Seven Waterfront Plaza
500 Ala Moana Blvd #400
Honolulu, Hawaii 96813
EntrustHawaii.com

Entrust Hawaii

The Road Not Taken - Less Liquid Investments

By Bill Humphrey

Conversely, what cost advantage do less liquid investments-such as real estate -have if the demand for them is lower? Preference for liquidity, which may or may not be appropriate for all investors, is what I want to explore in this article. In the words of Robert Frost (1920):
Two roads diverged in a wood, and I - I took the one less traveled by, And that has made all the difference.

Robert Frost may not have been talking about investing, but this poem illustrates the nature of choice. As his famous poem describes, choice is a fabulous thing, but it does require a decision. The phrase, "The road more traveled or the other?" is analogous to either following the crowd or making your own investment choices for your retirement future.

Retirement Investing: Which road will you travel?
When considering choices for retirement investing, one divergence in the "road" appears when you must choose how much liquidity you want in your plan. One fork takes you to investments offering almost complete liquidity, such as publicly traded securities and mutual funds. The other leads to longer term investments, including such opportunities as real estate, mortgages, or private placements.

Which road are you taking with your retirement plan?
The past 20 years have featured an explosion in the availability of financial information. We have gone from receiving monthly statements via mail, to looking in the evening newspaper, to now having instantaneous price updates for practically all traded securities. IRA holders and Qualified Plan participants have enjoyed being able to know, day by day, how much their plans are worth. Securities brokers and plan administrators have provided their clients with instant access to data as well as the ability to buy and sell at the drop of a finger on the keyboard.

It is incredible to have access to so much information and the ability to make instant choices. The vast majority of all retirement investors have chosen this road. And almost almost universally the choice is for instantaneous liquidity. With everyone choosing liquidity, can it be inferred that instant liquidity is the best choice?

Is taking the road more often taken the best choice?
The economic laws of supply and demand indicate that if demand is high, then prices will go down.

Does the availability of instant liquidity result in lower returns? Some economic researchers believe it does. Dr. John Campbell, Professor of Economics at Harvard University and member of the board of the Harvard Management Company, believes the overall risk-adjusted returns for highly liquid investments are often significantly less than returns for less liquid investments.

Further, Dr Campbell pointed out at the "Pathways to a Secure Retirement" conference sponsored by the Retirement Research Consortium in August of 2006, retirement plans seldom require access to instant liquidity, but plan holders appear to be selecting it nonetheless, regardless of cost.

The well-traveled road more taken comes at a measurable cost. Campbell believes that plans should seek profitable investments that do not include instant liquidity. Like Mr. Frost, Dr. Campbell favors the road less taken. Investors are paying a premium for liquidity that their plans do not need.

Retirement plans are accumulating assets over the long term.

Satiating the current investors' personal desire for high liquidity comes at the sacrifice of long term investment growth.

What would Robert Frost choose?

If Robert Frost had an IRA, I believe he would have chosen the retirement investment options less commonly chosen, those with less than instant liquidity. The majority of investment choices found on the road less taken are available only to retirement plans which are truly self-directed, such as those offered by the Entrust Group.

What road will you take?