Investment Watch

2nd Quarter, 2017

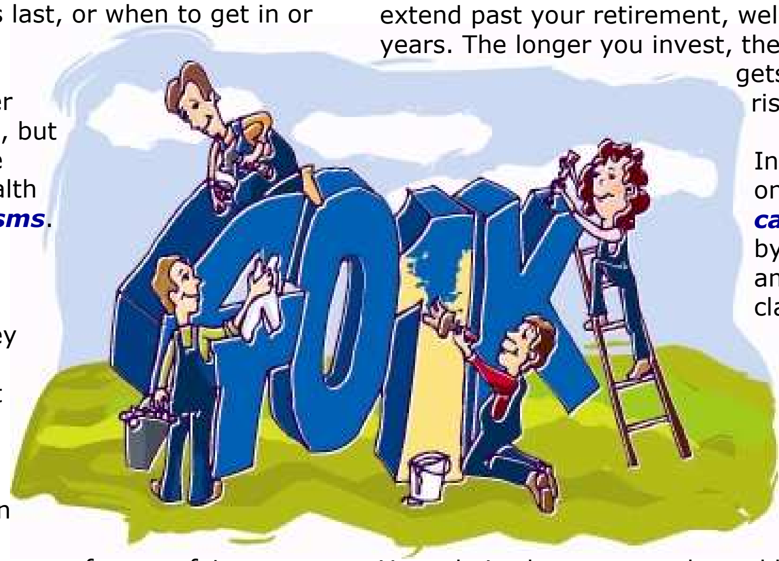
Build Your Savings

How do you build savings when everything seems so expensive? Why even save? Bonds seem pricey due to ultra-low global interest rates. US yields remain low in spite of the Fed raising their target interest rate again last week. Stocks are climbing that proverbial *wall of worry.* The S&P 500 gained 17.9% last year, even Foreign stocks have finally joined the party. But now stock valuations are well above historic averages. So *when will the shoe drop?*

Yogi's quote, *"It's tough to make predictions, especially about the future",* says it all. The near-term vagaries of the stock and bond markets are not predictable. There are three key lessons about market predictions — No one can consistently predict when market declines happen, how long the declines last, or when to get in or out of the market.

So let's be thankful for another quarter's good market returns, but let's also focus on ***saving***, the principal factor in building wealth with these *tried and true* ***truisms***.

A penny saved is a penny earned. The ancient Scottish proverb tells us that the money we save is like earning it all over again. Ben Franklin got it right when he said, *"If you would be wealthy, think of saving as well as getting."* Hence, take direction from Ben and the ole Scots before you can spend it: put your pennies away for your future.



The early bird catches the worm. *A stitch in time...Time is money...There's no time like the present* to begin your savings. Starting early gives you the financial advantage of tax deferral for a longer period of *time*. Start early to build a large nest egg.

Pay yourself first. You build wealth by saving. True now, true always. Your return is affected by the total money in your account not by your contributions. Stopping your contributions has very little affect on investment performance. All savings is "good money" - pay yourself first by contributing to your Plan.

Tax-deferred savings is "better money". Catchy, but not *exactly* a truism. How can some money be better? Because tax-deferred money builds faster, not only due to the initial tax savings that gives you more to invest, but also due to the tax sheltered compounding of the earnings. This two-fold advantage produces such dramatic results that Albert Einstein referred to this compounding effect as *the Eighth Wonder of the World.*

Okay, we'll save *for that rainy day*. But are there any ***truisms*** about investing that can give me solace now that everything seems so expensive?

If you can't stand the heat, get out of the kitchen. The first step is to determine your **personal risk tolerance -** how much heat we can stand and not lose sleep? Back when the markets just went up & up, our risk tolerance was never tested. But since 2008 we felt the heat of the Great Recession, one of the most severe market slumps, and now we understand our own risk tolerance a little bit better. That brings us to the second step in investing.

You're… ***In it for the long run.*** After you've determined your personal risk tolerance, the second step is to consider your investment **time horizon**, that is, how long you will be investing. Your time horizon should extend past your retirement, well into your retirement years. The longer you invest, the smoother the ride gets. Time smooths out risk.

In addition to having time on your side, ***Diversification*** also reduces risk by spreading your savings among different asset classes. So… ***Don't put all of your eggs in one basket.*** The two major "baskets" are stocks and bonds. Historically, stocks have **twice the yield** as bonds, but have **three times the risk**. Your choice between stocks and bonds is the most significant determinant of the performance of your retirement savings.

Rebalance. Will Rogers said, *"Even if you're on the right track, you'll get run over if you just sit there."* If your account gets out of kilter because one asset class does better than the others, you must realign your savings. Rebalancing requires you to sell the "winners" and buy the "losers". Emotionally we want to hold onto the winners, so ***rebalancing*** is a difficult discipline to follow, but sound, unemotional investing requires it.

A fool and his money are soon parted. No *get rich quick* schemes here. Remember, we are not gamblers nor speculators, but long-term, disciplined investors. ***Build Your Savings*** with these time-tested ***truisms*** handed down through the ages!

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