Serendipity: Saving For Your Next Rainy Day

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Best not to panic, and hang in there until the worst of this crisis has passed.

"*In this world nothing can be said to be certain, except death and taxes.*"

It's been almost two tumultuous centuries since these words of Benjamin Franklin, yet the vast majority of us — let's say the ones who are affected by taxes — can still achieve a reasonably certain financial future. The hyper-bear market is reacquainting us with the traits of patience and discipline. Armed with these, we can increase the likelihood of a sustainable financial future.

The key to a sustainable financial future is *not* picking the right stocks or stock funds — few if any stock-pickers can do this successfully over the long run. One piece of evidence for this is a well-known study by Bogle Financial Center and Lipper Inc. The study tracked the 10 equity mutual funds that ranked highest in total annual returns for 1996-1999. In the subsequent four years, these 10 ranked as the lowest performers of all, in a pool of more than 800.

The key to a sustainable financial future is *not* trying to leap in and bail out at the right times. Nick Murray illustrates the folly of market timing in his 2004 book, *Simple Wealth, Inevitable Wealth.* His graph charts the difference between investing annually at the S&P 500 index low or the high. After a 20-year period (1984-2003), the two hypothetical cases yielded only a 2-percentage point difference (12.4 percent versus 10.4 percent).

The essential ingredient *is* a disciplined investment approach, repeated (patiently) early and often. This method preserves and increases your hard-earned income in the form of future purchasing power, in a way that cash, CDs and fixed-income securities can't. Twenty-somethings like my children can invest $150 monthly and pull out almost $1 million at retirement age. A late-starter with only a 20-year retirement horizon can build up the same nest egg by making his or her first priority a $1,250 monthly payment to his or her retirement account.

That's the patience part. The discipline comes in times like this, when we're tempted to sell out and reinvest "when the time is right." This is what most people do, and it is why The Economist reported in 2003 that while the preceding 20 years generated an average mutual fund return of 9.6 percent, the average investor in mutual funds yielded a pitiful 2.7 percent return. These economic times are the worst in our memory, but when good times return, we'll look back on them as the time stocks were cheap.

"Wealth isn't driven by investor performance but investor behavior," writes Murray. If you don't feel you have the patience or discipline to manage your investments, financial advisers or investment counselors can save you many times their fees. Find an adviser with years in the field who's not afraid of "boring" investments like index funds or mutual funds with low turnovers. If you're steady enough to sustain this on your own, find funds with these same attributes; talk with the fund managers on the phone.

Most important, keep in cash and equivilents any money you may need in the next business cycle, say five to seven years. For baby boomers, this may mean some retirement funds should be in cash. For my husband and me, this means keeping out of the market up to a year in household expenses in case of unemployment, and a reserve to help with possible weddings. If they're not married by then, we may just pack up and travel!

Karen Telleen-Lawton's column is a mélange of observations supporting sustainability. Graze her writing and excerpts from Canyon Voices: the Nature of Rattlesnake Canyon *at www.CanyonVoices.com.*