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In your best interest

Secrets your financial adviser wished you knew

By Paula H. Hogan

While there is a lot of hype in our culture about how to manage personal finances, there are also some very basic, straight-forward truths on which you can easily and profitably rely.

1. Children thrive within explicit/consistent, and reasonable financial limits. Whether it's an offer to a young child to pick two (not three!) candy treats, or clear house rule that adult children don't live at home once they've graduated from college, kids have an unerring ability to zero in on what the true limits are, to master living within those limits, and to learn and grow accordingly.

2. People who save early don't need to save as much as those who delay saving.

3. Automating finances leads to wealth. With automatic deposits and transfers in place, paychecks earn interest right away, bills are paid on time, and regular savings actually occurs.

4. Usually, the higher the number of trades in a portfolio, the lower is the portfolio return. Trades often trigger transaction expenses and capital gains taxes, each of which lower returns. Even more importantly, trades lower returns simply by being wrong, for example especially when motivated by, fear, greed, anxiety, remorse, and/or an irrational belief that market timing works.

5. People who keep their fixed expenses low have a lot more money for periodic luxuries: People who live in small houses often take big vacations.

6. Surviving spouses don't usually complain about large life insurance benefits.

7. Without adequate cash reserves, even the wealthy can feel poor. Ample cash reserves allow you to respond to a family emergency or to an unexpected opportunity according to your own personal values - not on your ability to incur debt on short notice or to raise cash quickly from investment accounts.

8. Families can talk about finances.

9. High portfolio costs (including fees, commissions, loads, and high annual fund expenses) erode your future standard of living.

10. Living over your income with substantial credit card debt is not sensible and is no longer fashionable.

11. Your heirs can't guess the details of your finances or your preferences for care at the end of your life. They need a map and they need to know where the map is.

12. One of the more common Thanksgiving surprises that college freshmen bring home to parents is credit card debt, incurred on a brand-new, personal credit card, offered to the student directly, without the need for parental approval.

13. People who don't have a basic understanding of income taxation are letting their largest expense go unmanaged. It's hard to get a tax break, if you don't know the break is available, or what it might be worth to you.

14. When there is a second marriage, or some kind of non-marital relationship with a significant other, commingling finances is usually more problematical then it is for those marrying for the first time and so is worthy of even greater time and attention.

15. However far your stock portfolio has just gone up is a good first guess about how far it can go down tomorrow.

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Ms. Hogan is a certified financial planner and a chartered financial analyst with an undergraduate degree in economics from Princeton and a master's degree from Harvard. A past-president of the Wisconsin chapter of the American Association of Individual Investors, Ms. Hogan is also a member of NAPFA (National Association of Personal Financial Advisors), the largest nationwide organization of fee-only financial planners. Ms. Hogan is a frequent speaker on financial topics both to the general public as well as to professional groups.

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