November 2, 2020

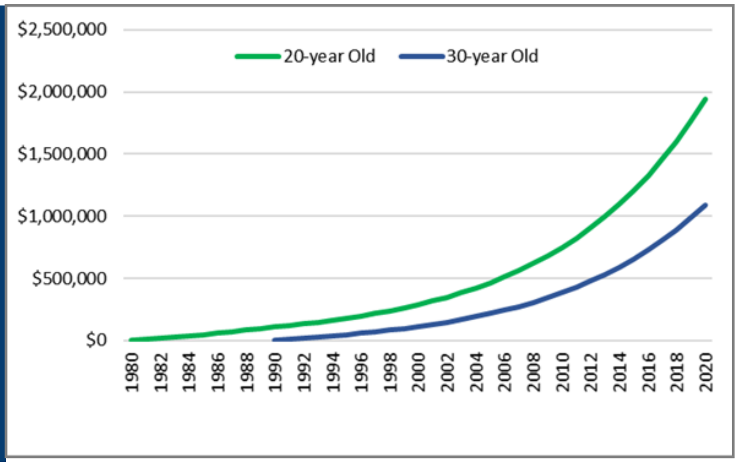
Victoria Capital Management, Inc.

Market Musings

A newsletter brought to you by Victoria Capital Management, Inc.

VOL. 3, ISSUE 11

The chart to the right demonstrates how starting to save for retirement early can make a big difference. The assumptions are that the 20-year old saves for ten years and the 30-year old saves for the rest of their life yet the latter never attains the same nest egg.



"There is only one corner of the universe you can be certain of improving, and that's yourself."

- Aldous Huxley

The Importance of Getting Started Early

Each one of us has only one chance to save enough money during our earning years to live comfortably in retirement. According to one Wall Street firm, nearly 6 in 10 Americans have no retirement savings whatsoever. Financial experts advise that the average 65-year old has between $1 million and $1.5 million set aside to retire.

Here is a story that makes the case for starting to save at an early age. Imagine a 20-year old who wisely sets up an IRA and saves the maximum $6,000 per year and invests in a low-cost index fund that tracks the S&P 500. Let us assume that he or she saves for ten years and then stops making contributions, maybe because a company retirement plan replaced the need for the IRA. The IRA continues to benefit from compounding even though no additional contributions are being made. A 30-year old begins to save in the same way but ten years after the 20-year old began saving. If the 30-year old contributes the same $6,000 per year for the rest of his or her life, they will have less money than the 20-year old who had saved for only ten years. The reason is that the growing earnings and gains of the first portfolio grow more each year than the $6,000 contribution meaning that the 30-year old can never catch up with the 20-year old's savings!

Parents who start a savings plan/IRA for their child at a young age (likely when they start their first summer job) can offset their tax liability by making that contribution. The child can also make contributions once they begin their full-time job. For example, starting IRAs for teenagers when they begin delivering newspapers makes a big difference in helping create a healthy retirement account for their future. The moral of the story is that compound interest and time are a retirement saver's best friends. When it comes to retirement planning, it is never too early to start saving!

Market Commentary

October lived up to its "jinx" month for the stock market as the S&P 500 and Dow Jones Industrial Average declined by more than 2%. Small-cap stocks as represented by the Russell 2000 index, finally bounced back a healthy 2.1% closing the return gap with large-cap stocks. This outperformance is likely due to the anticipation of a Biden win that will bring increased spending programs on everything from infrastructure to renewable energy projects. Long-term Treasury yields rose during the month in another sign investors are positioning for more stimulus despite stalled talks between Democrats in the House of Representatives and the White House over additional coronavirus stimulus.

Jeff Bezos, the founder of Amazon and the world's richest person worth $189 billion as of Oct. 23rd, was Time Magazine's "Person of the Year" in 1999. The cover story declared "E-commerce is changing the way the world shops."

(source: Time)