

A Scarsdale Investment Group White Paper:

A Woman's Point of View about Investing

Hildy Richelson, Ph.D.

July 2013

I recently had an e-mail exchange with a reporter about who should buy bonds and for what reason. In the transcript, I refer to Stan Richelson, who founded the Scarsdale Investment Group with me, and Peter Blake, who is my Director of Operations. They were both being interviewed by a reporter about why a person might buy individual bonds instead of stocks, even though interest rates might rise. Peter described how he got out of the stock market in 2001 before the full impact of the crash simply because Stan explained it was too risky to have all his savings at the mercy of stock market fluctuations. Stan got out of the stock market after he tried market timing and found, after three diligent years, he was lucky to break even. Here is an edited transcript of my conversation with the reporter about why I decided to learn about bonds.

Why Should I Bother to Learn About Money When You Know So Much!?

Hildy: I suggested to Stan that you (as a reporter) might want to speak with me as well, for a woman's point of view about investing in bonds. I had no financial training; I have a Ph.D. in Anthropology.

One day I was asking Stan what I should do if I were to wake up some day and he was gone. Stan suggested one of two alternatives: Either find a financial advisor who could be the trustee of my assets, or learn about investing so that I could take care of myself.

Stan brought me to a Trust Company to discuss my financial future with a possible trustee for our assets. During our discussion, he did not look at me, or even address me - only Stan. I realized that I could find myself at some stranger's mercy, with no one to protect me. The company representative clearly represented the company, and it became obvious to me that my interests might not coincide with the interests of the company. I felt I would lose control of my assets, and it was important to me that I should stay in control.

Stan's second alternative was to learn about financial matters, specifically about high quality municipal bonds, and as usual, he made an unusual suggestion: Write a bond book. At first I rejected the idea of writing the book. My background was so different. But given the alternative of remaining financially ignorant, I agreed to write a book about bonds from the point of view of

an anthropologist. I felt it would be a creative challenge and that at the same time would allow me to gain an in-depth understanding of bond investing. This led to our first book about bonds, *Income Without Taxes: An Insider's Guide to Tax-Exempt Bonds* (1985).

A cultural anthropologist is someone who tries to learn about how other cultural systems work by suspending her own judgments. The world of investing is a subculture with its own rules and language. If you don't understand investing, that is the reason why.

Income Without Taxes not only gave me the confidence to take care of myself and my children financially, but also created the foundation of the Scarsdale Investment Group. I guess I was fortunate that the representative of the trust company was unskilled in dealing with women. Had he been more engaging I might have remained a pigeon. Stan and I have now written five published books about bonds.

There are many women who have no experience with or understanding of money. That leaves them feeling very vulnerable and incapable. Men are supposed to "know." They may present themselves as knowledgeable, but they may not know any more than the women. Understanding plain vanilla, high quality bonds is not complex, and offers a woman a secure way to invest and protect herself. Though we are addressing the particular concerns of women, men will also benefit from finding a way to control the element of risk in their financial lives.

Are High Quality Bonds Only for Women?

Hildy: I guess I left out the part about how high quality, individual bonds are the perfect investment for a woman. A woman generally outlives a man, as the new insurance premiums show, and bonds are an ideal way to create a substitute for a paycheck. They are understandable to a lay person. You can buy them and put them away. You don't have the uncertainties of stock or other investments. You can count on the income. All I invest in are high quality individual bonds.

Reporter: Thanks for elaborating, that's very interesting. So, are you saying that you think the all-bond strategy that you and Stan advocate is more appropriate for female investors? What percentage of your clients who follow this strategy are female?

Hildy: I don't think that it is more appropriate for women than for men. I think that women have more fear of the financial unknown than men, while at the same time desiring less risk than that experienced in the casino of the stock market. I think that women's desire for a predictable income every month is a driving force for many. Even if a woman is the prime breadwinner, it

is often the man who manages the family's finances. However, a woman may shape the buying patterns of her spouse by expressing her concerns.

From my perspective, women want to know where the money is going to come from if there is no man in the picture. When women (and most men for that matter) don't have investing experience, they are very vulnerable to market hype and scams. If they invest in high quality individual bonds then life is more like Bach, even and predictable with minor lovely variations, and less like Stravinsky, with crashes and thunderstorms.

Though we are talking about women, we might just as well be talking about the low income or non-earning spouse, who may or may not be a woman. It may be a man who is married to a high earning woman. It also may be some other combination of relationships among couples that have become more frequently recognized, where the stay at home significant other is looking for an island of stability in a rapidly changing world.

Imagine having a party conversation. A man says how he made money in gold, platinum, stocks. He describes the roller coaster ride, how he held his ground at the bottom and then it soared so he made a killing. The next guy says he invests in bonds, doesn't trade, and reinvests the income for cash flow. How about that for a conversation stopper!

We just had a couple come in for a consultation. The husband was being pushed by his wife to invest in bonds after some stock disasters. He moved his assets to us and I expect there will be a gradual transition to fixed income. He said that she was "very conservative." He is invested mostly in individual stocks. About half of his positions show losses. Unlike bonds that provide an income stream and will come due at face value, the stocks are sold at market price. Time value of money is not working on your behalf with stocks, only momentum.

This is how momentum worked for one of our clients. Jack was a great stock investor. He took a million dollars, invested it in stocks and ran it up until it was worth \$5 million in March, 2000. His wife asked: "Don't you think it's time you took some of the money off the table?" She meant invest it more conservatively. He responded: "What's the matter? You're not happy with what I have done so far!?" Then he rode the market decline back down to \$1 million over the course of 2001 and 2002. "In retrospect," Jack explained, "that was the most embarrassing thing I had ever said."

I love buying high quality individual bonds. They are much better than an outdated dress hanging in the closet. Bonds are the gift that keeps on giving. Owning individual bonds won't give you exciting stories to tell, they are like comfort food. Something you can count on when you need it.

Women Live Longer than Men, So Are Bonds for Women?

Reporter: Thanks, but in the prior message, you mentioned that women tend to live longer than men – how does that figure into the case for bonds?

Hildy: When you are older and perhaps somewhat infirm, and you cannot earn much income, how will you support yourself? Here are some typical scenarios:

- If you have long term care insurance, you may think that will cover if you are ill. Then you get a bill from the insurance company with a 76 percent raise in cost because you have a 5% inflation rider and life time benefits. You were counting on that to take care of you if you were ill. Your choice now is to drop the coverage or reduce your benefits.

What does the insurance company do with your money? They invest in long-term bonds because they need to match assets with liabilities. The 5% inflation rider does not work now because interest rates are low and inflation is more like 1.1%, but potentially rising. The insurance company cannot afford to provide the inflation rider to you and still remain solvent.

- Alternatively the agent might tell you to purchase whole life insurance so you can borrow out the cash value – borrow out “your money.” Well, it is not a savings account and it is not your money. It is their money and you are paying plenty of interest & fees to gain access to it, many of which you are either not aware of or which you don’t understand.
- Perhaps you think about buying an immediate annuity. The agent may quote an outstandingly high return. They do not tell you that it is a current yield that includes some return of your principal, or that it drops after X years. You may have no funds to leave to your heirs. Insurance companies have jiggered the plain annuity to make it more appealing, but there are added costs associated with each additional benefit.

High quality individual bonds reduce uncertainty by providing a consistent income stream. They give you an upside by enabling you to reinvest the interest and principal when it comes due in a rising interest rate environment. Bonds enable you to predict how much is coming in and what you can reasonably spend and not outlive your assets. You see the bonds in your account. You do not incur periodic fees. The bonds come due at predictable times giving you added cash flow. You can use zero-coupon (deferred income) bonds to specify exactly when lump sums of principal are being returned (like when you have a child starting college). You can have a predictable outcome. You reduce uncertainty in the financial aspect of your life.

My mother lived to 104 years of age. Her telephone stocks dropped in value by more than 50 percent. Her bonds and certificates of deposit kept providing income for her, and maintained their value. That coupled with her social security enabled her to live out her years and still have some money left over. She was not a rich woman. Most importantly, she did not have to worry about running out of money. She tailored her life style to her cash flow.

Who Should Buy Bonds?

Reporter: I guess it sounds to me like you are in fact, trying to make a case that the all-bond portfolio is more appropriate for a woman, and that longevity is part of the case you're making. Or am I misunderstanding something?

Hildy: In so far as women need predictable income for a longer period of time because they tend to live longer than men, then yes. However, we would say that high quality individual bonds provide a measure of predictability that enables:

- People of either sex to retire with relative confidence.
- Younger people, of either sex, to take risks in other aspects of their lives. If you have a steady stream of income coming in, you can be more entrepreneurial, and you can switch jobs, careers, or locations more easily.

Bonds provide:

- A source of income for the stay-at-home spouse, of either sex.
- Support for life transitions, whether divorce, starting a company, retirement, or marriage.
- Targeted funds for children's education.
- An income stream to take care of pets or the disabled after your death.
- An inheritance to heirs or charities.

Sheryl Sandberg described in her bestselling book *Lean In* (2013) how she likes to compartmentalize risk taking. She says: "In my personal life, I am not someone who embraces uncertainty. I like things to be in order...But in my professional life, I have learned to accept uncertainty and even embrace it."ⁱ Though she does not address her finances, including high quality individual bonds in her portfolio would be a way to create some certainty in an uncertain world. Bonds would enable her to feel secure about one aspect of her life so she could be more willing to take risks elsewhere. Buying high quality individual bonds is not about risk avoidance. It is about risk control. Instead of thinking about net worth fluctuations and hoping we will have enough, we can think about generating predictable income to match expenses. It is much less stressful.

Despite what the media proclaims, if you already own a portfolio of individual bonds, rising interest rates are your friend: You can reinvest your interest and principal (when it comes due) in bonds with higher yields – that is higher interest rates - giving you a larger 'paycheck'. Would you rather reinvest in lower or higher yielding bonds? And if you are older, invest for a predictable paycheck and plan on living a long time to enjoy it.

Bonds That Can Be Bought for Little Money

Bonds are understandable. A person can learn enough about investing in individual bonds to be able to care for themselves, yet they do not require constant attention. They do require consistent saving of money to build your portfolio.

Through TreasuryDirect.gov you can purchase United States I-Bonds, inflation protected bonds with a minimum denomination of \$50, and a maximum annual purchase of \$5,000. My parents bought EE Savings bonds issued by the U.S. government every month to save for their retirement. You can too, though the I-Bonds are probably a better choice right now. You can purchase United States Treasury bonds and Treasury Inflation Protected Securities (TIPs) also through the same website.

Bonds issued by corporations have a \$1,000 minimum. Bonds issued by states, cities, and schools, called municipal bonds, are sold with \$5,000 minimum, and are also bought through brokers. However you chose to invest, high quality individual bonds should be the foundation of your financial life.

¹ Sheryl Sandberg. *Lean In: Women, Work, and the Will to Lead*. AlfredA. Knopf, 2013, p.60.

The Scarsdale Investment Group, Ltd. (Scarsdale) Newsletter *only represents the opinions of Hildy Richelson, Stan Richelson and Peter Blake. Any views expressed in a Newsletter are provided for information purposes only and should not be construed in any way as an offer for any investment, an endorsement, or inducement to make any investment. Hildy Richelson and Stan Richelson are Founders of Scarsdale and Peter Blake is an employee of Scarsdale. Scarsdale is a Registered Investment Advisor registered in multiple states.*