Should You “Take Some Money Off The Table?”

One of my investing pet peeves is the phrase “take some money off the table.” Perhaps the reason why is the blatant reference to gambling. At a casino in Las Vegas, it wouldn’t be unusual for a gambler who has had a recent streak of luck to “take some money off the table” and just play with “house money.” If he takes off what he brought to the table, his worst case scenario is going home without any losses. Not a bad outcome in a place where the odds are always against you.

The reason I don’t like it when it is used with investing is that smart investing really isn’t gambling. Not only are the odds stacked in your favor, but the secret to investing intelligently is to make as few trips through the “Wall Street Casino” as possible. Ideally, it’s one round trip for each dollar. You might contribute this hypothetical dollar into a 401(k) at age 35, invest it in a hypothetical index fund, and then pull it out at age 75 to spend. One round trip through the casino over 40 years will have a trivial effect on that dollar—the “casino” won’t be getting much of a cut of it. Plus, the likelihood of that investor losing money on that investment over 40 years is so close to zero that the difference can be safely ignored.

Investing is serious business for me. I don't really do "fun money" or "play money." If I want to have fun, I use the money to go heli-skiing rather than send it to some Wall Street gurus and Uncle Sam. I might be a thrill-seeker, but there is little thrill for me in investing, and it turns out that's a good thing for long-term returns.

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What does it really mean when an investor says "I'm going to take some money off the table"? Well, it could mean any of several things.

Timing The Market

Most commonly, it means he is trying to time the market by going to cash with some or all of his investment. He believes that the market is going to go down in the near future and that he can then invest the money back in the market. I'm not sure I need to go over why this is a dumb idea, but the difficulty with market timing is that you have to be right not once, but twice, and you have to be right by enough to overcome the transaction costs including taxes and the value of your time. It is so hard to do that consistently over the long run that it isn't worth trying. As a general rule, all that "going to cash" is going to do is decrease your returns.

The Wealth Effect

What nutcase did Angel's Landing in the snow with those little kids? (Note the harnesses and rope.)

For some people "taking money off the table" means to sell investments and spend the money. While I'm a big fan of spending money on things, experiences, and charitable causes that will increase your happiness, it is important to be aware of The Wealth Effect. That is to say, when our investments go up we feel wealthier and are more likely to spend. That's not such a bad thing since spending the same dollar amount from your portfolio when it is up means spending a smaller percentage of it than spending from it when it is down. However, it is important to remember that you're not really as rich as you think you are in a bull market (but neither are you as poor as you think you are in a bear market.) "Mr. Market" has some rather volatile moods which even out over the long term for the patient investor. Bipolar disorder might not be contagious, but catching Mr. Market's moods certainly is.

Being Wise About Asset Allocation Changes

A few people use the phrase "taking money off the table" when referring to a permanent change in their asset allocation. Bernstein likes the phrase "When you win the game, stop playing." That is to say, if a recent bull market has decreased your need to take risk, then take less risk. Most investors will want to decrease the "shallow risk" (volatility) of their portfolio as they approach retirement to reduce sequence of returns risk (i.e. the risk of running out of money despite having adequate average returns because the poor returns showed up early.) It seems wiser to make that sort of an asset allocation change a few years into a bull market rather than after a recent 30% drop. Isn't that market timing too? I suppose it is in a way, but I see it more as a reaction to your own personal situation (nest egg to financial needs ratio) rather than a reaction to Moody Mister Market.

So the next time you hear someone use the phrase "take some money off the table," rather than think "That sure sounds smart," I want you to remember it probably isn't very smart at all if the intent is for that money to go back on the table at some point.

What do you think? What common investing phrases annoy you? Have you been guilty of "taking money off the table?" Why did you do it? Did it work out well for you? Comment below!