

When Is Rich Enough?

To a young family with a big mortgage, three kids starting college in a few years, two dogs, and one cat this is a silly question. But for some, perhaps one or two among the readers of this piece, it is a very sensible question.

This country has enjoyed exceptional prosperity since the early 1980s. The financial markets, especially the stock markets, have been unusually good to participants. A dollar invested in the Standard & Poor's 500 Index (dividends reinvested) in 1982 would have grown more than eightfold by the end of 1996. Some individual stocks have done much better and some much worse. New ventures have been started, grown, and successfully launched into the public market place. There are those who now have paper wealth many times greater than they ever expected in "their wildest dreams!" Should they be asking themselves, "When is rich enough?"

Here are a couple of examples, thinly disguised to protect the innocent. Bill A., by virtue of his employment by a large corporation, was invited to participate in a start up technology business. The business soared, had a very successful initial public offering, soared some more, and finally merged into another fast growing public company. Bill's paper profits are enormous. Eighty-five percent of his net worth is in a single asset. That asset is stock in a business in a dynamic but fast changing industry. Bill recognizes the good sense of diversifying his risk but faces two emotional obstacles. The first is paying taxes. It just hurts to pay that big capital gain tax bill. The second obstacle is the all too human tendency to believe the good times will roll on forever. Euphoria could quickly turn to remorse if someday Bill's stock hits bad times. Isn't it time for Bill to ask himself, "When is rich enough?"

Then there is Mary B. She had been fortunate enough to have worked for a company with a good profit sharing plan. When Mary retired eight years ago, she put her money in a self-directed IRA. Between Social Security and her IRA, Mary could look forward to a comfortable but not generous retirement. On the advice of a conservative old trust officer she split her IRA investments 50-50 between stocks and bonds. With benign neglect on Mary's part, the stocks have done very well and have become two-thirds of her IRA account. The total fund could now support a bit more generous retirement. Should she recast the portfolio and get back to a 50-50 balance? Isn't it time for Mary to ask herself, "When is rich enough?"

Although the answer to this question will be specific to each individual, it should be asked by every investor. It should be asked when saving/investing begins and it should be asked along the way. It especially should be asked in times like these when some investment areas have done so much better than others.

March, 1997