



The Art of Growing Savings

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BONDS: Saving, Compound Interest, and Investment Growth

In the news are the sad stories of the laid off government workers who live from paycheck to paycheck and have no savings. They do not have enough resources to pay the month's rent or put food on the table. There are many organizations rushing to help them, but no one is raising the question: Why have they no savings? Why are they living from paycheck to paycheck?

One answer may be that they do not value savings, or understand the process. Our culture promotes spending, not saving. They may see savings as something that rich people do. They may not understand that even saving a dollar a day would eventually lead them to a better life. That is a life that would enable them to cope with emergencies.

In the Age of Surveillance Capitalism to quote the title of a 2019 book by Shoshona Zuboff, marketers are getting better at targeting our thoughts and wants, leading to the acquisition of more 'stuff' as well as other forms of control and manipulation. How do we know if our actions are self-generated or manipulated by some external source?

In a flash of enlightenment, one woman dragged 18 bags of clothing into a Philly AIDS thrift shop, as a result of watching the new NETFLIX show called Tidying Up with Marie Kondo. It is called Marie Kondo-ing- getting rid of any items that don't 'spark joy,' according to a Philadelphia Inquirer article in January 2018.

Imagine if the 18 bags of clothing were reimagined as dollars, how much the woman could have in savings, and how those savings could have grown if they were invested properly. Instead of buying stuff that woman could create other possibilities in her life that heretofore she could not imagine.

In Marie Kondo's book, the life-changing magic of tidying up, she talks about getting rid of stuff that we have collected, but she does not address how to tidy up your financial life. However, the same principles apply. Why did you buy an investment? What purpose does it serve? Marie would ask: Does it still give you the same spark that you originally got when you bought it? I don't think that investments are supposed to give you a spark, but they are supposed to keep your money safe and hopefully increase in value. The value increase may come from an appreciation of the asset, or from interest paid.

My new hair dresser's father has been encouraging her to purchase Certificates of Deposit (CDs) with her savings for her new house. We discussed the process of buying CDs and she asked: "Do people really do this?"

Aside from family tradition, there is no standard procedure for teaching people about the basics of money management, much less investing. Women particularly still may think that it is not their responsibility. However, as always it is: "Buyer Beware." If you have a protector in your life who understands money there may come a time when you have to make decisions for your own self. If you have not learned the basics of money management you may be very vulnerable.

One key concept is understanding how the passage of time affects investments.

Concepts of Time

Living in the now, or mindfulness, is recommended as a way of enjoying every moment of your life. It is suggested that only this moment is real. Every other moment is either in the past or the future. While we have to live in the moment, we must also provide for the needs we will have in the future. We need savings for when we will not or do not want to work any longer. Though in the present, the purchase of stuff might be satisfying, it does not allow us to address any long-term needs.

Timefulness is a word coined by Marcia Bjornerud for the title of her book on earth science reviewed in The Wall Street Journal in December 2018. With timefulness we still focus on the present moment, but place that moment into a grander scheme of things. There is arrow-time, the time of the individual life span, or the history of the nation or the planet. There is the cycle-time that repeats every year, like the dropping of the ball marking the New Year, the payment of interest on bonds that occurs in a regular way, the earthly cycles we have come to expect. There is one-time, singularities

that occur in a life or in the universe that do not repeat themselves, like your birth. Finally, there is All-time, universalities that occur all the time like the pull of gravity.

Compound Interest

Compound interest is an example of All-time universality that occurs in the same way everywhere. It is connected to a bond which has a specific life span – arrow-time. Interest from the bond is paid semi-annually – cycle-time. There is a singularity in that the bond has a specific time of creation and termination. Finally, there is All-time in that the interest, if reinvested, creates more interest. Over time as a result of compounding, making interest on interest, the money grows. While not on the level of gravity, for an individual investor it is of utmost significance.

Compounding growth is a miracle of the universe because it is a mathematical certainty. Where else in our lives are their certainties? Every day interest is paid. At first the accumulation looks minimal. The initial amount is small. Perhaps we can add other savings to it. This is the gestation period. It may appear that not much growth is happening.

At some point, the interest paid on interest on a daily basis begins to look quite substantial. It is like watching hair grow. It does not seem like it is getting much longer, but suddenly you see that your hair has grown much more than you thought. Like hair growing, compounding is in All-time because it just happens as long as the interest is reinvested.

Bond investors understand compounding. They understand that they can disconnect from the “casino of hope and fear,” which ties their psyche to market fluctuations. Days are not bad and good. They are all good because the interest keeps compounding.

[Jerry Seinfeld](#) did a routine about money. A man sends his money out to work. To paraphrase, the employer says: Your money is no good. It is lazy and late to work! We had to fire your money!

This is a funny joke and it makes me laugh. But I know that money earning compound interest is never lazy. It is at work every day. No time off unless you hold it in a non-interest-bearing account. How does your money grow?

Conclusion

In our society our citizens are taught how to manage their debt, not their savings. When you manage your debt, then compound interest works in the

favor of the lender. If you want it to work in your favor, then you have to buy bonds.

We recommend high-quality bonds, even though they may pay less interest and will compound slower. Why do that if you believe more is better?

Because compounding cannot overcome loss of principal. If you lose a chunk of change in a default there is no amount of compounding that will overcome that.

If you are a beginning investor in bonds, don't walk away from a compounding style of investing because you do not see immediate results. You have a valuable opportunity to grow your money over time in a way that will allow you to sleep at night.