Karen Telleen-Lawton: Resolve to Invest In Your Future

Now is a good time to build toward a more sustainable financial life

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 12.28.2009

Melinda and Bill Gates, President George W. Bush, Russian Prime Minister Vladimir Putin, President Barack Obama and Federal Reserve Chairman Ben Bernenke. It's an out-of-the-box time when the Fed chairman is named Person of the Year and a financial planner (Suze Orman) can have the following of a rock star. This just might be the right time to get serious about creating — and sticking to — a new year's resolution to invest in your future.

Even in the disaster zone that the stock market has been, the most important investing rule is to put aside funds on a regular basis — in essence, to pay your future needs before your current wants. Dollar cost averaging can significantly reduce the average cost of your investments. (Click here to read a previous column on the topic.)

What keeps many potential savers from becoming investors is the gnarly question of how to invest. A plethora of money managers are willing and mostly able to help you with the actual investments. If you don't want to be involved, that is probably the best choice. But a wide variety of studies have shown that, on average, managed money does no better than funds left in market indexes. One investment text quotes actively managed funds as underperforming their passive benchmarks by 1.8 percent per year before taxes and about 3 percent on an after-tax basis.

A significant part of this disconnect between managed and passive is the necessity — and inability — to time the market. An analysis covering the bull market of 1982-87 showed that while the Standard & Poor's rose on average more than 26 percent per year, investors who were out of the market for the top 10 (of 1,276) trading days had a markedly lower return — 18 percent. Without the top 40 trading days, the return was a paltry 4.3 percent. While there will always be some investors who will display impressive performance, at best a handful are able to "beat the market" on a consistent basis.

Passive investors believe, at least to some extent, in the efficient market hypothesis. The strong form of the hypothesis claims that it is impossible to make abnormal profits in the market except by chance. All public and private (insider) information is already reflected in the price of a stock. However, certain market anomalies show that the market isn't perfectly efficient.

One of these anomalies can help you get started on your new year's resolution. This is the January effect, which notes that in the past century, stocks listed on the New York Stock Exchange have performed better in January than in any other month. Further analysis has shown that the January effect applies mainly to small businesses, and mostly in the first few trading days of January.

Someday, this anomaly is likely to disappear. Until it does, it can serve as encouragement to start investing for your future now — before the end of the year. Wikipedia lists some of the many exchange traded funds you can use to invest in a market index of your choice.

One caveat: The market is appropriate for long-term investing, not for emergency funds. Check in with your overall financial plan first, making sure you're covered with cash and insurance for emergencies.

Even if you're still working on this essential base, 2010 can be the year you finally get a hold on your financial life and invest in a sustainable family future.

— *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*.