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# Your Money Manifesto: The Three Rules of Thumb!

If I had only one sheet of paper and could only write down three rules of thumb for starting, building, and keeping a family fortune while living a happy, fulfilling, peaceful life, these would be my choices: **I) Save half of what you make, II) Invest in a 60/40 portfolio III) Live by the 4% rule! Ready to hear more?**

## I. START your family fortune by saving half of what you make

Earn, save, invest – you have probably heard or read this mantra in my book, articles, and talks. I strongly believe that *everyone* should become a successful lifelong investor, and have their money make money for them. This attitude was expressed very clearly in the simple wisdom that Benjamin Franklin shared: "A penny saved is two pence clear." We've also read the same ideas in one of my favorite books, George S. Clason's *The Richest Man in Babylon*, published in 1926 and still popular today. In blogs and podcasts, today's FIRE movement (Financial Independence, Retire Early) has recently made strides reviving interest in saving and investing. As simple as the idea is, what really brought it home for me was a straightforward formula (I like math, but I really *love* simple). It might be aspirational, and it may feel extreme, but if you can save half of what you make, each year of work buys you one whole year of retirement or vacation. **1 for 1** becomes 3 for 1* though if you save 75%, and at that **rate you can retire in under 9 short years with at least 25 years' worth of savings.** This brings us to the 4% rule below. I'm a big proponent of living a life that you don't have to retire or vacation from, though I wholeheartedly agree with FIRE followers that work is better if you don't need the money. It could take only 9 years to get there! That's as close as you'll get to a total no-fail get-rich scheme that should work for almost anyone.

## II. BUILD your family fortune by investing in a 60/40 Portfolio

Your savings have to work for you. There is no one-size-fits all investment strategy because there are so many variables (including your age, your investment horizon, and your risk tolerance). However, if you are looking for a rule of thumb, this is a time-tested one. **Investing 60% in stocks and 40% in bonds**, you get the best of two worlds. Stocks give you upside and dividends, while bonds give you income and less volatility. This straightforward approach can generate very attractive returns. A recent ten-year study carried out by Markov Processes International showed that Ivy League endowments with more exotic, alternative, less liquid investments have actually lagged a simple 60-40 portfolio**. There's an argument to be made that with the longest bull market in stocks and bonds behind us, neither stocks or bonds are attractive today. Still, if you can invest regularly over the next few decades, the same 60-40 portfolio will help you benefit from the downs, and capture the ups in the market in the long run. Discipline and patience will matter more than timing. At Sicart we don't stick to any preset portfolio allocation; we tend to be lighter on stocks later in a bull market, and heavier on stocks at the bottom of the bear market. We also prefer to pick individual stocks based on our risk/reward preference. Still, if we had to rely on autopilot, 60/40 portfolio and using index funds to accomplish that is a good place to start.

## III. KEEP your family fortune by living by the 4% Rule (or 25x rule)

Congratulations, you have a million dollars! How much can you spend each year without diminishing your nest egg? 4%, or $40,000. What if you need $100,000 to live comfortably? Multiply it by 25, and you have your number: $2,500,000. That's how you meet your desired lifestyle goal by following the 4% rule. In 1998, an influential paper by three professors of finance at Trinity University in San Antonio, Texas tested a number of stock and bond mixes with 15 to 30-year payouts. They concluded that "if history is any guide for the future, then **withdrawal rates of 3% & 4% are extremely unlikely to exhaust any portfolio** of stocks and bonds during any of the payout periods studied." More studies with similar results were conducted since then. Our experience managing family fortunes over generations confirms that a 3% to 4% annual withdrawal rate is a reasonably good, and helpful yardstick in practice.

**It's very important to remember that we are not looking for perfection. It is secondary if you hit some ambitious savings rate, maintain a perfectly invested portfolio at all times or never spend more than 4% of what you have, what matters is the discipline to actually save, invest, and let it grow without spending all on the way. As Norman Vincent Peale famously said: "Shoot for the moon. Even if you miss, you'll land among the stars."**

**As with any rules, they might be widely known, but they only matter if they are followed. A longtime client reminded us recently that he knows well what the rules are, but he values us most for helping him to actually stick to them through thick and thin.**

Happy Living, Happy Saving, Happy Investing! Bogumil Baranowski | Published: April 25th, 2019

*If A% is the percentage of your after-tax income that you save or your savings rate, and B% is the percent of your after-tax income that you live on, then A% divided by B% equals number of years of retirement or vacation you can afford for each year of work. You've probably figured out that A% + B% = 100%. 50% divided by 50% equals 1 – 1 for 1, while 75% savings rate, gives us 75% divided by 25% or 3! 3 for 1.

** MPI used the following 60-40 portfolio: The domestic 60% equity (S&P 500 Index), 40% bond (Bloomberg Barclays U.S. Aggregate Bond Index). The 60-40 portfolio was rebalanced daily, and returns are gross of trading costs or other fees.