

INVESTOR'S EDGE

## Author offers a path to better money choices

*'The Psychology of Money' also has tips on avoiding bad behaviors.*

*"Would you rather be poor and have people think you're rich, or be rich and people don't know." Warren Buffett*



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A successful life consists of making responsible, informed choices. After all, when you really think about it, life is all about the decisions we make.

One powerful decision you can make is to commit to lifelong learning. As the old cliché goes: "In order to earn more, you have to learn more."

Even though I have been in the investment business for over 35 years, I continue to read, listen, and work hard to find new ways to financially benefit my clients and the readers of this column. So, I'm going to take the liberty of adding to your summer reading list a money-making classic: "The Psychology of Money — Timeless Lessons on Wealth, Greed, and Happiness" by Morgan Housel.

This book is not just about investing but rather about making better financial decisions in all phases of your life while avoiding common mistakes and bad behaviors. It's a superb read and will help you have a more fruitful relationship with money.

Please do read the book, but below is a concise summary of the essential points along with actionable ideas and quotes.

**How to have a great retirement:** "Wealth" is not a word reserved for the "wealthy." Anyone can build wealth, even those with a modest income.

Housel stresses the necessity of living below your means and resisting the urge to keep up with those around you. Put another way, the "quickest way to poverty is to act rich." Instead, your primary focus should be on good old-fashioned saving and investing. In fact, I've heard it said that if you save 10% of your income, you will have an okay retirement, save 15% to have a good retirement, but save 20% — and you can have a great retirement.

**Compound interest is the secret to successful investing:** One of my favorite quotes is from Albert Einstein who said: "Compound interest is the most powerful force in the universe." Sounds like a smart guy.

So, along the lines of compounding, what do you think one penny, doubled every day, — \$.01 to \$.02, \$.02 to \$.04, etc. — for 30 days turns out to be? Yup, you guessed right, over \$5.3 million!

If you don't believe me, get out your calculator and do the math.

Housel states in his book that the power of compound interest working for you is the secret to generating long-term wealth. And, as readers of this column know, I have consistently advocated investing in stocks — the greatest wealth creating vehicle known to man. Going back to 1926, through all the ups and downs, the broad stock market

has averaged approximately a 9% rate of return — powerful compounding!

I encourage you to embrace what Housel teaches by developing a disciplined, long-term investment plan centered around stocks to use the power of compound interest to your advantage.

This is precisely the strategy I have used to generate significant wealth for my clients.

**Independence is the best financial goal:** The highest form of wealth is the ability to wake up every morning and say: “I can do whatever I want today.” Your money is a means to an end, specifically, a means to achieving freedom and independence to live your life the way you want to live.

Housel says it this way: “Controlling your time is the highest dividend money pays.”

**Avoid the most common financial mistakes and behaviors:** Housel warns against several self-defeating financial behaviors, the two most important being pessimism with your investments, and, conversely, being greedy and speculative within your investment portfolio.

Being pessimistic — or too conservative — with your investments is a surefire way to stagnate your long-term wealth.

Selling in panic when the market drops sharply, not having enough in stocks, and not reviewing and improving the growth profile of your portfolio on a regular basis, will all hurt your wealth.

The opposite of this is greed. Buying speculative investments you hear from your friend on the golf course, making concentrated bets, or dabbling in esoteric investments will end in sorrow. “An insatiable appetite for more will push to the point of regret.”

“The Psychology of Money” is an essential textbook to ground your life in smart financial decisions.

I have seen people of modest means generate wonderful financial success by following these principles. I have also seen those of high means, living extravagant lifestyles, end up not being worth nearly as much.

I will end with one of Housel’s best lines: “Save like a pessimist, invest like an optimist.”

No truer words have ever been said.

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