“Why Invest?”

By Peter Scholtz

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Investing your savings is a very important aspect of your personal life. It can be life-changing or even lifesaving under certain circumstances. It is not a game. It is a long journey, embracing the needs and aspirations of yourself and your family. Done properly, it combines a proper level of risk tolerance with the constantly changing objectives of an ever-changing household. It enables you to do more for yourself and for others. It represents and creates options, the essence of freedom. It is supposedly what America is all about, the American Dream.

Proper investment is a way of growing your savings more rapidly than keeping it in cash. When you purchase a business, a stock, or a bond, you are committing capital to an ocean of savings used to finance governments and businesses. It is interesting to note how Communist China, from its inception in the late 1940s up through the 1980s, remained a poor, agrarian society until they embraced free markets and their economy took off. The number of people in China entering the middle class is unprecedented in world history. Capital markets enable business and job creation, leading to prosperity and economic progress for the population.

Investing in real estate can contribute to economic prosperity, as people need housing stock and business properties. However, investing in gold, Bitcoin, rare art, and collectibles do not have the economic benefit of funding governments and business. Buying a painting may store value effectively, but except for helping the selling artist, who hopefully is still alive, there is no multiplier effect beyond that. Buying art and collectibles is not bad, but it is not a big driver of economic activity.

Stocks have a clear advantage over other assets. When you are a business or stock investor, you benefit from the growth in the business. As the company grows more sales, more stores, and more products, the profits and the value of the firm increases. This creates a powerful compounding effect that is unmatched by other asset classes. I have never come home from work and noticed that my home has miraculously grown another bedroom without me doing a thing. Real estate, art, gold, and cryptocurrencies are all dependent on their popularity increasing, drawing in more investors. Inflation may drive demand for these assets, as the cost to produce them rises, but the asset itself does not compound. Owning bonds only gives you a finite claim on the creditor. Your savings may compound with interest earned, but the underlying asset does not. Businesses do compound, and the effect is very powerful. This is why stocks typically have the best long-term outlook.

Within the capital markets, the young family with a long time horizon usually can invest primarily in common stocks. This is appropriate since they need to grow their savings substantially for impending

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long-term needs such as a house, college, or eventual retirement. It is equally important to note that the money can remain untouched for a lengthy period. Having a full-time job that meets all the family's current financial needs is an essential part of the plan. As one approaches retirement, most of the family obligations are gone, and this money is needed to provide income to live off of. It is thus common that they typically change their portfolio asset mix to a more defensive "balanced" posture, meaning a portfolio that is 60% stocks and 40% bonds. This creates more stability in the assets, generates some income for retirement needs, and retains some compounding attributes.

The importance of starting early cannot be over-emphasized. Compounding in stocks is a very powerful wealth creator, and the more years you have, the more powerful it is. For example, consider saving $7 per day and investing it at a 7% return annualized. After 30 years, you will have more than $260,000. Maybe those Starbucks coffees are more expensive than they appear! Over two or three decades, savings can grow 20-fold by investing in compounding stocks. Since 2001, Amazon has gone from $15 a share to $3,350, a real compounder. By creating more savings sooner, you are becoming more protected, with more options and enabling more rewarding choices.

As one's savings grow, some reach the point where their financial needs and protections are adequate. This leads to a philosophical question; should I compound and create more wealth or decrease my risk? There is no right or wrong answer. Some people are satisfied with their needs to secure and are anxious to dial back their risk profile. They put a lot of their wealth in low-return savings accounts and are content with what they have. They may have few if any relatives, and as one client put it to me years ago, "Peter, you don't understand my long-term financial plan. It is to have my last check bounce." The problem with getting too defensive is that low return assets, such as cash, can quickly be undermined by inflation, eroding wealth. Government bonds today do not keep up with inflation. This low-risk profile can be dangerous, or as one planner said, "you will go broke, but do so safely." The growth in your expenses will exceed the growth in your savings.

Others look beyond and think about what they can do with this "excess wealth." Wealth is not evil. It is a tool, and as we all know, tools can be used for good and evil. Being blessed with a lot of money is a responsibility not to be squandered. Many of our nation's billionaires have spent an enormous amount of time working on how best to help society with their vast wealth. Warren Buffet, Bill Gates, Ted Turner, Ray Dalio, Leon Cooperman, and Ken Langone, to name just a few, have devoted enormous effort to this. The most interesting is the Rockefeller family and how they morphed from business into a family foundation dedicated to philanthropy. It has been a generational journey that prepared each generation with their proper role, changing from wealth creation to societal wealth management.

Being wealthy is not morally wrong. Society today seems to judge based solely on wealth and income. Avarice and gluttony are defined by consumption, not work and savings. The economy generates an output of things and experiences to consume. Those who consume large amounts of the output are to be questioned, not those who create it. Investment is a path to individual wealth, but it is so much more important than that. It allows you to protect and provide for your family. It will enable you to help others and charitable causes. It gives money to the entrepreneurs who can create jobs and products that benefit everyone. It furthers and improves society for all.