

# First, Tell Them You're No Financial Guru

By JONATHAN CLEMENTS | Staff Reporter of THE WALL STREET JOURNAL GETTING GOING AUGUST 14, 2005

If you read this column regularly, don't kid yourself: You're a financial nerd. And the weird thing is, people respect you.

They shuffle over to your cubicle and ask what mortgage they should get. They lean over the garden fence, hoping to check out their broker's advice. They strike up a conversation during the 17-second elevator ride, aiming to get some pointers on the company retirement plan.

What should you tell these people? After years as the resident financial nerd for friends, family and colleagues, four things are clear to me:

Most folks aren't interested in educating themselves. They really don't want you to recommend a good book. Instead, they want to be told precisely what to do.

Can't cram your advice into 60 seconds? You just lost your audience.

Some people are hell-bent on financial self-destruction. Yes, they asked for your advice. But, no, they don't want it. Rather, what they want is approval for their disastrous decision. When you don't give it, forget gratitude -- and expect irritation.



If you casually offer a financial suggestion, there's a good chance your eager students will still be following it 10 years later. The implication: Stick with timeless advice -- or the time may come when you'll face a rash of recriminations.

"The 'financially unwashed' are a diverse group," says Michael Moon, a reader in Tacoma, Wash., who is often asked for advice by friends and colleagues. "Some simply don't want to save money. Some are sincere but just don't know the first thing about investing. Some display a look of sheer panic at the first mention of words such as 'correlation' or 'expense ratio.'"

What to do? My advice: Pretend you're a politician and boil everything down to safe, snappy sound bites. In particular, try advocating these 10 strategies.

## 1. Give at the Office

If you truly want to help your friends, pound on them to make the maximum contribution to their employer's retirement-savings plan. Thanks to the initial tax deduction, the tax-deferred gains and any matching contribution, that's their best bet for investment growth.

## 2. Adopt a Family

Maybe your friends don't have a retirement plan at work, or maybe they have other money to invest. To keep them on the straight and narrow, tell them to pick one low-cost fund family with a broad selection of funds and then stash all their extra investment dollars there.

Good choices include American Century Investments, Fidelity Investments, T. Rowe Price Group, TIAA-CREF, USAA Investment Management and Vanguard Group. If your friends stick with one of these companies, their investment costs should be reasonable and they shouldn't find picking funds too overwhelming.

## 3. Get a Life

If your friends are new to investing, skip the fancy portfolio with multiple funds and instead recommend a life-cycle fund. These funds wrap a bunch of market sectors into a single portfolio, thus offering one-stop investment shopping.

Life-cycle funds are increasingly common in employer-sponsored retirement plans. Your friends can also buy these funds directly from American Century, Fidelity, T. Rowe Price and Vanguard.

## 4. Play Defense

In addition to saving money for retirement and their kids' college education, your friends ought to amass an emergency reserve. The usual rule of thumb is that folks should have a cash cushion equal to six months' living expenses.

This has always struck me as excessive. Instead, suggest your friends open a money-market fund at their adopted fund family and then build up the account so it holds a sum equal to maybe three months' living expenses.

## 5. Get Another Life

If you are helping friends who have children, encourage them to buy term insurance until their kids are through college. Recommend they purchase enough insurance to pay off the mortgage and cover the kids' college costs, while also providing their family with at least another three years' salary.

## 6. Limit Damage

Most folks don't need anything more than one bank account, one fund family, their employer's retirement plan and some term insurance.

What about options, futures, individual stocks, limited partnerships, cash-value life insurance and tax-deferred annuities? Steer well clear. If friends insist on taking a flier on some hot investment, advise them to limit their gamble to 5% of their portfolio's value, so they don't do too much damage to themselves.

## 7. Don't Bet the Ranch

With real estate so buoyant, many people are going overboard on bigger homes and vacation properties. To damp your friends' enthusiasm, tell them to forget about the market's eye-popping gains -- and focus on fundamentals.

Note that they shouldn't purchase a home if they foresee moving within five years, because it's too risky and too costly. Discourage them from buying a bigger home if it will mean cutting back on retirement savings. And point out that it's a lot easier to retire if they have their mortgage paid off.

## 8. Lend a Hand

Indeed, when asked for mortgage advice, advocate a 15-year fixed-rate loan. The interest rate will be slightly lower than on a 30-year fixed-rate mortgage, the shorter repayment period will force your friends to save and the heftier monthly cost may deter them from buying a ridiculously large home.

## 9. Dodge Debt

Many Americans regularly spend more than they earn, leaving them mired in high-cost credit-card debt. If your friends are deeply in hock, there are ways to trim their interest costs, such as paying off their cards with a home-equity loan.

But the key is to stop your friends from piling up more debt. To that end, tell them to limit themselves to one credit card, so they get away from juggling balances on multiple cards. Better still, suggest they start paying for everything with cash or a debit card.

## 10. Save Your Friends

Everybody's looking for magical financial solutions. There aren't any. Want to make sure your friends retire in comfort?

Push them to save 15% of their pre-tax income. They will probably groan. But if they take your advice, they will be thanking you for years to come.