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Savage: Patience still investor's virtue

Joe Rondone / HP staff

Terry Savage, personal finance writer, speaks Tuesday at the Economic Club of Southwestern Michigan.

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BENTON TOWNSHIP — Americans have reasons to feel worried with so much economic and political uncertainty – but the biggest hedge against them is closer than people might think – diversification.

That was the advice Tuesday from financial commentator and best-selling author Terry Savage, who spoke for more than an hour about the situation to the Economic Club of Southwestern Michigan at Lake Michigan College.

"Hedge your bets, but don't ever bet against America," she said. "If you're worried about outlasting your money in retirement, you're not alone. But don't try to beat the market because you'll only beat yourself."

Financial planning looked a lot simpler in more prosperous times, such as the 1960s, Savage said.

"People retired at 65 and died at 69 or 70, so you'd spend your money within the next couple of years (after retiring)," she said.

By contrast, financial planning in today's market – which remains dogged by consumer uncertainty, slow housing sales and an unacceptable unemployment of 7.2 percent – is trickier, because people are living a lot longer, Savage said.

To give yourself an edge, Savage advised visiting two websites, www.LivingTo100.com, and www.ChooseToSave.org, which are available on her own official homepage, www.terrysavage.com.

Once you've entered all the relevant information into both sites, you'll have a better idea of many years you'll need to save past retirement – and, most importantly, plan so that you don't end up outliving whatever you have saved, Savage said.

Also, any long-term financial plan needs to take the impact of inflation into account, Savage said.

In 1960, for example, Americans only needed about $500 to buy a decent

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used car, Savage said.

Today, that figure has shot up to $2,906, which demonstrates the power of inflation to erode wallets and budgets, she added.

"If you only have a three percent rate of return (on investment), and inflation's 7 percent, inflation will destroy your plan," Savage said.

The best bet is a diversified portfolio of investments because – in looking at historical averages since the 1920s – the stock market has performed well, Savage said.

As far as next year's forecast goes, Savage expects that continued political gridlock over raising the debt ceiling will exert a major drag on the economy, with average growth likely to hover at 2.5 percent, and unemployment staying largely where it is now.

The best antidote to the long-term stagnation that's plagued America since the Great Recession of 2008, according to Savage, is growth – so today's political generation needs to consider more dramatic measures to stimulate it, she said.

A good example occurred during the 1960s, when Democratic President John F. Kennedy cut taxes across the board – from a top rate of 91, to 70 percent.

As the century's biggest presidential tax-cutter, Kennedy realized what today's politicians don't seem to grasp, Savage said: "It just makes sense that people shouldn't work just to pay taxes, but to get an after-tax return (that builds investment)."