

CHAPTER 7

FIVE SIMPLE RULES TO SHARPEN YOUR THINKING

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“The right thinking pays dividends when all other assets have faltered. Clarity in life comes from engagement.” This was one of the comments I provided to the Wall Street Journal for an article published in December 2014 entitled: “What Makes You Successful in Today’s Economy.” And for those unfamiliar with the article, the terms “right thinking” refers to a deep unconventional understanding of complex situations, while engagement refers to being present in the moment with laser-like focus. Sit tight, more on that topic comes later. For now, write down these five simple rules:

- 1. Gather ALL the facts: Ask yourself the question: What are the facts?*
- 2. Determine what is true and what is false or just opinion.*
- 3. Take a moment and pause. Be confident once you have determined a course of action.*
- 4. Don’t be afraid to make a mid-course correction if the facts or circumstances change.*
- 5. Make ALL decisions based on principle.*

My story begins in 1984. I was 14 years old and had just completed the 8th grade. At that time, I was unhappy with my academic and social situation in Atlanta. My parents suggested I look into attending high school in St. Louis at The Principia. It had a good reputation as a

rigorous Christian boarding school and my father had attended when he was my age.

One balmy day in early August, my father and I hopped in the car to embark on the nine-hour journey to a city and school foreign to me. As we drove through the front gates of the campus, I began to question whether I had made the right choice abandoning all that was familiar. A few hours later, my dad said goodbye as I settled into the boy's dorm—my new home.

As I moved into the dorm that August day, I could never have imagined the wisdom and perspective that would be injected into my life. What I took from the experience was a clarity and sense of intuition that I, to this day, find irreplaceable.

The Principia is a co-ed boarding school with primary mission to teach, develop and educate young individuals in foundational principles. One of the core concepts is developing the “whole man.” This framework is not only focused on a rigorous academic environment, but is also based on spiritual, mental, physical and social development. The understanding of these principles is that true education is to train a child to think intelligently using more than just numbers and literature known in much of the academic systems across the country.

After high school graduation, there were four elements of my education that I was able to apply:

- How you think and what you think determines your experience
- Above all else in your thinking process, be curious
- Don't be afraid to be different, as conformity is a social disease that brings mediocrity
- Being unique and result-oriented makes a person very valuable.

The experience had been successful in training my young mind to think, perceive and act based on principle. The qualities and attributes of principle are: alert, accurate, anchored, clear, consistent, discerning and genuine.

Sixteen years later, I found myself in Cambridge, Massachusetts attending the Advanced Management Program at the prestigious Harvard Business School. Like Principia, HBS was a life-altering and career-changing experience that accelerated both my personal and professional

growth with the mission of developing business leaders that make a difference in the world. I learned leadership is about thinking clearly, acting with confidence and recognizing patterns that others can't see. Harvard Business School is well-known for the case study method of teaching, which is learning based on real-world companies and situations. Learning from this standpoint further developed my practical judgment.

At HBS, our daily goal was to read several cases which already had an established storyline. Our job was to determine the facts, understand the main themes and business dynamics and reach a conclusion. Each professor would always make us give our recommendation before we learned the outcome of the case. Working three case studies per day, I achieved a solid understanding and exposure to a variety of business models and situations of managements' success and failures.

From my perspective, what we need most in our lives is the correct framework to tackle any problem. You need to breakdown the issue to its smaller parts and assess the facts one at a time to see if they make sense, just as we approached the case studies at Harvard with logical and sequential steps. Listening and adhering to the party line can be a backwards step. For those unfamiliar with the idiom, *toeing the party line*, it refers to a person who thinks and conforms to a specific agenda. Make assessments as to which facts are true and which should be discarded.

The first time I flew to San Francisco was a clear day, with the city, Golden Gate Bridge and Alcatraz as miniature figures from my window seat on the plane. Two days later, when I flew back, the flight was stormy with bad visibility. I could see nothing out of my window seat. However, I still knew that the objects and buildings I saw two days prior were all there. The absence of a clear view did not change my perspective of reality. This example illustrates the importance of understanding that we may not always have clear visibility for decision making. However, having the confidence that the facts have not changed despite the current picture may help get us to the next stepping stone.

HAVING THE RIGHT MENTAL ATTITUDE

Southwest Airlines has a unique boarding procedure of first-come-first-served seating. As you can imagine, this was not the ideal policy for our family of seven flying to Atlanta from Denver over Christmas

vacation. To make sure our family was able to sit together on the plane, I purchased one advance seat. This put me in the group of the first 30 individuals to board the plane. My mission was to save seven seats together (may the force be with me that day and for all others in this situation). The rest of my flock would board in the last section. The gate agent, of course, gave me the “party line” and said that we could not board the plane early together. If I had not purchased one early boarding ticket, I am sure we would have been split up on the airplane with lots of tears on our return flight.

The Southwest Airlines experience of planning ahead and anticipating problems is an example of how right thinking and right acting can make a difference and improve our daily experience. Now don’t forget those five simple rules I had you write down.

PRACTICAL APPLICATION FOR A FINANCIAL EXPERT

To this day, I use a similar decision framework in my business by providing wise counsel on retirement and investment issues based on a set of client facts. These are my modern-day case studies. The way one interprets, understands and sees those individual facts and their interrelationship determines what financial strategies to execute for success. I have developed a solution that is far better than any large financial company could think of doing with individuals. Creating a success strategy is about building personal relationships with clients and in-depth conversations about life issues.

I have developed a unique process that each client works within to achieve their desired goals and objectives. It is designed to be a comfortable framework for each step of the process. Experience has taught me that individuals seeking financial advice are at different points of their life cycle. Those points are constantly changing and evolving. My unique retirement planning process has four steps:

1. Develop A Retirement Vision
2. Build the Optimal Retirement Portfolio
3. Focus on Retirement Distribution Strategies
4. Estate and Wealth Transfer Planning

Step 1: Starts with having an honest one-on-one discussion about what

the individual's goals and objectives are in retirement. For me, this is the most important part of my process. It gives me a chance to listen, and then listen again, to see if this person is a good fit. The stock market can be extremely volatile and I want to make sure that this person has the right temperament to weather the storm. Similar to not being able to see out my airplane window, long-term value investing requires very much the same skill of confidence in your initial facts and findings. For example, the intrinsic value of a company may rise 5% per year backed by fundamental data on sales, earnings and book value growth, but the price action of the stock may move 20% up or down depending on perception, expectations and other events.

Step 2: Begins with building a customized retirement portfolio with individual securities (stocks and bonds). Depending on the individual's age and income need, the portfolio is built brick-by-brick or stock-by-stock with the focus on Total Return (dividend income plus price appreciation). I don't believe in diversification, so portfolios tend to be concentrated with a range of 25 to 30 companies. I have diversified away all the unsystematic risk after incorporating 15 to 17 companies in the portfolio. This runs contrary to the beliefs of the modern portfolio manager and is an unorthodox view, but one that I believe to be sound, based on my 20 years of investment research.

Step 3: The focus is now on withdrawing your wealth and tax-efficient withdrawal strategies. One case study at Harvard Business School had a dramatic impact on me as a financial expert. David A. Garvin, who teaches courses on leadership, general management and operations, taught a case study on Mount Everest and how several experienced climbers died because they did not prepare for the descent correctly. This analogy supports the risks in the withdrawal phase of retirement. In the case study, the Mount Everest team spent all of their time planning the climb up and no time planning their return down. Based on the case study, accidents happen on the descent after the summit has been achieved. I believe converting your investment portfolio into retirement income, or the descent of your investments, is critical. This requires a different financial strategy just as the climbers needed to adapt to return home.

Step 4: Begins with a discussion on wealth transfer issues and setting up the best structure for passing on multi-generational wealth. I do this in conjunction with an estate planner who is an expert on family limited

partnerships, trusts, and estate tax issues. Updated IRA beneficiary forms are also a critical element in this discussion. One of the ratios I use in my practice is the TPA/TGE ratio. The numerator is “TPA”-total pre-tax assets like IRAs, 401(k)s and 403(b)s. The denominator is “TGE” - total gross estate. This is a good indicator of the percentage of your total estate that is infested with taxes. Most people don’t realize they will have to pay a toll in the form of income taxes to receive their own money.

In sum, several decades ago, Thomas A. Edison established this challenge: *The most necessary task of civilization is to teach men how to think.* From my experience, decision-making is both an art and science. It involves conscious analytic and unconscious intuitive elements. Good decision-making can be easily improved with my five simple rules. When it comes to making wise investment choices, most individuals are self-taught as decision-makers. My unique four-step retirement planning process creates a comfortable framework for individuals to optimize critical financial decisions during their golden years.



About Christian

Best-Selling Author, Christian Koch, CFP®, CPWA®, CDFATM, is recognized as one of the top thought-leaders and private wealth experts in the money management industry. He has co-authored the book, *Get in the Game*, which describes his unique four step investment process and five principles that can help individuals

in the journey to be successful long-term investors.

When it comes to the investment consulting process and creating portfolios for retirement, you need an experienced wealth management professional. Christian Koch's expert knowledge and approach to traditional investments, individual security selection, retirement income distribution planning and more, can help you face the future and the intricacies of your investment portfolio with a fresh new outlook.

Christian has a unique investment process and a retirement planning system that has served clients for years: develop the vision, build the optimal portfolio, focus on distribution strategies and then evaluate wealth and estate transfer planning. He says asset location is extremely critical to maximizing efficiencies, especially during a slow-growth economy, and minimizing taxes are a significant component of success.

Christian is a Harvard Business School AMP graduate and former investment research analyst. He also holds the prestigious Certified Financial Planner™ professional, Certified Divorce Financial Analyst™ and Certified Private Wealth Advisor® certifications, placing him in a select group of financial professionals.

In 2013, 2014 and 2015, Christian's credentials and work was rigorously examined after which he was honored with a coveted Five Star Wealth Manager Award.

Christian is on the Board of Directors of Rotary Club of Buckhead, and is involved in the Harvard Business School Club of Atlanta.

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