INVEST

— IN —

YOURSELF

MoneySmart Online Course #5

Where, When and How to Invest Your Money

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Notes for MoneySmart Online Course #5

When, Where and How to Invest Your Money

The Stock Market. Investing in the stock market has been the #1 source of the financial disaster that's been hitting most people, and also, that no way do you want to depend on it for your financial future.

The depth of incompetence. Many studies have documented that you can invest your money better than the experts and time and again those studies were effectively buried by the Financial Services Industry and the Financial Media. The study, *Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry by Daniel Bergstresser of the Harvard Business School* was considered so comprehensive it was dubbed "The Study of the Decade".

Teams of people from the Harvard Business School and others around the country came together to study trillions of dollars of transactions over many years. The financial industry supported the study, even provided the data, confident the results would be a great marketing tool to show their clients what a good job they were doing. Well, you never heard about this study, did you? Here's why:

Study Conclusions:

- As a group, financial advisors in America not only underperformed the market as a whole, they underperformed what most people did on their own without an advisor.
- Individual investor's returns were over twice those of the experts.
- Advisors do not provide superior asset allocation.

Here's some more input for you to consider..

- 98% of all professionally managed stock funds underperform the market in 10 years.
- Over 80% of all managed funds fail to beat the market each year, and the ones that do, change from year to year.
- From 1984-2002 the stock market rose an amazing 793%. The average stock investor made less than 3%, adjusted for inflation.
- Had you remained in the market since the end of 1999, and had you matched the market, inflation adjusted, do you know what your 17 year return has been? Are you ready? Try 3 quarters of a percent. 3 quarters of 1 percent! A 17 year return of almost nothing! But for the 80% that entrusted professionals to invest, well they lost a heck of a lot of money.

The truth is that the stock market is really a casino.. skimming away your money in commissions, expenses, trading costs and such.

And the financial media? I could go on all day there with their utter incompetence. Anyone in the financial media, from Suze Ohrman, to Jim Cramer, to all those talking heads on TV every day.. when it comes to investing they don't have a clue. All you have to do is look at their track records. Almost without exception, they're disastrous.

Next, we need to undo 3 very damaging lies you've be told over and over..

Lie # 1- That money management is very complicated. The truth is, and you're going to see it, that money management is **not** complicated. They complicate it to get their hands on your money.

Lie # 2- The experts can manage your money better than you can. Look at what you just saw. What else do I have to tell you? And for those who think they have that 1 in a hundred, an actually competent investment professional, I got a question for you.. You ever see the complete 10 to 15 year track record of your financial advisor? .. the only kind of track record that really matters?.. the complete 10 to 15 track record of their firm?

No you haven't. Because it's almost certainly bad. But if they've shown you an overall track record of beating the market for at least 10 years and especially since say 2000, great. You've got that 1 in a hundred. Me, I don't even try to find such a person. The odds are just too bad.

The bottom line is to invest your money yourself, and that when you do you're likely to do so far better than any alleged financial professional is likely to ever do for you.

And a word about all those "investment professionals" ads we're always hearing. As I told you in subject #4 – Spending Smart, never respond to servicing advertising. Almost all successful service businesses get the vast majority of their business from repeat business and referrals. So who's advertising? The ones that didn't.. the very ones you want to avoid.

Lie # 3: Always Invest for the long run. The truth is that all markets go through long periods of substantial over and underpricing, creating long periods of time when you are pretty much guaranteed to win money, and others when you are pretty much guaranteed to lose. Here's the truth about the last 100 years..

- A 29 year **bull** market from 1900-1929
- A 20 year **bear** market from 1930-1950
- A 15 year **bull** market from 1951-1966
- A 15 year **bear** market from 1967-1982
- An 18 year **bull** market from 1982-2000
- A 17 year **bear** market from 2000- 2016 +?

When the stock market is badly over-priced, the sensible thing is to sell your holdings and invest in other markets like fixed-income or real estate. As to when the stock market is an ok or good place to be I'll try to keep you abreast of that as best I can, so I suggest you sign up for my blog if you haven't already done so.

For any money you do invest in the stock market, only invest in broad-based, no-load, no commission, index funds only. Over the long run, this one simple type of stock market investment has been proven to outperform all others.

Peter Lynch: "Most investors would) be better off in an index fund."

Warren Buffet: "Most people should only invest in index funds"

As to what that is, what an index fund is, just go google it, and in like 5 minutes or less you'll know. As to where to buy them, I'd suggest from a company named Vanguard, so while you're at it go read up on them, too.

As for investing in individual stocks, unless it's a company you know extremely well, a company you work for or whatever, I strongly recommend you don't do it, because you'll probably end up underperforming the index funds just like the pros. And to make matters worse, the truth is that the game is just too rigged against the individual investor.

If you have a 401k with you the company you work for you need to read about this suit, Tibble v. Edison, a lawsuit brought by employees against their employers for fee-laden funds in the 401(k) plan. It went to the Supreme Court who backed the employees and ordered the company to pay millions in damages to the employees.

Next, let's talk about a whole lot of investments you're bound to be pitched.. again and again. Maybe it's how to flip houses and make a bundle, how to trade stocks and get rich, an investment that's bound to give you this great return, a return way better than you could normally get. All of these things fall into a single category. They're too good to be true. Almost every time you get hit with this, I guarantee you it's a con. Too good to be true is just that. **It's too good to be true**.

Investing in yourself. If you're like most people, investing in yourself is likely to be, far and away your best investment of all. To invest in yourself and win however you need to do a couple of things right.

The first is extremely thorough homework is critical here. And that includes learning all you can about which companies and maybe which industries reward their people a lot better than others.

Work at becoming as good as you can be at what you do and reliable and thorough at your work. If you can learn new skills or improve existing ones by getting some additional education, do it.

Investing in an education. The value of a college education has become very questionable. College dropout rates in this country are nothing short of disastrous, and for those that do graduate the average time to do so is now something like 6 years, not 4. 51% of college graduates work at a job that does not require a degree. 50% of college graduates weren't able to find a meaningful job. And yet, millions of jobs, something like 35% of all job vacancies, are going unfilled because employers can't find candidates with the necessary skills or experience.

And another thing.. They talk about the crippling debt loads involved but never about what it would mean if your kid went out and worked for 6 years while continuing to live at home or the equivalent of a dorm. How many hundreds of thousands more would he or she have in addition to all that tuition money? Hell, even if all they did was wait tables, he or she would have achieved financial freedom by the time they were 24 years old! Think about that! Free to own their own house, outright, or to work at what they want when they want.. live how they want.. at 24!

So do you invest in a college education for your kids? Maybe.. but only maybe.

There is no end to the careers and self-employment opportunities that don't require a college education and that can give you a very good income and a very satisfying life. When you choose an education for yourself or your kids you need to decide what does it prepare you for.. if your goal is to become a doctor, a dentist, and engineer or whatever, where what you learn is what you'll actually use in the real world then fine. Otherwise, why are you doing it?

More and more, most employers now value the skills and experience you walk in the door with. They no longer have the time or the money to teach you the skills they need. They want people who will be productive the minute they walk through the door.

These skills can be acquired in a lot more places than in a four-year academic institution. How about the internet? It's become just an awesome source of education today and getting more so every year. How about a two-year degree, an online degree or certification, trade or technical schooling, real-world work experience, or any combination of these. These alternatives may end up costing a lot less than a regular four-year college education and also provide a better entrance to the work force.

A personal residence. if your reason for buying is that a home is always a good investment, that's not so. History shows a home is a great savings bank, great forced savings, but that the value of homes generally tracks the rate of inflation and nothing more.

Now that doesn't mean you don't buy a home, because if it's what you want, you have the financial requirements needed, and you're very thorough in doing your homework to insure you're getting a good buy, then I say do it.

There is also another very important factor in favor of owning a home. Right now you can still get a 30 year fixed rate mortgage at an unusually low rate. Inflation *will* come and over time you're likely to get to pay off your home at something like 60-70 cents on the dollar.

If you're looking at a rent vs buy decision I suggest you go on-line and read about it. I've listed 2 articles for starters, below, but you probably want to read a good bit more than just those 2.

Renting vs. Owning a Home: Pros and Cons | Investopedia

Renting vs. Buying a House - How to Make a Decision, Pros & Cons

Residential rental property. If you can buy a property in a stable area that gives you say a 5-6% return on your money, assuming a conservative estimate on vacancy rate, and not counting any increase in the value of the property, this can be a worthwhile investment. Just be sure to be extremely thorough with your homework as I can't stress enough how important thorough homework is to your success here. For example, never trust what any existing owner says is the reason they're selling. Always dig deep under the covers to reach your own conclusions.

Starting or buying a business. Having your own business is not for everyone. It's probably a good idea for maybe only 1 out of every 10 people. But if you have the desire to do so and have a good amount of understanding and experience at what you'll be doing it may nevertheless be a very good thing to do.

Once again, be sure to be extremely thorough in your homework and, to be safe, factor in a significant drop in the economy. If you're looking to buy an existing business, never trust the owner as to why they're selling, because more than half the time there's something bad you don't know about. So dig deep and thorough to be darn sure that isn't the case.

Whole life insurance, annuities and long term care policies. As to whole life insurance, the right answer for most people is do not do whole life.. that term insurance is a far better way to go. Go google whole life insurance vs term insurance- which is better, and read for say an hour or so. Don't click on the posts from the insurance companies but even when you don't the information tends to be heavily skewed in favor of whole life, so be careful. Like I said, for most people the right answer, far and away, is term not whole life, as the commissions and costs are usually really pretty brutal. So unless you can build a very strong case that you are the exception, go with term insurance. Save all that money that would have gone to commissions, fees and insurance company profit and put it work for you, not them.

As for annuities, there are some limited situations where a variable-income annuity may be a good idea. The subject is complicated, with an awful lot, I think most, of the difficulty added intentionally to make it harder for you to follow. The best advice I can give is no annuities unless you are willing to first do enough research on your own, probably a good 10 hours or so, to learn how they really work and whether they might be good for you.

If you end up deciding you're the exception, then buy a no-load annuity and save the commission.

As for long term care policies, the problem with these policies is that they're so very expensive that it creates a very nasty situation, where those that need such a policy can't afford one and will have to end up relying on Medicaid and those that can afford one don't need one.. they're' better off self -insuring and putting all the money involved in some place with a far better return.

If you do invest in such a long-term care policy, the probability of collecting on it is low. About two-thirds of seniors stay in a nursing home for less than 90 days, which means that they get no compensation from their policies. Furthermore, fewer than 6 percent of those admitted will still be in the nursing home after two years. And fewer than 4 percent of seniors currently reside in nursing homes.

The best way to go? I believe it's better to concentrate on seeing to it that you do a good job in funding your retirement with a combination of sources such as your Social Security retirement benefits, any pensions you might be eligible for and most importantly the money you've saved, including the deceptively large amount of money you would otherwise have paid over time for such a policy. If you do a good job on that you should be in pretty good shape.

Gold and silver. We live in a time where there's a lot of uncertainly going forward and part of that uncertainty is the value of any currency To help deal with that I believe it's a good idea for most people to own some gold and silver. I'm not saying a lot.. just some. And if you do, be sure its physically in your possession. Trust **no one** on this.

And if you buy some, do not consider it an investment. Don't go worrying about the day to day or even year to year changes in value. Consider it an insurance policy ..hopefully a free one, provided the price you paid is similar to what its selling for on average.

As to how much to own I'd say maybe 5% of your net worth. As to a minimum to go after, something like $5,000. Say something really bad happens. That $5000 will be worth like $15,000 or more in real dollars, and what that does is protect yourself and your family with enough food, water, gas and medical supplies and services to insure you're likely to be ok.

And please understand, I'm a positive guy, not a fear monger, but sometimes you need to have insurance, and I think that this is one of those things where you do.