
The Seven Deadly Sins of Finance

I said before that part of my penance was to take my past sins in matters of finance and turn them into serving the greater good. And just so we're absolutely clear, I'm not speaking from some greater-than-thou mountain top: I, too, have lost millions more than once...and *they* call *me* the Wall Street Whiz Kid. But, after millions in personal losses and more red ink in the columns of former clients and readers who I'm certain wish they had never heard of me, I have come to learn a thing or two. Ironically, it is my 30-plus years of being an expert on what *not to do* that allows me now to be able to suggest what *to do*. Through my financial sinning, confession, contrition and penance, I have discovered that there are seven deadly sins on matters of finance that if eliminated, would render most of us a heck of a lot better off.

In theology, the "seven deadly sins" is a classification system that has been used for thousands of years to teach Christians about humanity's tendency to sin. They are first found in the Old Testament book of Proverbs. Though the wording has been modernized over the centuries, the concepts remain the same. The sins are usually described as wrath, greed, sloth, pride, lust, envy and gluttony. If we're honest with ourselves, we can all relate to one (or all) of them.

In the financial world, I believe there are seven deadly sins of matters of finance...categories of vices into which most all of our financial wrongdoings fall. They are:

1. Believing you can predict future market movements
2. Utilizing traditional financial planning methods which are doomed to fail
3. Assuming financial "advice" is unbiased and objective
4. Exhibiting arrogance
5. Believing more money equals more happiness
6. Participating in mental anguish
7. Procrastination

After committing all seven of these sins more than once over the past 30 years, my financial mentor, Frank Congilose, was finally able to make me realize the error of my ways and repent. Now, my penance is to humble myself by publicly sharing this. While not easy at first, for me it's become a burning desire like that of a recovering addict who doesn't want to see others make the same bad mistakes. I believe recognizing these seven pitfalls is a necessary step we all must take before we can truly reach our financial goals. So let's go through them one by one.

Number 1: Believing you can predict future market movements

Being called the Wall Street Whiz Kid for forecasting many significant market moves did a lot for my ego, but in the end, it really hurt my personal wealth. Neither I nor anyone else can correctly

forecast future moves consistently and what's more, we eventually realize we put our pants on one leg at a time just like everybody else. Whoever the financial media may be featuring today as a soothsayer will likely end up in the "what was his name?" bin down the road. Though some folks can forecast accurately every now and again, nobody can predict future market movements on a regular basis and thinking you (or your financial advisor) can will ultimately lead to financial damnation.

As noted earlier, 80 percent of money managers can't even equal the performance of a simple equity index fund. In bonds, it's 85 percent. This is not to say that for some people, having managed money as part of an overall strategy is wrong. But to assume that the majority of financial advisors will deliver on performance is truly a monetary crime.

Number 2: Utilizing traditional financial planning methods which are doomed to fail

I've been blessed to be involved with professional athletes and teams for about 15 years. While I've learned many things during this period, none was more important than the fact that all teams have written plans. Many call it a play book. It's a pre-planned, well-thought-out strategy for winning the game. Yet today, the majority of people don't have a written financial plan for "winning the game." And the ones who do have no real idea that the game was lost even before the coin toss.

When I first started in the business, a legal pad and a pen were all I needed when meeting with a potential client. Today, massive amounts of slick advertising material and a computer-generated analysis of one's finances with all sorts of charts and graphs are the norm. But much—if not all—is just propaganda because most of what's called financial planning is doomed to fail. (Go back to chapter 12 if you need a refresher on why.)

Whether it's *needs-based planning* which focuses on meeting an individual goal like paying for college or retirement, or the formulation of an all-encompassing life and death proposition, all these so-called plans are dead on arrival, in my opinion. Want proof? Simply go to the end of the plan and see for yourself, if you take the time and can comprehend the legal disclaimer that is surely incorporated somewhere in the written analysis ...it will be very small print and almost certainly will not have been reviewed in any detail. It goes something like this, "Past performance is no assurance of future results..." Yet in most plans, an investment product's past performance is projected out over a number of years suggesting similar returns in the future. If only life was that simple.

But using an "anticipated rate of return" is not only standard in most financial planning, it's limited to that. I was guilty of primarily focusing on that, too, so don't beat yourself up for being among the fiscal sinners. What I have found, however, is that by adding "rate of accumulation" and "rate of distribution" to your plan, it now has a far better opportunity to succeed. Hopefully you will discover as I did that *rate of accumulation* is far more important than the heavily touted and "guesstimated" *rate of return*. Increasing the rate you accumulate money (i.e., rate of saving) through cash flow efficiencies and financial strategies that identify where you are losing money (and doing all this without having to change your lifestyle), is one of the two keys to the only process I have ever learned that really works.

The other key is "rate of distribution." By using efficient distribution strategies, you can increase retirement income by 20 to 40 percent with the same asset base. This allows one to secure a quality of life by removing the fear of outliving your money.

In addition to the three R's (rate of accumulation, rate of distribution, and rate of return), it's critical that a financial plan have parallel paths that equally secure wealth building as well as wealth protection. Unfriendly creditors and a host of real life events can greatly impact even the best of wealth building plans. Though often overlooked in most traditional financial plans, it is of paramount importance to maintain cash flow and control by employing a number of legal processes, terms and conditions.

Number 3: Assuming financial "advice" is unbiased and objective

Among the deadliest of the seven sins is the belief that the financial institutions (and the media that makes a living off them) are on your side.

Let's first be clear: yours truly didn't always act 100 percent in the best interests of clients. Being a legend in my own mind, turning the Ten Commandments into the Ten Suggestions while being the Chairman and CEO of the Me, Myself and I Society certainly gives me first-hand experience in this financial transgression.

Earlier, I told the story of when, in August of 1987, I forecasted a stock market crash and my boss at the brokerage firm wanted me to retract it or resign. I spoke about his description of how most of the firm's clients would either not follow and/or not profit from my advice, and how none of that would lead to sales and profits for the firm. From a sales point of view, he was correct.

If you believe financial institutions exist for your benefit and not theirs, let me ask you this: if the Archangel Gabriel appeared to every person in charge of every financial institution's investment strategy and said God Himself had sent Gabriel to warn of a terrible market crash to come, even if the strategist believed Gabriel was right, do you honestly think his superiors would allow him to issue a major sell off of most, if not all equities?

If you answered yes, I'm surprised you made it this far. If you answered no, then ask yourself how you will overcome the biases and conflicts of interest that you're up against. Google stories on the misdeeds of financial institutions and you'll have countless hours of reading material of real-life stories that continue basically unabated today. Again I remind you: the deck is stacked against you.

Number 4: There is one deadly sin that both investor and advisor commit: Arrogance.

Suffice it to say that I took Number 4 to new heights. When a market didn't do what I predicted, the market got it wrong, not me! Often times, good decision making drowned in a sea of stinking, selfish arrogance. Furthermore, ego allowed emotions to overpower strategic pre-planning. Both investors and advisors commit this narcissistic crime of letting their pride and ego get in the way, preventing them from admitting that they made a wrong call. And even more mortal of a sin, their hubris prevents them from taking corrective measures because that would really accentuate their misgivings.

The Bible says, "Haughtiness goes before destruction" – Proverbs 18:12, and just in case you were wondering, the dictionary lists arrogance, hubris, pride and conceit as synonyms for haughtiness. If you want to achieve financial success, I implore you to check your financial chutzpah at the door. Egos get in the way of good financial results.

Number 5: The big lie: more money equals more happiness

Financial institutions' advertisements all have one theme – engage their services and your dreams will come true. While they never actually say they will reach your goals, all their slick ads elude to that result. I can tell you the percentage of goals reached is far higher for the financial institutions than it is for their clientele.

When you strip away all the crafty wording, the essence of the financial institutions' marketing is that they can increase your net worth through a variety of products and services. This, in turn, will allow you to have the monies for whatever your goals may be.

A couple hundred years ago, the French philosopher Voltaire wrote, "Don't think money does everything or you are going to end up doing everything for money." How right he was. I know firsthand how god can be spelled: M-O-N-E-Y. For the first half of my career, I worshipped it. But it never brought lasting happiness. It took the loss of millions of dollars (more than once), two debilitating bouts of depression, numerous angels and the incredible love of family and friends for me to finally realize that money was not my God, and it is far less important than I and the world give it credit for. I truly hope such hard lessons aren't required for you to conclude the same.

Number 6: Participating in mental anguish

I started this journey with the making of a tidy sum only to lose it to a penny stockbroker. Then as a stockbroker myself, I not only lost clients' money over and over again, but mine, too. While the financial ramifications from the losses were nothing to sneeze at, the mental anguish was much worse. Sure, I made money, too, but I never beat myself up over that.

While I believe financial advisors don't wake up each morning hoping to lose their clients' monies, the end result of the business is that losses are common. And because of the way that most advisors are groomed for the business, they never have to live with the mental anguish of losing money. It's just all in a day's work. But for me and for many people whose financial futures are on the line, the mental pain persists long after the financial woes subside.

As I have said before, one of the best ways to avoid this sin against your financial future is to never invest (i.e., "gamble") more than you can afford to lose. It greatly decreases any potential to ruminate on your losses.

Number 7: Procrastination

Napoleon Hill, legendary personal success guru and author of Think and Grow Rich, one of the best-selling books of all time, defined procrastination as, "the bad habit of putting off until the day after tomorrow what should have been done the day before yesterday." Though he wasn't talking specifically about finances, the concept fits.

Psychologists say procrastination reflects man's personal struggle with self-control. If that's true, we all need to take more control over our finances. Time is indeed money, and though most investors and professionals know little about them, Lost Opportunity Costs (LOCs) and Velocity of Money (VOM), as explained in chapter 12, are critical factors in obtaining wealth. Putting off employing these "secret weapons" is not just foolhardy, but I think fiscally sinful. I know, I know, it's easy to get distracted. And nobody likes to dive into the things of finance they either dislike or know little about. That's when procrastination becomes sinful for most investors.

People delay making decisions for a number of reasons. Sometimes, extra steps in the process rightfully slow the decision. Sometimes, life just gets in the way. Whether it's a comfort level that never materializes, the fear of making the wrong move, divine intervention or many other excuses, most people believe they can put off until tomorrow (or next week, next month, next year) making decisions relating to their financial futures. What they don't take into consideration is the penalty they will pay for this financial wrongdoing.

"And you will know the truth, and the truth will set you free."

- John 8:32