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# Simple, Bedrock Rules on Personal Finance

**By Brett Arends**

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Smart money moves aren't more complicated than you think. They're simpler.

Cut through all the jargon and pontificating and technical stuff, and everything you really need to know about personal finance fits into less than 1,000 words—no more than three to four minutes.

**Ignore economic and financial forecasts.** Their purpose is to keep forecasters employed. Most professional economists were blindsided in 2008 by the biggest financial collapse in 70 years—and by the stock market's recovery.

**Ignore "expert" stock picks**. The stocks that Wall Street experts like most generally fare no better than those they like least—or stocks picked at random.

**Keep it simple.** Complicated financial strategies and investments are mostly designed to enrich managers and salesmen. A simple, diversified portfolio of low-cost index funds, rebalanced yearly, will do just fine—if not better.

**Buy individual stocks only as a gamble.** Never buy fashionable investments.

**Put most of your long-term portfolio into equities.** While equities are volatile, they generally produce the best long-term returns—typically about 4% to 5% a year above inflation. But remember to hang on when they plummet.

**Invest globally, not just in the U.S.** Foreign stock markets, in the aggregate, are no riskier than U.S. markets and offer terrific diversification.

**Buy Treasurys, too:** In addition to stocks, own some long-term Treasury bonds and some Treasury inflation-protected securities. These are likely to hold their value, or even go up, when stocks crash.

**Never buy a lottery ticket.** The lottery runs a profit, which means the players run a loss. And a study once found that the people who won ended up no happier than those who lost.

**Know thyself.** Don't pursue complex financial or tax strategies if you're not a details person. Cut up your credit cards if you're a shopaholic. Invest more conservatively if you're apt to panic in a crisis.

**Buy high-deductible home and car insurance**. It'll save you money. Insurance is necessary, but is generally expensive.

**Protect yourself from disaster.** Have disability insurance, either through work or directly. Buy term life insurance to cover dependents if you fall under a bus.

**Save early, save often.** Time and patience are the investor's best friends. Invest a dollar for 10 years at 4% and you'll have $1.50. Invest it for 40 years and you'll have nearly $5.

**Use those free shelters.** Contribute as much as possible to your company's 401(k) plan or equivalent (such as 403(b) or 457), and at least enough to get the company match. If you can, contribute to individual retirement accounts for yourself, and a nonworking spouse, as well.

**Make the most of what you have**. Don't pin too much hope on the next pay raise or stock windfall. The more we have, the more we want. Psychologists call this the "hedonic treadmill." The only way to have enough is to master the art of being satisfied.

**Plan for a long life.** A third of your adult life could come after you're 65. Try to pay off your mortgage, and save at least 10 times your annual salary, by the time you retire. Delay taking Social Security for as long as you can up to the age of 70, to maximize each monthly check.

Don't carry a balance from month to month unless you are planning to default and file for bankruptcy. Card interest rates are extremely high—partially to account for the borrowers who will default. Make paying off that debt your overriding priority.

**Cut the waste.** There's fat in every middle-class budget. Most cellular bills are too high. Most cable bills are too high. Most people waste too much money on their cars. Few habits bust the budget more than eating out regularly.

**Beware of buying your employer's stock.** Your job there is probably financial exposure enough.

**Tune out advertising.** If you consider it all to be a pack of cynical lies designed to steal your money, that's about right.

**Don't spend money showing off.** Designer brands and "luxury" labels are created to overcharge the desperately insecure. They'll mark you out as nouveau riche. Old-money families keep it down low.

**Protect your nest egg.** Don't drain your retirement savings to pay for your child's college education. Likewise, don't empty your 401(k) or IRAs to start a business. You will be taxed and penalized on the withdrawals even if you lose the money. And so long as the money remains in those shelters, it's protected from creditors.

**Teach your children about money.** Teach them early and often. No one else will, and they will have to make their own way.

**Value your money.** Work out how much you take home, after-tax, for each hour you work. And remember that number—especially when you shop.

**Share.** Finally, if you think giving to charities and good causes is the lowest-priority item in your entire budget each year, re-examine the budget.