

FINANCIAL SENSE: Bringing a method to March Madness

By Darrell J. Canby

March 22, 2010

The alliterative cadence of the phrase “March Madness” has made it an effective slogan for the NCAA basketball tournament, but its reach goes far beyond the parquet floor.

“March Madness” was first used in 1939 to describe an Illinois high school basketball tournament. Sportscaster Brent Musburger introduced the phrase during his 1982 NCAA coverage, and was sued as a result. Today, of course, the term is ubiquitous with the NCAA tournament, but it also is applicable to today’s investor. As the spring thaw begins, there is, indeed, madness in the air.

“The great proof of madness is the disproportion of one’s designs to one’s means.”
Napoleon Bonaparte

Napoleon was, of course, as guilty of overreaching as just about anyone in history, but he at least recognized the madness of living beyond one’s means. That lesson has not yet caught on with most of America and, indeed, most of the world.

As exhibit A, consider the country of Greece. The country’s golden years ended thousands of years ago and today Greece makes headlines with its challenges in meeting their debt obligations.

Some would argue that it would be appropriate for Greece to suffer the consequences of its profligate behavior. Why should other countries suffer because of Greece’s problems? And what incentive will Greece have to control its spending if other countries pick up the tab? Alas, though, Greece is part of the European Union and other countries are negotiating a bailout that could crimp the economic well-being of the entire EU.

That’s where the madness comes in. The weak link has the potential to pull down the entire continent, rather than the strongest nations setting an example for others. German Chancellor Angela Merkel and other EU officials appear to be doing the “Aztec two-step,” according to BloggingStocks.com, as they suggest that aid will be forthcoming if Greece implements fiscal austerity measures, while they are also attempting to reassure markets that Greece must solve its own problems.

“Madness is rare in individuals, but in groups, parties, nations and ages is it the rule.”
Friedrich Nietzsche

The Aztec two-step appears to be the dance of choice in the U.S. as well. In spite of strong talk about the need to control spending, Washington appears to be moving forward with their trillion dollar healthcare reform. Healthcare reform is needed, of course, but so are a lot of things.

This year’s budget alone includes a \$1.4 trillion deficit. While President Obama is now pledging fiscal restraint, any cutbacks in spending will be measured against this budget. A level-spending budget next year would seem to show fiscal constraint, but it would be compared to this year’s budget, which is already at a deficit level.

A very large line item in these budgets will be interest costs on the high debt level. With current interest rates at record low levels, any movement of the rate will affect that line item. Which way do you think it will move?

Under the current federal budget, publicly held debt will have doubled from 40.8 percent of gross domestic product (GDP) in 2008 to 81.7 percent in 2019, according to The Heritage Foundation. In other words, almost everything we produce in a given year will be needed just to support the federal budget.

The federal government has spent trillions of dollars on economic stimulus and other government programs. While such actions were needed to stabilize the financial system and benefit the economy, the dollars spent did not all make it to the private sector. Getting a return on the investment in the private sector with more job creation is a key element to economic recovery. These jobs and economic growth will provide the source of funding to help pay down the large debt that has developed in not only the Federal government, but state government as well.

*“Mad is the man who is forever gritting his teeth against that granite block,
complete and changeless, of the past.”*

Antoine de Saint-Exupery

The amount of consumer credit card debt dropped in January for a record 16th straight month, according to the Federal Reserve, but the modest decrease of \$1.7 billion could be a sign of economic distress, not consumer restraint. Credit card debt still totals \$864.4 billion.

However, some consumers have reduced their use of credit cards. Instead they use debit cards and incur overdraft fees when there is not enough cash in their accounts. Bank of America has taken a bold step by not allowing transactions that would result in an overdraft. When will Americans understand they have to live within their means?

Some consumers are foregoing their mortgage payments to pay on their credit cards. Why would homeowners protect their credit cards and not their homes? It may be because many homes are now “under water,” meaning they are worth less than the amount outstanding on their mortgage. Or it may be that consumers who are out of work need their credit cards just to get by.

Whatever the reason, it’s another sign of March Madness.

The real madness, though, is this: faced with all of this debt and an unemployment rate near 10 percent, consumers will need to start spending again if the economy is going to recover.

“Though this be madness, yet there is method in’t.”

William Shakespeare

So what should the average investor make of all of this?

A lesson can be learned from the NCAA playoffs. There is, indeed, a method to March Madness. It’s a case of survival of the fittest. Although some degree of timing and luck are involved, tournament play quickly separates the top teams from the less-sweet 16.

The top teams clearly have talent, but it also takes a great deal of desire and discipline to get to the top. Likewise, desire and discipline go a long way toward helping consumers control their spending and investors achieve their financial goals.

Channel your discipline and desire by following these lessons. We’ve preached them before, but they bear repeating:

- Set a budget based on what you can afford and stick to it.
- Own only one or two credit cards and pay off your entire balance each month.
- Pay yourself first. That is, put aside a certain amount each month, invest it and then pay off all of your bills.

- Diversify your investments, so that you are not overly dependent on the performance of one type of investment.
- Don't sell off your stock when the market is down. Stay in the market and give it a chance to rebound.
- Read about investing. Studies by Challenger, Gray & Christmas have determined that March Madness causes a drop in workplace productivity, costing employers billions of dollars. How much time do you spend watching and following the NCAA tournament? If you spent that much time studying your financial needs, imagine the positive impact it could have.

O, that way madness lies; let me shun that.

William Shakespeare

Like King Lear, consumers and politicians alike talk about shunning the madness of overspending and showing financial restraint, but their behavior rarely changes.

It takes a great deal of discipline and desire to change your behavior, but it can be done. It will be easier if you understand the consequences of continued overspending and a lack of financial discipline. With a little fortitude and a lot of work, though, you can make the madness end along with March.

As we approach the end of March, we approach the Final Four. Do enjoy the NCAA tournament. I certainly do.

Darrell J. Canby, CPA, CFP® is President of Canby Financial Advisors, LLC, a registered investment adviser at 161 Worcester Road, Suite 408, Framingham. He offers securities as a Registered Representative of Commonwealth Financial Network, Member FINRA/SIPC. He can be reached at 508-598-1082 or dcanby@canbyfinancial.com.