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The Borrowers

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"The strongest of all warriors are these two – Time and Patience."
- Leo Tolstoy, *War and Peace*

Most people think investing is all about money, but actually, it is more about time. What is investing, after all, but the shifting of consumption through the years?

Skip a latte today, invest and grow the money to spend (perhaps on many lattes) decades hence. Drink the latte today and decrease the chance of a comfortable lifestyle in the future.

Consider a 40-year-old manager investing for retirement at age 65. If she started her career at age 22, she already has experienced the S&P 500 declining 47 percent after the technology bubble, doubling during the real estate boom, declining almost 57 percent during the global financial crisis and tripling since. Her career (and investing for retirement) has not yet hit the halfway point, and she will endure additional terrifying declines and euphoric rises before retiring.

Her investing game does not end at retirement, though. She has to hedge against the expenses resulting from the possibility of living far longer than an actuarial table might suggest.

Our manager might live to age 100. Therefore, even when she retires, she has an investment time horizon of three and a half decades, or about twice as long as she has been working at age 40.

Starting today, she is looking at a potential investment period three times as long as what she has already experienced in the financial markets. It is an ultra-marathon, not a sprint.

In terms of investment theory, what the markets do today, next month, or even in the next few years matter little to her, either

during her working years or in retirement. In terms of psychology, unfortunately, it matters a lot. If the market rises substantially today, our manager probably will be happy, but it makes her ongoing periodic investment purchases more expensive.

As paradoxical as it may seem, she should be cheering for market declines so she can make those investments at cheaper prices and better values.

If the market falls next year, a retiree probably will be fearful, but such market declines are inevitable, just part of the process. In investing, human behavior is destructive, encouraging investing at high valuations and discouraging it at low valuations.

Over longer periods, the market returns average out. Because our psyches long to double or triple our money in short order, even excellent but realistic annualized gains over time do little to feed our lust for rapid accumulation of great wealth.

Actual long-term annualized returns are *much* less exhilarating than the tripling of the market since early 2009 and *much* less terrifying than the bursting of the tech bubble or collapse into the global financial crisis. The alternating up and down periods are just the investing seasons, as predictable as a hot July or a snowy winter.

Rather than being ecstatic over a sustained market advance, we should recognize that it is a borrowing of profits from the future, a debt

paid in the form of upcoming sub-par returns. When we suffer through the inevitable market tailspin, it just will be a saving up toward future market gains.

If the greatest trick the Devil ever played was to convince us that he does not exist, the greatest trick the financial market devils play is to give us attention spans inappropriate for successful investing. Investors with decades-long time horizons obsess over daily, monthly or quarterly returns.

We just passed the ten-year anniversary of the market lows of the global financial crisis, a bull market decade. This extended rise has made us a nation of borrowers, pushing the market to valuations likely to generate below average returns in the future.

Too much borrowing can be psychologically destabilizing, particularly if the borrower is unaware of the arrangement and unprepared for the consequences.