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JOURNAL REPORTS: WEALTH MANAGEMENT

The Best Financial Advice I Ever Got

We asked financial experts to tell us the piece of guidance that has made the biggest difference in their lives

June 16, 2019 10:07 pm ET

There's no shortage of financial advice out there.

But what advice has resonated most with the people in the business of doling out financial advice or teaching finance? What advice did they receive that has changed their lives for the better?

When we asked that question of a host of experts, their answers ran the gamut. They involved strategies for investing and cautions about spending; tips on finding a job and ways to avoid psychological traps. They all are likely to make you think, and act, in ways you may not have before.

And one of them may eventually turn out to be the best advice you ever got.

Don't look at your 401(k) statements

"Never open one of your 401(k) statements from the day you start work to the day you retire, 40 or 50 years later. When you open that last statement, never having looked at it along the way, you are not going to believe how huge it is. You should have a doctor standing by in case you faint or have a heart attack." That was the advice John Bogle gave me in 2014.

Admittedly, I viewed Jack's guidance through the eyes of someone incurring confirmation bias, the tendency to give more weight to information backing one's own views. I had started to become a believer in the "out of sight, out of mind" adage back in 2006 after coming across, of all things, an International Journal of Obesity study about office candy bowls. The study's authors found that secretaries consumed less candy when the bowls were opaque and placed away from the desk. By merely making the bowl less visible and putting it out of reach, the temptation to act was reduced.

I've applied the same logic to my retirement account, by only looking at it twice a year. Doing so effectively keeps it out of sight and out of mind. Even when I do access the account, I try to look at the balance as little as possible and instead focus on the allocation. My sole goal is to see whether the portfolio needs to be rebalanced. If all of the funds are relatively close to their targeted allocations, I do nothing and don't look at the portfolio again for another six months.

By not looking at my balance frequently, I forget what it is. I don't see its highs or lows. This means I don't get euphoric when the markets are sending the value of my funds upward or saddened when the market pushes them downward.

It's an approach I think Jack would describe as a step in the right direction, though he'd probably say that I'm still looking at the account too much.

—Charles Rotblut, vice president of the American Association of Individual Investors

Live on one income

Years ago, my soon-to-be husband shared his vision for us as we prepared to merge our lives and finances: Live on one income as a married couple and save the second income. Our shared financial goal served as a guiding principle and foundation for future financial health and nimbleness.

Together, we vowed to pay all debts (minus our mortgage) within the first four years of our marriage. We followed our debt-payment plan religiously. The release from debt payments and modest living translated to a comfortable lifestyle based on one salary. We earmarked the other salary for savings.

PHOTO: LEXEY SWALL FOR THE WALL STREET JOURNAL

Strong savings paved the way for career flexibility. Living modestly also empowered us to resign from companies with cultures contrary to our values and explore new options without fear of a diminished standard of living. Most important, we value passing on the lessons and benefits of financial freedom to our teenage daughter.

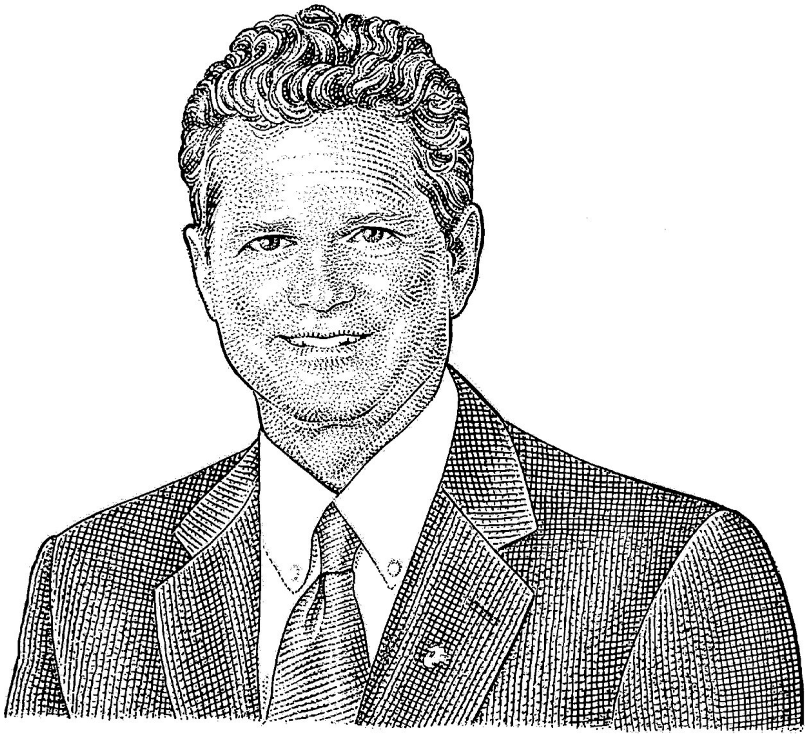
—Lazetta Rainey Braxton, founder and CEO of Financial Fountains

Don't trust people who ask for money upfront

In 1978, I was in college and needed a summer job. The advertisement said a marketing company was seeking young people to be part of a catalog photo shoot. It was a lucrative offer and I applied. I went to an interview and was offered a job; however, first I'd have to do a test shoot because I didn't have a photo résumé. This would cost about $1,000 and I would have to pay for it in cash. It was a big investment for a college student back then.

I asked my father, and his words of wisdom still stick with me today. "They don't want you—they want your money. The people you meet in life who genuinely want to help you don't ask for money upfront." He was right. There was no lucrative catalog photo shoot. The company was a sham, set up temporarily to fleece college students out of their savings.

I became a Wall Street broker in the late 1980s. At broker boot-camp, I learned to connect with clients, push the firm's high front-loaded commission products, and sell the sizzle—not the steak.



It was a sleazy technique where we got big upfront commission checks, and good luck to the clients. My father's words rang in my ears—those who genuinely want to help don't ask for money upfront. I left the brokerage industry in 1999 and started my first adviser firm. Today, in my encore career, I offer people unbiased counsel through an hourly-fee for advice model.

Investment products that pay brokers big commissions continue to be sold in the industry. My best financial advice to you is to avoid these products and follow John Bogle's sage advice, "In investing, you get what you don't pay for."

— Rick Ferri, a financial analyst, investment adviser and industry consultant

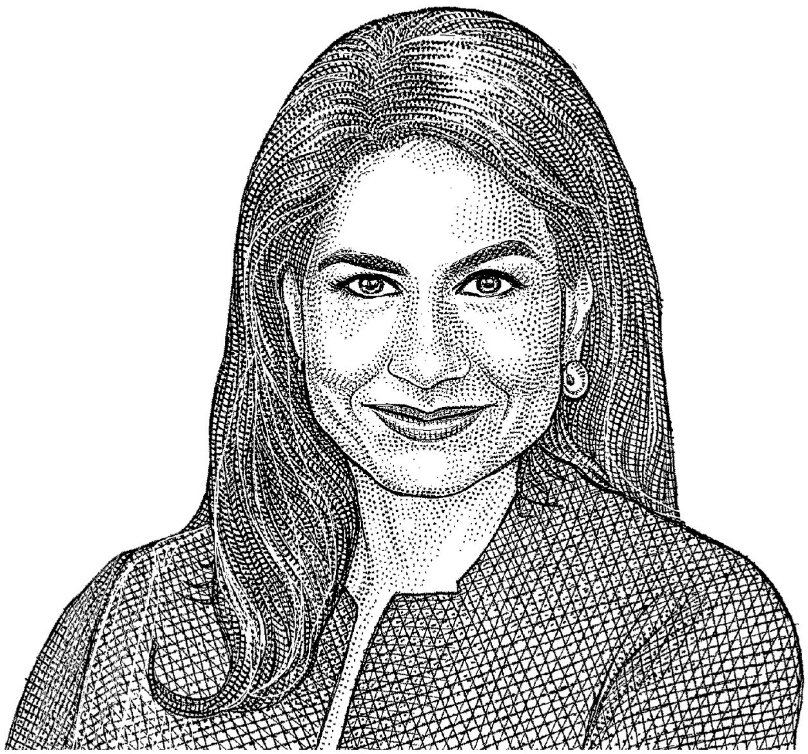
Don't sweat the small stuff

Macroeconomist Alan Blinder once told me what to do if you are buying anything somewhat complicated and unfamiliar that is under $500. He goes to Consumer Reports, decides if he wants something in the high, medium or low price end. Then, he chooses the top-rated product in that category. That's it. This is an economist's version of "don't sweat the small stuff." In our jargon, the marginal benefit of spending a lot of time pondering and shopping around is low, and the marginal cost of time (and even fear of missing out, or FOMO) is fixed.

— Colin F. Camerer, Robert Kirby professor of behavioral economics at Caltech

Not a borrower be

"Buy few, but buy the best you can afford." So said my grandfather over 35 years ago. His advice is more timely than ever.



Start with "buy few, but buy the best." Six small words; one life-altering concept. What I learned from my grandfather is that a handful of things—thoughtfully selected, and diligently cared for over the years—creates a sense of deep satisfaction. Each time you see, touch or use these items you think, "Ahhh, I have made a good choice and feel content." It's much deeper than simply quality over quantity. It's a way to repeatedly appreciate what you have vs. that which you do not. The same goes for experiences.

And then there is, "you can afford." Three powerful words. A life of financial freedom. What I learned from my grandfather was that if you can't pay cash, you can't afford it. With debt increasingly easier to access, subsequent generations are now tempted to buy exactly what they want, whenever they want. But not only is funding a lifestyle you can't truly afford via debt expensive, it robs us of lasting joy.

So when you "buy few, but buy the best you can afford," you set yourself up to experience contentment today and solid financial footing tomorrow.

— Manisha Thakor, vice president of financial well-being at wealth-management firm Brighton Jones

Invest 2% of your income in you

When we think about investments, we often direct our attention to categories such as stocks, bonds and real estate. What we often don't think about is our most valuable asset: our ability to earn an income and to make that income grow faster.

PHOTO: AUDRA MELTON FOR THE WALL STREET JOURNAL

Almost 20 years ago, I met a successful business owner who gave me a simple lesson: Invest 2% of everything you earn annually back into your ability to grow your income.

What does this mean exactly? Investing in you is like diversifying your portfolio of investments. You might take a chance and invest in that side hustle you think could be a business. Take a training course or advanced education that could further your current career. Invest in a personal coach who could improve your business performance. It could mean investing in an exercise or nutrition program that could give you more stamina every day to accomplish more.

It's the best advice I've ever received—and I do it every single year.

—Ted Jenkin, co-CEO and founder of oXYGen Financial

Be prepared for the unexpected

My father taught me the importance of planning for unexpected emergencies or opportunities. When I was 10 years old, my aunt passed away. She left behind four children and didn't have life insurance. My dad paid for her funeral because he knew my uncle and his family were experiencing emotional and financial trauma.

He later explained to me that just because you don't plan for unfortunate events it doesn't mean they won't happen. As an adult, that lesson led me to focus on the value of building up an emergency fund and getting life insurance to give me financial peace of mind, which is priceless. I sleep better at night knowing that we have planned for the unexpected.

The actions of my father, who had emigrated from Taiwan in the 1960s with only $17 and the clothes on his back, also showed me how to approach difficult financial topics in a calm and respectful manner. He didn't lecture or question why my uncle didn't have life insurance. My father believed it was appropriate to help family in need without judgment.

— Marguerita Cheng, CEO of Blue Ocean Global Wealth

Don't depend on somebody else for money

Early in my childhood, I witnessed how devastating life could be for women who were not empowered through financial education. My grandmother remained in an abusive relationship. When I was old enough to ask why, my grandmother explained that she stayed because she believed there was no other choice, as she lacked the financial stability to change her situation.

PHOTO: KELLY MARSHALL FOR THE WALL STREET JOURNAL

From then on, my mother insisted that I should never rely on someone else for money. That advice and experience led me to change my major in college and drove me into the finance field.

Unfortunately, my grandmother is not alone. This kind of financial dependency, and its accompanying fear and disempowerment, still exists today. About 56% of married women allow their husbands to make all of the long-term financial decisions, according to a 2018 report from UBS. Moreover, if couples divorce, women need more than a 30% increase in income to maintain the same standard of living they had prior to the divorce, and typically they never fully recover from the financial consequences of divorce, according to the Gender Differences in the Consequences of Divorce. On the other hand, men's standard of living tends to increase by 10% after divorce. Proving why my grandmother chose to stay.

So having women educate themselves on their personal finances and understanding what's in their portfolios is crucial for their self-confidence and relationships.

— Stacy Francis, president and CEO of Francis Financial

Be smart about probabilities

I read former Treasury Secretary Robert Rubin's book "In an Uncertain World" in the mid-2000s, and it had an outsize impact on how I view finance and the economy. In his book, Mr. Rubin championed the practice of assigning probabilities to "relevant events" and then making decisions accordingly. Put differently, it isn't a question of what will happen, but rather the chances that various outcomes will occur. (Bob so appreciated uncertainty that he once counseled me to never use the word "ensure" in my writing, because one could never ensure anything.)

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This type of thinking changes everything. Questions like "Will the stock market rise?" or "Will the Fed raise rates?" are essentially meaningless. Of course, no one knows the answers for sure, but you can make the right decisions over time if you get the relative probabilities correct.

When it comes to my personal finance, probabilistic thinking doesn't mean that I'll bet everything on the most likely outcome—it means I try to account for uncertainty. For instance, I tend to save a lot, but not because I think I'll definitely live to old age. I save because I know there is about a one in five chance my wife or I will live into our late 90s, and I want us to be prepared in case we do. And when it comes to investing, I am a staunch believer in diversification, but not always in a conventional way. Investing in both stocks and bonds is important, but I also want to be protected in case Congress drastically changes tax laws or the value of my house plummets. Will these things happen? I don't know. And that's the point.

— Benjamin H. Harris, executive director of the Kellogg School of Management's Public-Private Interface and formerly the chief economist to Vice President Joe Biden

Follow a formula for retirement saving

Even though my work has always been focused on longevity and how retirement is being reinvented, the need to plan for it financially wasn't always on my own—or my husband's—radar screen. (We both surely recognize the irony of that.) Of course, we saved and invested for a rainy day.

But early on in our marriage, we had the attitude that putting all of our energy and resources into our startup was the smart move. If we did that right, all would be good.

Not only weren't we saving for retirement but, like many couples, we didn't even have a clue how much we would need or how to determine it. It took a serious sit-down with our accountant—and his advice—to scare us into saving specifically for our retirement.

He gave us a simple formula to follow: Figure out how much you think you'll be spending annually and multiply that by 35. And that's how much your nest egg should be when you retire.

We immediately made some serious—and somewhat painful—changes in our lifestyle and moved saving for retirement up our priority list. Little by little, we have been able to chip away at our goal. You don't have to have this particular formula, but having a simple one to follow was the key that unlocked our ability to plan for a financially secure retirement.

— Maddy Dychtwald, author and co-founder of think tank and consultancy Age Wave

Always take a positive, long-term view

Maintain a positive and optimistic view of the long-term prospects of the stock market. This advice was given to me when I was an intern in college by my employer at the time. His opinion was that there will always be something to worry about—interest rates, market valuations, political unrest, geopolitics issues, etc.—as well as perma-bear pundits and naysayers providing reasons to leave the market or not invest in the first place.

A good example of this wisdom is what happened in the wake of the Brexit vote on June 23, 2016. Approval of Brexit caught markets by surprise and two days after the vote the S&P 500 was down more than 5%. By early July of the same year, however, the S&P 500 had fully recovered. Market timing is dangerous and best left to day traders and those with crystal balls. The basic lesson is that those investors who stay optimistic about the market and disciplined in their investment approach will come out ahead over time.

I was so taken by this advice that I started investing in the stock market as soon as I got out of college and I have never stopped—nor have I ever regretted it. Committing to this approach allows me to ignore the emotional impact of the daily noise of the market. And it is probably the best piece of financial advice that I impart to my clients years later.

— Michelle Perry Higgins, a principal and financial planner at California Financial Advisors

Don't be a copycat

Don't mimic the investments and trades of others just because they appear to know something. You don't know their own situation—and they don't know yours. I received this advice from the chief investment officer of the employer I had my first year out of college.

PHOTO: MICHAEL BUCHER/THE WALL STREET JOURNAL

Unfortunately, I didn't heed to his advice during the financial crisis as several senior employees bought into a few financial companies. Without doing any personal analysis, I bought in my own accounts because those employees seemed to have such high conviction that it was a good idea. Lesson learned.

This advice doesn't just apply to financial professionals. People often want to make an investment based on a recommendation from a famous investor or fund manager. It's easy to feel informed after listening to an intelligent manager make a convincing argument in support of a recent investment. But it's important to remember their objectives are different than your objectives. And while it's common for fund managers to share their most recent ideas, it's unlikely you will know when that manager changes his or her mind about a position.

— Peter Lazaroff, chief investment officer at Plancorp

Wait to buy that starter home

One of the best pieces of financial advice I have received was to rent a place to live instead of buying a place to live unless I was certain I would not move for at least five years. In American society, there seems to be the belief that there is some inherent nobility in owning real estate and something inherently wrong with renting a home. The false belief that often permeates is that buying a place to live is a great idea and renting a place to live is silly because when you own your own home, you are able to build equity.

I took the advice to heart when I accepted a job offer in graduate school. I knew nothing about the area and decided to rent until I got to know the job and the area better. While I quickly grew to love the job and the area, I realized that my ultimate goal was to find a teaching job in my hometown of Louisville, Ky., so I continued to rent an apartment. Although I ended up staying in that job for more than five years, which is typically the break-even point for the buy vs. rent decision, I am glad I decided to rent because the local real-estate market was very weak when I left my job. In addition, my wife and I were expecting our first baby and it was nice to not have to deal with the stress and hassle of trying to sell a piece of real estate in another city.

While it is true that you can build equity if you own your own home, the amount of equity that you are able to accumulate during the first few years of ownership is relatively small, especially if the property is financed with a 30-year mortgage. For instance, if someone purchases a $250,000 home, makes a $50,000 down payment, and finances the remainder with a 30-year fixed-rate mortgage with a 4% interest rate (roughly the current rate for a 30-year mortgage), the monthly payment for principal and interest would be $954.83. When the first monthly payment is made, $666.67 would go toward interest and only $288.16 would go toward paying down the mortgage.

This moderate buildup of equity during the early years of a mortgage can be quickly erased by the high transaction costs associated with selling a property, especially if the property is sold a few years after it is purchased.

— Patrick Lach, an assistant professor of finance at Indiana University Southeast and founder of Lach Financial

Let the job find you

In the mid-1980s, during the summer between my junior and senior year of college, I was—like many students right now—in a panic. How would I find the perfect job for me? Sure, I worked summers to help pay for school. But with just one year left until graduation, I was an English major in search of a career track.

That was when my mother, Shirley, gave me the best piece of financial and career advice: “Let the job find you,” she said. “Put yourself out there, and it will happen.”

To be clear, my mother was a doer; she didn’t mean that I should lie around on the couch and wait for career karma to strike. Instead, she wanted me to stop stressing out and trying to pinpoint some abstract career passion, and just keep an open mind. If I rigorously pursued all options, that great job would happen, and likely in a field I’d never even thought of.

Shirley recognized what I still believe is true: Humanities majors can do almost anything. She also knew that I was doing the legwork writing letters to alumni from my college who were working in a range of fields. (Shout-out to my father, Harold, who had the great idea for me to find leads in the alumni magazine.) Before long, I got a call from Joel Davis, a publisher who had launched a magazine for pioneering personal-finance guru Sylvia Porter. That call led to a career in journalism and financial-literacy advocacy—a path I never could have anticipated. Now who says mother isn’t always right?

— Beth Kobliner, author and financial-literacy expert

Investors are predictably irrational

The best investment advice I’ve received came from a book that wasn’t even about investing. That book, “Predictably Irrational” by Dan Ariely, delves into our irrational behavior and how it is predictable.

As if the fates chose to demonstrate its premise, stocks plunged shortly after the book was published. Predictably, investors panicked and sold their stocks just when they were on sale. In fact, The Wall Street Journal noted advisers behaved irrationally as well, having little cash and bonds at the market high but then loading up as stocks bottomed and the recovery began.

Advisers failed to fight predictably irrational instincts. as I suspect most will during the next plunge.

I've since had many conversations with Dr. Ariely, the James B. Duke professor of psychology and behavioral economics at Duke University. We've discussed the fear and greed driving investor behavior and why Daniel Kahneman's Nobel Prize-winning work on prospect theory argues for a more conservative portfolio. That's because we get twice as much pain from losses as we do pleasure from gains. More-conservative investing now may make it less difficult to buy after a plunge, when stocks are actually on sale.

I too have developed a theory—that is, that behaving contrary to our irrational instincts can boost risk-adjusted returns. How has it worked? My calculations reveal that between Dec. 31, 1999, and Dec. 31, 2018, a moderate 60% stock portfolio rebalanced twice a year bested the buy-and-hold by nearly 18 percentage points. Rebalancing goes against our instincts by requiring us to buy what has caused us the most pain and sell what gave us pleasure.

— Allan S. Roth, founder of Wealth Logic

Ignore the advice

The best financial advice I ever received was from me. I told myself to ignore the advice of others.

Research has shown that time and time again, the best education that deeply modifies your behavior and actions originates from personal experience. The apprehension and intensity when you push the button or submit a form to make an investment or allocate your assets is hard to forget. Consequently the results of that action, be they good or bad, are forever etched in your mind and behaviors.

Without question, over the years people have proffered different suggestions about the financial basics—value of long-term investing, diversification and the like—or tactical "winners" regarding specific stocks or asset classes. However, most of these were forgotten quickly. Although we will never know, I'm pretty confident if I had followed all those suggestions and "winners" I would not be better off today.

There is still no better substitute for that well-trodden phrase from growing-up to "do your homework" if you want to give yourself a gift that will serve you well in your finances and beyond.

— Bruce E. Wolfe, a principal at management consulting firm C.S. Wolfe & Associates and the founder and former executive director of the BlackRock Retirement Institute

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Appeared in the June 17, 2019, print edition.

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