How Much is Too Much?

About planning for retirement by Howard Blum

Ask a dozen different financial advisors a very basic question, "How much is enough to retire on?" and you will get a dozen different answers. Indeed, if you asked a thousand individuals the same question you would get as many answers. Part of the reality of the situation is that different people have different needs, different desires and different comfort levels. Because of that, I will look at the issue from a different perspective.

It is very probable that if you asked the same person during their life how much they needed to retire, their own answer would change with time. Again, many people tend to get caught up in the consumerism of contemporary society and the behavior pattern often described as "keeping up with the Joneses." While this may account for some of the confusion surrounding enough money to retire, I still need to look at a few different sides of the issue.

There are far too many people who have evolved an accumulating mode that I describe as the "more is never enough" syndrome. It lies somewhere in between a diligent accumulator and a genuinely greedy sort of character. I have seen the mechanism at work far too many times within my own social circle. It all begins rather innocently enough and, as a function of time, evolves into something that can become a consuming obsession for some people. We'll get to the truly greedy later.

Most men (from my experience only, folks) don't seem to dwell on retirement until they pass the midpoint of the average life expectancy. Since males today can expect to live to 70+, they begin to dwell on retirement around 35. Since most people are not involved in the financial services or investment sector of the economy they must turn to someone for investment advice. That is where the process usually begins. Generally speaking, the more advice one seeks out, the more confusing the process becomes, since most advisors bring their own perspectives and individual bias to the table.

Rarely do individuals carefully plan out their retirement as well as they plan out their next vacation. It can become a random process without stated objectives, investment strategies or even a clear idea of the desired outcome. The random nature of individual investment performance can cause problems that we will not get into here.

There is a process in the investment world called 'hedging'. It is a process of investing in something based on an assumption of an economic trend, industry trend or even an interest rate trend and maintaining a counterbalance to minimize risk. Hedging is a way of second-guessing your investment decision by buying something else (like one of those nasty derivatives) to protect yourself just in case things go in the opposite direction. I look at it like betting both red and black on the roulette table just to make sure you win. Yet, sometimes zero and double zero will come up and you will lose!

When people fall into the mode of protecting what they have, watch out. The mechanism has begun. That is when you need more to protect the more you have and it just feeds off itself. I have seen it become rather ugly with some people. There was a megamillionaire Michael M., a well known Wall Street character who went to jail because he fell into the trap. His billions just weren't enough for him, he needed to have more. It can work on any rung on the ladder of success. It is all relative to where you are on the economic spectrum.

Having considered myself a student of human behavior, I am confident in advancing the following Howard Line: "Financial independence is a state of mind as much as it is a bank balance or financial balance sheet." If you take a realistic look of what you have, and consult with someone who understands how to project what you'll need to live on, you can plan your future.

Oh, before I forget, let me give the best piece of investment advice you will ever receive from anyone. When considering investment advice, consider the source. Will the person making the recommendation stand to profit from your decision to buy or invest? If the answer is yes, do your homework before you do say yes. There are too many people like Mr. Lincoln Savings and Loan of Southern California in jail for bilking consumers.