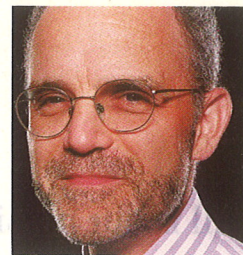


BY JASON ZWEIG



## TIE ME DOWN AND MAKE ME RICH

Investing on autopilot is an awesomely powerful way to build wealth. So why is it so hard to persuade people to do it?

One of the hottest self-help bestsellers right now is David Bach's *The Automatic Millionaire*. While it pushes some pretty daffy notions, the book also advocates a sensible idea: Every month, have a fixed amount (say, \$100) beamed electronically from your bank to a mutual fund. This dollar-cost-averaging technique will painlessly boost your savings; you will never need to write a check, scrounge up an envelope or lick a stamp. You'll save without lifting a finger. When stocks are cheap, your \$100 will buy more; when they're expensive, it will buy less. As the years pass, those slow but steady purchases should grow into a tower of wealth.

And yet, at T. Rowe Price, only 10.3% of investors with taxable accounts use an automatic investment plan. At Vanguard, roughly 3% do. All this got me thinking: Dollar-cost averaging is indisputably a great idea, so why is it so hard to do?

### Don't fence me in

First of all, the numbers are not as bad as they look. If, like most investors, you have a 401(k), then you're already dollar-cost averaging, since the money from your paycheck gets invested right after payday like clockwork.

But something else is going on. A team of economists, including Andrew Caplin of New York University, recently conducted a fascinating survey. They asked some people to imagine winning a sheaf of gift certificates for dinner at any fine restaurant. The certificates would expire in two years. Caplin's team asked whether anyone would be tempted to use so many certificates in

the first year that they might kick themselves in year two; 25% admitted that they would. The researchers then asked how many people would be willing to accept certificates that were usable only in the second year. Just 7% said they would.

In short, we know darn well that we ought to set something aside for a rainy day; we just don't want to. "People don't like tying their own hands," says Caplin. "That notion that you've lost some flexibility can be overwhelming"

And automatic investing exposes you to a potential regret. "When you choose [to invest] slowly over time," says



**We all know we should salt away some money every month. But it's easier said than done**

Santa Clara University finance professor Meir Statman, "You're concerned that in hindsight you'll find out that you could have gotten rich quick by putting all your money in at the beginning."

### Fill your buckets

University of Chicago economist Richard Thaler points out that people will sign up for a 401(k) and then use their other accounts "to park any money that

happens to be left over. For most people, most of the time, that means zero." In other words, we have a hard time setting money aside without a specific purpose in mind. Thaler's argument is bolstered by data from T. Rowe Price and Vanguard, both of which report that a third of their college savings accounts use dollar-cost averaging. In

Vanguard's case that's 10 times the rate on its ordinary accounts. And that suggests some ways to help yourself save automatically. **Designate a targeted purpose for your automatic investing account.** "This is for our down payment," for example. (Funds and brokers could help by letting investors name accounts this way.)

**Put an expiration date on it.** Plan to invest automatically until, say, 2009. It may be easier to start if your commitment isn't open-ended.

**Start small.** You don't need \$1,000, \$500 or even \$100 a month. The TIAA-CREF funds, among others (see [tiaa-cref.org](http://tiaa-cref.org) and [mfea.com](http://mfea.com)) allow automatic monthly investments as low as \$50.

The great satirist Ambrose Bierce defined the future as "that period of time in which our affairs prosper, our friends are true and our happiness is assured." By summoning the courage to put your investing on autopilot, you can turn Bierce's words inside out and make the future work for you. **E**

*E-mail Jason Zweig, editor of Benjamin Graham's The Intelligent Investor, at [investor@money.com](mailto:investor@money.com).*