business? Do you have stock options vesting that are deciding your tax bracket for you? None of that shows up on a risk questionnaire. It shows up in a conversation.

I've seen plenty of "good" portfolios built for the wrong plan. Well diversified, low cost, technically sound, and still wrong, because it was built off a generic risk tolerance quiz instead of an actual conversation about someone's life. The portfolio isn't the plan. It's downstream of it.

This is also just how the financial planning profession itself is built. The CFP Board's own certification process starts with goals, not products. Investments are step six or seven, not step one, and there's a reason for that order.

2. Markets are hard to beat, consistently, after costs.

Here's something a lot of advisors won't say out loud because it's bad for business. Beating the market year after year, after fees, is genuinely difficult. Not impossible in any given year, but very difficult to do reliably over time.

The numbers back this up. S&P tracks how actively managed funds perform against their benchmarks every year, and the data is not kind to stock pickers. Most recently, nearly 4 out of 5 actively managed large-cap U.S. funds underperformed their benchmark, one of the worst showings in the report's 25 year history. Looking over the last 15 years, not a single one of the 22 fund categories tracked had a majority of active managers beat their benchmark. Zero out of 22. Full report here:

<https://www.spglobal.com/spdji/en/spiva/article/spiva-us/>

There's real academic theory behind why this happens, going back to economist Eugene Fama's work on what's called the Efficient Market Hypothesis, which eventually earned him a share of the Nobel Prize. The short version: prices move fast because millions of smart, motivated people are staring at the same information you are, and they react to it almost instantly. If something looks cheap, it usually doesn't stay that way long.

So instead of pretending I can out-guess millions of other participants, I build portfolios that capture the market's return efficiently rather than betting I can beat it through stock picking or timing. That's not modesty. It's just being honest about what the evidence shows actually works when managing portfolios.

3. Asset allocation and factor exposure drive most of your long-term return.

I don't think there's only one correct way to manage a portfolio. I've seen plenty of approaches that are genuinely sound, run by smart, disciplined people, that don't look exactly like mine. What I do believe is that there are a lot more ways to manage a portfolio badly than there are to manage one well.

I'd guess I've looked at somewhere around two thousand portfolios over my career, prospects, referrals, second opinions, family members of clients. More than half were mismanaged in some way. Not fraud, nothing dramatic, just quietly inefficient or wrong

for the person's situation. Too concentrated in one stock nobody flagged. A dozen funds all secretly owning the same 50 companies. Fees nobody explained. An allocation set years ago and never touched since.

So when I say I have a specific philosophy, it's not because I think it's the only path. It's because I've watched enough real portfolios to land on an approach I can defend for every client. Low cost, broadly diversified, some intentional factor exposure, built individually for each person instead of dropped into a generic model.

For a long time, the entire industry believed "more risk equals more expected return" was basically the whole story of investing. Research from economists Eugene Fama and Kenneth French showed that's only part of it. Certain characteristics, a company's size, how cheap or expensive it is, its profitability, have also shown a real, persistent relationship with long-term returns, separate from just overall market risk. This is the research firms like Dimensional Fund Advisors built their whole philosophy around, and it's why newer firms like Avantis, along with parts of Vanguard's own lineup, have built low cost strategies specifically designed to capture these same factors. Instead of trying to guess the next great individual company, I tilt portfolios toward these well documented characteristics and let decades of data do the work.

4. Protecting the downside matters just as much or more than chasing the upside.

Do the math on this one, it's not close. Say you've got a \$1,000,000 portfolio and it drops 50% in a bad year. You're now sitting at \$500,000. To get back to your original \$1,000,000, you don't need another 50% gain, you need a 100% gain. That \$500,000 has to double just to get you back to where you started.

That's not a rough patch. That's potentially a hole you don't climb out of in time, especially close to retirement. This is sometimes called the asymmetry of losses, and it's one of the most underappreciated concepts in personal finance.

There's a real framework behind this too, going back to Harry Markowitz's foundational work on balancing risk and return, the basis of what's called Modern Portfolio Theory. His model treats volatility itself as a real cost, not just an abstract number. A portfolio that swings wildly isn't just uncomfortable to watch, it can mathematically reduce the return you actually earn compared to a smoother path with the same average return.

I'd rather build something boring that holds up than something exciting that blows up right when you need it most, especially for clients within a decade of retirement, where there's less time to recover from a large drawdown.

5. Real diversification means owning things that behave differently, not just owning more things.

Owning fifteen large cap U.S. growth funds isn't diversification, it's the same bet made fifteen times with fifteen different logos on it. Real diversification means some part of your portfolio is doing something different than the rest, and that includes owning things outside the U.S.

Case in point, right now. International and emerging markets got left for dead the last decade. Everyone wrote them off. This year and last they're leading. The years international exposure feels the most unnecessary are usually followed, eventually, by the years it matters the most, and nobody rings a bell to tell you when that shift is happening.

This connects back to Markowitz's core insight again. Combining assets that don't move in lockstep with each other can lower a portfolio's overall risk without necessarily lowering its expected return, but only if those assets genuinely behave differently. Two funds with different names but the same underlying exposure aren't diversifying anything.

6. Risk is a choice, not an accident.

Ask yourself why you're investing and taking that risk at all. Strip away the noise and the honest answer is usually this: you're doing it so eventually you don't have to. The whole point of building wealth is reaching a place where you're financially independent enough that you no longer have to take risk you don't want to take.

The problem is most people never actually go through that exercise deliberately. Risk just piles up quietly. An old 401k nobody's touched in years. A stock position that used to be small and isn't anymore. That's risk you never chose, and unchosen risk isn't discipline, it's an accident sitting there waiting to happen.

Part of my job is making the risk in your finances visible, so you're the one deciding how much of it you actually want, not letting it accumulate by default.

7. Discipline beats prediction, and the biggest risk in most portfolios is the person holding it.

Nobody knows what happens next year. Not me, not the person on TV with the confident voice, not the newsletter that nailed a call two years ago and hasn't been right since. What separates people who actually build wealth from people who don't usually has nothing to do with picking winners. It's whether they can sit still during the years that test them.

Vanguard has spent over two decades trying to quantify exactly this. Their research on where an advisor actually adds value found that behavioral coaching alone, simply keeping someone from making an emotional decision during a crash or a euphoric run up, can add up to roughly 1.5% in net returns annually. Not from picking better investments, purely from preventing panic selling at the worst possible time. Research here:

<https://www.vanguard.ca/content/dam/intl/americas/canada/en/documents/gas/advisors-alpha-infographic.pdf>

This is why I think of my job as being as much about behavior as it is about markets. Anyone can build a reasonable portfolio. The harder job is being the person in your corner who keeps you from blowing it up at exactly the wrong moment.

8. Having a plan matters more than having a prediction.

Go back to that room in Boca Raton for a second, because there's more to unpack there than just the punchline. These weren't unsophisticated people. Many had spent entire careers in business, medicine, law. They lived through every crash and every "this time it's different" moment financial media has thrown at investors over the last few decades. And yet when asked point blank whether their portfolio beat the market, most of them didn't really know, and more importantly, most of them didn't really care.

That's not because performance doesn't matter. It's because at some point along the way, the plan itself became the thing that mattered, not the year-to-year scorecard. These people were trying to get somewhere specific, and the portfolio was simply the vehicle that helped get them there.

This is what people get backwards when they're shopping for an advisor. They ask about performance first, when performance is almost never what determines whether someone actually retires well. What determines it is whether the plan was real to begin

with, whether it fit your life instead of a template, and whether someone kept you from making an expensive mistake at exactly the wrong moment.

9. Asset location matters just as much as asset allocation.

It's not just about what you own, it's about where you own it. The same exact investment can behave completely differently depending on whether it sits in a taxable account, a Roth, or a traditional IRA.

Put your least tax-efficient holdings in the wrong account, and you're quietly giving away return every single year to the IRS for no reason. This is genuinely free money sitting on the table, and most people are leaving it there simply because nobody ever coordinated their accounts as a single portfolio instead of a pile of separate ones.

Vanguard's own research puts a number on this. Smart asset location can add up to roughly 0.42% per year in value for the right investor. That might sound small, but compounded over 20 or 30 years, it's real money that would have otherwise gone to unnecessary taxes.

10. The goal is durability, not maximizing every dollar.

Somewhere along the way, this industry convinced people that a good year is the whole point. It isn't. I've watched plenty of portfolios put up a great year and then give it all back, and a few boring ones quietly compound for decades without anyone noticing how well they were actually doing.

What I care about is whether this is still standing in year 25. Still giving you options. Still letting you sleep at night, no matter what the next few decades decide to throw at us. That's a different goal than chasing the best return this year or next, and for the vast majority of people, especially the ones counting on this money to actually fund a life, it's the better one.

Flexibility and confidence beat maximum returns every time, especially when it's your actual retirement on the line and not a number on a spreadsheet.

What this means for you

If you're working with me, this is what you should actually expect: a portfolio built around your specific plan, not a template. Broad, genuine diversification instead of fifteen versions of the same bet. Low costs and tax-smart account placement, because

both quietly compound in your favor or against you over time. And a person in your corner whose real job, more than picking investments, is helping you stay the course when it's hardest to do.

That's really what all ten of these ideas are pointing toward. Not a way to win every year, but a way to still be standing, and still be confident, twenty five years from now.

Disclosure: The content in this document is for educational and informational purposes only and should not be construed as investment, tax, legal, or financial advice. The views expressed reflect the author's opinions as of the date of publication and are subject to change without notice. Past performance is not indicative of future results. All investing involves risk, including the possible loss of principal. This document does not take into account your individual financial situation, goals, or needs. If you have questions about your specific circumstances, please reach out to a qualified financial advisor before making any financial decisions. Brooks Wealth Management is a Registered Investment Advisor. Registration does not imply a certain level of skill or training.