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HUMBLEDOLLAR

Beyond Cheap

WHEN I STARTED writing my column for *The Wall Street Journal* in 1994, active money managers dominated the investment scene and index funds were struggling to get noticed. A quarter century later, most money remains actively managed, rather than indexed. The triumph of indexing is not yet complete.

Still, everybody knows which way the wind is blowing. Over the decade through 2017, index funds focused on U.S. stocks—both the mutual-fund and the exchange-traded varieties—attracted $1.6 trillion in new money, while actively managed funds saw $1.3 trillion in redemptions, according to the Investment Company Institute. By voting with their feet, investors have brought relative predictability to their investment performance, while also sharply reducing their investment costs.

It is, I admit, premature to declare victory in the battle between indexing and active management. Nonetheless, I think it's time to move on to three new fights. The battle lines for these other fights are a little blurrier. But I think they're just as important.

1. Holistic advice. We are obsessed with the financial markets. Throughout the trading day, we watch CNBC, check stock quotes on our phones and hang on the utterances of clueless pontificators who promise to explain all. The markets—with their erratic, unfathomable gyrations—are like electric shocks to our brains, bringing elation one moment and terror the next.

But what about the rest of our financial lives? We have careers, homes, insurance policies, debts, Social Security benefits, pension plans, tax bills and estate plans, all of which also deserve our attention. How do these financial pieces fit together—and how do we decide what we're shortchanging and where we can afford to skimp?

As I've argued elsewhere, I believe the core organizing notion should be our paycheck or lack thereof. To be sure, thinking through this stuff is less exciting than trying to pick the next hot stock, but it's likely to be far more rewarding. We'll do more good for our finances by ditching unnecessary insurance coverage than by trying to guess which way stocks are headed next.

It isn't just everyday investors who are obsessed with the markets. Ditto for financial professionals. Partly, it's the same unhealthy emotional trap. But it's also about financial incentives. Whether it's money managers or financial advisors, they get paid when we invest—and not when we save on taxes, plan our estate, buy the right size home or pay down debt. My not-so-bold prediction: To maintain their 1%-of-assets annual fee, or something close to it, financial advisors will need to offer clients a whole lot more than a portfolio of mutual funds.

2. Behavior change. We all have a pretty good idea of what we should be doing with our money—and, if we don't, we can quickly find out using this thing called the internet.

Instead, the real struggle is getting ourselves to do what we know is right. There's a reason those New Year's resolutions rarely survive the month of January. Just as we struggle to quit smoking, eat less and exercise more, we find it difficult to control our spending, hang tough at times of market turmoil, and overcome our own inertia and get the estate-planning documents and insurance policies we need. Knowledge, by itself, is not enough. Instead, the real battle is to change our behavior.

To that end, we can employ a host of strategies, including automating our savings programs, sharing our financial commitments with others and visualizing our goals, so we're more willing to sacrifice today for a better tomorrow. But there's no silver bullet here: Changing behavior—and thinking longer-term—is hard work.

Again, this is a potential opportunity for thoughtful financial advisors. If they can help clients to reorient their thinking and coach them toward better financial behavior, they're far more likely to survive in an era when investors are increasingly focused on lowering their investment costs.

3. Meaning. We know we ought to improve our financial behavior. But why should we improve? I don't think it's enough to say "so you can retire" or "so the kids can go to college." Those may be functional descriptions of our financial goals. But they aren't sufficiently inspiring to spur most folks to change their behavior—because they don't convey the meaning we all seek from our lives.

What's important to me will be different from what's important to you. But all of us have people we care deeply about, financial worries we'd like to erase and work we're passionate about. If we can identify what's truly important to us, we'll have not only the incentive to change, but also a much better idea of what we should aim for—and potentially we could get far more happiness from our dollars.

Some of us can figure this stuff out on our own. Others might need to talk it through with their spouse, friends or a financial advisor. But however we get it done, it's a crucial first step—because it's the key to making the connection between our money and the rest of our lives. Once we do that, our finances will no longer be some onerous task reserved for 30 minutes each weekend, but rather the tool that can make our lives so much richer.