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4 super trends and 5 key questions for financial planners

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By Dennis Stearns

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Four super trends—globalization, technology accelerators, the global age wave, and urbanization—are bringing about the greatest change we've seen in generations, perhaps even in history. Brexit and the election of President Trump can be traced to the aftermath of globalization, although many experts point to automation (a powerful technology accelerator) as an additional culprit hollowing out the jobs of the middle class both here and abroad.

How powerful are these trends? According to consulting firm McKinsey & Co., we are in the midst of change 300 times more powerful and 10 times faster than that of the first industrial revolution. The effect is so "super," according to McKinsey, that we should multiply these numbers together for an effect that is 3,000 times the impact of what was previously one of the most dynamic periods in history.

4 super trends

Super trend #1: globalization

In its broadest definition, globalization is the free flow of ideas, trade, and money around the world. Unfortunately, this super trend has also eroded people's confidence about the future because an employee halfway around the planet could take your job away, or even worse, create a new disruptive technology that will make your entire job category obsolete.

Of course, globalization has a positive side. For example, international migration alone has added $2 trillion to world economic growth and an estimated 100 million jobs to the tourist industry, with the U.S. getting its fair share of the jobs, according to McKinsey. The positives may outweigh the loss of lower-skilled manufacturing jobs, painful as it may be.

Super trend #2: technology accelerators

Technology accelerators—any technology that enhances business-to-consumer or business-to-business productivity—have multiplied, due to the increase in computing power and software.

Some accelerators enable products or services you've heard of, like cloud computing, the iPhone, and Airbnb. There are many others you may not have heard of, like the powerful GitHub tools for software developers, helping fuel earnings and productivity growth at many Fortune 500 companies.

Super trend #3: the global age wave

The global age wave refers to the powerful demographic shifts occurring around the world. Johnson & Johnson rode this demographic wave brilliantly, focusing on Band-Aids when boomers were younger and heart stents as boomers aged. Countries like China, Russia, and Japan are worried about net population declines resulting from lower birth rates and below-average immigration. The age wave is blamed for flat productivity growth.

Super trend #4: urbanization

Workers are moving to cities from rural areas, shifting the center of economic and political gravity. In the decades ahead, over half of the world's economic growth will come from 440 cities around the globe. And think about this: a whopping 46 of the top 200 cities will be in China by 2025, according to a McKinsey estimate.

It's not just China, by the way. Today only 3.5 percent of the U.S. land mass is taken up by major cities, but almost half the U.S. population lives in those cities.

5 key implications of super trends

The point of understanding these super trends is to better prepare ourselves and our clients for the future, and to ask the right questions. Einstein said that if his life depended on answering a question in an hour, he'd spend 55 minutes figuring out the right questions to ask.

Here are five key questions to ponder.

1. Job obsolescence risk?

There was a time when financial planners could take the information provided by clients and trust it would be generally right. While we worried that spending might outpace savings, we didn't worry that our clients' careers or businesses could become obsolete exactly when they needed to save the most.

Today, we make sure our clients understand the powerful super trends affecting jobs. We ask what changes are happening in their fields and if they have concerns about their careers or businesses. We find most clients have a pretty good idea about the changes. Some have put themselves on a steady diet of skill sharpening, such as enhancing their communication and leadership skills. We encourage those who haven't thought much about shifts in their career to be proactive. Their homework can include talking to peers or leaders in their organization and doing online research (including my TEDx Greensboro talk on the changing future of jobs).

We adjust our financial plans for possible super trend effects in a way that varies client to client. For some, it's fine

to rely on "normal" projected income and savings. Others may need a more conservative "What if?" approach. In some cases, we facilitate skill sharpening by introducing an executive coach appropriate to their personality, age, and stage of life.

2. Optimism versus pessimism?

One of the more spirited debates during my presentation to NAPFA's Fall 2016 Conference was between the pessimistic planners who believe lower returns and harder times are coming and the optimists who believe our best days lie ahead. While this debate is not new, it's complicated by accelerating super trends. And the way we view trends and events ourselves influences decisions made by our clients.

If we view the glass as half full, we phrase things in ways that make clients opt for more conservative, half-full solutions. That could be the right advice and solution, but what if it results in clients choosing a less full life? Will they regret leaving life on the table in exchange for greater financial safety?

Think about how your own attitudes, possibly shaped by recent events or super trend-related anxiety, may affect your advice. Network with respected peers who have different, well-thought-out world views. If your clients, peers, or friends say that you've become too pessimistic or too optimistic, re-examine your assumptions.

3. Changes in investing strategies?

Many businesses in which you might invest now face continuous destabilization, from disruption to outright dislocation and career obsolescence, as Tom Friedman states in *Thank You for Being Late*. Think about Kodak, the inventor of the digital camera, which ultimately put itself out of business.

A 60-40 stocks-bonds portfolio has been the gold standard for retirement allocations, reinforced by many prominent research studies. Today, the 40 percent in bonds is the source of great debate given the rising interest rate threat. The 60 percent in stocks is also being re-examined, given elevated valuation levels. Could super trend forces help keep earnings growing at strong levels and perpetuate the bull market? How does Trumponomics fit into this picture? Could the disruptive super trends destroy a company's earnings like they did to Kodak? Practitioners need to look beyond P/E ratios and consider new questions, threats, and opportunities.

Fortunately, most practitioners can hedge super trend risks by sticking with the highest-quality blue-chip companies with good leadership. Many of these companies are taking advantage of super trends to sustain growth. Friedman provides many examples in his book.

Super trends are further complicating the active versus passive investing debate. Enhanced global fund flows and artificial intelligence technology used for trading and ETF rebalancing are creating more asset price dislocations that can be exploited by sharp active managers.

4. A different old age?

We are continuously studying whether the retiree of the future may spend money in new ways for most of their "go-go," "go-slow," or "no-go" years.

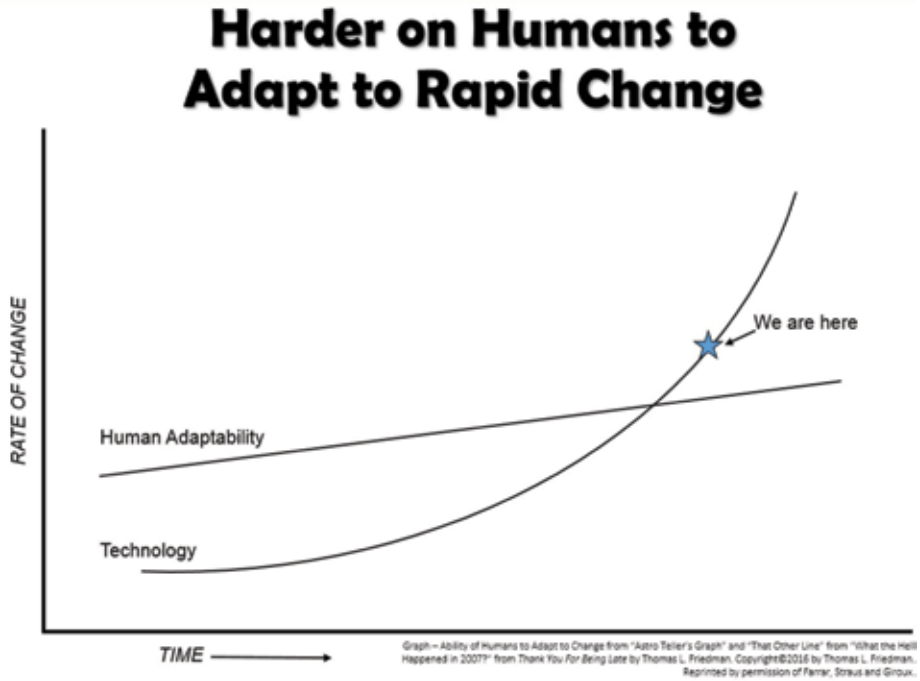
Longer life expectancies complicate financial planning. Americans have added 10 years to our life expectancy since 1960. Today you "gain" approximately three months for every year you live beyond age 70, assuming you don't contract a life-threatening illness. Many leaders I work with in the healthcare and technology fields believe that, in approximately 10 years, we may be able to "earn" another six months for every year we live. For this reason, our firm routinely uses age 100 for our retirement forecasts today. We also have some of our clients with health or family issues take the surveys at www.livingto100.com to estimate their longevity.

Geneticists are already figuring out ways to correct abnormal genes, changing the importance of negative family health history—further increasing longevity trends. Of course, living longer and healthier means clients will spend more. All of this means we explore client lifestyles and aging patterns much more carefully than we did in the past.

5. More behavioral finance mistakes?

Super trends are creating more behavioral finance landmines than usual. The graph to the left, drawn by Eric "Astro" Teller, the head of the famed future trend projection team at Google X, demonstrates his belief that we will all have trouble adapting to the world that lies ahead. Having at least some understanding of the forces at work will help us and our clients shift our own unique adaption curve upward.

Continued on page 16



Continued from page 15

To help clients manage the stresses of this human adaptability curve, we are giving clients tools like *Change: The Tools You Need for the Life You Want at Work and Home,* a book by Dr. Gary Bradt, an expert on change and how to manage it. We provide extra resources to clients when we see dangerous change anxiety or career/business vulnerability to disruption and dislocation.

The 24/7 barrage of media is also increasing anxiety about change. I believe that at least 75 percent of the next decade's super trend events, including positive developments in healthcare, will be positive. But the media effect will make us and our clients believe that mixed or negative trends dominate. Welcome to my worst behavioral finance nightmare.

How can we prepare better? Change experts have long said that "playing the movie"—talking through various possible scenarios—can better prepare us for a host of scenarios, good and bad. Without becoming scenario experts, planners can still help themselves, their families, and their clients by sharing articles, YouTube videos, and books like *No Ordinary Disruption* and *Thank You for Being Late*. Since some of our clients don't read books much anymore, we've been featuring selections from these books in our newsletters and client briefings—*Thank You for Being Late* is a treasure trove of interesting stories with easy-to-understand examples.

How is your own behavioral finance resiliency? Many of my planner friends confide they know how to handle only about half the behavioral issues they encounter with clients and even their own family members, though many of them are considered master planners and regularly write or speak about best practices.

We can all sharpen our behavioral finance skills through reading just a few articles every week, and participating in workshops through local NAPFA study groups or at regional and national NAPFA, Financial Planning Association, or other industry conferences.

Powerful forces are changing the world, creating the best of times and the worst of times, especially for financial planning and our clients. Knowing more about the forces of change, being in a continuous learning mode, and sharpening our behavioral finance counseling skills are some ways to get ahead of this massive tsunami wave.

Dennis Stearns, CFP®, works on projects with many of the world's leading financial experts, futurists, innovators, and entrepreneurs. The FPA has called him "One of the leading scenario experts and futurists in our industry." Dennis is an active CFP practitioner with offices in Greensboro and Chapel Hill, NC.