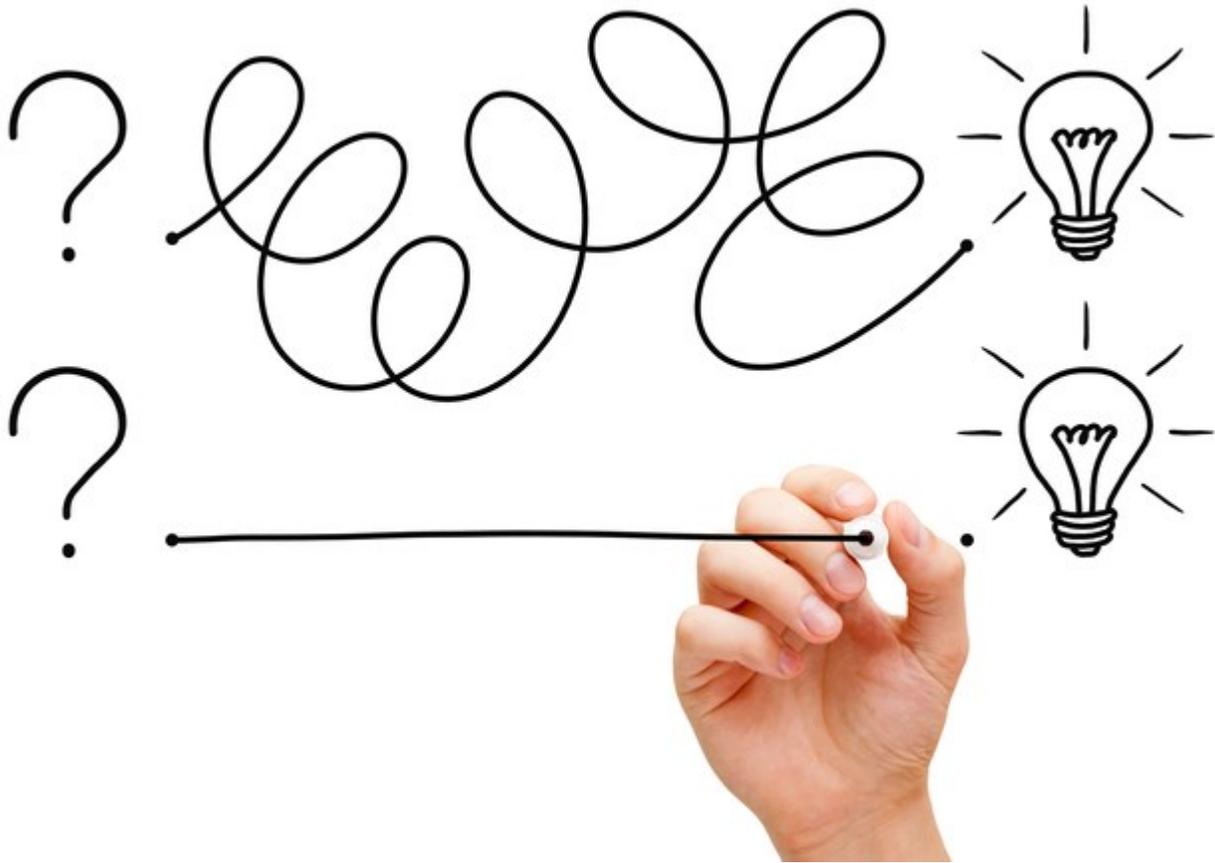


Brad Brain: Paralysis by analysis

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Brad Brain: "Sometimes trying to have a perfect understanding of every possible nuance is not as conducive to good decision making as you might think. Sometimes I see people who are paralyzed by the abundance of options and end up doing nothing at all." | Ivelin Radkov / Getty Images



When it comes to financial planning, the decisions can feel overwhelming.

And there is no shortage of potential decisions. Should you use a TFSA or an RRSP? Should you buy a mutual fund or an ETF? Do you use a RESP or pay your adult kid a taxable dividend from your company for their post-secondary education?

Primarily I work with people that are serious about their money. They are working hard and making sacrifices to reach their financial goals. Often these are exactly the types of questions that those people want to be on top of. But sometimes trying to have a perfect understanding of every

possible nuance is not as conducive to good decision making as you might think. Sometimes I see people who are paralyzed by the abundance of options and end up doing nothing at all.

You know what happens when you do nothing? Nothing. Nothing happens. You don't make any progress.

Here is the thing. Sometimes these types of decisions that loom so large, and can feel so intimidating, are really not that vital. Sometimes we can end up overanalyzing the small details. The decision that seems big may only feel that way because we are looking at small things through a microscope.

Here is an example: It has become very popular to critically examine the costs of owning a mutual fund. Mutual fund costs are often expressed as a Management Expense Ratio, or MER. Since we are talking about your expenses here, the lower the number the better.

So let us say we have one mutual fund with an MER of 2.1% and another of 1.95%. On the surface that seems like a big deal. But if we just look at an MER in isolation, we are putting that one variable under a microscope. It is missing the big picture.

MER comparisons are examining differences that are measured in fractions of a percent. The question is then, a fraction of a percent on what? We need to introduce the rest of the equation. And when you put some dollars in the equation, the resulting cost savings potential is often really not that big of a deal.

The difference in costs savings between a 2.1% MER and a 1.95% MER is 0.0015. On a \$100,000 investment, the cost savings is a hundred and fifty bucks a year. That works out to \$12.50 a month.

Yeah, of course you want to make smart decisions about your money but, realistically, twelve bucks a month on a \$100,000 investment is not significant enough to singlehandedly determine success or failure. The difference in MER only seems big when you look at it under a microscope. This type of paralysis by analysis happens all the time. Rather than agonizing over which of these similarly priced investments will ultimately prove to be the best, it might be best to just simply get started.

Here is an example from my own life. Recently I was trying to compare gym membership options. There were several options and being the financial guy, I was determined to find the best value. It was all very confusing. Until I stopped and realized that the difference in price was two bucks a month.

Sure, I do not want to waste money, not even two bucks. But the important decision here is not which specific plan I decide on. The important decision is that I join the gym in the first place, so I can get on that exercise equipment and live strong and healthy.

It is the decision and commitment to start planning for the future that matters. The two bucks a month price difference is merely optimizing that decision. If you are prone to paralysis by analysis, then it might be time to stop overanalyzing two-dollar decisions and just get started.

You can always fine tune as you go, but if you never get started in the first place then nothing ever happens.

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