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Time: Your Most Important Planning Tool

By admin

Time is one of those daily realities that we usually take for granted. But when it comes to building wealth and managing investments, it is tremendously important. How you view, manage, and interact with "time" could deeply impact your financial success more than any other variable that you personally control.

The ability to think about the future - and emotionally relate to how present-day decisions impact distant financial successes - is an important skill to cultivate. Canadian sociologist, academic and consultant, Elliott Jacques, the originator of the concept of "just-in-time" manufacturing processes, wrote extensively about this concept - which he referred to as "cognitive complexity."

In short, this is the time horizon over which most people can effectively plan and manage their lives. The research shows that about 70% of the population can only plan and emotionally relate to a time horizon of 3 months or less. This may partially explain why many people buy winter boots or a snow shovel only when the first snow fall occurs.

Time is a complex subject. In the financial industry it impacts the decisions you make and how you invest your money. For example, for at least 20 years, many market commentators have been saying the US Dollar is finished as the global reserve currency. And yet, here it is, still the core instrument of the global

trade settlement infrastructure.

The problem is that macro-economics has historically been an extremely poor tool for market timing or investment planning. The British Pound effectively lost its status as the global reserve currency around 1915, during WW1 but was not fully replaced as such, until the Bretton Woods Agreement some 40 years later.

Another area of friction is how your concept of "time horizon" may differ from that of your planner or investment advisor. You may think "long term" is days, weeks, or months, while a financial advisor generally thinks about "long term" planning in terms of years or decades. This mismatch in perceptions can sometimes cause unnecessary friction with your financial advisor.

Often a client will approach their financial advisor and ask what kind of returns, for example, can they expect for "surplus" money from the sale of a house. They may have a plan to buy another home in a year or two. This investing time horizon is noticeably short. The challenge is if the client was able to double or triple their capital value, in many cases this still might not be enough to pay cash for a new house purchase - especially in hot real estate markets such as Toronto or Vancouver. But if a client invests their money into an equity investment and the markets then drop 25% during a "short time horizon" this event would then likely reduce the client's ability to buy their next home.

The past few years have seen a steady upward trend in many world markets as governments took quick action to stimulate their economies and blunt the threats posed by the COVID-19 pandemic. At the same time, many people started making their own investing decision using online trading accounts. These recent experiences have led many investors to think it is easy to make money in the stock markets while, at the same time, their financial advisors are cautioning patience.

In this scenario financial advisors sometimes come across as antiquated while investors often believe they are brilliant and infallible. As the laws of economics have not been repealed time will tell the benefits between the "easy money" investing approach vs the "slow and steady" approach.

When thinking about long term financial plans and how to build assets effectively and efficiently, it is essential that clients and their financial advisor have conversations to confirm that there is clarity regarding "time horizons" and investing objectives.

Different objectives will involve different timelines. **Call us today** [1] for a review of your various portfolios and whether they are positioned appropriately given your time horizon.

Wishing you all much success, happiness and continuing good health for 2022!

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