Week Six

Your Investments: Money Working You or Money Working For You?

> *After Week Six, you will understand the basics of investing and be empowered to make wiser investment choices. More importantly, you no longer will need to gauge your personal well-being on the fickle movement of the stock markets. Your investments will show you a great deal about yourself and the natural human gravitation toward desire, aversion, and denial. By acknowledging these "poisons," you are able to convert them to "medicine" that help you on your journey of Authenticity. Finally, you have a tool that allows you to examine all the other pieces of your financial life that are as important, or in most cases more important, than investment return. Your Authentic Money Guide provides the framework to integrate this new approach to your investments into your actual experience.*

A Call from Wally

"Integrated Financial Planning—this is Paul."

"Paul, this is Wally."

I was shocked to hear Wally's voice. In the two years I had known him, Wally had never called me at work.

"Is everything, alright?"

"Before we go any further I want you to promise me that you'll send me a bill for any time and expenses you incur on my behalf."

"I'll keep track of a few charges if it will make you feel more comfortable," I offered. "I know that you haven't made any profit on my account, especially when you count all the hours I spend chewing the fat with you once you've fixed whatever I bring to your shop."

"I just want this business relationship to be fair to you," said Wally. "What I need is some investment advice. I guess I thought that if I just 'hung in there' with my portfolio that it would eventually start to regain some of what I've lost. I'm embarrassed to admit that I've lost 30 percent of the value of my portfolio in the last three years. I should have done something long before now.

"To make matters worse, I've sat idly by and watched Jane and John's life insurance money dwindle by nearly the same amount. I feel like I've really let them down by not suggesting they come talk to you and get a second opinion from what their broker has been saying."

"I know it's no consolation, Wally," I said, "but I've had new clients who have lost almost 50 percent in that same time period before they finally determined they had to talk to someone. Don't be too hard on yourself. What's important is that you've decided to deal with these losses and make some informed decisions."

"The main thing I need to know is whether or not what is left will be enough to allow us to sustain our lifestyle," said Wally, adding, "I sure would prefer not having to return to the jungle of Engineer World."

"All of those questions can be explored as they relate to your investment decisions," I said. "Why not gather up your latest investment statements and last set of Quicken® reports and come on over to the office tomorrow morning?"

"That sounds great, Paul. Thanks for being willing to help us out with this mess." Wally paused and then continued, "I think at the root of all of my reluctance to face our investments is my greed. I just wanted to hold on to those profits that I once saw in the accounts. I know now that they were just paper gains generated by a host of falsehoods. Somehow I feel better just admitting this."

"It's tough facing these realities, Wally." I said. "I think you've gotten a lot further than most folks in looking below the surface of investment performance. I look forward to continuing our conversation tomorrow."

"Wealth is like a viper, which is harmless if a man knows how to take hold of it; but if he does not it will twine round his hand and bite him."

—St. Clement

After I hung up, I looked out my office window across our little valley to the Smith's cabin. It struck me how they, like everyone, encountered difficulties even though they had settled comfortably in so many aspects of their lives. Even Wally, as aware as anyone I had ever met, struggled with money issues. What a step to admit that he needed help. I was grateful that I might be able to return a favor to this family that Katherine and I had grown to respect and love.

Investment Insanity

LIFE IS JUST A BOWL OF CHERRIES

Life is just a bowl of cherries.
Don't take it serious.
Life's too mysterious.

You work, you save,
You worry so
But you can't take the
Dough when you
Go, Go, Go…

—*Fosse*

No other area of personal finance seems to take us to the emotional extremes as the performance of our investment portfolio. When annual stock market returns were 10–20 percent everyone lived in euphoria. The recent years of negative returns has caused no small amount of anger, depression, and even fear. Like Wally, we wonder if we'll run out of money at a time in our lives when we're helpless to do anything about it.

(Please see the summary for MAP 6-10 later on in this section for an explanation of the difference between stock [equity] and bond [debt] investing, if you have trouble with those distinctions.)

A sampling of recent investment news can illustrate why we are feeling so helpless:

- ➤ The Standard and Poors 500 Index outperformed 75 percent of professional money managers from 1973–1992. (*Intelligent Asset Allocator*)

This statistic supports the argument that passive investing, which uses index funds that mimic stock and bond indexes, is a superior long-term strategy to active investment management. Actively managed mutual funds are run by individual managers or a management team that believe they can identify investments that will enhance performance of a portfolio over the stock indices.

Given that computer-driven index investing is more effective than active management—and at a much lower cost—why would millions not feel a sense of betrayal?

“He that trusteth in his riches shall fall.”

—Proverbs

- “In an effort to exceed analysts’ projected operating earnings of .73/share (10-15-02), Citigroup conveniently included gain from the sale of its headquarters on Park Avenue of $323 million. This accounted for .06/share and landed them at .74/share.” (*MS Money,* Jubak’s Journal)

  This is a perfect example of an earnings distortion—as sales of assets are one-time gain items—not to be included in operating income. Investors have become increasingly wary of financial reporting practices in light of these developments.

  There seems to be corruption at every level. Earnings reports seem to be manipulated to “prop up” stock prices, only to collapse when the distortions are discovered.

- “Every sector of the U.S. Equity market sustained damage in the third quarter of 2002. Not since the fourth quarter of 1987 has the market taken such a plunge.” (First Affirmative Financial Network,1-800-422-7284, Market Commentary)

  Three years of stock market losses resulted in the following annualized performance and standard deviation (risk) results as of December 31, 2002:

Index*	3 Yr. Return/Risk	10 Yr. Return/Risk
S&P 500(1)	-14.55%/15.1	9.34%/17
Wilshire 5000(2)	-14.37%/16.4	8.74%/17.1
Dow Jones Ind. Avg.(3)	-8.55%/16.9	12.01%17.9
NASDAQ Compos.(4)	-30.83%/28.4	7.62%/32
Wilshire Real Estate(5)	14.01%/15.1	9.97%/14
MSCI Eafe—Ndtr D(6)	-16.67%/12.8	6.26%/15.9
Lehman Bros. Aggr.(7)	10.10%/3.65	7.51%/3.95
1 Year Treasury Note	5.94%	5.31%

* Please Refer to MAP 6-3 for additional information about the indices.

1—500 Widely held U.S. stocks

2—5000 U.S. publicly traded common stocks

3—30 Industrial U.S. stocks

4—All issues of NASDAQ stock market

5—Comprised of companies whose charter is the equity ownership of commercial real estate.

6—Benchmark for international stock performance. An aggregate of 21 individual major country indexes.

7—Composed of the Lehman Brothers Govt./Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. Common benchmark for diversified bond portfolios.

This chart reveals the frustration that investors have felt. To translate the statistics into reality: an investor who purchased an S&P 500 Index Fund on January 1, 2000 would have lost three times the 14.55 percent annualized return listed, or 43.65 percent. The 15.1 volatility indicates that the 14.55 percent annual loss could have varied between + .55 percent and -29.65 percent!

We have to ask the question, “Is all that risk worth achieving the possibility of a .55 percent return?”

We have become a nation of investors over the past 20 years. The introduction of the IRA in the early ’70s, along with the popularity of mutual funds, made investing an option for anyone with $25/month to save toward retirement. No longer was it necessary to have $5,000–$10,000 in order to see a stock broker and invest in stocks and bonds. Double-digit annual stock market returns made bank certificate of deposits and savings accounts as antiquated as a Model T. In 2001, it was estimated that half of all U.S. households owned mutual fund shares, up from 6 percent in 1980.

At the end of 2001, there were 8,321 mutual funds (triple from 1990) with almost $7 trillion dollars invested—a seven-fold increase from 1990.

This dramatic growth in stock market investing over the past 13 years has also inundated investors with investment information. Unfortunately, more information is not always what people need.

LOAVES AND FISHES

This is not
the age of information.

This is not
the age of information.

Forget the news,
and the radio,
and the blurred screen.

This is the time
of loaves
and fishes.

People are hungry,
and one good word is bread
for a thousand.

—*David Whyte, from* The House of Belonging

The one good word that begins to address our longing for an escape from having our *money working us* vs. our *money working for us* is "ground."

Before we jump in to fix our investment portfolios, we need to pause and notice what is really going on beneath the surface. Only then will we be able to honor the longing that is asking for our attention and to find some degree of peace and well-being. Only then can we begin to make wise investment decisions.

"Do not despise the world, for the world too is God."

—Muhammad

Hooked!

Wally had grounded around his investment dilemma by the time he called me to set up an appointment. The next day, as we continued our discussion, there were several matters about which I was curious.

"Wally," I began, "you said it was your greed that got you into what you perceive as a mess with your investments. I don't see you as a greedy type!"

"After hanging up yesterday," Wally responded, "I thought more about what I had said. Greed, to me, is wanting more than I need. It's grabbing for more, thinking that getting it will somehow make my life better. At the root of it seems to be a fear that I'll somehow suffer without that extra "cushion." As I finally took an honest look at why I was avoiding our investment losses, it became obvious that I didn't want to admit that the money I thought would ensure our comfort in retirement had been reduced 30 percent. I also realized that I didn't know what we needed to retire and that the broad spectrum of "comfort" carries with it a lot of trade-offs. I do know one thing: My denial and desire to recapture my losses sure hasn't resulted in much comfort!"

"Some of God's noblest sons, I think, will be selected from those that know how to take wealth, with all its temptations, and maintain godliness therewith. It is hard to be a saint standing in a golden niche."

—Henry Ward Beecher

Wally reminded me that illusion of our ability to obtain safety and security brings with it a lot of suffering. His confession also resonated my own experience of easily getting hooked by my emotional reactions.

> *"In the Buddhist teachings, the messy emotional stuff is called klesha, which means poison. There are three main poisons: passion, aggression, and ignorance. We could talk about these in different ways—for example, we could also call them craving, aversion, and couldn't care less. Addictions of all kinds come under the category of craving, which is wanting, wanting, wanting—feeling that we have to have some kind of resolution. Aversion encompasses violence, rage, hatred, and negativity of all kinds, as well as garden-variety irritation. And ignorance? Nowadays, it's usually called denial… The pith instruction is, whatever you do, don't try and make the poisons go away. When you're trying to make them go away, you're losing your wealth along with your neurosis… These juicy emotional spots are where a warrior gains wisdom and compassion."*
>
> *—Pema Chödrön,* Comfortable with Uncertainty

Before we can shift into a relationship with money that serves our Authentic Self and helps us offer our gift to the world, we have to practice grounding with our human tendency toward desire, aversion, and denial. Each of these poisons provide a critical entry into feeling compassion for every other human who, at one time or another, suffers in these ways as well. As I refuse to identify with the emotion as the essence of my identity, I am able to drop down into the depth of my Authentic Self where I am capable of contentment even in the midst of uncertainty. This process actually transforms the poison into medicine.

Investments and portfolio decisions easily hook us. Let's examine a few specific ways.

"The larger the income, the harder it is to live within it."

—Richard Whately

DESIRE

The "More Money to Spend = Better Life" Hook

There is no doubt that poverty is not fun. When there's not enough money to pay for food, shelter, health care, and basic transportation, then it is an insult to state that more money will not help improve life.

Remember in Week Five Appendix B—all those *Other Debts*?

> *"The shocking thing is that the majority of American workers, about 60 percent, earn less than $14/hour."*
>
> *—Barbara Ehrenreich,* Nickel and Dimed

We all have to ask ourselves what we can do to narrow, rather than widen, this ever-expanding gap between the *have's* and *have not's.*

A first step in that process can be to take an honest, yet gentle, look at this first poison—desire.

When we receive a raise at work or some other increase in cash flow, our automatic response is to upgrade to a nicer car, take a more expensive trip, or buy a nicer piece of furniture for the living room. We are programmed to expand our consumption to match, even exceed, our incomes. Consider a few troubling statistics and quotes compiled from the book *Affluenza,* by John De Graaf, David Wann, and Thomas H. Naylor:

- The size of our homes; 1945—750 sq. ft., 1950s—950 sq. ft., 1960s 1,100 sq. ft., 1970s—1,350 sq. ft., Today—2,300 sq. ft.
- We spend more money on restaurant food than on food we cook ourselves.

- We drive twice as much per capita as we did half a century ago and fly 25 times as much.
- The savings rate in America in the eighties was 4 percent; half of the German rate and a quarter of Japan. Now it hovers at or below 0 percent.
- "Greed is good."—Ivan Boesky
- "Advertising's most important social function is to integrate the individual into our present-day American high speed consumption economy." (quote by Pierre Martineau, *Chicago Tribune,* 1957)
- The average American will spend nearly two years of his or her life watching TV commercials. A child may see a million of them before he or she reaches the age of 20.

"We've mutated from citizens to consumers in the last 60 years. The trouble with being consumers is that consumers have no duties or responsibilities or obligations to their fellow consumers. Citizens do. They have the obligation to care about their fellow citizens, and about the integrity of the town's environment and history."

—*James Howard Kunstler,* The Geography of Nowhere

"I make myself rich by making my wants few."

—*Henry David Thoreau*

"No wealth can satisfy the covetous desire of wealth."

—*Jeremy Taylor*

It's apparent. Desire for more is deeply ingrained in us—we come by it honestly. To sustain the "good life" we must expect high returns from our investments.

Say you have $500,000 in your IRA when you reach 60. If you want that money to last for 25 years and are given the following three options, which one would you choose?

- Spend $55,084 per year by earning 10 percent with a 100 percent stock allocation.
- Spend $46,839 per year by earning 8 percent with a 60 percent stock allocation.
- Spend $39,113 per year by earning 6 percent with a 10 percent stock allocation.

Why would anyone turn down almost $16,000 per year by choosing the 10 percent stock portfolio rather than the one with 100 percent stocks?

Traditional investing wisdom says that accepting more risk is necessary if we want to achieve "the good life." Of course "the good life" is dependent upon all the things that more money can buy. Unless you already have loads of money, there is really no better way to get from here to there than by taking more risk and making the money work harder.

"Make money your God
and it will plague you like the devil."

—Henry Fielding

The following chart provides an example of the trade-off we take with possible return and loss of principal as the equity (stock) portion of our portfolio is adjusted.

Potential for Return and Associated Loss

Table #1

Long-term Average Return*	% Stocks	Downside Loss Probability**
9.6%	80%	-35%
9.1%	60%	-25%
8.7%	50%	-20%
7.5% (estimate.)	40%	-15%
6.9%	20%	-5%

*per AAII, "Portfolio Building," Table 3

** per "The Intelligent Asset Allocator," page 144

We know that the 80 percent stock portfolio is much riskier than the one with 20 percent stocks. Is the fear that we have seven times the chance of losing our investment strong enough to overcome our desire to have more money to spend? The answer may be *Yes* when the stock market is losing money, but what about when it starts to generate those double-digit annual returns? How firm will our resolve be then to stick with the lower-risk portfolio?

Desire—from Poison to Medicine

In order to free ourselves from the bondage of desire, we first have to admit the bondage exists. To pretend that we don't want more simply doubles the poison by coupling desire with denial. As we sit with our desire for more, we notice the tension in our bodies. We feel the agony of being chained to a treadmill that is constantly increasing in velocity. We admit, possibly for the first time, how very tired we are of chasing more money. In that moment we catch a glimpse of our deeper self. We know that our well-being no longer has to be linked to getting everything we want. We see that greed enslaves us by causing us to forget what is important and what it is we already possess. We begin to feel our sufficiency and temper our desires accordingly.

Author Wayne Muller was a guest on my radio show. In his book, *Sabbath: Restoring the Sacred Rhythm of Rest,* he addressed this tension between a desire for abundance and contentment with that which is sufficient:

> *"Lynn Twist is a friend who has dedicated her life to eliminating world hunger. She has traveled around the world, working on behalf of starving children. She tells me that our search for 'abundance'…is actually fed by a lingering belief in scarcity. If we are afraid there is not enough for us, we will grab for abundance—which is actually more than we need. Thus, even in abundance, there is great fear.…*
>
> *"Lynn makes a crucial distinction between abundance—a fearful response to scarcity—and sufficiency—which invokes an experience of satisfaction and well-being. Sufficiency is that moment when we have enough…The instant we have enough, dissatisfaction and desire melt away."*
>
> —*Wayne Muller,* Sabbath: Restoring the Sacred Rhythm of Rest

What is "enough"? Remember the example of Charles Gray in Week Three, how he decided to live on the World Equity Budget, consuming no more than his fair share of the world's resources? Though very few have chosen to follow Mr. Gray's courageous example of living on $99/month, thousands have taken the "road less traveled" toward a simpler lifestyle.

David Heitmiller and Jacqueline Blix, co-authors of *Getting a Life,* were living the good life back in 1990. They both had corporate jobs with great salaries and benefits and plenty of things that money could buy. One day shortly after his 45th birthday, David asked himself the question, "Is there something else I might want to do with the rest of my life?" rather than stay in a job that had become less and less fulfilling and meaningful.

"A man is rich in proportion to the number of things which he can afford to let alone."

—Henry David Thoreau

Jacqueline had also discovered that "what I was doing didn't really have much relevance in the larger scheme of things." Those questions led them to ask themselves what was really enough.

> *"You start evaluating things and becoming aware of what you're doing. What we immediately realized was that the house we were living in was too big, and we were paying way too large of a percentage of our income to support this house. Eventually. we were able to sell it. We moved into a one-bedroom apartment and lived there for a couple of years, and that gave us time to evaluate living in a smaller space, as well as how much stuff we had. Finally, we ended up with a medium solution, in about a 1,300-square-foot townhome. In this process, we decided what our needs really were."*
>
> —*Jacqueline Blix,* Money Matters Radio Show

Pause to evaluate what underlies your current investment choices as it relates to your natural desire for more money. This next worksheet will help you.