BEHAVIORAL FINANCE

Lessons From How Professionals Invest Their Money

The personal money stories of advisers, portfolio managers and other financial experts can help you navigate your own financial journey.

BY BRIAN PORTNOY, PH.D., CFA

There's an old quip that personal finance is more personal than finance. Though perhaps too clever, this still reveals a truth only sparingly mentioned among serious financial experts: There is no one right way to manage your money.

The orthodoxy—that "right" way—finds its origins in the early days of modern mathematical finance. Decades ago, the high priests of that movement—Harry Markowitz, William Sharpe, Jack Treynor and Eugene Fama among them—not only created knowledge but also inspired a social community with shared ideas on optimal portfolios, efficient markets, pricing securities and other matters through which rational investors can increase their utility. Of course, there were and remain intense debates on these topics, but it's also true that powerful conventional wisdoms have emerged over the decades that are believed by many professional investors.

Outside the church walls, there are also the pedestrian matters of personal finance—well beyond the narrower realm of investing—such as saving smartly, borrowing wisely and spending prudently. Here, too, there are widely accepted rules of the road. We disregard them at our own peril.

Nevertheless, heterodoxy reigns. We know that when elegant theories and basic rules intersect with the real lives of individuals and families figuring out how to get by and thrive, then managing one's money becomes artful, to say the least.

APRIL IS: Financial Capability Month

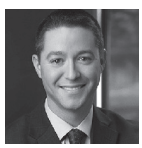
In a recent project, wealth manager Joshua Brown and I brought together 25 experienced financial advisers, portfolio managers and other financial experts to reveal how they invest their own money. Each contributor knows the orthodoxy.

However, when we pull back the curtain from these experts' personal lives—messy like everyone else's—what do they actually do? That was the subject matter of the 25 chapters in "How I Invest My Money" (Harriman House, 2020). Here are some themes and ideas that threaded through most or all of them and that may help as you navigate your own personal journey.

Money Stories Matter

When asked about their own financial decisions, where does a group of CFAs, MBAs, Ph.D.s and CFPs start? Not with spreadsheets, but stories.

Who we are as adults is strongly shaped by our experiences from when we were young. "I grew up in a household that didn't enjoy a lot of excess," explained financial adviser Ashby Daniels. "As I imagine is true for many people, much of how I manage our family's financial life is probably defined by my childhood experiences. I believe in keeping things simple and it starts with defining 'enough.'"



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— Ashby Daniels, Shorebridge Wealth Management

Though our experiences with money aren't something we tend to talk about with others, or even explore in our own minds, they have a remarkably strong impact on our attitudes toward and decisions about money today. "What is your first memory of money?" asks financial adviser Blair duQuesnay. The answer matters.

The most powerful examples in the book started with childhood poverty. Not surprisingly, scarcity makes an indelible mark. Even when we manage to transcend that struggle and achieve prosperity, such memories impact how we choose to save, spend and take care of others—both family and community.

Meanwhile, the stories we tell about our family history—immigration, entrepreneurship, relationships between grandparents and grandkids—influence how we

***Brian Portnoy**, Ph.D., CFA, is the founder of Shaping Wealth, an educational technology firm that promotes financial well-being. He is co-editor with Joshua Brown of the new book "How I Invest My Money: Finance Experts Reveal How They Save, Spend, and Invest" (Harriman House, 2020). Find out more at www.aaii.com/authors/brian-portnoy.*

see the world today. They shape who we have become and who we will be in the future. The money stories we inherit or those we learn to write ourselves weigh far more heavily on our decision-making and attitudes than what might be revealed in a "risk tolerance questionnaire" or the interpretation of a Monte Carlo simulation. Implicit in every contribution to the volume is that if you don't know someone's narrative, you won't understand how they invest.

Berknell Financial Group's Dasarte Yarnway, whose parents fled Liberia before a deadly civil war, discussed his father. Members of the Northern California Liberian community called him "The Godfather" because he saved more than 45 refugees. Now, Yarnway invests in Ganta Real Estate Company, which redevelops neighborhoods and provides affordable housing. The company is named after a city in Liberia located near Yarnway's father's birthplace.

Money Is an Expression of Our Values and Our Identity

I don't believe this point can be expressed strongly enough. Money is a language, and we use it to verbalize who we are, what's important and who we want to be.

What we value is entirely personal. Morgan Housel, a partner at the Collaborative Fund, wrote:

"Independence has always been my personal financial goal. Chasing the highest returns or leveraging my assets to live the most luxurious life has little interest to me. Both look like games people do to impress their friends, and both have hidden risks. I mostly just want to wake up every day knowing my family and I can do whatever we want to do on our own terms."

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Themes of independence and security are threaded throughout the chapters. Another contributor, Perth Tolle, built her own investment firm around the idea of individual liberty, especially in developing nations. Many of the contributors wrote warmly about the social causes that matter to them.

Financial Capital Is Only One of Our Assets

"My very first investment was in me." So writes financial adviser Lazetta Rainey Braxton about the journey to grow her skills as well as her portfolio. Investing in human capital is every bit as important as, if not more than, investing in financial capital. The education we seek out and the skills we build pay dividends through much of our lives. Yes, later in life we tend to lean more on our portfolios than our job skills. But the bulk of life is about earning inside others' companies or building our own.

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—Lazetta Rainey Braxton, 2050 Wealth Partners

In addition to brains and wallets, we also have networks. Investing in social capital is an important skill as well. Investment manager Ted Seides, StockTwits co-founder Howard Lindzon, CNBC contributor Josh Brown and others have built valuable connections that created new and sometimes lucrative opportunities. All in, we have multiple tools to lead the lives we desire, which paints a more expansive picture of what it means to "invest."

Money Can Buy Happiness

That this isn't said out loud very often doesn't mean it's not true. While much pivots on what we mean by "happiness," the fact is that money solves problems, alleviates pain and regret and can buy both short-lived thrills and longer-lived joy. Some of the experts who contributed their personal stories found pleasure in art collections, vacations or a nice home. But many wrote in personal terms about the "peace of mind" that is possible if not guaranteed when we manage our finances and careers wisely.

In my chapter, and elsewhere, I've written about the notion of "funded contentment," or the ability to underwrite a meaningful life. This is my definition of true wealth. This harkens back to Aristotle's idea of eudaimonia, or a deeper state of well-being or fulfillment. And what we know from scientific research as well as personal experience, there is indeed a material intersection between money and meaning. Away from the daily grind, those things that truly matter to us—a sense of belonging, control over our lives, a connection to something bigger than ourselves—can at least be partly underwritten by well-managed finances.

Expertise and Process Matter

While there is no denying the deep undercurrent of money in our personal lives, there is also the practical matter of making good decisions and forming good habits. Across the various dimensions of our money lives—investing, saving, spending, borrowing, insuring and giving—there are better versus worse ways of doing things, albeit through a personal lens.

For example, investment adviser Nina O'Neal set out on a practical path for funding her kids' education through tax-advantaged vehicles. Morningstar's Christine Benz has built portfolios that work for her and her family through the lens of simplicity. On one goal shared by all, retirement, it was fascinating to observe each expert designing a distinct path mapped to their objectives, sense of risk, time frame and other idiosyncrasies. (Among the older contributors, for example, some owned bond-heavy portfolios while others remained fully in equities.)

Stories might inspire, but the words and sentences which constitute them are governed by rules. Money, too, has its own grammar and we are best served by learning it. One of the joys in editing "How I Invest My Money" was seeing firsthand how the people I respect built processes for solving problems we all confront.

Investing Is a Skillful Art

I grew up in this business evaluating money managers, a journey I detailed in "The Investor's Paradox" (St. Martin's Press, 2014). And what was true years ago remains true today: There is no one right way to pick stocks and bonds or to build portfolios. Each individual can develop the way that is right for them—as long as it's embedded in a process that can be articulated, repeated and scaled. For instance, two contributing portfolio managers, Jenny Harrington and Mike Underhill, expressed their world views through the lenses of dividends and commodities, respectively, based on investment processes they developed over the course of decades.

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— Brian Portnoy, Shaping Wealth

"I grew up in a financially volatile household and witnessed the downside of counting on possible big wins as justification for living above the means. The current income provided by investing in dividend stocks simply provides me a level of emotional comfort. Knowing that income will flow into my portfolios through thick and thin (as it has through the financial crisis of 2008/09, the U.S. debt downgrade of 2011, the taper tantrum of 2013, the oil price plunge of 2015/16, the flash bear market of 2018, and now the coronavirus crisis) brings me comfort, conviction and confidence. As we all know, in times of trouble, cash is king," says Harrington.

More broadly, it became clear through the volume that where one stands in the debate over "active" versus

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"passive" investing is somewhat of a Rorschach test. While we all have access to the same evidence on this perennial debate, each expert expressed different views through the actual construction of their personal portfolios. No single person was "pure." Indexing advocates like Benz and myself own active managers. Hyperactive investors who focus on venture capital or near-term trading also own passive vehicles. The devil is very much in the details and broad proclamations over the "right" way to invest are rarely grounded in what we actually do.

Money Is One of Life's Loneliest Domains

As one of the editors of this volume, I was struck by a number of private conversations with some of the experts as they drafted their chapters. They are all experts in money management, but they expressed, in some cases, anxiety and in other cases a sense of relief (and sometimes both) in telling their personal tales.

It's not surprising then that coming to terms with one's money life can be even more daunting for those who haven't devoted their careers to making sense of the financial world. In that spirit, it's clear that financial freedom—both by the numbers and by our mindsets—is hard to achieve without financial literacy.

Personal discussions of money can be uncomfortable among partners, parents, children and friends. Money is a dangerous topic because it reveals an unshakable connection between our bank accounts and our sense of self-worth. Yet, in response, our society does a poor job of providing resources and access to those who want to make sense of their money life, but don't know where to start. It shouldn't be a surprise, therefore, that a number of the experts who shared their personal stories and strategies are also passionate advocates for broad-based financial education. ■

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