the EDUCATED INVESTOR FEATURE ARTICLE

October 2010

# How to Know When You Have Enough

**Overview:** How do you know when you have enough? It's a different answer for everyone, but not knowing it can put your investments in jeopardy.

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Kurt Vonnegut related this story about fellow author Joseph Heller. The two were at a billionaire's party on Shelter Island. Vonnegut asked Heller how it made him feel that the host may have made more money in one day than *Catch-22* (Heller's most famous work) did in its entire run. Heller replied that he had something the host could never have, "The knowledge that I've got *enough*."

Unless one inherits wealth, the most common way to amass significant wealth is by taking lots of risk. Being a risk taker who has known success can give you confidence in your ability to take risk. That confidence often creates the willingness to take risks. In addition, your wealth gives you the ability to take risk.

However, the ability and willingness to take risk are only two of the three criteria for an investment policy. There is a third (often overlooked) criterion — the *need* to take risk. A great irony is that the very people with the most ability and willingness to take risk have the least need to take it.

Those with sufficient wealth to meet all their needs should consider that the strategy to get rich is entirely different than the strategy to stay rich. To get rich, you take risks. To stay rich, however, you should minimize risk — diversify the risks you take and avoid spending too much.

When deciding on the appropriate asset allocation, you should consider your *marginal utility of wealth* — how much any potential incremental wealth is worth relative to the risk that must be accepted to achieve a greater *expected* return. While more money is always better than less, most people achieve a very comfortable lifestyle at some point. After that, taking on incremental risk to achieve a higher net worth no longer makes sense. The potential damage of an unexpected negative outcome far exceeds the potential benefit gained from incremental wealth.

Every investor has a unique utility of wealth curve, and yours will be a primary factor in how your portfolio is structured. At some point on the curve, additional wealth provides little, if any, additional happiness. Beyond this point, there is little reason to take incremental risk in hopes of achieving higher returns. Many wealthy investors have experienced devastating losses that could easily have been avoided if they had the wisdom to know what Joseph Heller knew.

Consider the following story. In early 2003, a 71-year-old couple had financial assets of $3 million. Three years earlier, their portfolio was worth $13 million, but they had significant risk as they held almost all equities which were heavily concentrated in U.S. large-cap growth stocks, especially technology stocks.

The couple was asked if, instead of their portfolio falling almost 80 percent, doubling it to $26 million would have led to any meaningful change in the quality of their lives. It would not. They then acknowledged that the experience of watching $13 million shrink to $3 million was very painful and they spent many sleepless nights. When asked why they had taken so much risk with little benefit, the wife turned to the husband and punched him, exclaiming, "I told you so!"

Some risks are not worth taking. There are two important questions to ask yourself:
- How much money buys happiness?
- If you've already won the game, why are you still playing?

Once you have enough money to meet basic needs like food, shelter and safety, the good things in life (the really important things) are either free or cheap. For example, taking a walk in a park with your significant other, riding a bike, reading a book, playing bridge with friends or playing with your children/grandchildren doesn't cost very much if anything. And the difference between a $10 and a $100 bottle of wine or a $50 or $500 dinner for two won't really make you any happier.

When mapping out your investment plan, make sure you distinguish between needs and desires and carefully consider your marginal utility of incremental wealth so that you can determine if those desires are worth the incremental risks that you will have to accept. Knowing when you have enough is one of the keys to playing the winner's game in both life and investing.

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