



### Can you fix stupid?

Cynics would say “no.” But optimists keep trying, looking for ways to help people make better decisions, have better outcomes.

Since the Enlightenment, the primary prescription for fixing stupid has been education. You explain the benefits of good hygiene, the causes of disease, the dangers of smoking, the value of a college degree, the necessity of saving for retirement, etc. And once educated, people will change their behaviors. Except sometimes, they don’t.

Is education really the fix? Consider the case of dumb money.

### Dumb Money: The Retail Customer Stereotype

Retail customers are non-professional individuals who use the products and services of financial institutions. Within the industry, retail customers are sometimes referred to as “dumb money.” This isn’t a denigration of retail customers as much as an expression of frustration over the difficulties in helping the masses with personal finance.

The standard take on why the typical retail customer is dumb money? Retail customers don’t have the time, background or patience to become familiar with the details of personal finance. As uninformed or under-informed customers, they tend to achieve less-than-stellar returns from their financial plans; they buy high and sell low, chase last year’s good idea, and change directions instead of staying the course.

Plenty of research supports the dumb-money stereotype. Annual reviews of individual investor behavior by DALBAR, an investment research company from Boston, repeatedly find that actual returns achieved by retail customers are significantly lower than the “frictionless” results reported by the corresponding investments. (“Frictionless” means the investment or plan remains unchanged over the period of measurement.)

Being dumb money isn’t good for retail customers, and it’s not good for financial institutions either – you can’t build a good business with unhappy customers. But initiatives to improve retail customer behavior have generally delivered underwhelming results.

### The Education Fixes for Dumb Money

Educational attempts to fix the Dumb Money problem in personal finance come in two forms: professional assistance and self-study.

Engaging the services of financial professionals – a broker, insurance agent, accountant, tax specialist, etc. – is a way for retail customers to tap “smart money” resources. This is a major value-add proposition used by the industry to attract retail customers. As Jason Zweig of the *Wall Street Journal* describes it, “The only way dumb money can get smart is by taking our advice – at a reasonable fee, of course.”

The other track for financial education is to do it yourself; instead of relying on smart money experts, you become one. There is an abundance of resources, both in print and online, to facilitate this education.

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\* The title of this newsletter should in no way be construed that the strategies/information in these articles are guaranteed to be successful. The reader should discuss any financial strategies presented in this newsletter with a licensed financial professional.

Both methods are logical and have success stories to validate them. But the effectiveness of financial education is hit-or-miss.

Many financial professionals will concede that, even with their assistance, some of their clients don't get smarter. They don't implement recommendations, don't stay the course. They frequently change strategies and their sources of assistance. While these retail customers may be better educated, it doesn't change their behavior.

The same holds true for DIYers. Despite the proliferation of "programs for dummies" about saving, investing, and retirement, there is no demonstrable evidence that any of this education is creating a new class of smart-money retail customers.

### Belief Might Be the Most Important Factor

In "Five Facts About Beliefs and Portfolios," a research paper published March 2019 by economists and professors from Harvard, Yale, the New York University, and the Center for Investor Research, the study identified a group of retail customers who seemed to defy the dumb money stereotype.

The study tracked the financial behaviors of more than 11,000 retail investors over a two-year period. As a group, these customers shared several distinctives. All the participants were retail customers of a specific financial institution, who in Zweig's words, "tend to follow the investment gospel preached by the firm's late founder," which focused on low-cost investing.

The use of the word "gospel" is apt. The study found that retail investors who achieved the best results had a high level of confidence in their financial plans; they were "true believers" in their approach to investing. These strong convictions appeared to be a defining characteristic; retail customers who were confident in their financial beliefs were five times more likely to respond in accordance with their expressed plans (such as when to buy, sell or hold), than those who were less confident. The study also found that even when frictionless benchmark models indicated conditions that historically produced changes in allocation or strategy, true believers were less likely to deviate from their stated plans.

### It's Not Just What You Believe, but How Strongly You Believe It

While confidence in one's beliefs seemed to be key, the study found that *what* retail customers believed about investing was not uniform: "Beliefs are mostly characterized by large and persistent individual heterogeneity." Heterogeneity is the quality or state of being diverse in character or content; the data suggested that different strategies were equally effective – as long as the beliefs were strong.

This suggests that confidence (and better outcomes) is not the result of education alone. Rather, the best results occur when financial beliefs are strong enough to resist dumb-money tendencies.

### Do You Believe? Wanna Bet?

From a behavioral perspective, this study might be on to something: It's not what we know, but how strongly we believe it that makes a difference. But how can you tell if your beliefs are strong enough to succeed?

Annie Duke is a "decision strategist" and author of the book "Thinking in Bets." Duke has a simple test to assess strength of belief: How much would you be willing to bet on your financial beliefs, especially if losing the bet meant making a donation to a charity or political campaign you hate?

Hmm...Most of us have opinions about these topics. Some of us might have well-educated opinions. But are we willing to bet on them?

Getting educated about the specifics of personal finance is a starting point. But education alone won't fix dumb money. Smart-money individuals have conviction; their actions are consistent with their beliefs. ❖

## How Strong are Your Beliefs? (Wanna Bet?)

**Real quick:**

Think about what you believe about...

- Saving
- Investing
- Risk Management
- Retirement

Think about who you believe. Your...

- Banker
- Accountant
- Broker
- Insurance agent





## Why Are We Unprepared for Widowhood?

Something you probably don't know: June 23<sup>rd</sup> is International Widows Day on the United Nations' calendar. First observed in 2010, the day was established to raise global awareness of the hardships facing widows following the death of their spouses.

These hardships vary by country and culture. In some so-called "traditional" societies, a woman whose husband has died may be denied an inheritance, evicted from her home, or socially ostracized. In the United States, widows – both men and women – may not encounter the threats to their well-being, but the challenges – emotional and material – can still be significant.

Yet while widowhood is an almost certain event in a marriage, couples often neglect to prepare for it.

### Widowhood: Some Statistics

The US Census provides some eye-opening insight into widowhood in the United States. (Note: In US data,

“widowhood” is a gender-neutral term for an individual whose marriage has ended because of the death of a spouse.)

- **It occurs sooner than you might think.** In 2016, 24 percent of Americans over the age of 65 had experienced the death of a spouse. Another often-quoted statistic culled from census reports: the **median age** that widowhood occurs is 59.4.
- **In the United States, widowhood is predominantly a woman’s experience.** American women have longer life expectancies and, until recently, have tended to marry men slightly older than themselves. This combination explains why an overwhelming majority of widows – about 85 percent – are women. Women are also more likely to remain widowed as opposed to remarrying.
- **Widowhood often has a negative impact on the finances of a surviving spouse.** The Social Security Administration reports that the rate of poverty among elderly widows is three to four times higher than their married counterparts of the same age. Even widows that aren’t impoverished often face major financial adjustments, such as decreased income, loss of health insurance, or the need to relocate.

### Not Fun, but Fundamental

Preparing for widowhood is not a “fun” financial task. But most of the preparation is fundamental financial management that ought to be done anyway.

**Identify, update and exchange financial information.** It’s surprising how uninformed spouses can be about each other’s financial lives. Even in marriages that consciously attempt to integrate finances (joint checking accounts, both names on the mortgage), a lot of financial activity is specific to one spouse; a credit card, a retirement account, an ownership interest in a business, an investment account for dabbling in the stock market, a car with only one name on the title. Both parties should know about the pieces of their financial lives that are separate.

Assemble a comprehensive list of all financial assets, along with statements, passwords, ownership arrangements, and designated beneficiaries, and know where it will be kept. (Secure on-line digital vaults can be a great place to store this information – as long as someone remembers, or can retrieve, the password.)

**Plan for succession.** One of the advantages of marriage is the division of labor; one person shops, the other does the dishes. And quite often, one person manages the money. If the money-managing spouses dies, can the widow easily assume those duties, or will he/she need help? For older widows, an adult child often serves as a financial assistant, which may be fine. But deciding on a trusted financial professional to serve as a backup is usually a prudent option. Whatever you decide, the key is having someone in place to help manage your affairs.

**Review your life insurance.** Following the mainstream financial wisdom of their time, many couples bought term life insurance several decades ago, hoping that when the term expired, they would no longer need or want life insurance. But times change. Today, some of these couples recognize that a life insurance benefit would make widowhood much more manageable. If your widowhood scenarios don’t have life insurance, it’s worth looking at how you might get some. If you have life insurance, be sure you can keep it in force until death.

**Please, please, please...prepare a will.** So many people, even those with lots of assets, never get around to executing a will and trust. We get it; paying for a legal document regarding your future death isn’t fun. But dying without a will makes it harder for individually-owned assets to be transferred or liquidated.

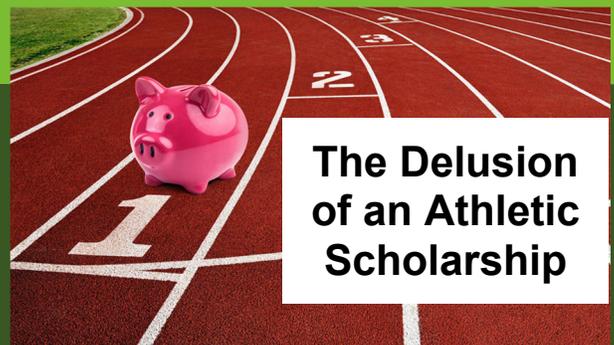
**After the death of a spouse, go slow on major decisions.** An April 19, 2019, *Wall Street Journal* article, “Surviving Solo,” notes that the decisions that come in the aftermath of the death of a spouse can be daunting. This is particularly true of real estate because of the “emotional attachments, and in some cases, the needs of the couple’s children.”

To mitigate against impulsive behavior that may be triggered by the passing of a spouse, financial professionals often recommend that widows refrain from making major financial decisions for anywhere from six months to three years. Besides decisions about real estate, this caution applies to other things, like the receipt of life insurance proceeds, and adjustments to inheritance distributions, especially if the widow remarries. ❖

### Do the Right Thing for Your Marriage

If you’re in a good marriage, the likelihood of you or your spouse being widowed is almost 100 percent; except for instances of simultaneous death, the marriage will end with one spouse alone, at least temporarily. Planning for this eventuality will not diminish the sorrow of losing a beloved life partner, but not planning will almost certainly magnify the suffering because of added financial stress.

### REALITY CHECK:



**The Delusion of an Athletic Scholarship**

**H**ave you noticed that some parents see Little League games and tennis lessons as college-fund investments?

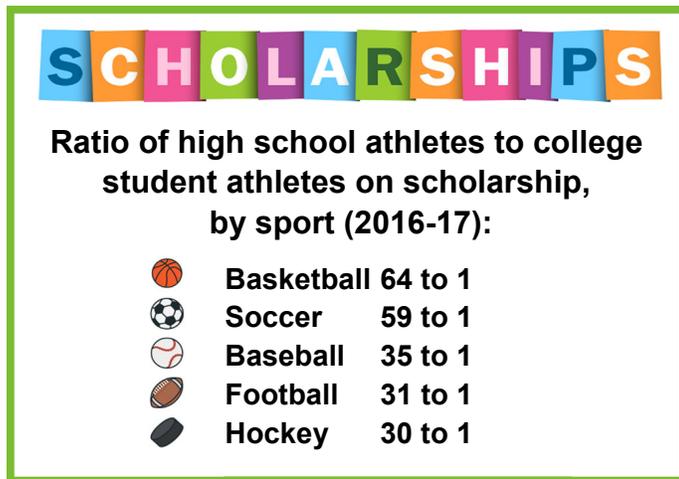
As competitive youth sports have become a full-blown industry requiring more of a family’s time and money, one of the rationalizations for continued participation is the tantalizing possibility that your child could receive a college scholarship for

their athletic prowess. “Scholarship assistance” companies actively market this dream, saying their expert training and/or marketing services can turn your child’s athletic ability into free money for college.

But counting on an athletic scholarship is arguably the most unrealistic and expensive way to pay for higher education. If you think otherwise, a reality check is in order.

### The Tough Numbers on Athletic Scholarships

**1. The percentage of scholarship-worthy athletes is very low – and parents tend to wildly over-estimate their child’s ability.** Although the numbers vary slightly by sport (see Fig. 1), the National Collegiate Athletic Association (NCAA) reports that only 2% of high-school athletes will receive college scholarships in their sport. In other words: out of 50 high-school athletes, only one is good enough to merit an athletic scholarship.



But when it comes to their child’s athletic ability, many parents feel the numbers don’t apply. In a 2019 survey on the cost of youth sports by TD Ameritrade, 40% of parents with children in competitive youth sports said they felt confident *their* child would get an athletic scholarship. One-third of these parents saw either Olympic or professional athletic careers as a real possibility, and 15 percent said they were “counting on it.” When the difference between expectations and reality is this great, it reflects a serious disconnect.

**2. Most athletic scholarships do not cover all expenses.** When parents and young athletes dream about athletic scholarships, they usually talk about a “full ride” that covers all costs. But with the exception of high-revenue Division I glamor sports like football and basketball, most athletic scholarships aren’t full rides; many are less than \$5,000.

An athletic department’s budget gives each team a specific number of scholarships, to be divided at the coach’s discretion. If a tennis team is allocated 7 scholarships, the coach might give one highly-coveted athlete a full ride. But most likely, each scholarship will be divided amongst several prospective student-athletes, depending on their financial circumstances and perceived value to the program. If six scholarships are spread across 20 players, the scholarship will be a fraction of the cost of attendance, with the student-athlete and the parents required to make up the difference.

**3. The development costs are steep.** To improve their chances of becoming scholarship-worthy, many parents and young athletes commit extra time and resources to becoming

better players. One-on-one coaching, summer camps, specialized equipment, out-of-season training and travel teams are seen as essential to maximizing talent and getting the attention of college coaches.

It is expensive. Parents in the TDA survey reported spending between \$100–\$499/mo. per child on elite youth sports; 20 percent of families spent \$1,000 or more. For some sports, the costs are even higher: Wintergreen Research found families with children playing elite level youth hockey typically spent over \$25,000 annually. “(Youth sports) is a machine. To be part of the machine, you have to buy in early and often,” said Travis Dorsch, a former NFL player and Assistant Professor at Utah State University.

These costs strain household finances. Sixty percent of the parents surveyed said the cost of youth sports has them concerned about their ability to save for the future. Over 70 percent said they cut out extras, saved less, tapped college funds, or delayed retirement to pay for sports. Does this sound like good financial management?

**4. Injuries and burn-out are wild cards.** Even if a child is blessed with great athletic ability, and even if the family can afford the best training and opportunities for exposure, a scholarship is far from certain.

There can be career-ending injuries: recurring concussions, broken bones, torn ligaments can diminish skills or preclude participation.

And some young athletes burn out; they lose interest, discover other passions. The pressure of using sports to pay for college may actually increase the likelihood of burn-out. Dorsch found that:

**“The more money families spend on sports, the less their children enjoy it. We would have expected that kids of means are going to have more fun and be more committed because their parents can afford all the best equipment and coaches, but we found the exact opposite...Kids perceive the emotional and financial investment in their extracurricular activities as unwanted pressure.”**

### Get Real About Athletic Scholarships

Good parenting often involves financial sacrifices, and only you can truly weigh the value of those sacrifices. But in general, sacrificing to pursue an athletic scholarship isn’t realistic.

Participation in youth sports offers many positives for kids. But when the purpose of participation is a scholarship, sometimes playing becomes a job instead of a joy – for both the athlete and the parents. ❖



## How Life Insurance Could Extend Your Life



**D**ana Goodman and Darius Lakdawalla are the founders of Precision Health Economics, a company that “produces advanced health economics research.” One aspect of their research is quantifying the economic benefits of innovative medical treatments, as well as better ways to pay for them.

In the middle of a March 2019, *Wall Street Journal* commentary discussing new immunotherapies for cancer treatment, Goodman and Lakdawalla drop this mind-bending statement:

**“Studies are beginning to show that life insurers could save lives and help their bottom line by purchasing cancer treatment for their clients.”**

Wrap your head around that idea: Life insurers should consider paying for cancer treatments on the people they have insured.

To explain why, the article presents the following hypothetical:

A 57-year-old man with health insurance is diagnosed with metastatic skin cancer, a disease which is “almost universally fatal within five years.” However, a new drug protocol offers “a reasonable chance for a durable cure,” i.e., treatment will have a positive, lasting effect. A full course of treatment is anticipated to cost \$120,000.

Goodman and Lakdawalla write: “As soon as the diagnosis is made, the incentives of the man and those of his health insurer diverge.”

The incentive of the 57-year-old man is simple: he wants the best treatment available, and he wants it as soon as possible.

An array of factors makes the health insurance company less-than-eager to authorize payment for this treatment. The company wants to honor its obligations in the most financially prudent way possible, which might mean insisting on less-expensive treatments at the outset, approving the desired treatment only if the initial prescriptions prove unsuccessful.

Beyond costs, there are deeper issues, ones that come very close to being moral hazards. If the 57-year-old should have a full recovery, and switch to a different insurance plan (maybe because he changes employers), the first insurer has subsidized a competitor; the new insurer is receiving ongoing premiums, but the old insurer is stuck with the bill. And there’s an even darker thought: if the man dies, the health insurer’s financial obligations are done. Which leads to an uncomfortable question: Is it in the health insurer’s interest to pay for the best treatment available?

In the hypothetical scenario, the insurance company limits the claim to \$96,000, leaving the 57-year-old with a \$24,000 bill, and a tough decision: how to pay it, or to forgo a chance at a cure.

But wait...there’s a plot twist:

**“Let’s say our patient has a \$250,000 life-insurance policy.”**

Specifically, it’s a 30-year term policy purchased when the man was 40. From Goodman and Lakdawalla’s perspective, the incentives of the man and the life insurer are similar; both want him to live as long as possible.

For the life insurance company, every month of added life is a bonus, both in postponing the payment of benefits, and in collecting additional premiums. If the 57-year-old can’t afford the new drug treatment, the insurance company will likely end up paying a \$250,000 death benefit to the man’s heirs. On the other hand, if he makes a full recovery, the insurance company has up to 13 years to collect premiums, after which the policy would expire – without a death benefit being paid.

The longer the man lives, the better it is for him and the life insurance company. Which is why the company ought to consider paying the \$24,000 out-of-pocket costs.

Of course, the man’s recovery and living past 70 are not guaranteed. But Goodman and Lakdawalla estimate that paying the \$24,000 bill would result in \$28,000 of savings for the insurer. It’s a win-win: The 57-year-old gets the best available treatment to extend his life, and the insurance company accrues a financial benefit for keeping the policyholder alive.

**The death benefit can be a valuable asset - while the insured is still alive.**



### Interesting Idea. But...?

#### 1. While it sounds new, it’s a variation on something old.

The scenario described in the article is theoretically plausible, but it’s not a contractual feature of current life insurance policies. However, it does resemble other instances under which life insurers will make partial benefit payments before a death occurs. The online “comments” section for the article included the following:

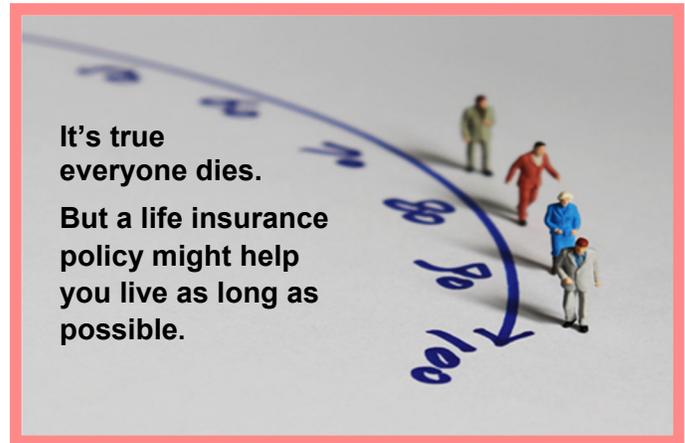
“Most life insurance companies offer a terminal illness rider and/or a critical illness rider. These allow the policy owner to access the death benefit, within a defined limit, if the insured is diagnosed with a terminal or critical illness while the policy is in force. The benefit can be used to help pay for needed medical treatment (or anything else).”

Note: Riders may incur an additional premium or cost. Riders may not be available in all states.

**2. This scenario is possible only because the 57-year-old bought a policy when he was insurable, and kept it in-force.** It's a hypothetical, but we can assume the man didn't buy the policy at 40 because he was hoping to pay for cancer treatments.

One of the under-emphasized features of life insurance is that the death benefit can be a valuable asset - *while the insured is still alive*. Some financial professionals and consumers are so focused on accumulation they might overlook these "living benefits." When integrated with other assets, life insurance gives policyowners some options to leverage the future value of a guaranteed death benefit. If you haven't already, you should connect with financial professionals who understand these unique possibilities. ❖

Life insurance guarantees are based on the claims paying ability of the insurance company and payment of all required premiums.



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5080 N. 40<sup>th</sup> Street, Suite 400  
Phoenix, AZ 85018  
Phone 602.957.7155  
Fax 602.956.7711  
www.JDriscollCo.com

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