



Session 10A, Section # 6

Pro-MAC National Section #6

Wealth Management

TOPIC 1 – 9 SMARTEST THINGS ABOUT MONEY2

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1. **“Annual income, twenty pounds; annual expenditure, nineteen pounds; result, happiness. Annual income, twenty pounds; annual expenditure, twenty one pounds; result, misery.” – Charles Dickens**

Dickens got this advise from his father, a financial failure, and later put it in to the mouth of Mr. Micawber –perpetual debtor and optimist – in *David Copperfield*.



What does this mean to you? It's this simple (and this difficult): spend less than you earn.

2. **“Beware of little expenses. A small leak will sink a great ship.” – Benjamin Franklin**

The good news, he further counseled, is that “A penny saved is a penny earned.” (Not so, griped humorist Ogden Nash: “A penny saved is...impossible!”) Actually, because of the taxes that come out of your pay, a penny saved-not spent-is better than a penny earned. You may have to earn nearly two pennies to be left, after taxes, with one.



*Turn off the lights and T.V. when you leave the room!
Dress lighter and turn down that air conditioner!*

- 3. OCTOBER: This is one of the peculiarly dangerous months to speculate in stocks in. The other are July, January, September, April, November, May, March, June, December, August, and February. – Mark Twain**

How did he know this 35 years before the Great Crash of October 1929?
And 93 years before the Dramatic Crash of 1987?

Listen: You want excitement? Arm-wrestle. You want a lot of excitement? Watch someone *else* arm-wrestle and bet \$50 on the outcome. But with your real money, “playing the market”- trading in and out – is dumb. If you win, you get eaten up by taxes. And why bet against the pros? (Famed investor Michael Steinhardt was once asked the most important thing average investors should know about the stock market. His answer? *“That I’m the competition.”*)



Don't speculate. Invest in stocks for the long haul via no-load, low-expense mutual funds.

- 4. “Your average Wall-Streeter, faced with nothing profitable to do, does nothing for only a brief time. Then, suddenly and hysterically, he does something which turns out to be extremely unprofitable. He is not a lazy man.” – Fred Schwed, in the book *Where Are the Customers' Yachts?***

5. **“The people who sustain the worse losses are usually the ones who overreach, and it’s not necessary! Steady, moderate gains will get you where you want to go.” – John Train, investment counselor**

The world’s most successful investor, Warren Buffett, just buys and holds. Had he earned the same 25% or so compounded annual return over the same 37 years – but sold his holdings at the end of each year, exposing his gains to taxes – his current \$35 billion net worth would be barely \$5 billion!

6. **“I can calculate the motions of heavenly bodies, but not the madness of people.” – Isaac Newton**

Newton was a heavy investor in what came to be known as the South Sea Bubble –which predated our dot.com bubble by nearly 300 years. He lost 20,000 pounds, a vast sum in those days. While by far the biggest enterprise of its time, the South Sea Company inspired scores of other ventures – including every financial historian’s favorite, a stock issue “for carrying on an undertaking of great advantage; but nobody to know what it is.” Which is not too different from some of the stock Wall Street was recommending just a couple of years ago. Human nature doesn’t change.

7. “He is richest who is content with least.” - Socrates

Marshall Sahlins argued in his book *Stone Age Economics*, there are two possible courses to affluence: “Wants may be ‘easily satisfied’ either by producing much or desiring little.” It is so much wiser to count your blessings than to count your neighbor’s money.

“Probably the greatest harm done by vast wealth,” observed Teddy Roosevelt in 1902, “is the harm that we of moderate means do ourselves when we let the vices of envy and hatred enter deep into our own natures.” So *what* if Jerry Seinfeld bought a \$32 million house in the Hamptons? Are you going to let that eat at you? A \$7000 flat-screen TV is very nice, I’m sure, but a \$200 TV gets you all the same channels.



Forget about keeping up with the Joneses. Live beneath your means and invest what’s left over in a Roth IRA.



Don’t buy a stock when everything looks great. That’s often the top. Consider buying when everything looks rotten. (Except that sometime things are rotten – which is one more reason to stick with a simple lifelong plan of monthly investments through mutual funds.)

**8. “Buy straw hats in the winter-time. Summer will surely come.”
– Financier Bernard Baruch**

Or, as the legendary economist John Maynard Keynes put it, “Very few American investors buy any stock for the sake of something which is going to happen more than six months hence, even though its probability is exceedingly high; and it is out of taking advantage of this psychological peculiarity of theirs that most money is made.”



Think ahead – and be patient.

**9. “Rich people plan for four generations. Poor people plan for
Saturday night.” – Gloria Steinem**



Set goals. Make a budget to reach them. It's tough, but you can do it. Most people retire with nothing, said financial writer Venita VanCaspel Harris, “not because they plan to fail, but because they fail to plan.” Start today.

“you see those charts that say if you put away \$500 a year starting at age 20, by the time you're fifty, you'll have a gazillion dollars?” asked the colorful political adviser James Carville recently. “It just makes you ill that you didn't do it. You almost want to grab young people and shake 'em and say, ‘Please don't make the same mistake I did. Please.’ “