knowledgeable thoughtful ethical experienced interac

summaries

SIGMA INVESTMENT COUNSELORS

the official newsletter of sigma investment counselors February 2020

MONEY MISTAKES

According to marriage.com, money is one of the top reasons couples cite when filing for divorce. Money and investments are emotionally fraught – after all, although money can't buy happiness, it does make the world go round. With the recent stock market volatility, and all of the emotions volatility evokes, I thought it might be time to confess that even professionals experience moments of uncertainty. Below are a few times I had to rely on my training to overcome my emotional bias towards making some common financial mistakes.

1) Making asset allocation decisions based on current market conditions

Although my children might argue otherwise (my youngest has sweetly drawn pictures of me, thoughtfully including my many forehead wrinkles!), my husband and I are relatively young. We won't be tapping into our retirement accounts for at least another 25 years, likely longer. With such a long investment time horizon, we should be invested entirely in equities. And yet, as the market continued to climb to new heights, I started to question if perhaps we should 'take some gains off the table.' This is not uncommon – behavioral finance researchers have found that the emotional pain of losing $1 is far greater than the joy derived from gaining $1 – so we are wired to try to protect our gains. Although it would be painful to see the value of our investments halved (as happened from the peak in November 2007 to the bottom in March 2009), because we don't need to tap those assets for at least 25 years, we chose to maintain our current asset allocation strategy, and will modestly reduce our exposure to equities as we get closer to retirement.

2) Negatively arbitraging our assets

For clients who are still working, we recommend keeping roughly 3-6 months' worth of expenses liquid – in a savings account, or money market fund – to be tapped for emergencies. Funds above and beyond that amount can be invested or used to pay down debt. And yet, I took great comfort in seeing our savings account balances grow beyond our emergency fund, even though we were only earning 1.5% on our savings, while our outstanding mortgage was accruing interest at 4.25%. Having a large cash balance provided me with comfort, but didn't make sense. We decided to put the additional funds toward paying down our mortgage.

3) Being lazy with our savings – letting our money be sticky

When my husband first joined the military, USAA (the bank available to military members and their families) was offering an interest rate in their savings account that was greater than the interest rate that they charged on a 'new officer loan.' However, we continued to keep our savings account at USAA, even as the interest rate dipped to .25%. We decided to move a modest amount over to our brokerage account, to put into a purchased money market fund yielding 1.5%. Although rationally I knew that the funds were still available, there was a bit of discomfort in not seeing those funds as part of our overall asset base at USAA. However, after the first month statement was posted, and we compared the interest earned on the two accounts, we moved the remainder of our emergency fund over to the purchased money market fund.

4) Being underinsured

I will never forget the absolute terror I felt when my spouse was deployed to Iraq, and my phone rang, with Buckley Air Force Base coming up on the caller ID. Worst case scenarios flashed through my mind; I was terrified I was a widow with two young children at 25. My husband was fine, and had in fact routed his call through the Air Force Base in an effort to save money. Yet, once he had left the Air Force, taken on a civilian job and was eligible to apply for life insurance coverage, he just…. didn't. We knew it was important to be insured in the same nebulous way we knew we should eat less sugar, but never felt compelled to action. Not until I sat in a client meeting, and made the observation that the clients were underinsured. The young, beautiful wife laughed, and said they would be getting a quote for insurance the next day, because if anything happened to her husband, she didn't want to be looking for her next husband at her first husband's funeral. I left work that day, and by the next morning my husband and I had both applied for life insurance.

It's easy to be emotional, or complacent about money – I've been there. In working with our clients, we try to point out places where improvements could be made, while managing the complex emotions and attachments we have to our money and investments.

Amanda E. Lehnert, CFP®

186 E. Main Street • Suite 200 • Northville, MI 48167 • tel (248) 223-0122 • fax (248) 223-0144 • www.sigmainvestments.com