SIGMA
INVESTMENT MANAGEMENT COMPANY

THE SUM
Knowledge + care + discipline bring you peace of mind

# Row the Boat

July 2018

Investing and saving are not abstract endeavors. Most people are investing or saving for a reason, most commonly in anticipation of their retirement. While there is a daily gusher of material and opinion on investing and the financial markets, much of it is an attempt to get readers, viewers or internet clicks. Saving money to invest gets much less attention.

True, saving money is more boring than obsessing about what news is moving the markets today, but the relative paucity of information on saving is not an indication of its relative importance.

Consider your financial life cycle to be a racing shell with two rowers. One rower is you, saving money to add to your investment portfolio.

The other rower is the financial markets, providing returns over time to whatever amounts you invested.

The finish line represents your retirement goals. Current spending represents a headwind for the shell.

The best progress will be made with both rowers working equally.

We now are more than nine years into the broad advance in the U.S. stock market off the March 2009 low at the end of the global financial crisis.

After such an extended rise, there is a great tendency to rely too much on the rower representing the financial markets to move your boat forward.

Saving, after all, is a postponement of immediate enjoyment. Those dollars you put in your portfolio could have bought a big screen TV, jewelry, a night on the town or a trip to Venice.

If the market has generated high returns over a long period, why go to all the effort to save when your co-rower, the market, is providing sufficient progress? It is easier to loll under a parasol and let the other rower do all the work.

Unfortunately, people are most likely to invest when it is fun, because they are making a lot of money, but stop when it is less fun, because there is a bear market.

Of course, this is the exact opposite of what makes sense based upon market valuations.

After a market decline, stocks tend to be cheap so your periodic investments buy more than after a bull market when stocks are expensive.

It's human nature, but wrong, to save and invest the most money when valuations are high but save and invest the least money when valuations are low.

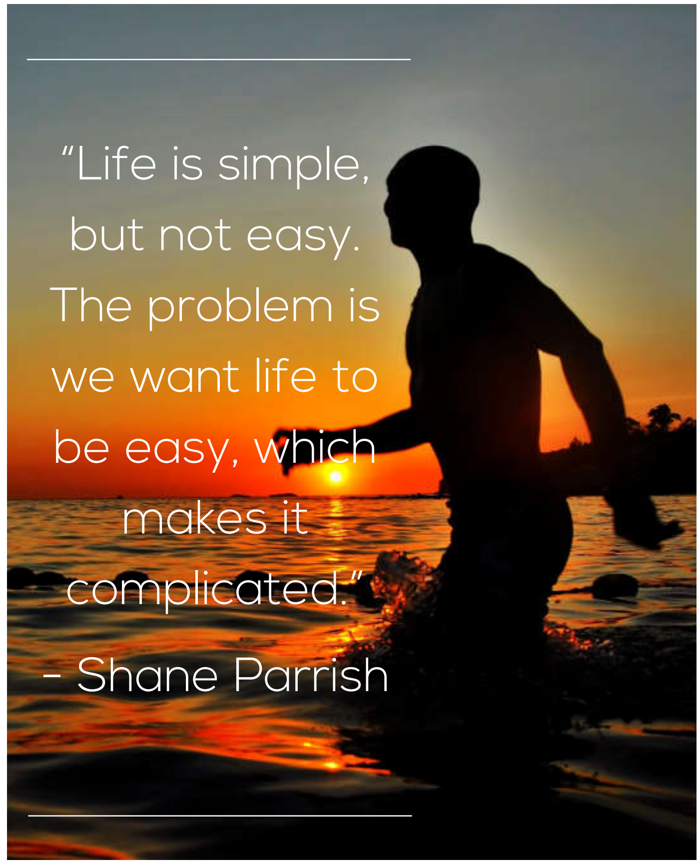
Then there is that headwind of spending. A wealth effect encourages profligacy and discourages saving when your 401(k) is bulging compared to last year.

Why deny yourself when the markets are making you rich? It is always more pleasant to contemplate what others should be doing for us than anything, particularly anything requiring work or abstinence, that we should be doing ourselves.

You need wealth to fund your retirement, but we have an unfortunate tendency to think about wealth as what we see rather than what we do not see.

What we see is anti-wealth – the neighbor's remodeling project, your co-worker's new car, your in-law's recent exotic vacation.

An adequate level of saving is invisible but critical, the potential for spending in the future by foregoing spending now.




Because savings receives so little relative attention, people look in insufficient places for guidance.

Many people, trying to do the right thing, max out allowable contributions in their 401(k) and then spend the rest of their income.

Like the required minimum distributions from retirement accounts after you retire, the limits are set by the Internal Revenue Service to maximize tax revenues, not to fulfill your goals, desires, hopes and dreams.

There will be nobody at the IRS to complain to if your retirement funds are insufficient to your needs.

Eschew the visible and seek the invisibility of wealth, thinking hard about what you really will need. Put down the parasol and pick up the oar.