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The Sound Investor Series #87

Happy Birthday George Washington!

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Happy Birthday George Washington - born on this day 275 years ago. To honor our first General and President I suggest financial professionals, including columnists, make the following promise: We will do our best to not mislead or confuse investors.

Having written a financial column every week for the past couple of years, I now know how difficult it is to find something interesting and fresh to talk about. During this period one thing I have noticed is that the genesis for many articles is to be found in areas of disagreement with conventional wisdom.

This usually works pretty well, but sometimes columnists (including myself) and headline writers stretch disagreement to the point of misleading readers and possibly causing harm. I believe this is happening now in the ongoing discussion of how individuals should be saving for retirement.

The conventional "wisdom" states that most baby boomers are not saving enough and are ill prepared for retirement. I strongly agree with this opinion which is based upon how much has actually been saved, current savings rates, availability of pension plans and expected social security payments; coupled with expected medical expenses and longer life expectancies.

Proclaiming that baby boomers have not saved enough is obviously a broad-brush statement. It doesn't mean that no one has saved enough, just that most people have not. Using averages can sometimes be misleading and dangerous. But in the current savings debate, the averages are a good starting point and from there people can examine their own situations.

Have you saved too much, just enough or too little? Everyone needs to look in the mirror and decide for themselves where they stand - and then take appropriate action. If you are unsure, contact a competent financial professional to help you get started.

The one thing you should do is be on the watch for news articles pronouncing Americans are saving enough, or maybe even too much. Everyone is different and your retirement depends on what you save, not what someone else does.

Ron Lieber, who writes the "Green Thumb" column in The Wall Street Journal, is usually very good, but his piece last Saturday was off the rails and potentially very misleading. Although Americans now spend more than they make and therefore have a negative savings rate, he tried to rationalize this away as maybe not being so bad. For a professional writer in the premier financial newspaper it is surprising he would be so

careless. Although I am sure he is quite qualified, he pretends to be confused with reported saving statistics and the important differences between someone's "income statement" and their "balance sheet."

An "income statement" measures what comes in and what goes out. The difference is our savings rate, which for the country is now negative. The "balance sheet" keeps track of assets (i.e. houses, investments) and liabilities (mortgages, other debts). Mr. Lieber recklessly suggests that any increase in our houses or investments should be counted as savings. Sure, it increases net worth, but it is not savings. With respect to a house, this almost assumes you don't need a place to live when you get older. Even if you downsize, the house or condo you will buy is also going up and therefore your wealth is only increasing to the extent that your current house is appreciating more than your future home.

Pretending increases in your investments are savings is also ridiculous. Most people already assume their investments will grow to fund their retirement. If you also count their gains as "savings," it seems to me that you are double counting and just fooling yourself.

The Wall Street Journal almost out-did itself with a headline a few days later proclaiming: "Retirement Savings Found Adequate." Hopefully readers got past this misleading headline to find the reporter was more circumspect and wrote a balanced story. Again the bottom line for everyone is different and we all have to be responsible for ourselves. Even the authors of an optimistic report thought 12 percent of people over 51 would end up living below the poverty line, which essentially measures how much money you need to buy adequate nutrition. The percentage of people living beneath the "happy retirement" level would obviously be much higher.

One item in the article pointed out that among "older baby boomers" (born between 1946 and 1955), the median net worth, which measures all assets including homes, was \$170,000. The median means half of the families have more savings and half have less. For the family in the middle at \$170,000, even if they could spend all of this money, which they can't because part of it is their home, a conservative retirement strategy for a 65 year-old couple would recommend them spending 4.5 percent or \$7,650 in the first year. That's only a little bit more than the average property tax in this area.

In summary, take a lesson from President "Honest" Abe Lincoln, whose 198th birthday was February 12th - be honest with yourself and don't trust the averages.

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