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The Sound Investor Series #18

Savings Rates - Safety in Numbers - NOT!

by Ed Hynes, CFA

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We often hear there is safety in numbers and in many cases it's true. But if you are one of the huge numbers of Americans that are saving very little and are unprepared for retirement, there is no safety in these numbers.

Americans are now spending more than they are making. The country's savings rate which has been declining for years went negative this summer. This means we are spending our principal, which in many cases are our rapidly appreciating homes.

Who knows when the real estate market will peak, but the number of For Sale signs popping up around here may be a sign this will not last forever.

If Americans are not saving, how do we expect to fund our retirements? Do we expect to live on social security; have you looked at your projected payment? How are you going to support yourself and have a decent life?

Did you know that if a couple in good health retires at age 65, there is a 50% chance one of them will live into their 90s? Running out of money could be a problem and most experts say you can only spend around 4.5 or 5.0% of your savings in the first year. If you have \$100,000 saved, that's only about \$5,000 a year.

But don't get so depressed that you do nothing – that's a big part of the problem. Feeling hopeless and doing nothing simply will not work. We all need to figure out what's stopping us from being better savers and investors because there is no second chance.

Part of our problem may be using our parents as role models and how well they did or are doing in retirement. Coming out of the Depression, their generation built a great system of social security and pension plans from corporations, unions and public entities. Many also benefited from a 20-year bull market in stocks and bonds.

But the system is collapsing due in part to people living longer. There are also other changes, such as in the workplace, but today corporate pension plans are practically gone; union membership is down and public plans are getting stingier.

For many baby boomers the only fall back is going to be social security and we need to do a better job of saving and investing? Just saying you don't have enough money to

save anything really doesn't cut it. We all like to buy nicer and nicer things, but are they all necessary?

I think some people don't do more because they are overwhelmed. They do not feel confident in how to invest and need to find someone to help. Some of them should call Vanguard where they can get even the smallest investor on the right track. Or for more help, they should call a financial adviser or stock broker.

Investors are also held back after being battered by the market. To move past these problems investors need to "reframe" their investment world. They have to look forward with reasonable expectations and stop thinking about how well they could have done, if only they had bought this or sold that.

It also does not matter if your neighbor made a killing (or said they did). It's hard to ignore someone getting rich especially if they do not do anything, but fixating on it will get you nowhere.

Some people do not think they have enough money to even bother. This may be true of a few people, but everyone should try to save something, especially if a 401(k) or similar plan is available. And it is funny how even a little savings that grow will encourage you to save more and more.

Related to this is a feeling that your savings situation will never be very good. We are frightened of facing reality and act like deer in headlights. I know this is natural, but good excuses don't count.

Finally some potential investors say they are stymied by not knowing how much to save or how much they will need in retirement. I know this is a little flip, but most of us should save all we can. Of course we need to "live" today, but make sure you have a solid plan for tomorrow.

In summary, baby boomers need to start saving more. We have been lucky to live in a world full of second and third chances, but don't count on a second or third chance if you mess up your retirement planning. Remember, hope is not a strategy.

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