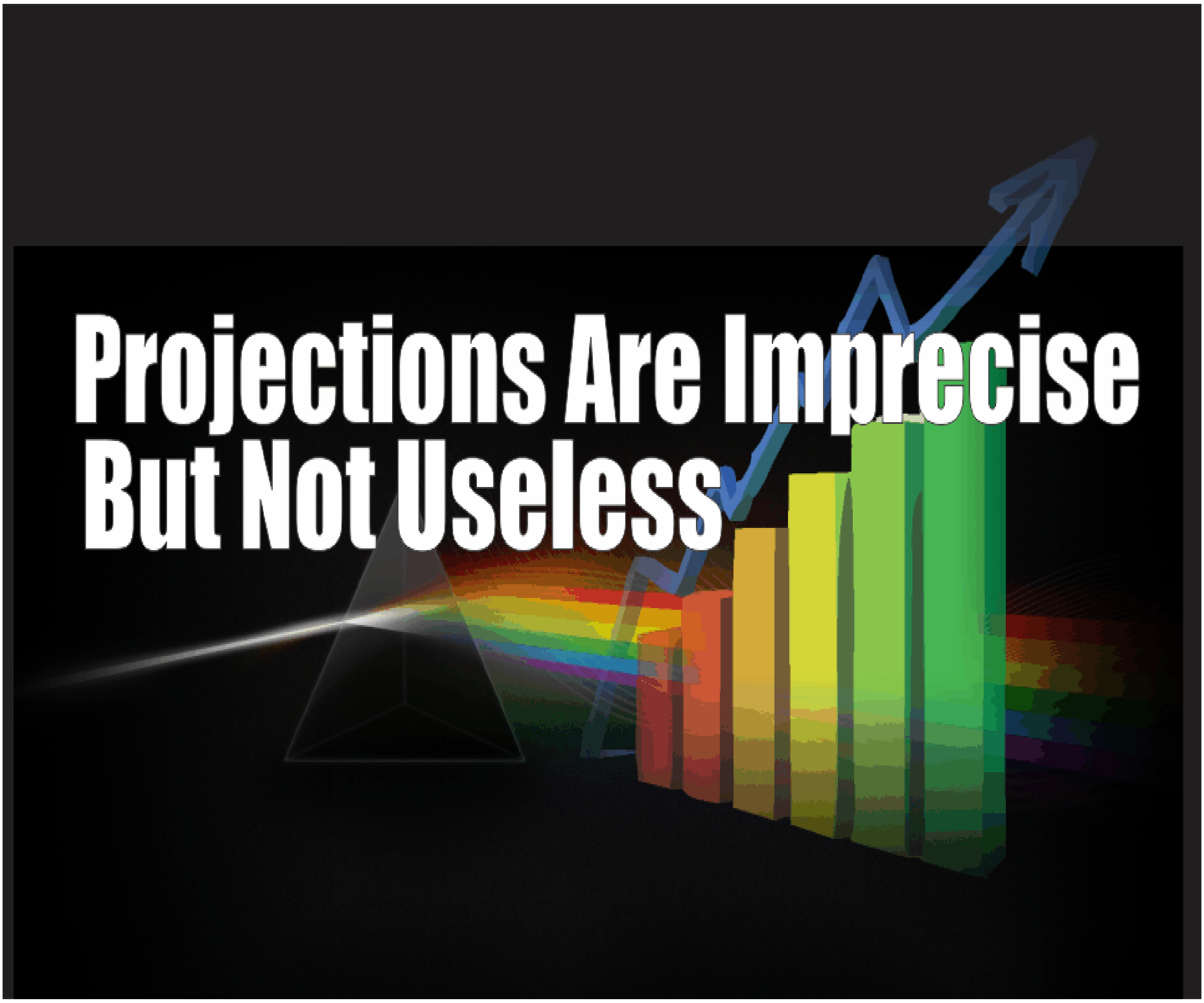

It seems banal to say, but financial planning requires return projections or estimates. If you?re saving money for a goal like retirement, sending a child to college, buying a home, or taking a vacation, you need to know three things (at least) -- how much to save, how much of a return that savings will earn, and the distance to the goal. Without any of those three things, there can?t be a plan. And all of this doesn?t take into consideration your own temperament or how you react to volatility and the potential for permanent loss. Of course, the return projection won't be precise if any part of the capital is being invested in stocks. It?s not easy to forecast how much stocks will return over a given time, and the shorter the distance to the goal the more unpredictable and random stock returns are. And that?s one reason stocks shouldn?t be used for short-term financial goals. They can do virtually anything over one- or two-year periods of time. However, over longer time frames -- 7-10 years or more ? forecasts can be more reasonable, though still not precise. But one is never absolved from making an estimate or a range of estimates. Unfortunately, some prominent financial planners, who often double as pundits, denigrate all forms of forecasting. Financial planner and sometimes *New York Times* columnist Carl Richards recently tweeted that the only thing we know about projections is that they are wrong. He applied the hashtag ?projectionfreeplanning,? which, of course, is an oxymoron. There?s no such thing as financial planning or projecting a future value of an investment, after all, without a return estimate.

Similarly, prominent advisor and pundit, Barry Ritholtz, has argued that forecasting is ?almost useless? and that we ?stink at it.? Ritholtz says assertions like ?stocks tend to go higher? are vague enough to be exempted from his critique, but ?The Dow will hit 25,000 by the second quarter of 2018? aren?t. What?s frustrating about his writings is that they don?t say anything about the ordinary forecasting of long term (say, 10- or 20-year) returns financial advisors must do to satisfy future value calculations for their clients. The pundits like to say that the Shiller PE isn?t a valid metric anymore because it?s been well over its long-term average ? around 16.5 ? for over 25 years. But the annualized return of the S&P 500 Index, including dividends has been 5.4% from 2000 through 2017, and the Shiller PE was over 40 in 2000. In other words, in 2000, it did a good job of telling investors future returns would likely be tepid. Moreover, that return has depended on the dazzling 15% return of the index since the financial crisis that has driven the Shiller PE up again to the low 30s. And, as Rob Arnott has said, we can have a reasonable argument about whether the new normal for the Shiller PE is 20 or 22, but not whether it?s 30. Advisors are rebelling so much against forecasting because they don?t like to deliver bad news to clients. Bad news can be bad for business. Clients will choose the advisor with the highest future returns projections because they want to be soothed. But delivering optimism when it?s unwarranted can lead to projections that border on malpractice on the part of the advisor. Investment professionals usually know this when it comes to bonds. It?s difficult for a bond or a portfolio of bonds to return more than its yield-to-maturity. However, when it comes to stocks, advisors often resort to using the longest term return numbers they can find. Those usually come from Ibbotson Associates, now a division of Morningstar, which popularized a stock market return chart dating from 1926. But most investors aren?t investing for a century, and there have been enough 10- and 20-year periods of poor returns to give investors and advisors pause. More importantly, those periods are associated with high starting valuations. And now it has become clear that estimating, say, 7%, for a balanced portfolio over the next decade is a stretch. Bonds are likely to deliver less than 4%, and that means stocks will have to deliver more than 8.5%. Advisors are becoming increasingly pessimistic about that possibility for stocks, but they aren't responding by expressing that pessimism clearly Instead, they are responding by bashing forecasting altogether. It?s not the most mature response, but the possibility of losing clients because of poor forecasts has its bad effects. And it's true that the Shiller PE -- or any other valuation metric -- isn't perfect in forecasting returns, but it can't be prudent to count on stocks delivering 8.5% for the next decade with a starting Shiller PE in the low 30s. Investors should question their advisors about returns, because they need to know how much money their current savings rate will leave them with to spend in retirement. The return assumption is just that -- an assumption -- but that means investors can ask for a range of assumptions to see what different returns will deliver. That doesn?t mean the optimistic assumptions are truer ones though, but it helps investors understand what they're up against without being precise. And that is far from useless. The second thing investors should do is something financial journalist Jazon Zweig discussed in an old column ? they should ask their advisors how much return the advisor would deliver to the client in a ?total return swap,? whereby the client hypothetically hands over their entire portfolio and gets an annualized return on that portfolio in exchange. There?s no better way to put the screws to your advisor when it comes to getting his or her opinion on future returns.