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The Sound Investor Series #56

Financial Independence

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As we celebrate Independence Day, it is important to remember those who gave everything to make the United States a great nation.

Without trivializing their sacrifices, it is critical that today's Americans take hold of their financial destiny to ensure the future success and prosperity of our country.

I was once a student of an excellent political science professor, Dr. Frank Bryan, who now teaches at the University of Vermont. To make a point in a difficult situation, he borrowed a line from Kris Kristofferson's song "Me and Bobby Magee" made famous by Janice Joplin when she sang "Freedom's just another word for nothin' left to lose." I took Dr. Bryan's point to mean that when we depend on other people or institutions for our own welfare, we can never be free. It falls to each one of us to endeavor to secure our financial situation and guarantee our long-term independence.

Americans need to take this message to heart on both a national and an individual level. Nationally, the U.S. needs to rein in its irresponsible spending before our debt spirals out of control. If we don't take care of this problem, we will eventually lose some of our freedom to overseas creditors. Anyone that has ever owed money to a bank or credit card company knows that debtors have little or no power when negotiating further loans.

On an individual level, we need to secure our own financial freedom before we get older and have less flexibility. When we are young and in our 20s, most of us are very free, as we literally have nothin' to lose. If things go wrong, we have plenty of time to pick ourselves up, dust off and start over again.

Most baby boomers, including myself, mistakenly think we will always have the freedom to start over again. We have high opinions of ourselves and have never endured a World War or a 1930's type of Depression when individual efforts often went for naught.

One of the ramifications of our "positive" attitude is to think we can always start saving for retirement "next year." But, waiting until you are well into your 50s to save a substantial amount of money is a losing proposition. Not only do 50 year-olds lack the time to build a significant nest egg, but the enormity of the task will leave many of them feeling hopeless and paralyzed.

We also believe that, if necessary, we can work forever, but this strategy to, is unlikely to be successful. Working longer is unlikely to pan out for most of us as 38 percent of workers leave their jobs before they plan too. Boomers need to remember that we do not have complete control on how long we stay on the payroll. Younger bosses will have the final say.

It may sound obvious, but the only way to start saving for retirement, is by deciding to do it. You must come to that conclusion, and really believe that saving money is, in fact, imperative to your personal independence.

Once the decision is made, invest for the long-term with low-cost index funds that track the overall market. All the professional literature documents the difficulty of beating the market with actively managed funds or market timing. Hope springs eternal and Wall Street is built on the unrealistic expectations of investors trying to hit home runs. Most investors that try to beat the market will fall way behind.

A recent report by Mark Hulbert adds to this ample evidence. His newsletter, The Hulbert Financial Digest tracks the performance of financial newsletters and he finds over 80 percent under-perform the market. These results are similar to the dismal performance of actively managed mutual funds where 75 to 80 percent of all funds under-perform the market over any 10 year period.

In summary, on this holiday, Americans need to double down on their efforts and make sacrifices to secure their financial futures.

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