Principal 02: Invest early and often

[Applause]

Jim Dahle: All right our next speaker is going to be Christine Benz. She is a member of the Bogleheads Board of Directors. She is the Director of Personal Finance, a columnist and podcaster for a renowned and highly respected website that I will not mention here. She was previously the director of mutual fund analysis there though, supervising 35 mutual fund analysts.She is an avid cook. She's a political junkie and a long suffering Chicago Cubs fan. She is also the only keynote speaker I've ever had in my conference that did not take the money-- was all donated, 100% to charity.

Christine Benz: This is so great to see all of you here. I am so excited to have the Bogleheads conference in my hometown of Chicago. As we were planning it I was like, well something central, gee where where could that be. So it's really great to see you all here. I've just been excited about this conference for several years now as we've had a few false starts with covid, and it's just exciting to see it come to fruition.

I'm going to start with a little bit of a Chicago joke, which is that you may know one of the things that you hear in Chicago is to vote early and often, it's an old sort of admonition and it's been variously attributed to Al Capone or, I think one of the former mayors--Richard Daley-- we don't know who said it but we're not known for great governance here in Chicago.And we're not known for great governance in Illinois.

But that segues nicely into the topic that I was given, which is to invest early and often. And that's a better practice, that's good governance for your financial plan. So I'll talk a little bit about both aspects of this getting started early as well as the often part.

The getting started early part is pretty uncontroversial. I'm sure we've all seen the slides that show the value of even a small sum getting started early. The

second part is interestingly a little bit more controversial, this idea of dollar cost averaging investing on at regular intervals versus a lump sum. And so we'll examine that issue. I come down on the side of dollar cost averaging simply because that's how most of us have our money to invest, right. We have our salaries. We take a piece of them and we invest them. It's a little difficult to persuade your employer to prepay you your salary for the next 10 years. You simply have your funds to invest at regular intervals over your investing career.

So Jack Bogle said this well, this idea of investing early and often. He said investing is a virtuous habit best started as soon as possible. Very succinct, very Jack Bogle. He was always so eloquent in talking about what we should do in our financial lives and with our portfolios.

Investors heed Jack Bogle's great advice in a couple of ways. One is to start investing early even if it means starting small. That's why I always evangelize about people with children who have some sort of earnings even if it's mowing lawns or being a lifeguard or whatever it is. As long as they have any earnings whatsoever, they can make a contribution to some type of a financial account in their own name, like a Roth IRA for example.

And the great benefit of that is that it doesn't have to be the actual funds that they earned. You can actually match them on the funds that they've earned. But just get those funds working and when they eventually need the money in retirement or whatever the case may be, they'll have a lot more working for them.

And then investing regularly and systematically is another way that Bogleheads can take the advice to invest early and often to heart. So one of the key reasons to get started early is that when you break it down your investment return, the amount that you have at the end of your time horizon depends on three key factors.

So how much you put in. That's the major determinant of how much you have

at the end. Obviously how long you invest and the rate of return that you're able to earn, this is all pretty obvious. The thing that we might think a little less about is that that third item is something that's almost completely outside of our control. Certainly we have some discretion over what we invest in, but we just don't know how the market will behave over our time horizon. That's why it's so important to focus on the first couple of things. How much you put in and how much you and and how long you invest.

So this is just a simple illustration of the power of getting started early. So let's assume that we have Sami who is just getting started in her career. She's 24 years old and she finds $200 a month in her budget to invest in Vanguard's Total Stock Market. So she makes a good investment selection and she just sticks with that program. Now ideally she would bump up her contributions as her salary increases, but we'll just hold it static for the purpose of this example. And she also earns a really nice return over her 40-year time horizon, so we're assuming that she wants to retire in her mid-60s. So she earns an 8% return. Whether that will prevail over the next 40 years, I think, is an open question. It's arguably a little bit aggressive but we're assuming that she earns that 8% return.

If we have another example of someone who waits even 10 years, Jeremy, he maybe has taken a little longer to get his career off the ground. Maybe he's gone to graduate school. Maybe he's just taken a while to launch his career. He doesn't start investing until he's 34 but he is able to find more in his budget to invest. So he's able to find $400 in contrast with Sami's $200 but he has a shorter time horizon because he got it started later. So assuming he wants to retire in his mid-60s also like Sami, it's interesting when you examine the data. What you can see is that even though Sami’s total contribution was substantially less over her 40-year time horizon, the fact that she started 10 years before Jeremy, even though they had the same return, she came up with substantially more at her retirement date then to Jeremy simply because of that foregone five years.

We all know this. We all practice this ideally in our lives. It's just something if you have young people in their lives who are getting started in their careers it's so important to talk to them about the value of trying to peel something out of their budgets if they possibly can.

So that's the first part of the piece, the first part of the advice. Getting started early is important. I think we can all agree on that. The data are unequivocal about the value of doing that. What about the value of this idea of investing often? If investing early is so valuable shouldn't you just be trying to get your funds into the market as soon as possible. The answer to that is a little more nuanced and I think it's helpful to examine the data.

So this is some research that my colleagues at Morningstar did and I'll just explain it because it may be a little bit hard to read in the back of the room, but this is examining lump sum Investments versus dollar cost averaging investments and what you can see is that the lump sum investment, except over a very short time horizons consistently beats the dollar cost averaging investment. So the basic takeaway here is that if you find yourself with a lump sum for whatever reason, and I know this sometimes comes up in my own household where you have a bonus, for example. It's easy to equivocate about is this the right time to put the money in the market. And the answer is, generally speaking, if you have a reasonably long time horizon for those funds you're probably better just getting that money to work as soon as possible. So that if you have a lump sum put it to work unless you have a very short time horizon.

But there are a few problems with that conclusion. The first one, and I kept saying this to my colleagues as they were working on this research, is most of us don't have a lump sum to invest. It's just not how we save. We have fixed amounts that we might be able to find in our budgets. That's what we can put into the market.

So yes, if you find yourself with a lump sum and you have a long time horizon by all means get it in there, but most of us don't have our money to save in that

way. Instead we just have that portion of our paychecks. And then another benefit of dollar cost averaging of dribbling your money into the market over a period of time is that it limits the odds that you'll put the money to work at precisely the wrong time. By spacing out your contributions it reduces the regrets that you might have of getting the money to work and having it be a terrible time. So that's another key value to dollar cost averaging. But the big one is simply that most of us have our funds to invest at regular intervals rather than all at one time.

This is another slide that I think demonstrates how dollar cost averaging can smooth out the bumps of a rough market. So this examines the 2000's which many of you were investing through, I was investing through. You remember it was just a bad decade for investors, right. So we had that dot.com sell off in the early part of the decade, then we had the financial crisis in the second half of the decade. Not a great environment. And so when we look at the person who put a lump sum in at what would have been a lousy time to do so in early 2000 you can see that the lump sum investor over that very bad decade actually underperformed the dollar cost averager. There will be periods in time where the dollar cost averager, because he or she is getting the money to work when the market's depressed, when it's fallen further, that person will come out ahead.

But asset class diversification helps address that. So the blue bars in this slide show that the dollar cost averager in a 60/40 stock/ bond portfolio actually outperformed the lump sum investor simply because having that balanced asset class diversification helped take the edge off of the lump sum investment.

So I think perhaps the most important thing about dollar cost averaging and why I would say that investing often makes so much sense is that it just instills discipline in your budgeting, in your financial plan, this idea of putting all of your contributions on autopilot helps ensure that you stick with the plan.

In fact we've had kind of a lively debate among our Morningstar staff about budgeting. And I've always said I really have never had a budget in my household. The main thing we've done is that we have automated our savings. We've set up our savings and then we have just let the chips fall in terms of how we manage the money that we have left over. I think that's a fantastic practice. It's something that takes a certain amount of discipline.

But the great thing is that all of these financial services providers are very willing to let you put your contributions on autopilot and you can do it with everything. I think most people kind of stop with their 401-k's. You can do it with your IRA contributions. Most HSA health savings account contributions are coming out of your paycheck on autopilot. We do it with our taxable account purchases, taxable accounts as well.

So having that discipline helps ensure that you stay invested. It helps ensure that you make those contributions, and you stick with your plan. So this slide shows the merits of staying invested because it helps ensure that you are on board for the market's best days. And one thing we know and is worth saying in this sort of environment where we've seen almost everything go down, is that if you can just stick with that plan, oftentimes when the market turns, it turns very quickly when things get better, and it's very hard to predict when that will be.

So having that regular dollar cost averaging plan just helps keep you in your seat and stick with your plan. So getting started, even with a small amount, is the way to go. Lump sum investing if you have a lump sum, get it put into the market as soon as possible unless you have a short time horizon for those funds, in which case you may want a dollar cost average. And then, of course, you'd also want to be thoughtful about what asset allocation you use and finally investing fixed sums at regular intervals is just a great way to run your household savings plan and ensure that you stick through these tricky market environments.

So I'll just leave it there. I know we have to keep things moving along so I'll see you later to talk diversification.Thank you.

Jim Dahle: Thank you Christine. Isn't she great?