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 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 have hired business majors as interns. These are some of the most brilliant students in the country.

These students 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, they report it and your credit score goes down. This allows them to charge more interest and fees on future loans.

If you fail to pay a house or auto loan, the lender can take it from you. Then, they resell it to get their money back and repeat the process. Lenders protect their money and ensure they get it back plus interest.

Wall Street has not taught financial literacy. Most people understand Wall Street, stockbrokers, and financial institutions are in business to make money. Typically, they are more concerned about collecting fees than returns on your account. This is because they charge fees whether your account goes up or down.

The most comprehensive annual study known as the DALBAR study, routinely tracks actual average returns for investors. For 20+ years, the averages are 2-3% per year to the investor. The main culprit is fees.

Jack Bogle, founder of Vanguard, stated in a recent Dateline interview 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?"

In the interview, 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."

If you want to confirm the numbers yourself, use a compound interest calculator or go to the interview at http://www.pbs.org/wgbh/frontline/film/retirement-gamble/.

Your PersonalBank.com

YourPersonalBank™

ferenc@yourpersonalbank.com 866-268-4422

Most people contribute what the company recommends into their 401(k). They 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.

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 layers of rules, taxes, penalties, contribution limits, 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 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 the financial industry.

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. They don't have time to do future tax planning.

The wealthy are generally taught and think about money differently than most people. I was fortunate to discover and be taught these wealth concepts by some very successful business and financial leaders.

Before you can change 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: 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.

There is a better way! Take control your finances. Stop following the 99%! Start thinking and doing what the 1% do. Stop paying interest, start earning interest! Become your own credit facility. Eliminate taxes and penalties! Create tax-free income. Eliminate market risk! Earn compound interest. Change 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 me and start changing the financial future of you and your family!

Ferenc Toth
Your Personal Bank
Founder

YourPersonalBank.com

YourPersonalBank™

ferenc@yourpersonalbank.com 866-268-4422