



# AG FINANCIAL

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## Understanding Investment Risk, AI, And Human Nature

**A**n investment's risk is usually defined as its standard deviation in the financial press and advertising. Reducing the concept of risk to a single statistic makes it easy to understand. So the media and marketers cannot be faulted for defining risk in this way. However, standard deviation expresses only one aspect of investment risk. It totally misses the central element of investment risk: how you behave in reaction to seeing your wealth disintegrate in a crisis or other unexpected change, like the 2008 global financial meltdown, when the S&P 500 stock index lost -48% in six months. Human behavior is what really matters in managing investment risk.

Standard deviation measures the risk of price fluctuations in stocks, bonds, cash, and other assets, which is helpful but your reaction is more

however, when risk assets are subject to 50% drops, is intolerable to some individuals.

Watching the destruction of your wealth in a matter of days or months is the psychological equivalent to waterboarding for some people. For others, it's a matter of waiting out the storm. One investor's acceptable unrealized loss is another's worst financial nightmare.

Statistics like standard deviation are a window into visualizing an unrealized investment loss but do not capture a full picture. Psychological fallout can trigger an investor to turn an unrealized loss into a real one. This is why financial planning works. It prevents an investor from selling at, or near, a price-bottom, resulting in missing the rebound and return to normalcy that historically followed past financial economic crises.

Risk and return data provided in online tools from financial services companies and financial media make it is easy to overlook their bias toward simplifying investing. A respected institution

speaking in an authoritative voice can make it sound easy to allocate and rebalance a portfolio annually. Always

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## A Timely Tax Break For This Stage Of The Economic Cycle

**W**ith a recession made more likely by the banking crisis, a new tax break arrived at a pivotal moment in the economic cycle, when jobs destruction helps to spur a new wave of growth. Recessions dampen new-job creation and lead to layoffs, which spark new-business formation. The bust-to-boom cycle is a way capitalism continually empowers individuals, drives innovation, and powers the American dream by sparking some job-seekers to start their own businesses.

A big benefit of starting a business is that you can establish your own 401(k) retirement plan, which enables tax-advantaged investing for owners and employees, and it's a way of attracting and retaining employees.

In 2023, small businesses are eligible for a credit on 100% of the cost of starting a qualified retirement plan, up from a 2022 credit of up to 50%. The increased credit does not apply to defined benefit plans. Establishing a company retirement plan imposes risks, responsibilities, and business owners need to plan for the financial impact of failure as well as explosive growth.

Insurers and brokerages sell pre-packaged plans to small businesses, but investment choices and annual expenses vary greatly. Unless you know a lot about qualified plans or commit to spend many hours researching the tax, legal, and fiduciary issues involved, finding a low-expense plan for your company with the right array of investments is best handled with help from an objective professional.



important. Investors obviously love the upside of standard deviation. No one complains when investment values surge. Negative volatility,

# Brushing Up On Grandparenting Skills

**G**randparenting is more important than ever. It's also much harder than just a generation ago.

In two-thirds of American households, two spouses work full-time, often thrusting grandparents into a central role in raising a child.

In our role as a financial advisor, we help clients achieve their goals in life and that includes certain non-financial goals, like helping raise a grandchild. This is the first in a series of educational articles about grandparenting.

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Learning how to be a good grandparent isn't straightforward. If you search on Google, "education for grandparents," you must sift through ads stacked into the resulting Google links, and you easily get steered from finding knowledge about how to raise a child.

Educational resources about parenting skills didn't change much throughout the 1950s, '60s, '70s, '80s, and 90s. However, in the past 25 years, resources for learning about the requisite strategies and skills to raise a

child were transformed by technology.

We want to start by recommending signing up for a free account at Coursera.com and auditing a course entitled, "Everyday Parenting," which is taught by Yale University Professor Alan E. Kazdin, Ph.D., ABPP. Coursera enables you to schedule to schedule spending 10 or 20 minutes daily to complete the 21-hour course. By auditing a course, you can just skim the content.

Dr. Kazdin teaches behavior-change techniques. Step-by-step instructions demonstrate ways to teach a child behaviors you want to encourage. Simple changes in the tone of your voice-tone and phrasing are explained, along with common parenting misconceptions and ineffective techniques. In addition, the course provides a common language for parents and grandparents in discussing skills and methods, making it easier to collaborate as a team, which makes achieving this goal more fulfilling to three generations all



at once

Before the internet, parents typically learned about child-rearing from elders or from a book. For decades, the most popular book was "Dr. Spock's Baby and Child Care." Now in its tenth edition, this classic is updated with information about immunizations, screen-time, childhood obesity, and modern problems not present when it was first published in 1946. It's sold by Amazon in audiobook, paperback, and Kindle digital-reader formats.

Education about parenting keeps improving as technology enables access to more experts and resources. We plan to update this series regularly with new resources for about caring for a newborn baby, teaching toddlers, and getting through to adolescents. Please contact us with your suggestions and questions. ●

## What You Need To Know Before Investing In A Self-Directed IRA

**S**elf-directed Individual Retirement Accounts (IRAs) are at greater risk of fraud than other types of other retirement accounts. Here's what's important to know before investing in a self-directed IRA.

With more than \$30 trillion currently held in company-sponsored retirement plans, self-directed IRAs are a way for peddlers of high-risk, high expense investments and outright frauds to lure investors.

A self-directed IRA is an account that taps assets in a company-sponsored 401(K), 403(b) or other federally qualified retirement plan

(QRP) to enable an investment not offered as part of a company retirement plan.

QRPs often do not allow employees to invest in alternative assets, such as real estate, gold bullion, private-held companies or partnerships, and cryptocurrency because these investments are less liquid than publicly-traded stocks and bonds. However, most company retirement plans will allow an employee to create a self-directed account to hold



these assets.

Although self-directed IRAs have been offered as an option in employer-sponsored retirement plans for decades, a confluence of recent events recently made Americans more susceptible to

# Regulating Social Media Usage By Children

For over a decade, America has embraced social media without regulating it, but children experienced a troubling increase in mental illness and social problems. Then, the U.S. Centers For Disease Control & Prevention (CDC), the nation's leading science-based, data-driven, organization protecting the public's health, in a February 2023 report said 60% of teenage girls feel persistently sad or hopeless and 30% of females in grades nine through 12 seriously contemplated suicide. "Teen girls are experiencing record high levels of violence, sadness, and suicide risk," the CDC study said.

Now, two new laws in Utah are being hailed as a possible solution to the epidemic of mental illness plaguing children, but they raise questions about restricting freedom of speech.

**Social Media Regulation.** The two Utah laws go into effect on March 1, 2024, and other states are considering similar legislation. California passed an online safety law in 2022. Arkansas, Connecticut, Ohio, and Texas are also considering similar laws. Credible data privacy and freedom of speech advocates have opposed Utah's new laws and similar bills in other states.

The federal government may also act. The Social Media Child

Protection Act was introduced in the House of Representatives in February 2023, and the Kids Online Safety Act was introduced in the Senate in December 2022. Accurately predicting what Congress will do is hard.

**The Utah Laws.** Social platforms have been given until Jan. 1 2024 to put build a wall enabling them to verify the age of all users. That is not a simple technology hurdle. Children under 18 must have a parent's permission to start an account on platforms such as TikTok, Instagram, and YouTube. In addition, social media companies, under Utah law, must grant parents or guardians access to monitor their child's social activities online and imposes a curfew on usage by minors from 10:30 p.m. to 6:30 a.m. is electronically imposed.

Utah bars social platforms from displaying ads to minors, enabling their accounts to appear in search results, collecting their personal data, and

suggesting content to them. Utah also bans algorithms and features that knowingly cause a minor to become "addicted" to a social platform.

**The Problem.** According to a 2019 Common Sense Media report, "tweens" between eight and 12-years-old spent 4:44 hours in front of TV and device screens daily, and teens from 13 to 18-years-old spent 7:22 hours in front of screens. That does not include usage for doing homework.

The Pew Research Center survey conducted in 2022, found that nearly half of teens have been bullied or harassed online. Older teen girls are especially likely to be targeted because of their appearance, Pew reported.

The Utah laws may be a model for legislation in other states, but parents may want to consider devising a technology usage policy for their children when they're born.

**Devices And Screens.** From the time a three-month-old can tap a screen, parents must decide how much time their child uses a device to communicate. According to Mayo Clinic, children under two-years-old are more likely to learn by interacting with parents and siblings. Beyond two or three years old, screens can speed up learning. Some screen time daily is okay. But

relating to people is more important and the best learning mode to work on daily. Limiting screen time to one hour a day until age 12 and, thereafter, adding an hour for school projects is an ideal goal. An additional hour or two for children's programming on public education or cartoon channels may be okay in many families. Less time spent in front of screens means more time is left for parents, siblings, grandparents, and other trusted individuals.

Limits on privacy and freedom of speech are anathema to Americans, but protecting children is sensible. Like parental controls on cable TV settings, and Hollywood movie ratings, parental supervision of a child's media consumption can be accomplished without endangering freedom of speech or privacy. ●

Amount of daily screen time, not including homework



Tweens: 4 hours, 44 minutes



Tweens: 7 hours, 22 minutes

Common Sense Media, 2019 study of media usage

falling for schemes involving self-directed IRAs:

- Forty percent of Americans aged 60 to 64 are at risk of experiencing a retirement shortfall, according to the Employee Benefit Research Institute, and less than one-third of American workers feel very confident about their ability to afford a comfortable retirement. With pressure to accelerate saving as they approach retirement age, speculative investments of self-directed accounts are more attractive.

- Social media allows social influencers to conspire to pump up prices and secretly dump their holdings to unsuspecting social network

followers.

- Hollywood stars, professional athletes, and other celebrities, including social influencer Kim Kardashian, retired quarterback Tom Brady, and actor Matt Damon, endorsed cryptocurrencies and helped create a speculative bubble by giving ill-fated cryptocurrencies legitimacy. Celebrity — not knowledge and experience in the investment profession — can drive prices in assets with no intrinsic value.

Before opening a self-directed IRA to invest off the grid provided by your company-sponsored plan, it's wise to consult a real financial professional. ●



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### Developing Portfolio Expectations (Continued from page 1)

remember, it is in their financial interest to convince you investment management is simple.

Over the past two decades, a new generation of improved investment advice apps made securities trading cheap, easy, and ubiquitous. Now, artificial intelligence (AI) is expected to supercharge knowledge transfer.

A quarter of the tasks performed by American workers before the generative AI breakthrough by ChatGPT in 2023, are expected to be automated by AI in the years just ahead. Labor productivity is likely to surge through 2030, transforming the U.S. labor force. AI already is touted

in advertising as yet another new generation of powerful online financial advice tools.

However, AI is still no substitute for a relationship with a professional, who knows you and can assess your investment personality characteristics to test how large a loss you can take before abandoning a strategic plan. Put simply, AI cannot be trusted to replace human judgment on crucial decisions affecting your health and financial well-being.

On May 1, 2023, the “Godfather of AI,” joined a growing list of AI experts worried about the release of AI applications. Geoffrey Hinton, a computer science professor, whose company was acquired by Google for \$44 million in 2013, announced he

was leaving Google, so he could speak freely about AI’s dangers without concern for how his comments might impact Google. Google had launched an AI-powered search engine chat feature in March 2023, disclosing it was not always accurate. Meanwhile, Google’s rival, Microsoft, launched an AI-powered search engine chatbot that reportedly is prone to hallucinations and fell in love with a tech reporter.

AI is expected to increase knowledge transfer exponentially, but nothing compares to getting advice from a trained professional, who knows you. Investment risk is not a single statistic and it still takes a human who understands you. ●

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