

BESPOKE BRIEFING



Don't Simply Tell Me - Prove It Does the Plan Actually Hold Up?

“The greatest enemy of knowledge is not ignorance, it is the illusion of knowledge.”

— Daniel Boorstin

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I. A Promise Made

In February, we declared the philosophy. In March, we defined the destination — the Four Freedoms that wealth is actually meant to provide. In April, we showed the methodology: the Three Pillars, the Goals → Plan → Portfolio sequence, and the architecture of a financial life built to endure.

We made a promise at the close of that issue. We said: You have seen the framework. Next month, we prove it holds up. *This is that month.*

We will not prove it with more charts. We will not prove it with jargon dressed as insight. We intend to do exactly what the title says — and to do that honestly, with a level of clarity and transparency we feel is too rare in our industry. To achieve this, we need to first show you what passes for proof in most of the financial services industry. Because you cannot fully appreciate the value of our foundation until you understand what it is enhancing, refining, and improving.

II. The Tower Game

Most of us played some version of this game growing up. A tower of wooden blocks, neatly stacked. You remove one at a time — carefully, deliberately — and place it on top. The tower grows taller. The base grows thinner. The room goes quiet. And then, inevitably, the whole thing comes down.

It is a wonderful game for a family evening. It is a terrible blueprint for a wealth plan — and it is precisely what happens when a plan is built on a foundation of stacked probabilities, each one borrowing its confidence from the one beneath it.

And yet this is, in important ways, what the industry's most trusted planning tool asks you to accept. The Monte Carlo simulation builds a tower of assumptions — capital market returns for eight or more asset classes, bond yields across multiple durations and credit qualities, inflation projections that affect both your returns and your purchasing power, and the sequence of returns, which determines whether a strong early decade or a weak one meets you at the moment you begin drawing income. Each assumption is a block. Each revision of a Capital Market Assumption — the forward-looking estimates major institutions update continually and on which they frequently disagree — removes a block from the base and places it somewhere the model hopes it will hold.

We have a rule of thumb in this practice, earned over three decades of sitting across the table from people who deserve straight answers. When someone explains something to me and says *if* once, they have my attention. If they say *if* twice, I listen carefully — we are building on a conditional. By the time they say *if* a third time, we are no longer analyzing. We are playing let's pretend.

A properly specified Monte Carlo model says *if* dozens of times before it produces a single number. *If* domestic equities return X. *If* inflation holds at Y. *If* the sequence of early returns is favorable. *If* the Capital Market Assumptions we used today remain roughly accurate in seven years.

The model doesn't say *if* twice. It says it forty times. It just hides most of them inside the algorithm, where neither the advisor nor the client can see them.

And then, having processed all of those conditionals through a thousand simulated scenarios, the model reaches into this statistical and financial complexity and produces a single number — perhaps 87 percent, perhaps 91 percent — and presents it as confidence.

It is not confidence. It is a probability score. And it answers a question your life was never organized around.

When I came into this industry in September of 1993, the Dow Jones Industrial Average stood at approximately 3,635 and the S&P 500 hovered near 470. In the years since, the S&P 500 has experienced a correction of 10 percent or more sixteen times, and on five of those occasions the decline deepened into a bear market of 20 percent or more. I have sat across from families through every one of them. And in all of that time — through the technology bubble, the financial crisis, the pandemic crash, and every sharp decline in between — I have never once had a client say: “All my life, I worked and saved and built, hoping someday I could be a 92 percent Monte Carlo score.”

Not once. Not ever.

They wanted to maintain the life they had built. They wanted to take care of the people they loved. They wanted to leave something behind that meant something. They had goals. They had a life.

The question that actually matters is not: what are the odds your money doesn't run out? The question is: *is your life funded — year by year, in the way you intend to live it?*

Those are different questions. The first produces a probability. The second produces a plan.



III. Franklin's Certainties

Benjamin Franklin wrote, in a letter to his friend Jean-Baptiste Le Roy in 1789, that “in this world nothing can be said to be certain, except death and taxes.” It is among the most quoted lines he ever committed to paper, and after two and a half centuries, it remains precisely accurate.

At Bespoke Private Wealth, we would add a third certainty to Franklin's list.

Volatility.

This is not something we say to sound clever. It is the architectural foundation of our entire approach — and it changes everything about how a wealth plan should be built.

The financial services industry speaks of volatility as a *risk*. Risk implies the possibility of not occurring. Risk implies surprise, the unexpected, the unwelcome arrival. When advisors use the word *risk* to describe volatility, they are encoding it, linguistically and psychologically, as something that *might* happen. And uncertainty — the possibility of a negative event that cannot be predicted — is the precise neurological condition that produces anxiety. Neuroscientists have confirmed what most of us know intuitively: an anticipated, predictable event generates substantially less distress than an unforewarned one. Even when the event itself is the same.

The industry has been making volatility more frightening than it needs to be by mislabeling it. We refuse to.

Volatility is certain. It has arrived in every decade of market history. It has come in the form of corrections, bear markets, crashes, panics, and crises — and without exception, the market has recovered and gone on to make new highs.

More importantly: volatility is *necessary*. Absent volatility, there is no return. We earn return precisely because we are willing to hold capital through the uncertainty that others cannot tolerate. Volatility is not the enemy of wealth creation. It is the mechanism. Properly understood, it is the engine.

The goal of everything we build is not to eliminate volatility — it is to help ensure that our clients are never forced to interact with the markets at a time not of their choosing. When volatility arrives, as it always will, the families we serve can watch it from a position of structural security rather than existential urgency. That security is not optimism. It is engineering.

Risk can only be managed in advance of an event. Once the event arrives, you are no longer managing risk. You are negotiating with it — most often from a position of weakness.

This is why portfolio construction and risk management are not sequential steps. They are one act, performed once, built to endure.



IV. The Three Risks - In the Right Order

Before we arrive at our answer, we want to address something that is rarely stated clearly enough in any client-facing conversation: there is not one financial risk. There are three. They are not equally serious. They are not equally manageable. And the one the industry worries about most is, in our view, the one that deserves the least long-term concern.

Volatility is certain, temporary, and fully manageable with the right architecture. Markets decline. They recover. The income generated by a well-constructed portfolio — dividends, coupons, distributions — has proven far more durable across market cycles than most investors have been led to believe. We will demonstrate this in detail in the section that follows. The price of your holdings will fluctuate. The income they generate tells a very different story.

Permanent Impairment of Capital is more serious, and it does occur. A company fails. A sector collapses. An asset loses intrinsic value that does not return. Broad diversification limits the probability of these events and constrains their damage when they occur. Sound portfolio construction — knowing what you own and why you own it — is the primary defense. We are always alert to this risk, and we have the tools to manage it thoughtfully.

Failure to Reach Long-Term Goals — this is the risk that drives everything we do. It is devastating precisely because it announces itself late, when recovery is no longer fully possible. It is the failure that cannot be undone. And here is the hardest truth, supported by decades of independent research: markets rarely cause this failure. Far more often, it is the investor's response to the market that converts a temporary decline into a permanent derailment of the plan.

DALBAR's 2025 Quantitative Analysis of Investor Behavior — the most comprehensive annual study on this question — found that the average equity investor earned just 16.54 percent in 2024, against the S&P 500's 25.05 percent return. An 848 basis point gap, in a year when staying invested required no action whatsoever. Over a 20-year period, this behavioral gap compounds into something staggering: a hypothetical \$100,000 left untouched in the S&P 500 for two decades grew to \$717,503. The average investor, making the kinds of behavioral errors the study documents — selling before rallies, re-entering late, reacting to headlines — finished with \$345,614. Less than half. The market did not take that money. The investor's own decisions did.

This is the risk that demands our full attention. It is the risk from which full recovery is most difficult, if not impossible. And it is the risk that everything in your plan — the sequence in which it was built, the income architecture that funds your life, the behavioral guardrails that keep you from the decisions that do the most damage — is designed to prevent.

“Risk comes from not knowing what you are doing.”

WARREN BUFFETT

V. The Paycheck You Never Have to Earn Again

There is a concept that sits at the center of everything we have built, and we want to address it directly.

We call it *the paycheck from your capital*.

Think for a moment about what a paycheck actually does — not financially, but psychologically. Consider why the decision to leave a steady income and pursue an entrepreneurial path, or change careers, or step away from a position of security to build something new, is among the most difficult decisions most people ever face. Many of our clients have faced precisely this choice at some point in their careers. Many of their children are facing it right now.

What holds us back? The behavioral economists have a name for it: loss aversion. Kahneman and Tversky established that the pain of losing something we have is roughly twice as powerful as the pleasure of gaining something equivalent. But loss aversion alone doesn't fully explain the grip of the paycheck. The deeper mechanism is the anxiety that uncertainty itself produces. The brain is a prediction machine. It quiets when the future can be mapped.

The paycheck is powerful not just because it funds the lifestyle. It is powerful because of what it is — the four qualities that make it psychologically indispensable:

*It is **visible*** — you know what is coming and when. The brain can model it. The anxiety system quiets.

*It is **persistent*** — it arrives again. Repetition builds the neural pattern that says: this is safe. The anticipation of the next paycheck is itself calming.

*It is **durable*** — it holds through time and through the ordinary disruptions of life. And crucially, it tends to grow: consistent performance leads to a raise, and a raise means your lifestyle is not just preserved but advancing.

*It is **dependable*** — it does not require your active management to arrive. The cognitive load of monitoring an uncertain income source is exhausting. The paycheck removes that load entirely.

Now consider what happens to a family whose wealth is structured as Bespoke Private Wealth designs it. The dividends from well-managed, diversified equity positions. The coupons from high-quality fixed income. The distributions from other income-generating assets. These cash flows are knowable today — visible, measurable, and historically durable across every market environment this country has produced. They arrive whether the market is advancing or declining. They are not a probability. They are a schedule.

This is the paycheck from your capital. And it carries every quality that makes the employer paycheck so psychologically powerful — with one structural difference that we believe is worth stating plainly.

The employer paycheck is the most concentrated income source most people ever have: a single entity, a single relationship, a single decision by someone else that can terminate it entirely. You can be an exceptional employee, a valued colleague, a person of irreplaceable institutional knowledge — and lose your income overnight. We have all seen it happen.

The paycheck from your capital carries no such concentration. A portfolio diversified across dozens of industries is not dependent on the fortune of any single enterprise, any single technology cycle, or any single economy. And most importantly — you cannot be fired from your own capital. You are the owner. Not the employee.

The employer paycheck requires you to earn it every day. The paycheck from your capital — once it is properly built, structured, and preserved — asks only that you hold it.

And for the families who think not only about their own lifetime but about the generations that follow: the paycheck from your capital does not end with you. A properly built income architecture transfers — not as a lump sum vulnerable to inexperience or poor advice, but as a functioning system that continues to produce. What you are building is not simply a portfolio. It is a structure your children and grandchildren can hold, and that will hold them.

Predictable Outcomes. Optimal Freedom.

VI. The Proof

Here is how the paycheck from your capital is actually built — and why it holds.

Our Coverage Ratio measures how much of your lifestyle is funded by the income your investments generate today, independent of market returns in any given year. We are not modeling hoped-for appreciation. We are measuring dividends, coupons, and distributions — cash flows that exist now, that are knowable, and that have a long and verifiable history of durability.

On dividends: The data is better than most investors have been told. In the five recessions since 1948 where dividends declined at all — excluding the concentrated banking crisis of 2008 — the average peak-to-trough decline in S&P 500 aggregate dividends was just 4 percent, and the average recovery period was 2.5 years. During the 2008 financial crisis, which was the worst dividend environment in the modern era, 68 percent of all dividend cuts came from a single sector — financials — in response to government bailout requirements. Outside the financial sector, 33 of 34 consumer staples companies in the S&P 500 actually increased their dividends during that crisis. Over long periods, S&P 500 dividend growth has consistently outpaced inflation, averaging approximately 5 to 6 percent annually against a long-term inflation rate of approximately 2.5 percent. The real purchasing power of a dividend-based income stream has, historically, grown over time.

The institutional discipline behind this is straightforward: if you want to end your tenure as chief executive of a public company, cut your dividend. It is among the most reliable signals of management failure the market recognizes, and managements know it.

On fixed income: S&P Global's annual default study shows the highest one-year default rate ever recorded for investment-grade bonds across all categories was 1.02 percent — for the lowest tier of investment grade. For higher-quality bonds, the historical peak default rates were fractions of that figure, and zero in many years for the highest tiers. We anchor the fixed income component of our income schedules primarily in U.S. Treasury securities, where the question of default is functionally moot.

The Coverage Ratio in practice: If your portfolio generates \$400,000 in annual income, we do not simply project \$400,000. We apply a historically informed stress rate — reflecting the realistic probability of dividend interruptions and fixed income disruptions, based on the track record just described — and plan around a conservatively adjusted figure. That is not a probability score. That is a number your life can be built around.

Supporting the Coverage Ratio is the Liability Driven Investing Overlay — the discipline of matching specific assets to specific near-term obligations, so that the income you need in years one through seven is never exposed to the volatility appropriate only for capital you will not need for two decades. When markets fall sharply, the funds covering your near-term life are not dependent on the market's return in any given year. They were structured so they never had to be. The long-term capital has time to recover. The paycheck from your capital does not depend on perfect conditions. It was engineered to function across all conditions.

Let us take you inside our practice for a moment, so you can see why we are so disciplined about the concepts we have developed and employ. Not because they are our ideas. Not because we are proud of them. Because of the moments they were built for.

When the market drops 30 percent and the headlines are telling you the world is ending, here is what your morning looks like under this architecture. Your income arrives. Your near-term life is funded. The long-term capital has time. You are not calling us in a panic. You are calling us to ask whether this is a buying opportunity.

And here is what you will hear from us: *Yes, we see it. But more importantly, you and we anticipated this — and built a plan designed to endure it. We have all the cash flow you need to live your best life for years. If this persists for an extended period, we will revisit the plan together and determine what adjustments, if any, are needed. But right now, we do not need to do anything. Live your best life and leave this to us.*



That is not a script. It is a conversation we have had hundreds of times over three decades — and it is the conversation that every element of this architecture exists to make possible. We did not develop these disciplines in a classroom. We developed them by sitting beside families through the very moments that test everything. Living through those periods is precisely what led us to build all of this.

This is the difference between functioning as an investor and being forced into the role of a trader reacting to noise. The entire architecture of Goals → Plan → Portfolio exists to help ensure you are always the former. Never the latter.

VII. What the April Promise Was Really About

April told you that Bespoke Private Wealth's approach makes your financial life simpler, more focused, and more confident. We want to close this issue by being specific about what that means.

Simpler — because a paycheck from your capital, mapped to your actual life and your actual needs, is something you can see, explain, and understand without a probability model. Not because we have simplified the work, but because we have translated it. The sophistication lives underneath. The clarity lives in what you hold.

More focused — because every dollar in the portfolio has a purpose. The near-term income that funds your life. The long-term capital that grows through every market cycle. Nothing is drifting. Nothing is waiting to be explained.

More confident — because confidence is not the absence of volatility. It is the certainty that your wealth plan was built to withstand it. Volatility is certain. We simply built the plan with that certainty as its foundation, rather than its surprise.

The distance between a client who hopes their plan holds and a client who knows it does — that distance is not a larger portfolio. It is the architecture.

What's Next

In June, we complete the Foundation Series with the question that all of it exists to answer: what does a genuinely flourishing financial life actually look like?

You have seen the framework. You have seen the proof. Next month, we show you the life.

As always, we are grateful — genuinely, without qualification — for the trust you place in us. The privilege of walking alongside you and your families through the decisions that matter most is not something we take lightly. It is the honor of our professional lives.

If this Briefing resonates with someone in your life — a family member, a colleague, a friend navigating the ongoing stewardship of what they have worked hard to build — please pass it along. It is the highest compliment we can receive, and the clearest expression of what this community is meant to be.

With gratitude and commitment,

Robert Reich, CEPA®

Managing Director-Investments

Bespoke Private Wealth Group of Wells Fargo Advisors



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Notes & Recommended Reading

Benjamin Franklin's observation on certainty is from a letter to Jean-Baptiste Leroy, dated November 13, 1789.

The behavioral finance research on loss aversion is drawn from Daniel Kahneman and Amos Tversky's foundational 1979 paper, "Prospect Theory: An Analysis of Decision Under Risk," *Econometrica* 47(2): 263–291. Kahneman received the Nobel Prize in Economics in 2002 for this body of work. The finding that the pain of losing is approximately twice as powerful as the pleasure of equivalent gain has been replicated extensively across disciplines and cultures.

Dividend data referenced herein is drawn from historical S&P 500 dividend records as compiled by Standard & Poor's, Simply Safe Dividends, and Bloomberg. The 2008–2009 crisis data on dividend cuts, sector concentration, and consumer staples performance is sourced from Bloomberg reporting and Simply Safe Dividends historical analysis. S&P 500 dividend growth rate and long-term inflation comparison data is sourced from Standard & Poor's and the Bureau of Labor Statistics.

Investment-grade bond default rate data is drawn from S&P Global's Annual Global Corporate Default and Rating Transition Study. Fixed income investments are subject to credit risk, interest rate risk, and the risk of loss of principal.

Investor behavior gap data is from DALBAR's Quantitative Analysis of Investor Behavior (QAIB) 2025 report, released March 31, 2025, and Morningstar's Mind the Gap 2025 study, released August 2025. Individual investor results will vary.

The Coverage Ratio and Liability Driven Investing Overlay are proprietary frameworks of Bespoke Private Wealth Group and are subject to individual client suitability review.

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