

ALPINE PERSPECTIVES

Glenn R. Edwards

720.219.2589

glenn@afadv.com

Volume 1, Issue 7

October 30, 2009

ALPINE FINANCIAL ADVISERS, LLC

Can Investing In The Stock Market Make You Wealthy?

We all define wealth differently thus there is not a single "right" answer to the question. Perhaps if the question were rephrased as, "**Can Investing In the Stock Market Make You Rich?**", we could then narrow the examination of the answer to a manageable exercise. Investors it seems have short memories as evidenced by the thinking in the years leading up to the "Tech Wreck" of 2000 and the "Credit Crisis" of 2007. Prior to both of these wealth destruction events investors had become to believe that high a exposure to stocks was the path to riches, with the great bull market of 1982-1999, and the bull market from 2002-2007. The thinking was that retirement accounts could be built on a basis of equity market returns with just an initial investment required. Those two bull markets have crashed within a span of a decade but it appears that this thinking persists—that investors believe that most of

their retirement account growth will result from stock market returns. In fact, it is your contributions to your accounts that will have a greater impact than the returns generated by the stock market. A diversified portfolio of stocks, bonds, real estate, commodities, and alternative investments will certainly help your dollars grow, but your ability to save and contribute will make you rich. Please observe the chart below illustrating investing \$10,000 per year on a monthly basis over 10 and 20, years at three different annual return scenarios. The 10% annual return for the 10 year period would be considered a healthy bull market in terms of duration and absolute returns. Even with very optimistic annual returns of 10% you can see that annual contributions comprise the majority of the ending portfolio value. Assuming a more modest but still healthy market—5% returns—contributions make up a greater percent-

age of returns. Let's assume you have twice as long of an investment horizon—20 years and a 10% uninterrupted (and highly unlikely) return assumption—in this case, market returns trump contributions. Given that this simple exercise demonstrates that most portfolio terminal values are the result of contributions, why does the thinking persist that returns are the driver of retirement goals? The answer is a function of animal spirits...market returns are sexy and hyped by the financial industry and the media, while contributions are boring and generally ignored by the same. And when the rising tide is lifting all boats (i.e. equity bull markets) everyone believes they are expert investment portfolio managers such as Warren Buffet. What you cannot control is the fluctuation in the value of markets, but what you can control are your contributions. While we all know that saving is sometimes difficult, even small amounts over longer horizons can make a difference.

| Monthly Savings | \$ 833.33 | | |
|------------------------------|---------------|---------------|---------------|
| Return/year | 10% | 5% | -5% |
| 10 yr Horizon | | | |
| Ending Value | \$ 170,704.00 | \$ 129,402.00 | \$ 78,821.00 |
| % Returns from contributions | 59 | 77 | 100 |
| % Returns from market | 41 | 23 | 0 |
| 20 yr Horizon | | | |
| Ending Value | \$ 632,807.00 | \$ 342,528.00 | \$ 126,577.00 |
| % Returns from contributions | 32 | 58 | 100 |
| % Returns from market | 68 | 42 | 0 |

Factors You Can Control:

- Contributions
- Timing and withdrawals
- Asset Allocation

Factors You Can't Control:

- Time horizon
- Investment returns

Basing your retirement or other goals on bull markets is risky business. A competent adviser can design a financial plan that targets maximum contributions and will construct an asset allocation that is appropriate for you.

How To Make Financial Planning Work For You.

As the client, you are the focus of the financial planning process. Thus the results you receive from engaging with a financial planner are as much your responsibility as they are of those of the adviser. To achieve the best results from your financial planning relationship, you should be prepared to avoid some of the common mistakes made by considering the following guidelines.

1. **Set realistic and measurable financial goals.** Set specific objectives of what you would like to achieve and when you want to achieve results. Instead of using words such as you want to be "comfortable" in retirement, or you want your children to attend "good" schools, you need to quantify these desires.
2. **Understand the consequences of each financial decision you make.** Each financial decision you make will usually have an impact on one or more other aspects of your life. Most investment decisions have tax consequences., education funding can affect retirement planning, account and asset registrations affect estate planning.
3. **Re-evaluate your financial plan periodically.** Financial planning is not a one-and-done exercise. It is a dynamic process that must change as your lifestyle or circumstances change, such as marriage, children, career, home ownership, or inheritance. Revisit and revise your plan and have your planner incorporate these changes.
4. **Start planning as early as possible.** Financial discipline is such a beneficial trait that small initial steps can have enormous subsequent benefits. By developing good financial habits early such as saving, budgeting, and investing you will be better prepared to meet
5. **Be realistic in your expectations.** Success in financial planning is a result of being honest with yourself about setting life goals. Financial planning cannot change your situation overnight, but with a common sense and disciplined approach you can achieve financial security.
6. **Realize that you are in charge.** When you are working with your financial planner, be sure you understand every aspect of the planning process and what is means to you. At the same time it is vitally important that you provide the planner with all of the necessary information relevant to your situation. The results of your plan will be greatly impacted by the completeness and accuracy of the information you disclose.

The (In)Efficiency Of Government Stimulus.

Why use government policy to encourage more consumer debt when this debt is part of the current economic problem?

According to Edmunds.com the "Cash For Clunkers" economic stimulus effort has cost the American taxpayer \$24,000 per vehicle sold under the program. Of the nearly 690,000 units sold, only 125,000 were incremental...the rest of the sales would have occurred regardless. A little math reveals the total subsidization to be about \$3 billion to produce only 18% of incremental sales—and increased consumer debt. The benefit? At best the reduction in oil consumption will be reduced by 0.2% per year...less than a single days usage of gasoline (Hudson Institute economist Irwin Stelzer).

As the debate intensifies on whether and what form to extend the home buying tax credit, we should analyze what the program's cost/benefits (with credit to the Brookings Institute). Approximately 1.9 million buyers are expected to receive the tax credit, but 85% of these buyers would have bought a

home anyway. Thus the tax cost of \$15 billion will generate only 350,000 additional sales—or a subsidy of \$43,000 per new home sale. This is a very expensive subsidy. Even as support grows in Congress for an expansion of the soon-to-expire first-time home-buyer tax credit, a Treasury Dept. inspector told lawmakers on Oct. 22 the fraud in the program so far: illegal immigrants and children as young as age 4 claimed the credit, 19,000 people filed 2008 tax returns claiming the credit for homes they had not yet purchased, and another \$500 million in claims, by some 74,000 taxpayers, where there were indications of prior home ownership (the credit was for 1st time buyers).

Another questionable stimulus being considered is a tax credit for companies that create new jobs. This begs the question of why should companies hire now if they do not foresee a reason to because of a subdued and generally uncertain economic outlook. America needs a jobs and skills strategy for the future and we have politicians reviving failed gimmicks from past policies.

**Spare Change
Corner:
Common
Sense Topics**