Financial Literacy for Investors

Unless we were born in a wealthy family and financial literacy was taught in the home, we are almost doomed to a life a being average financially. When it comes to investing, most of us were never taught financial literacy by our parents. Often, they were doing the best they knew how. Our parents worked hard to pay the bills and hoped to have enough left over for retirement. They taught us the same thing and we usually repeat the cycle.

Schools typically do not offer classes on financial literacy. Our office is near one of the top business schools in the US. We often hire business majors as interns. These are some of the most brilliant students in the country.

They have incredible talent, ideas, and business strategies on how to make money. But when you ask what they are going to do with the money once they earn it, they usually have no clear idea. They are taught how to earn it, but not how to grow it, or keep it. There are almost no courses taught on how to invest money even at the best business colleges.

Lenders are not motivated to teach financial literacy. Their focus is to determine your ability to pay them back on money they loan to you. They want to maximize interest and fees. If you make a late payment, the lender reports it and your credit score goes down. Then you typically are charged higher interest on future loans.

If you fail to pay a mortgage or auto loan, the lender can take the asset from you. It is often resold to create payments new payments. This way, lenders protect their money and ensure they get it back plus interest.

Wall Street generally does not teach financial literacy. Most people understand Wall Street funds, fund managers, financial advisors, and other financial institutions are in business to make money. They typically charge fees whether your account goes up or down.

DALBAR is a leading independent research firm that tracks actual average returns for investors. For the past 20 years, the average actual return for asset allocation mutual funds is **below 2% per year.** According to DALBAR *"The results consistently show that the average investor earns less – in many cases, much less – than mutual fund reports would suggest."*

Jack Bogle, founder of Vanguard, before he passed away stated in a Dateline interview http://www.pbs.org/wgbh/frontline/film/retirement-gamble/ that *"If you want to improve your retirement outcome, minimize Wall Street's take". "The magic of compound returns is overwhelmed by the tyranny of compounding costs. It's a mathematical fact."* Referring to managed funds he states *"Do you want to invest in a system where you put up 100% of the capital, take 100% of the risk, and you get 30% of the return?"*

Jack Bogle gives an example. *"Assume you are invested in a fund that averages a 7% average annual return and charges a 2% annual fee. Over a 50-year investment lifetime, the difference between your 5% take and the 7% you would have made without fees is staggering. You have lost almost two-thirds (63%) of what you would have had."*

Many people contribute into IRA's or 401(k)s. They often have no idea what their money is really invested in, what the fees are, how taxes will affect them, or how much they will have for retirement. They just hope it all works out. They are taking on unnecessary market and future tax risks with their retirement.

Most financial tools have limitations that many are unaware of. They do not realize how the rules or restrictions will impact them when life situations happen. There are often taxes, penalties, contribution limits, and distribution requirements that continually change. Many get a headache just thinking about it.

The most common financial advice in America is when people file their tax return. Unfortunately, tax preparers are not typically trained or experienced in the financial industry. Their focus is on tax code which is extremely complicated itself with constantly changing rules. It is unrealistic for one person to be highly knowledgeable in both tax code and financial products.

In addition, tax preparers are typically extremely busy during the period most of us file taxes. They only have so much time to determine your deductions and file the forms before they are due.

Like most Americans, I had very little financial literacy training growing up. Fortunately, I discovered these wealth concepts from some very successful business and financial leaders. Some even became mentors. I learned that the wealthy are often taught and think about money differently than most people.

Before you can dramatically enhance your financial future! There are key wealth concepts that are important to understand. Some of these include:

1. Think Like a Banker rather than an Investor: always protect your downside
2. Liquidity versus Use and Access of Your Money: use your money today and earn future growth
3. True Value of a Dollar: know your lost opportunity cost

These are some of the basic keys to financial literacy. If these keys are not familiar to you, you will most likely suffer with average financial results through your lifetime. If you have not heard your financial advisor discuss these wealth concepts, you are most likely doomed to average financial results shared by the DALBAR study.

There is a better way! Take control your finances. Stop following the 99%! Start thinking and doing what the 1% do. Gain access to more money! Stop paying interest, start earning interest! Become your own credit facility. Reduce taxes and penalties! Create tax-favored income. Eliminate market risk! Earn compound interest! Dramatically enhance the financial future of you and your family! Establish a family legacy.

The definition of insanity: Doing the same thing over and over again and expecting different results!

If you want different results, learn what the wealthy do. Gain some financial literacy by contacting one of our ***Your Personal Bank***TM advisors and start changing the financial future of you and your family!

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