Money Culture--The Financial Literacy Movement

America's Investing Knowledge

Will Rogers said about investing, "Don't gamble, take all your savings and buy some good stock and hold it until it goes up, then sell it. If it don't go up, don't buy it."

The problem is that collectively we are an undereducated public when it comes to investing knowledge. We think we can beat the market, save enough money for retirement and get rich quick like in an Horatio Alger story. We think we can retire early to a lifestyle like the couple on the sailboat on those ads on television.

We have the highest debt ratio and the lowest savings rate since 1933. The average American has $152,000 in investible assets, but don't be misled by average. Averages are skewed by those at the higher end. The median household has $8,100, but is $13,000 in debt. That is to say if there are 200 million households in the U.S., 100 million have less than $8,100 in investible assets, and they have more debt than assets.

We are victims of Wall Street hype and mainstream media misinformation which has overcomplicated the investing landscape to such an extent that it is difficult to sort out the pigs from the pronghorn. The "average" American gets his or her investing knowledge from financial illiterates like Jim Cramer and other talking head idiots who scream at us on CNBC or Fox channels. The hype and misinformation went to great lengths to convince some people that the only way we could understand any of this was to pay some money to a helper to do it for us. Our mission at Money Culture is to rectify some of the collateral damage created by the misinformation. We're going to do that by demystifying the investing world, lifting some of the fog from the professional financial landscape.

Understand these two points:

1. Jim Cramer, Suze Orman and the other talking heads are media hype types hired by networks to create sensationalized attention, so that the networks can sell more advertising. Period. They are not hired to give us unbiased financial information.
If the news was, "Hey, nothing unusual happened on Wall Street today. Everything's cool. Just stay put and stay the course," nobody would watch. Instead you get headlines, "$200 oil will bankrupt trucking firms and airlines", "Penny stocks poised to jump 3000%" or "US going bankrupt, get out of treasuries" or some such garbage like that. Fabricated stories or polarized radical stories created to get our attention and make us watch. Don't buy it. To prove our point, check out the Jim Cramer video clip from March 11, 2008, and the news from 6 days later. Go to this guy for investment advice? Forget it!

2. Magazines and online sources like Money, websites like Smartmoney.com, Fidelity.com or publications from Scottrade, Schwab, T Rowe Price and others are funded by financial firms and advertisers that have something to sell you. They are anything but unbiased. They complicate matters by providing financial advisers with printed sales material packaged to make you believe that they are “education”. A financial firm with financial advisers like Morgan Stanley or Edward Jones does not give us un-conflicted investment information. Would a financial adviser give you a report that says their firm is in trouble? Of course not! So the primary sources of supposed “education” in the financial marketplace are product pushers with a bias. Virtually every financial adviser, every mutual fund and their firms are trying to sell you something.

So what we do here at Money Culture is give you unbiased, simple to understand financial information. There are no sacred cows and there are no advertisers. If we use a financial expert, we use academics or captains of industry to make our points. If somebody is a crook, or trying to rip you off, we tell you who and what.

As you read your way through these courses from week to week, we’ll debunk the Wall Street conventional wisdom, learn how stock and bond markets really operate, learn how the Fed works and examine the range of investment products offered today—the good and bad —product by product. We’ll look at the methodology that embodies sound investment principles and we’ll look at the schemes designed to separate you from your hard earned. We’ll listen to some of the great investment minds today—those who can speak to us without any ulterior motive—like the Oracle of Omaha, Warren Buffett, the Wizard of Wharton, Professor Jeremy Siegel, and some “not so great but we try hard” experts.

If along the way we have to knock a few icons off their ivory mantels and irritate a few of those Hermes tie fat cats playing golf on our money down at Dead Possum Country Club, well, that’s just how it goes. There are already too many pigs at that trough, so, fewer would be better. I promise you that along the way we’ll all move a few steps farther down the road to financial literacy. And I promise you that you’ll never hear a recommendation for any product, stock, bond, fund manager or firm. Sure we think we know the Wall Street wheat from the Bowery chaff, but we don't give investment advice the old fashioned way. So, where do we start? Let’s see if there’s a difference between saving and investing.

Saving vs. Investing

Saving is socking something away for the future, the rainy day sort of thing. We save for down payments, that HDTV, maybe for our kids schooling. Many of us are not very good at it. The primary purpose of saving is to not lose what we put in. We generally save small amounts at banks, when we can. We get modest rates of interest so that after inflation and taxes, we’re roughly even with what we put in. Modest interest on savings is a good thing. If you haven’t started to save anything yet, **GO TO YOUR BANK** and make them take some of your money. **DO IT NOW**; tomorrow may be too late.

Investing is also socking something away for the future—like maybe retirement, college or old age issues like health care. The purposes for investing are generally somewhat bigger than those for saving. So, out of necessity, our expectations from investing are a little higher. Modest rates of interest often aren't quite enough. We tend to be looking for something more than what we put in. To reach our investing goals we look at stock and bond markets. But many of us do it blindly. But that's the wrong way to do it. You wouldn't motor down I-90 without some idea of where you were going, would you? Well, not often, anyway. We need to invest using a disciplined investment process. We'll show you 10 logical steps to follow to develop a plan to meet the goals and objectives for each investment purpose.

Please understand that there is no "Best" stock or mutual fund or ETF or any other investment vehicle. There is no one investment that is right for everyone. It does not matter whether you have $100 or $100,000 to invest, any investment requires a thoughtful examination of the reasons for investing. Are you investing for a future purchase, for a college education for your kids, for retirement? Investing for a purpose requires a set of investment objectives specific to that purpose. Purposes differ—objectives differ.

Depending on the purpose, matching the money you have to invest with the objectives and strategy to get there is a process. We can break the investing process down into 10 components:

The Investment Process

1. Evaluate your current facts and circumstances. What do you have right now including real estate, savings, and assets convertible to cash? You don't really include furniture and fixtures—while they have value, they're not easily convertible. What's your income, and what is the likelihood of its continuing, increasing or decreasing? What are your current expenses and your debts and payments? Do you have any money in savings and is there any available for investing? List any likely future contingent expenses. Put it all on a grid (we can provide you with one). Examine it.

2. Identify buckets of possible investable cash. Buckets include current savings, IRA-type accounts and 401(k) assets.

3. Carefully establish the purpose or purposes for each bucket of investable or disposable cash. Prioritize them.

4. Set a dollar goal for each at some point in time in the future. For instance, if you're 50 and think you'd like to retire at 66, how much money will you need then? (I'll help you with this later). But as an illustration, if you have $36,000 in an IRA and don't expect a pension, you may need $250,000 when you're 66. Now, how do you get there?

5. Develop investment objectives for each of those goals. As goals differ so do objectives. They may be translated into percentage returns or dollar goals. They serve as the GPS navigator for your roadmap to retirement, and are the benchmarks to evaluate progress along the way.

6. Develop a strategy to achieve each of those investment objectives. To develop a strategy to meet goals, it is incumbent to understand markets and different asset classes.

7. Evaluate various investment options which fit each strategy. Again, you need to understand various investment vehicles, programs and products.

8. Select those options which have the most likely chance of reaching the goals set for each purpose. There are some resources to help you evaluate options, but you have to be very careful and aware of supposedly "Objective" resources which actually exist to steer you to a specific product from a specific provider. You want only independent, un-conflicted resources. For example **DO NOT READ ANY MUTUAL FUND, ETF OR OTHER FINANCIAL PRODUCT ADVERTISEMENT. DO NOT READ THE BACK PAGE OF USA TODAY'S BUSINESS SECTION** (more later). Invest in your selections. Buy them. We'll talk about how and where later. Now you have an investment portfolio.

9. Implement the strategy and don't look at statements for the next 6 months.

10. Re-evaluate at least annually, or when your financial circumstances change. Don't pay any attention to investment performance. It doesn't matter what you make, it's what you keep that's important. If you can meet your goals, none of the rest of it matters.