Creative

wealth maximization strategies*

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"If We Hurry…"

When you hear **"If we hurry…** what's your gut reaction? For example…

If we hurry, we can get dinner and still make it to the movie.
If we hurry, we can still make our deadline.
If we hurry, we can buy the shoes on sale.
If we hurry, we can do Disneyland and Universal Studios in one day.
(Wait…you can't do that, even if you hurry.)

If-we-hurry is everywhere in almost every aspect of work and leisure. Some of us live in a perpetual state of if-we-hurry.

Observation suggests two primary drivers compel us to accept an if-we-hurry mindset.

1. We believe (or have been told) we are behind, and need to catch up.
2. We believe (or have been told) we need to act on our FOMO – our fear of missing out.

These imperatives tell us that if we go a little faster, squeeze in one more thing, we might get all we need or want. But while a successful use of if-we-hurry may leave us satisfied – or at least relieved – it usually takes a toll, and adds risk.

If-we-hurry can accelerate mental and physical fatigue (along with indigestion when you scarf down snacks between rides at Disneyland). In if-we-hurry mode, we may not produce our best work, or fully enjoy whatever it was we were rushing to experience in our leisure time.

And if-we-hurry doesn't always work. In our haste, we overlook important information, take risks that don't pay off, or add so much stress that it negatively affects the outcome.

At some point, whether we encounter success or failure, we might ask: Do we want to keep living at an if-we-hurry pace, making if-we-hurry decisions? That's a question not only for our daily actions, but our finances as well.

If-We-Hurry in Wealth Accumulation

We are bombarded by if-we-hurry marketing every day, telling us "The sale ends today!" or "This is a faster way to clean your house!" These messages are so frequent many of us have learned to regard them as advertising white noise.

But there is an almost universally accepted if-we-hurry financial strategy that ought to get greater scrutiny: **Accepting additional investment risk in the hope of receiving a higher return.**

You may not recognize increased investment risk as an if-we-hurry approach. But think about it. Why do individuals acquiesce to greater risk? Invariably, it comes down to the same two if-we-hurry issues:

1. We feel we are behind in our accumulation plans and need to catch up.
2. We are afraid we might be missing out on receiving more for our money.

It's Easy to Get Behind

A fundamental of personal finance is incremental wealth accumulation through consistent saving. But saving to eventually become wealthy – or at least financially secure – is hard. It requires a lifetime of discipline, and on a

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“IF WE HURRY…” >> CONTINUED

percentage basis, a lot of money. Retirement researcher Wade Pfau studied historical investment results for the past 120 years and concluded that a “safe saving rate” – i.e., one that would provide a secure retirement under almost every circumstance – requires households to set aside 17-20 percent of income for 30-40 years.

Few of us can maintain this level of financial discipline for such a long time, because stuff happens along the way – a job change, a divorce, an illness, a bad decision – and it’s easy to get behind.

If saving for a lifetime is hard, catching up is even harder; every year you don’t save 17-20 percent, you have to save ***more*** the next year, or next several years. And if you couldn’t save 20 percent last year, how are you going to save more? Well, ***“if we hurry…”***

Getting a higher rate of return on savings could make up for not saving enough. On paper, this is mathematically true; over prolonged periods, the difference between 2 and 6 percent returns is substantial. But in most instances, seeking a higher return comes with a greater likelihood of losing money; the odds of both success and failure are increased. This is the definition of volatility, and volatility tends to add stresses – just like most if-we-hurry decisions.

…And There’s FOMO

Every day, some investor, somewhere, at some time, receives above-average returns from a decision to accept greater risk. Theoretically, you could have had the same results, but you didn’t pull the trigger. And the fear of missing out takes hold.

Implicit in the fear of missing out is an if-we-hurry need to act ***now***. Often there is a “window of opportunity,” a moment when an idea, a product, or sector of the economy is hot. Your best chance to duplicate another’s results is to open the same window at the same time; later won’t be the same, and in fact, may be too late.

And missing out once intensifies the fear of missing out again. In fact, missing one if-we-hurry opportunity almost compels you to take the next one.

Accepting More Risk Seems Inevitable. But Is It?

Conventional financial wisdom says that if-we-hurry investment risk is necessary – to stay ahead of inflation, to maximize returns, to not miss out on the fortunes that could be ours. But accepting this mantra means accepting a greater possibility of losing money. Is this really the only option – or the only one we are presented? The truth is, there are other choices, and they don’t include if-we-hurry.

Instead of an if-we-hurry impulse to take more risk, **a more measured response is to figure out if you can save more through financial efficiency,** by restructuring debt, or reducing costs. (For example, doesn’t it seem like people who change their cell phone service and auto insurance end up with about $1,000 in savings?) Your financial condition is constantly changing, and now might be a good time to see if there are tweaks that can boost your savings – without additional risk.

Even if you can’t increase your savings, **you have the option of deciding additional risk isn’t worth it.** The flip side of possibly earning more through investment risk is the possibility of having even less. This reality may be glossed over in an allocation decision, because we are so narrowly focused on catching up or not missing out. But there is value in knowing that what you have is secure and/or guaranteed (even if it’s not as much as you want), as opposed to putting your less-than adequate savings at greater risk.

You might think that a decision to decline additional investment risk means settling for a lesser accumulation. But **the difference between taking investment risk and “settling” for accumulations in guaranteed financial products may not be as great as you think.**

To accurately evaluate their performance, the historical returns reported by many types of investments should recognize the costs of taxes and fees incurred by individual investors. These costs, while unique to each situation, result in lower real returns. Also, the volatility inherent in riskier accumulation options tends to sabotage the “perfect investor behavior” needed to have the best chance of receiving higher returns. Instead of remaining invested through fluctuations in value, volatility compels some individuals to change course, liquidate, etc. Studies show many retail investors end up worse off from these if-we-hurry adjustments.

When you compare the real results from if-we-hurry investment decisions to some guaranteed options (particularly those with tax-favored status), you may find there isn’t a lot of difference, except for the absence of if-we-hurry stress.

Warren Buffett’s Example

This is not a rant against investment risk. It is a caution about taking an if-we-hurry approach to it. A deliberate attempt to add savings, and properly balance guarantees is a good foundation for…wait for it…taking investment risk the right way. Without if-we-hurry.

Warren Buffett, arguably the world’s greatest living investor, is the epitome of refusing the if-we-hurry mindset. Even when others decry his approach, he occasionally stockpiles cash, patiently waiting for the right opportunities. Warren Buffet doesn’t do if-we-hurry. And you shouldn’t either.

“Only when you combine sound intellect with emotional discipline do you get rational behavior.” – Warren Buffett