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HOW I INVEST:

A BEHIND THE SCENES
LOOK AT MY FINANCES



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PART 1:

Is It Worth Your Money?

My first distinct memory of money was formed during a family night out at a local pizza parlor when I was seven.

While waiting for pizza, we played “coin hockey” where each person used three coins to work their way across the table to the opponents goal, which was the space between the opponents index and pinky fingers placed on the table.

I noticed the restaurant had a jukebox in the corner. Because we were already flicking coins around the table, I asked my dad for money to pick out a song.

Instead of thoughtlessly handing over some change, my dad asked...

“Is it worth your money?”

I told him no and he responded, “Then it’s not worth mine.”

The next time we went to that restaurant, I spotted the jukebox again. Once more, I asked my dad for a quarter to pick a song on the jukebox. Without looking up from his slice of pizza he asked, “Is it worth your money?”

This time, thinking I was clever, I said yes. Then my dad said, “Great, then you can spend your own.”

This lesson in the value of money is one of my most vivid memories as a child.

My parents generally did the right thing with money: they didn’t spend more than they earned and were good savers.

But they never formally taught me about money.

Money wasn’t an off-limits topic, but it also wasn’t a focal point of our routine family dinners. This isn’t uncommon in most families. You have to wonder...

When do we get a genuine opportunity to learn about money?

Elementary school doesn’t cover the basics of money. High schoolers are not taught how to budget or pay bills. Most college graduates never take a course in personal finance—let alone deep dive into how to plan for retirement, buy a home, or plan responsibly for life’s greatest expenses.

**In school, you are given a lesson, then a test.
In life, you are given a test and then you learn
a lesson—and money lessons can be expensive.**

That seven-year-old from the pizza parlor never forgot the value of money. I went on to build my entire professional career around helping people make clear, confident choices with their money.

From the quarter collector to a Chief Investment Officer managing millions of dollars at a major firm—there has been a tremendous amount to learn.

Along the way, I published a book on the core foundations of finance, “Making Money Simple,” and launched a top podcast called “The Long Term Investor.”

Money and investments aren’t everything but they are a helpful tool to live a meaningful life. My goal in giving you a behind-the-scenes tour of how I invest is to teach you one thing...

Life is complex but a successful financial foundation does not have to be.

If you get the core elements of personal finance right and get out of the way of compound interest—you'll be amazed at what time and patience can do for your future and family.

In the next few pages, you will get a clear breakdown of my:

- Assets
- Investment portfolio
- Cash reserves
- Liabilities
- Spending

Let's get started.

PART 2:

Breaking Down My Assets

It's tempting to start with how I invest, but your portfolio is just one piece of a bigger puzzle. To see where I truly stand financially, we need to start with my net worth.

I've maintained my net worth worksheet for a decade.



Download your own net worth worksheet

As a kid, I loved seeing hard work translate into earned dollars I could add to my savings. I worked dozens of cash jobs – waiting tables, car washing, basketball referee, babysitting, and dog-sitting.

While most kids impulsively spent their summer job income, I found watching my cash balance grow more satisfying. Whenever I got paid, I would add the cash to my top dresser drawer stash and count the entire amount. Seeing the cash add up felt like the best reward for my work.

This quirky obsession is why I have consistently tracked my net worth for decades. But here's why YOU should track yours:

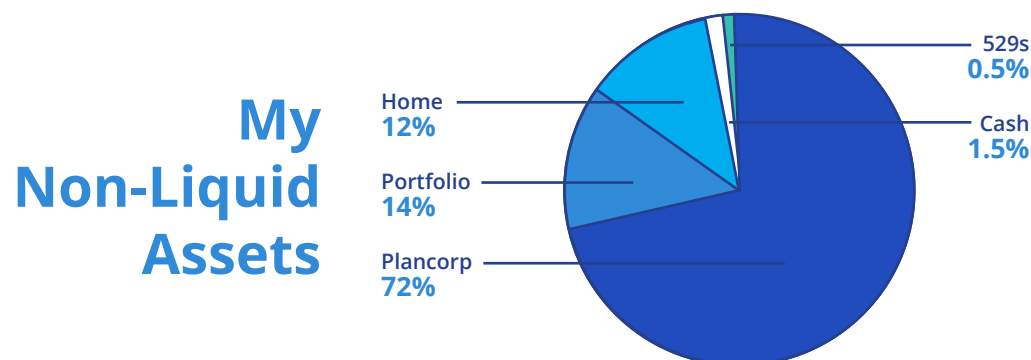
Tracking your net worth allows you to see a comprehensive view of your financial decisions at a glance.

As I grew older and my assets grew beyond my dresser drawer, I discovered other benefits to maintaining an up-to-date balance sheet.

Beyond a sense of accomplishment and helpful high-level perspective, a net worth overview helps me have productive conversations with my wife.

We can sit down and look at the numbers together. We plan for the future and narrow our focus to what we can control. Every 6 months we update the numbers to stay aware of our progress over time.

This is why I want to start by walking you through my balance sheet in detail: it explains the full scope of my money allocation.



My stake in Plancorp and my investing portfolio are closely tied to public markets. These percentages shift with market fluctuations, but the least liquid assets on my balance sheet are the largest.

My ownership stake at Plancorp is the largest asset on my balance sheet. It also has a decent-sized liability tied to it through a business loan I took to purchase my shares, but more on that in a later section.

My stake in Plancorp plus my **portfolio assets** make my balance sheet closely tied to publicly-traded markets. This reflects where my comfort with market risk lies.

My next-biggest asset is also fairly illiquid: my home. However, I don't consider a home an asset or investment, even though it's on my balance sheet.

To me, a house is a form of consumption. A use asset.



PART 3:

Why Housing Is A Bad Investment

A house should be viewed as a place to live rather than an investment.

Unless you are a professional real estate investor, most of us own and live in a single home, which means our real estate success will boil down to good timing and luck.

Unlike a traditional portfolio of stocks and bonds, a home is an illiquid, indivisible asset (you can't slice off a piece of your kitchen and sell it for cash) and extremely undiversified (a single bet on one neighborhood).

Homes also offer very little long-term price appreciation after adjusting for inflation. According to historical data from Nobel Laureate Robert Shiller, home prices have only risen 0.37% per year after adjusting for inflation over the past 125 years.

Most people don't realize the gains in housing prices mostly come from inflation. When adjusting for inflation, a home depreciates in value over time.

The exception is to the extent you spend additional capital on maintenance and improvements but that's not something you want to see in an investment.

My thought process of thinking of my home as an asset is exacerbated by the fact that my investment portfolio will surpass my home in size and the home will continue to be a smaller and smaller part of my balance sheet.

- **My house today represents ~12% of my total assets**, but I don't expect it to appreciate in value by more than the rate of inflation (if at all).¹
- Meanwhile, I expect my portfolio, which currently represents ~23% of my assets, to **average a long-term return above inflation** (known as the real rate of return) of 6% or 7%. This return assumption is in line with historical real returns on equities.

I also regularly contribute to my investments. I do not plan to regularly contribute money from cash flow into my house to make its value grow over time.

The money I spend on my home is to maintain and shape it to my life's needs – so that's purely consumption to me, not investment.

Another reason I don't really think of a house as part of my long-term financial planning assets is that I never plan to leverage a reverse mortgage to slowly tap my home value in retirement in order to make ends meet.

Essentially, this house is an asset for my kids to liquidate when their parents pass.

I will never tap the value myself, and therefore, I mentally account for it more as consumption than asset even though the value shows up under assets on my balance sheet.

¹Source: [Yale Report: Data Sets On Prices of Houses](#)

PART 4:

How I Structure My Investment Portfolio

Before we start, **this is not investment advice.**

I have the disclaimer at the end that you might skip, so I'll repeat it since I'm going to be naming specific securities.

How does the Chief Investment Officer of Plancorp, who oversees roughly \$6 billion of client assets, invest my own?

I aim for simplicity.

I own a single mutual fund in my Roth and Traditional IRAs, while my 401(k) uses the most aggressive model portfolio offered.

Roughly 70% of our family's overall portfolio is in a Roth IRA with the bulk of those funded when I rolled over my Roth 401(k) plan from my first employer.

- **While I worked at that company,** I maxed out my retirement plan through payroll contributions twice a month. I never tweaked my asset allocation.
- **I never timed my investments.** Every two weeks I automatically invested in the firm's most aggressive model, which was a 90% stock and 10% bond mix of index funds.

The decision to invest my Roth 401(k) this way was relatively simple because of the way my employer designed their plan.

There were only index funds and the model allocations were created by our investment committee. When I made this investment decision coming out of college, I was certain I didn't know more than that group of people, so I set it and left it alone.

And I'm glad I did.

While this highly diversified and low-cost index portfolio in my Roth 401(k) benefitted from uninterrupted compounding during the early years of a massive bull market, I made countless mistakes in my other investments, located in a taxable account and Roth IRA.

Most of my mistakes were made trying to outperform the market through security selection and market timing.

I'm not entirely sure what my performance was relative to the market over that period of time – a painful truth for basically all do-it-yourself investors – but fortunately the automation and forced discipline of my Roth 401(k) meant I was, overall, in a good position when I joined Plancorp in 2015.

I've seen many “do-it-yourselfer” performance spreadsheets in my career, and not once have I seen someone do it correctly.

At that time, I made the decision to roll all of my previous retirement plan's assets into a Roth IRA and Traditional IRA (company matching contributions are required to be made into a Traditional 401(k) so I rolled those into a Traditional IRA and my own Roth 401(k) into a Roth IRA).

I felt the best way to protect myself from future errors and ensure the largest account in my portfolio continued to thrive was to use a single fund and set up automatic dividend reinvestment.

The fund I chose was DFA Global Equity Portfolio (DGEIX), which invests in a global allocation of 100% stocks and utilizes the same systematic factor investing approach we advise for our clients seeking higher expected returns than you would earn in an index fund.

It's important that advisors use the same tools and products they may recommend to clients. In other words, I believe it's important to eat your own cooking. This belief highly influenced my choice to use the same strategies we recommend to our clients at Plancorp.

The strategy isn't riskless, but I felt at the time that the worst-case outcome over a multi-decade horizon was market-like returns.

I currently don't own any taxable investments – I sold them all to buy into Plancorp – but I plan to purchase index funds in taxable accounts a few years from now when my business loan is paid down to a lower amount.

I'd never recommend a 100% stock allocation to anyone else because the biggest mistake an advisor can make with an asset allocation recommendation is overestimating an investor's willingness to tolerate risk.

In my experience, this mistake is typically realized amid a market downturn, and dialing back stock exposure once prices have already fallen locks in what would otherwise be temporary losses.

When I advise others, I start slightly more conservatively.

Especially if there is any doubt about an ideal asset allocation or the investor's potential behavior or reactions in market changes. We can get more aggressive at a later date, ideally during a downturn.

It's much harder and painful to realize you need to be more conservative in the throws of a market downturn, so I could never advise someone I don't know intimately to be invested in 100% stocks.

But I lived through the 60% drawdown during the Great Recession and did not panic. A lack of reactivity confirmed I could handle the volatility of a 100% equity portfolio.

My wife's 403(b) is also globally invested in 100% stocks across three index funds. Our Health Savings Account (HSA), perhaps [my favorite type of retirement account](#), is invested in the Avantis All Equity Markets ETF (AVGE), which is very similar to the mutual fund I hold in my Traditional and Roth IRAs.

But I'm not truly 100% stocks.

My 401(k) at Plancorp is invested in an 80% stock and 20% bond mix using the same funds that are recommended to Plancorp clients taking a factor investing approach (we also offer all index and ESG portfolios).

Just like with my previous employer, I make payroll contributions every two weeks to this account and max it out over the course of the year. That means my overall portfolio is **slowly getting more conservative** as my ongoing contributions to that account grow.

The final decision I made regarding my portfolio when I moved to Plancorp was that I would convert my overall allocation to 70% stocks and 30% bonds on my 50th birthday.

If we are in the midst of a bear market, I will wait until markets reach their previous high before adopting the more conservative allocation. There wasn't any science behind this decision. It just felt like the right thing and I'm sticking to it.

The only other investment accounts we have are our children's 529 plans.

Between our two kids, we make monthly contributions up to the amount for which we receive a state tax deduction. Our kids go to private school and we are allowed to use up to \$10,000 a year from those accounts to meet those expenses – so of what we contribute, \$10,000 of it each year never gets invested and is used to pay the current year's tuition.

The remaining balance is invested in the most aggressive age-based model for both kids.

A final comment on all of these investments: I never look at them.

I reviewed my investments to write this, but other than that I rarely dig into the numbers. The more you check your numbers, the more likely you are to make unnecessary mistakes.

The more you check your portfolio, the harder it is to stay the course.

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I have done plenty of due diligence on my fund selections and still do on an ongoing basis as part of my job.

But I have a plan and I'm sticking to it – and that's probably going to be **the defining factor in my portfolio's long-term success.**



PART 5:

The Power Of Simplicity In My Own Portfolio

A common question I receive as a CIO is, “If you only use one fund for yourself, why don’t you do that for clients?”

The answer is simple: the one fund I use utilizes the same philosophy and strategies we use in client portfolios at Plancorp. And even though the funds we use for clients are cheaper than my single fund solution, it requires more ongoing maintenance that I simply don’t trust that I’ll do on my own.

In other words, I made a personal choice to pay more in fund fees because I didn’t trust myself to properly maintain the allocation and exposures.

It’s easy to be objective with other people’s money. But in my first job, I didn’t rebalance when I should have. Or I did the trades but inserted a bit of personal opinion into the process.

So while I pay more for a strategy that is very similar to what we do for clients at a lower cost, I view the higher fee I pay as my investment advisor fee.

I do have a financial advisor, though. My advisor is our Chief Planning Officer. And even with my expertise as a CIO, I can't fathom how I would get through certain issues without having an objective third party.

I have more compassion for do-it-yourselfers at this point in my career than I ever have before. But as someone who has witnessed the impact of "small mistakes" and how that compounds over time, I believe if you can afford an advisor, you should have one.

In life, we often think a complicated problem requires a complicated solution.

In a perfect world, if the costs were equal, and clients we help at Plancorp would accept a single fund, we would absolutely do it.

But it's currently cheaper to use component parts. And when you have money in taxable accounts, there are tax-advantaged reasons to have more than one position.

My current portfolio structure is simple because it fits what I need.

In the future, I may add more complexity. But given my time horizon, risk tolerance, and needs my current structure works for me.



PART 6:

How I Save And Deploy Extra Cash

Having an emergency fund of 3-12 months of living expenses set aside to cover life's unpleasant surprises is crucial.

The size of your emergency fund should correspond with your level of job security and the potential volatility of your income.

I aim to keep three months of expenses in cash reserves, but not because I feel my job security or income requires it. The real reason is that cash gives me flexibility – like taking a career risk or seizing an opportunity.

I've emptied my emergency fund opportunistically three times now in my career.

The first two times were to invest in my business.

The third and most recent time was during the 2020 market sell-off to invest at cheaper prices. (I didn't have much of an emergency fund in 2007-2008, so this was the first time I was able to invest in a recession in a meaningful fashion.)

Beyond my emergency fund, I try not to keep a ton of cash on hand.

The only extra that sits around is a cash buffer of 1-2 months' expenses in my primary checking account to cover reimbursable work expenses and protect against cash flow mismatches in my automated savings system.

PART 7:

Breaking Down My Liabilities

My mortgage is the biggest liability on my balance sheet.

There was a point earlier in my career when I was determined to pay my mortgage off as quickly as possible, but that changed once I took out a loan to purchase a stake in Plancorp.

- The business loan is the second-biggest liability on my balance sheet and comes with a floating interest rate that is capped at 5.5%.
- Historically, I aggressively pay down this loan with every penny of income I earn from my ownership stake rather than make the minimum payments.

Aside from maxing out retirement accounts, contributing to 529s, and building up my emergency fund, all of my excess cash flow goes to paying down my business loan.

Once it's done, I will assess how to use that freed-up cash flow. I want some of it to be invested in a taxable account, but beyond that, there aren't any solid plans for the use of that money.

At this point, I won't pay down my mortgage in advance unless I have a significant windfall or liquidity event.

Examples of such events that I could reasonably imagine (but don't count on) happening include a corporate action at Plancorp or BrightPlan or receiving an inheritance.

It would feel great to be without a mortgage but I've been making payments since 2010, so it's like money I've never had and I don't miss it.

The bigger driver for my decision to pay my mortgage on a normal, non-accelerated schedule is that I can't handle the math differential in returns I could earn in the market. If I were going to take excess cash flow to pay off any loan, it would be my business loan with the higher interest rate.

I'm allergic to auto loans. I've historically saved up for car purchases, then paid in cash. But I did break down and took out my very first car loan in 2017, the day after our second child was born and we realized we couldn't fit two car seats in my existing car.

There was enough cash in our emergency fund to avoid taking an auto loan, but the interest rate was so much lower than my business loan I couldn't stomach using cash to avoid a cheaper debt.

I figured it was better to aggressively pay down my business loan and, like my mortgage, maintain a normal repayment schedule on the auto loan.

But after a few months of car payments, I couldn't handle it anymore and paid off the loan in full. When I say "I don't live life in a spreadsheet," this is a great example of what I mean.

Money is about more than math, it's also emotional.

There are times when it makes sense (for you) to go against conventional wisdom and tear up the spreadsheet. This was one of those moments for me.

My wife recently purchased a new car and we utilized our emergency fund to avoid an auto loan, which means that we are making auto-loan like payments to our emergency fund to replenish it.



PART 8:

Breaking Down My Spending

We spend a tremendous amount of time talking about how to save and invest but not enough discussing getting the most out of our spending.

How you spend says more about your values than how you invest.

I don't think a ton about my day-to-day spending because I follow a [reverse budget](#).

A reverse budget requires that I define how much I need to save to meet my goals, automates those savings contributions, and then allows me to spend whatever remains as I please.

We use a few credit cards that earn rewards as long as there isn't a service fee. For example, we can pay our tuition bills with a credit card, but we don't because they charge a 3% fee. Every month, we pay off balances in full.

All other recurring expenses are on automatic bill pay.

I'm not into "stuff," but I buy high-quality items when I need something. I drive a relatively nice car, but I drove my last one for 10 years and intend to do the same with my current one.

I live in a relatively nice house, which I view as consumption, but I see it as a long-term purchase. I plan to live here until I can't walk upstairs to the master bedroom.

My best spending habit of mine is **I never buy something on impulse.**

Even the simple exercise of buying a work shirt takes multiple store (or online) visits for me to make a final decision.

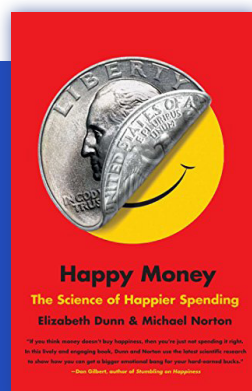
The place I spend most lavishly is on experiences, from vacations and playoff baseball to live performances and special occasion dinners.



Experiences become part of our identity. Unlike most material purchases, the memories from our experiences make us feel more connected to friends and family.

Our family also prioritizes giving back because we are fortunate in so many ways and feel it's important to help others.

We give 2% of our income to charity. We chose this percentage because it felt right to us. We also make giving part of our oldest son's allowance.



RECOMMENDED READING:

If you want to dive deeper into spending, my favorite resource is Happy Money: The Science of Happier Spending by Elizabeth Dunn & Michael Norton.

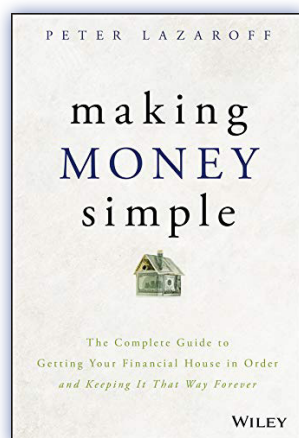
PART 9:

What's Next?

You've now had a behind-the-scenes tour of how I invest, save, manage, and spend my money as a Chief Investment Officer and financial advisor.

If you want to go deeper into the money management systems I believe are best to implement for you to save well, spend wisely, and invest for long-term growth, here are a few options:

If you love to read:



If you love to listen:



I hope this breakdown helps you see that even though I follow my own advice closely, I'm not a robot. Occasionally I deviate from what I would be comfortable recommending to others.

Financial professionals' lives are messy—just like yours.

Your personal values will shape how you save, spend, and invest your money. Think intentionally about how you want your values to influence your financial future.

If you need help doing that, [I'm always here to help.](#)

To making money simple and long-term investing,

Peter





PETER **LAZAROFF**