SAGE FINANCIAL ADVICE FOR CHILDREN (AND ADULTS)

When I was a young man, my dad gave me some advice about being financially responsible. Although I listened with an attentive ear, I felt his ideas were a bit old fashioned. But, as is so often the case, the older I get, the more parental advice seems to validate itself.

The following 16 points are a summary of his advice:

1. Teach your children financial responsibility. It will be one of the best lessons they will ever learn.
2. The only way you'll ever have any money is to pay yourself first. If you increase your earnings, increase your savings.
3. Once you have accumulated some assets, be careful of what you do with them. There are a million scams out there, and people who are a lot smarter than you and me have been "taken", time and time again.
4. Never put all your eggs in one basket. Diversification should be considered.
5. Don't listen to anyone who tells you they can get you a higher rate of return without incurring more risk. Economics 101 taught us that higher return equals higher risk. That basic law has not changed and will never change.
6. Know your risk tolerance and don't exceed it. You'll sleep better.
7. Asset allocation should change with age. My “Rule of Thumb” has been as follows: The percentage of assets allocated to equity investments should be equal to 100 minus my age.
8. Credit cards are a convenience. Never, never fail to pay your bill on time. Paying interest on credit cards is like stepping into a pit of quicksand.
9. It is better to collect interest than to pay it.
10. Timing the market does not work. You have to be right twice: once when you buy and once when you sell. No one has ever been able to do that on a consistent basis.
11. Predicting the future of the stock market is like predicting the weather; neither has been very successful.
12. One of the greatest burdens you can saddle your children with is to give them too much too soon. They may become lazy, spend the money and ask for more.
13. When investing in equities, one option to consider is dollar-cost averaging. In other words, "KOKO" or keep on keeping on, whether the market is up or down.
14. Be careful with your marriage. Divorces are expensive, both financially and emotionally.
15. There is nothing wrong with paying taxes; it means you are making money.
16. Gambling can be addictive. Look out. If you do gamble, set an acceptable limit for your losses. If you lose more than the limit, you are gambling at an unacceptable level.

There you have them, my dad’s suggestions.

We are living in uncertain times. Many are finding the “war on terror” psychology difficult to cope with, and some are using this as an excuse for not focusing on their financial plans. This is a bad idea. During my lifetime I can recall people having similar concerns. First, it was the Great Depression, then World War II, followed by the atomic bomb threat and the Cold War. Those that succumbed to allowing their personal plans to fall victim to outside events have paid a heavy price. If dad were alive, he would tell them, “The sun will come up tomorrow; get on with your life.”

The information contained in this newsletter is meant to be educational in nature and should not be construed as personalized investment advice. Please contact a qualified attorney, tax or financial advisor regarding your personal situation. Diversification cannot assure a profit or protect against a loss in a down market.

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