Cherry Tree Wealth Management

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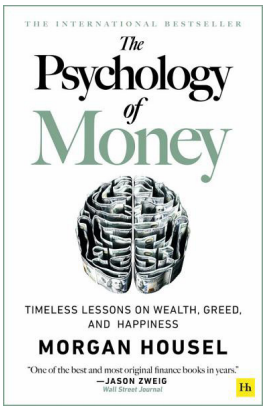
CHERRY TREE WEALTH INSIGHTS: *Published by Keith Tufte, President of Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.*

INVESTING QUOTE OF THE MONTH:

"Doing well with money isn't necessarily about what you know. It's about how you behave. And behavior is hard to teach, even to really smart people." – Morgan Housel

THE PSYCHOLOGY OF MONEY

The new book The Psychology of Money by Morgan Housel is the best book on personal finance since The Millionaire Next Door in my opinion. The book contains timeless lessons on wealth, greed, and happiness. The main premise of the book is that doing well with money has little to do with how smart you are, and a lot to do with how you behave. Good behavior is hard to teach, even to very smart people. Dealing with money (well or poorly) is a topic that impacts everyone, whether you are interested in it or not. This note highlights some of the best points of this book by Morgan Housel.



How much money is "enough" is a good thing for people to figure out. Many people can never have enough. They are envious of people they know that make more or have more. They keep moving their own goalposts forward. Some end up taking too much risk to get more, or work too much for too long, only to regret it later. There is no reason to risk what you have and need for what you don't need. Life isn't much fun without having a sense of "what is enough".

Having a good reputation, freedom, independence, family and friends, happiness, and being loved by those you care about are all invaluable. Your best shot at keeping these things is knowing when it is time to stop taking risks that might harm them. Knowing when you have enough. There are many things never worth risking, no matter what the potential financial gain.

Most people do not have the patience, the long-term focus, and the savings rate to let the power of compounding really work to make them wealthy. People focus too much on trying investments that will get them the highest possible returns right now. It intuitively seems like the best way to get wealthy. They chase recent returns and buy whatever has been working best over the past couple years. Good investing isn't about earning the highest returns now, because the highest returns tend to be one-off hits that aren't usually repeated. It is about earning pretty good returns with an investment strategy that you can stick with and which can be repeated for the longest period of time. That is when compounding runs wild. Warren Buffet's skill is investing, but his secret is time in the markets. $81.5 billion of Buffett's $84.5 billion net worth came after his 65th birthday.

Most people want to get wealthy and then stay wealthy. That is not easy to do, as each requires different skills and strategies. To get wealthy you typically need to work hard, be focused, be optimistic and aggressive, take risks, and get lucky. To stay wealthy and let your wealth grow you need to be diversified, live below your means, reduce your risk, and be sure you can survive for the long-term. Keeping your money requires the opposite of risk. It requires humility and frugality and an acceptance that at least some of what you have made may be attributable to luck, so past success can't be relied upon to repeat indefinitely. The world is full of people who made it big the first time, thought they were gifted and invincible and kept rolling the dice until they went broke. Rather than seeking the biggest returns now it is wise to strive to be financially unbreakable, so you can survive long enough for compounding to work wonders for you.

Studies show that for many people happiness is driven by having control over their time and their life. Control over doing what you want, when you want, with the people you want is the broadest lifestyle factor that makes people happy.

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Control drives happiness more than your salary, the size of your house, and more than the prestige of your job. Money's greatest intrinsic value is its ability to give you control over your time, which is likely to improve your happiness.

Many people confuse looking rich with being wealthy. You can either look wealthy or be wealthy; it is difficult for most people to do both. Which do you choose? The only way to be wealthy is to not spend most or all of the money you have coming in. It is the very definition of wealth. Spending money to impress others is the fastest way to have less money and be less wealthy. Wealth is what you don't see. It is money not spent. It requires self-control. The world is full of people who look modest but are rich, and people who look rich but who live at the edge of insolvency.

Building wealth has less to do with your income or investment returns, and lots to do with your savings rate. You are 100% in control of your savings rate, and that is one of the most important factors in driving wealth creation. The value of wealth to you is relative to what you need and want. Past a certain level of income, what you need is just what sits below your ego. One of the most powerful ways to increase your savings isn't to raise your income, but to raise your level of self-control (by spending less). People with high savings rates and enduring personal financial success tend to have a propensity not to care about what others think about them, and they have no interest in trying to impress anyone.

An investment strategy that you are comfortable with, you believe in, and will allow you to sleep well at night is the best strategy for you. It will allow you to stick with the strategy through thick and thin and ride out the bad years. There are few financial variables more correlated to performance than commitment to a strategy during its lean years. In the real world most people do not want a mathematically optimal investment strategy, but one that they understand and believe in and that allows them to sleep well at night- a reasonable strategy for them. No matter what you are doing with your money you should be comfortable with lots of things not working. That is just how the world works. It is true in everyone's portfolio. Look at your whole portfolio, not each individual investment. You can be wrong half the time and still make a fortune.

The price for higher long-term returns of your portfolio is volatility. You can't have one without the other. You need to accept the fact that the price for getting higher long-term returns is you will have to live with periods of down markets, underperformance, and once every 10-15 years or so, a giant collapse in prices. And you need to ride it out during the down years. Most advisors recommend buying and holding stocks for the long run. In the real world due to human emotions that is very difficult to do when stocks are collapsing. The price of good long-term returns in stocks is volatility, fear, doubt, uncertainty, and regret. It is the cost of admission, and sometimes it really hurts. The way to get the highest returns for you is to use the proper asset allocation investment strategy that positions your portfolio with the appropriate amount of risk for you. This will allow you get good returns over the long-term that allow you to reach your goals, and a portfolio risk that will allow you to ride out the inevitable market downturns. Market returns are never free and they never will be free. The trick is convincing yourself the market's admission fee (volatility) is worth paying.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte, (President of CTW) has over 25 years of successful investment management experience as a Wall Street Analyst, Mutual Fund Portfolio Manager, Director of Equity Research for a major mutual fund firm, Hedge Fund Portfolio Manager, and Wealth Management Advisor. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at http://www.cherrytree.com.

CHERRY TREE WEALTH MANAGEMENT, LLC
Keith N Tufte, CFA, MBA • ktufte@cherrytree.com • Cell (952) 465-1785 • Office (952) 253-6006

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