Finding Clarity Among the Noise

The Dangers of Generic Money Advice

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Everyday we're inundated with messages from the media about how to invest, how to save and what to do with our money. When the market is riding high the advice you'll hear, read and see will be very different from when the market is falling. As an investor and somebody participating in consuming that entertainment from mainstream media and magazines, what does this tell you? Let's keep in mind the media is crafting and creating stories to help get your attention so that you will stay tuned through commercials or put your eyes on certain advertisements on their website.

The latest trend

For the best most recent example of how this works, one would only need to look back a couple of years ago to the gold craze that we were stuck in. From 2005 to 2011, over those six years, the price for gold went up by about 300%. The nightly news and media outlets could not talk enough about the metallic wonder that is gold. Before you knew it, on every street corner there seemed to be a new store that had the sign out front: cash for gold. Infomercials popped up selling gold coins and stories about how governments were buying gold in bulk dominated the media.

All that glitters is not gold

At that time, clients could not ask enough whether or not they should hold gold shares. There were questions about how to buy it, how to hold it and with all the advice out there to buy gold, the biggest question was *should I hold the physical bars, buy coins or buy a stock that will help me participate in the rise of gold*? Well, subsequent from 2011 to 2015, all that hype and media led to approximately a 40% *decline* in gold. What that means is that as people were racing to acquire gold in vast quantities in 2010 and 2011, lots of those people have lost more than a third of the value of their investments. This highlights the overarching danger of taking investment advice that is not specific to you and trying to jump on a trend that seems to dominate market message boards.

Common money advice that's actually horrible

A lot of the common advice that clients will come across comes in the form of radio personalities, TV personalities and next door neighbors. This information tends to be things that are working well right now because people almost never speak of the investments they made that are losing money. People don't get put on TV because they've made a series of very poor investment recommendations. Rather, they put people on TV and radio that have made recent correct forecasts about where things are going and it appears to look right.

Many clients are aware of Suze Orman or Dave Ramsey who attempt to offer mainstream financial advice. Both figureheads provide common advice attempted at improving the masses' financial situation. They both have different philosophies and different ways to package information for their listeners. Fundamentally and to the core, no matter who you listen to, the principals of what they're trying to get across are all the same. At the core, it's about spending wisely and investing as much as you can. They preach patience. Those lessons are valuable, yet trying to take away your plan from their shows likely will lead you down the wrong path. Like snowflakes, no two financial situations are exactly alike. Thus, everyone really needs their own plan.

Cycles of fear and greed

The biggest common mistake that you would want to avoid when making an investment decision is hearing something on TV and jumping into it with two feet without doing your homework. When thinking about investing in something, the expectation is that you will perform due diligence and research or work with someone you trust who is doing that work for you behind the scenes. Look at things like *am I buying this investment at or near an all-time high?* Ask yourself *is this a long-term trend or a fundamental shift in the way business is being done?* Equally important, ask yourself this question, which very few people do – *how does this investment or advice trigger the fear and greed inside of me?* Let's spend a minute unpacking exactly what that means.

The stock market fundamentally moves on cycles of fear and greed. When fear takes over, investment prices can go down and certain areas will go down exponentially more. During cycles of greed, investment prices can soar to heights that don't make fundamental sense. This is why it's important to diagnose whether or not this particular investment you're looking at is in a fear or greed cycle.

Achieving financial freedom

Despite the specific advice you hear or the scenarios put before you, these common goals are what we recommend for everyone to help best achieve your financial freedom:

- Go through and understand your annual expenses versus your income.
- Save as much as you can as often as you can.
- Invest in lasting trends that make sense.

Hopefully this will help you stay focused on your efforts to accomplish your long-term financial goals and objectives.

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