Episode 143 - Top 100 Mistakes, Part 1

Episode Transcription

"It [umbrella insurance] is the easiest product to get in the PNC world from a cost standpoint. It costs less than your car insurance, but most people don't have it."

Paul Adams: Hello and welcome to Your Business Your Wealth with your host Paul Adams, founder, CEO of Sound Financial Group, and I'm joined by Cory, president and partner of Sound Financial Group. Cory, so glad you could be here today. I cannot wait for our fun format for this and our next few episodes.

Cory Shepherd: I think this is really exciting today and I thought you were gonna announce me like a prize fighter. You said, "Cory, the President, Shepherd," except the Shepherd [chuckle] didn't show up there. That's kind of the... It fits with our theme and the bell that we're gonna have, which you're gonna explain here in just a second.

Paul Adams: Indeed. What we're gonna do, we're gonna cover 100 things, 100 things you shouldn't do to help get your finances in order. These are the major mistakes we see people make and these are things that we're gathering and in hopes of giving you the chance to learn from a mistake that you didn't have to make personally. One of the big problems with money is that these are not mistakes you get to learn from. They are mistakes that you have to live with if you're the one that makes them. All the better that we can learn from the mistakes that other people had to live with. But we're gonna add a little time fun to today's topic, which is on each of the 25 we're gonna cover in this episode, we're gonna limit all of our commentary to one minute. We're gonna read the topic, either Cory or myself are gonna say, "Go." When we say go, there's a one-minute timer running, you guys will hear it. If it does go off, we are stopping completely right where we are and moving on to the next one. They also may not take us a full minute to cover, in which case, we're going to reset, restart and give a minute to the next one. With that, Cory, are you ready?

Cory Shepherd: I'm ready. Are you ready?

Paul Adams: Good. I am ready. [chuckle] We are going to read the topic and then when I say "go" is when our one minute starts. I hope everybody...

Cory Shepherd: Yeah.

Paul Adams: Whether you're in a car, you're out at a workout, if you're working out and you're doing some kinda Tabata drill, this will work perfect for a one minute sprint.

[laughter]

Cory Shepherd: It will be perfect.

[laughter]

Paul Adams: Although you won't remember a thing when your pulse is 170, 'cause you've got the treadmill up at 8 miles an hour for one minute, but perhaps you'll be able

"If you aren't constantly telling your money where to go, you will always be wondering where it went."

to absorb in the two-minutes you took as downtime in between the next Tabata drill.

Cory Shepherd: Right.

Paul Adams: With that, again, 100 things you shouldn't do to get your finances in order. First one is, own less than $1 million of umbrella insurance. Go.

Cory Shepherd: Oh my goodness. It's the easiest product to get in the P&C world from a cost standpoint. It costs less than your car insurance, but most people don't have it. And we're in such a litigious society. I think about my wife and all the doctors that I work with. And if one of them rear-ended someone on the way to work and that person got out of the car feeling fine, but then saw the lab coat, and all of a sudden, their neck hurts, and they're like, "Oh, man, this has been a problem. Now this really activated this sciatica and my... " And then the lawsuits just starts.

Paul Adams: I think I have gout. I have gout now...

Cory Shepherd: I have gout now.

Paul Adams: Perhaps from being rear-ended. It's hard to tell.

Cory Shepherd: Rear-end induced gout.

Paul Adams: Well, and it's attaching your income also, so it's not just your assets. We were actually talking in Charlotte, North Carolina to some amazing up-and-coming financial executives and one of the things we mentioned was they can attach your income, not just your assets. You should have seen these guys go white and the need to want to get themselves protected. Next. We'll do the next one. I've got to... The stopwatch I'm using has to be reset for me. Not having pictures of your home's contents. Go. I think this one's easy. If you don't have pictures of your home's contents, how are you gonna prove to the homeowners insurance company if you had a major loss: Theft, fire, flood. How are you gonna prove to them what you had?

Cory Shepherd: I've heard that there's some forensic ways to reconstruct your possessions from the ashes that remain, but I just... It's not my idea of fun to be digging through the ashes of my house that has just burned down. I would rather tell the insurance company, "Here's the CD or thumb drive of what my home used to look like. I'll be waiting in the hotel that you paid for until it looks like that again." That's a really simple outcome.

Paul Adams: Absolutely. If I was interested in the forensic discoveries I could have by digging through ashes, I would have become an archeologist and be digging in Pompeii today. Next.

"The higher the level of income, the more important the spending plan is."

[chuckle]

Cory Shepherd: Alright, next is not building an emergency fund. Paul, go.

Paul Adams: If you don't have an emergency fund... Let's define what that is. That is liquid funds set aside in enough capital to carry you for up to a year of household expenses. Now, we have to have it for a couple of fold reasons. One is for the emergency that could happen: Transmission falls out of a car, somebody has high medical bills, those things which maybe have you not not working, but do have you in a position that there are some expenses you didn't anticipate and you don't wanna have to sell your investments or cash out retirement funds early in that instance. But I met somebody today who had one... Or yesterday, had a beautiful, one of those really cool all-electric cars that basically are a Maserati, but now nobody judges you based upon the fact [chuckle] that you bought a sports car in your mid-40s. It's virtue signaling since it's electric, but that guy's been out of work since February and things are starting to get tight. If he had this full emergency fund, he wouldn't have that problem. Done. One second to spare. Next. [chuckle] No spending plan. Cory, go.

Cory Shepherd: I'll start this off with, this is one of the reasons why folks aren't able to build an emergency fund, because they're spending, spending, spending and they don't know where their money went every month. They keep thinking, "Where did all this money go? I have all this income. Where did it all go?" Well, if you aren't constantly telling your money where to go, you will always be wondering where it went. And that's why we need that active plan, 'cause the point is not to spend zero. We have money, we need to deploy it into our life to get something that we want out of... Have the kind of life that we want. So, let's have a plan for the kind of life we want, the spending that we need to do to get there and the long-term asset accumulation that we're gonna produce out of that to let us keep having the life we want and keep spending the money that we want. Done.

Paul Adams: Cory, you've got 10 seconds left. I want you to answer a question. Do you notice that people don't need spending plans at a certain level of income?

Cory Shepherd: Never. The higher the level of income, the more important the spending plan is.

Paul Adams: Perfect. And you just made it.

[laughter]

Cory Shepherd: I wanted to say more about that, dang it. Okay.

Paul Adams: Yeah, I know. See, I hopefully got the audience's mouth watering, too, for the next one.

"Your emergency fund has one job: to be available."

Cory Shepherd: Not making a first day of the month bill that is your commitment to investment, go.

Paul Adams: Everybody talks about this idea of pay yourself first, but if you go down the path of pay yourself first, you will end up with a fundamental breakdown, which is, it's showing up to you like a bill. And what do people do? They put it in a savings account. Now, if you've been through our client process or heard a bunch of our philosophy, you'll know that we talk about the fact that society has programmed us that we save money so that we can spend it later. And the real problem with that is, well, we don't need to save money and then spend it, we need to set money aside and buy assets. But if we don't have a strategy where the first thing we do every month, is put money into a separate account, we call it a wealth coordination account, whose only purpose then is to buy assets, then we will never have a discipline strategy of asset acquisition, and ultimately, the only way we'll have autonomy and freedom over our lifetime is if we're setting money aside consistently to assets in enough of an amount to then let the capital at work pay our bills when we wanna be at definite financial independence and have a work optional lifestyle.

Cory Shepherd: I will allow that one, 'cause the bell was still echoing through the halls.

[laughter]

Cory Shepherd: That's fine, but we're cutting it close. Official warning. It's like your yellow card.

Paul Adams: Alright, Cory, in that case, let's pivot back to you, only saving what is left. Again, 100 things you shouldn't do to help get your finances in order, only save what is left after you spend.

Cory Shepherd: Problem here is that we'll always get more of the thing that we focus the most of our attention on. If we put all of our focus on spending first, and then what's left over is what we get to save, then spending is the catalyst, spending is the operant activity in our life and that's just only going to expand. What we need to do is do the saving first. Paul mentioned the theories like pay yourself first, that is a great philosophy for this part of the idea that we're talking about, we need to make the saving goal or the asset building goal first, and then let the spending take care of itself out of what's left, not the other way around. And there's too many tiny decisions to make every single day in spending, to focus solely on spending. If we focus on the asset building first, the brain will figure it all out in the background with what's left. But if you're deciding every day how to save, you'll never make the right choices over time. That was my long one.

Paul Adams: Okay, Cory, I'm gonna propose this one, and then I'll take the second one following this.

"The studies out of the University of Chicago prove time and time again most of these asset managers that are saying they can outperform the market actually don't when assessed against an academic standard."

Cory Shepherd: Okay.

Paul Adams: Number seven is, have no disability insurance. Go.

Cory Shepherd: All of us, by law, have to own car insurance, and we own car insurance on something that, depending on our car, costs anywhere from $2,000 to hundreds of thousands of dollars depending on who you are, but it's usually a fairly significant portion of our annual income. But our annual income multiplied by the number of years that we expect to have left to work is always a much higher value than whatever that car is, yet so many folks don't have protection on their income. And income, cash flow on your balance sheet, is the thing that makes everything else possible, it's the raw ingredients, the raw energy that lets us do everything else in life. It's your most valuable asset. I can almost guarantee it, no matter what phase of your life you're at, and it's worth protecting, because the loss of it would be catastrophic. Nice. Alright, next, Paul. Have group disability insurance only. Go.

Paul Adams: If you think about your group disability insurance, periodically, we'll have people that are a little bit savvy with their investments and insurances. And one thing that we'll hear a lot is, "Well, my group disability insurance is so inexpensive," or "My employer pays for it, so why would I wanna pay it for something additional on top of it?" Well, there's a few fold. Number one, many times your group disability insurance premium, what is paid for is paid for by your employer. Your employer deducts those premiums, which means if they replace 60% of your base income, then that will be taxable. Let's just call it 33% that what you end up with, after 60% is only 40% after you pay taxes. Part 2 is with the level of income of most of our clients, a decent amount of their income is actually incentive comp. Typically, not covered by group disability insurance, meaning a large swath of double the amount of your income is salary and bonus, or bonus and commissions, you may not get your whole income replaced and having individual coverage that covers all of that puts you in the position, you get the greatest likelihood of replacing your entire income.

[chuckle]

Paul Adams: Sorry for going over the mark on that one. Okay, Cory. To keep us on pace, I'll pivot back to you in a hurry. And what we're gonna do is, confuse your emergency fund with money that can buy assets. Confusing your emergency fund with money that could buy assets. Ready?

Cory Shepherd: Go. Alright, so your emergency fund has one job: To be available, be liquid and be available for whatever might happen from right this instant to tomorrow. Money that's gonna buy assets, money that you're gonna invest and grow in the market is a long-term horizon. That might be two years, three years, five years, ten years, somewhere down the road. Those are two very different purposes. The financial industry loves to have people feel bad about not having their money work for 'em, thinking, "Oh, you're just getting 0.1% interest in the bank. You could be putting that money to work and earn something for you." Well, there's different kinds of rate of return on money, and the rate of return of having a certain amount of money available at any moment for whatever emergency might arise is the best kind of rate of return for that bucket. We don't want any other kind of rate of return. Money that's gonna buy assets, totally different expectation. I'm gonna give those four seconds back 'cause we went over on the last one. Boom.

Paul Adams: Perfect. Okay. And just letting Jordan know, who's handling all of our video here, in studio. What I'm gonna do is I'm gonna jump over, and I'll use this one instead, so that we don't have to worry about it.

"Everybody has a plan until you get punched in the face."

Cory Shepherd: Alright. Next.

Paul Adams: I'm just starting another timer on my computer. Go ahead.

Cory Shepherd: Save less than 15% of income. Go.

Paul Adams: Alright. I don't know why this is that somewhere in our history, setting aside 10% for the future became the "responsible" thing to do. And I don't know if this comes out of our Judeo-Christian values, and the idea of giving 10% to God, I guess, 10% to my future, is a good idea, but I think it may also come from a time when 10% was enough, when you also had a pension, but a vast majority of people do not have any retirement plans or pensions that are guaranteed from their employers any longer. It really becomes, the minimum is 15%. And know, we've been able to do this with studies, looking at somebody who, say, started their career at a low level of income, had an ever increasing trend of increases in income, that at a minimum, starting at age 22 at the beginning of their career, they need to set aside 15% to have enough money that it would replace the other 85% that was being consumed during their working years. The later you start, the higher that number goes. We coach most of our clients to be at 20% of gross minimum savings rate. One second remaining. Cory, I'm gonna switch back to you. That's number 11. And I think you've got some great stuff from your book...

Cory Shepherd: Yeah, yeah, yeah.

Paul Adams: Quick plug. I don't want this to eat up your time. Cory Shepherd's Cape Not Required, one of the books you could potentially receive if you give us an honest review on iTunes. That like, that review, the subscribe, and saying something in there makes a big difference for us and our analytics. That's why we send you a copy of the book. Send us a screenshot of that to info@sfgwa.com, and we'll send you a copy of Cory Shepherd's book, Cape Not Required, in which he may say something about financing. Number 11, financing anything beyond its likely serviceable lifetime could be one of the things that does not contribute to you getting your financial life in order. Cory, go.

"Coming out of school, no savings account, and they're putting all their money to a thing that they can't get at for thirty-something years? That's the bigger problem is that they need to build up other things like liquid emergency funds."

Cory Shepherd: In any consumer purchase, the bigger that ticket item is, the more lengths that the seller will go to get you out the door at whatever monthly payment is gonna get you to where you need to be in your budget. And that's where they focus. But if you think about a car... Well, let me tell you this story about myself. So embarrassing, because I was already a financial advisor, granted, a brand new one, but this is the reason why you don't wanna just go take someone's advice 'cause they have a license. I bought my first car on my own and didn't pay attention to how they were getting me down to the monthly payment I wanted, signed without really reading too closely. And it was only two years later I realized that I was in a loan that was several years longer than I thought on a car that was already used, meaning, I was never gonna own more of the car than the loan. And so you always wanna be careful and know that [chuckle] you're gonna get ahead of that purchase at some point, that you're truly gonna own it and own the value that it has and read the fine print in your car purchases. Paul, number 12.

Paul Adams: Number 12.

Cory Shepherd: Carry credit card debt, go.

Paul Adams: Carrying credit card debt can be a terrible idea, and it goes back to what Cory just spoke about. We're probably financing something longer than its serviceable lifetime. So if, for instance, you buy a vacation to Hawaii on credit cards, the serviceable lifetime of that trip to Hawaii is about as long as it takes to take the trip to Hawaii. But if what you're going to do is be making those payments over the next 10 years, there's a reason why there's an exorbitant amount of interest paid on credit cards. And it's because you're borrowing for something that the actual item is not having you put up for any kind of collateral. Whatever you choose to buy, a shirt, a coat, a vacation, an experience at dinner, are all massively perishable, which is why they put the lean against your future income. And if you run credit card debt that finances things longer than their serviceable lifetime, and you don't pay it off at the end of the month, it is a wind blowing against you unnecessarily. One second left.

Cory Shepherd: Nice.

Paul Adams: Would it be okay if I take the next two, since they also tie to credit cards?

Cory Shepherd: I wanna take the next one. I've got something good.

Paul Adams: You take the next one.

Cory Shepherd: Let me start it off. I'll go really quick, and then...

Paul Adams: Cory Shepherd.

Cory Shepherd: Yeah.

Paul Adams: Cory Shepherd, would you please share with our audience, in 100 things you shouldn't do to help get your finances in order, number 13, pay off credit card debt without setting aside money to assets.

Cory Shepherd: Or without saving. The classic financial advice is maximize that snowball on your debt, pay it off as soon as possible and then move over to building up your savings account. Except, there was something that got the debt there in the first place. Some kind of habit. And if you don't take care of that, the debt's just gonna creep back up. How do you prove to yourself that you have different habits? Paying off the debt and saving at the same time. You have one going down and one going up. The other reason is that if something happens, and you've just paid off your credit card without having any savings accounts, say your car breaks down, you're going right back on the credit card to take care of that problem, and that backsliding can be the most demoralizing part of the whole thing. And that... It can feel... It can just have you drop the whole process to begin with. Doing both at the same time gives you real progress and proves to yourself that you're not just gonna be ending up right back on the same side of the cycle. Done.

"The only thing that's gonna change your life in the next year are the people you meet and the books that you read."

Paul Adams: Right on.

Cory Shepherd: Number 14, pay off debt with money that should own assets. Go.

Paul Adams: You see this periodically where what people will do is they put themselves in the position that they're like, "Oh, this debt is just getting too big. I'm gonna cash out my 401 [k] from my prior employer and pay down this debt, and it's just gonna give us a great restart." Or, "I'm gonna take some money out of investments or my home sale, and I'm gonna just pay off this debt." And by the way, there are times that that could be appropriate and let you get ahead of things. The trouble is, what the mental accounting that was done by you when you acquired these things, the mental accounting was, "I'm gonna spend $20,000 on this thing over here or a series of things that creeped up on the credit card." Once you pay it off, you know you're paying off consumer items, you're not likely to be able to set aside or save all that money. First, make sure, to Cory's point, we can put money to assets and put money to paying down credit card debt, be sure that that's working, so that when you do, if necessary, pay off all the credit card debt, you can actually take the remaining cash flows and move them all to your wealth coordination account. On the button.

Cory Shepherd: On the button.

Paul Adams: Cory. Let's take a quick commercial break, and then we're gonna hit the last 11 of the 100 things you shouldn't do to help get your finances in order.

[music]

Cory Shepherd: At Sound Financial Group, we are committed to continuing to bring you Sound Financial Bites. Hello. My name is Cory Shepherd, President of Sound Financial Group. If you were finding value in these weekly podcasts and they are making a difference in the way you think about money, then think about what kind of a difference could be made if you engage one of our advisors to help you look at your personal finances. What would the next step be? Send an email to info@sfgwa.com with "Philosophy" in the subject line and we will coordinate with you to have a conversation with Paul, myself or one of our other advisors to share with you our philosophy of money. No one is going to close you on that call. No one is going to make you an offer to become a client. The only thing we allow our advisors to do in that call is teach, and the only thing we allow you to do is ask for an application. While we don't accept everyone who applies to work with us, we are committed that any Sound Financial Bites listener who wants to go deeper, has the chance to expand their thinking and walk away with new education and resources around money. Even if we find out we aren't right to work together, our team will absolutely take care of you in that call, and make sure that you have access to resources that might be of help to you.

Paul Adams: Welcome back to Your Business Your Wealth, and 100 things you shouldn't do to help get your finances in order. That's right. We are in a 'not-do' list today. What things are likely going to mess us up, mistakes we've seen people made, inefficiency, inefficiencies? Inefficiencies, Cory, and ineffective... [laughter] That is both inefficient and ineffective... Inefficience. I can't even say it wrong twice in a row. Cory, number 15. Thinking you can time the market.

Cory Shepherd: Out of a 10-year period, there's something like 5000-ish trading days that the market's open and you can buy things, get in and out of positions. And over that period, depending on the period, something like 10 to 20 days, 10 to 20 single days out of 5000 is somewhere in the realm of 50% of the total rate of return. When the market returns, it doesn't do it linearly over time, it does it in big dumps. How are you gonna know? Which of those days is the right day to get in, which is the right day to get out? It could be almost impossible and there's no academic evidence. No one who is not making money, trying to make you think you can, has ever published a paper that says that you can predictably outguess the market getting in and out at the right time, done.

Paul Adams: Right on, nice work. Okay.

Cory Shepherd: Sixteen.

Paul Adams: Sixteen.

Cory Shepherd: I think someone...

Paul Adams: What else?

Cory Shepherd: Yeah, think someone else can time the market. Go.

Paul Adams: Alright. To pick up on where Cory left off, it was 5040 trading days. And if you missed the top 10... The top 20 trading days over a 20-year period from 1998 to the end of 2017, you effectively had zero return. And some of the newest academic evidence is even showing that as little as 4% of the actual traded securities each year will likely have made up an inordinate amount, like 70 plus percent of all equity profits in a particular year. That is key and it's impossible for people to select who those are gonna be in advance. The Morning Star criteria, the studies said, the University of Chicago proved time and time again, most of these asset managers that are saying they can outperform the market actually don't when assessed against an academic standard. Not only can you not time the market, neither can the asset manager you're hiring to do so.

Cory Shepherd: Nicely done. Alright. Trust others with your financial decisions. Go.

Paul Adams: This goes to abdicating your financial decisions. We see all too often that somebody, like maybe one spouse will say, "Well, I don't handle any of the money stuff, just my husband or my wife does all of that. I'm not usually a part of those meetings. I don't find it interesting." The other thing that sometimes happen is people say, "I don't know. We just do what our CPA says." Or, "I don't know. We'll just trust what our advisor says." I'll tell you right away, if you're considering working with us, and you were to say, "I just wanna trust you and we'll do what you say." That'll get you a really confronting conversation with us. With a sparkle on our eye and a smile on our face, we're gonna tell you that that'll get you fired from being a client of ours because we need our clients to be responsible for their decisions. When you know you're responsible and you can't put blame anywhere else, you're more likely to be more diligent about thinking about and acting upon the decisions you make abdicating to others, whether it's your spouse or somebody else has you not be as responsible.

Cory Shepherd: Let's see. Next, I lost my track on the list.

Paul Adams: Number 17.

Cory Shepherd: Oh, 18. 18.

Paul Adams: Oh, 18.

Cory Shepherd: Yeah.

Paul Adams: Not having a financial strategy. Cory, are you ready for this one?

Cory Shepherd: I'm ready.

Paul Adams: Go.

Cory Shepherd: If you don't have a strategy laid out as far as where you wanna go, how do you know that you're making progress towards getting there? Life, as Mike Tyson, one of my favorite public figures of all time says like, "Everyone... "

Paul Adams: I think you often call him a philosopher that you look up to, read his writings consistently and appreciate his face tattoos.

Cory Shepherd: I don't think of... I'm not ashamed.

Paul Adams: I'm pretty sure that's what you say when we're not on the podcast. I'm pretty sure.

Cory Shepherd: He's the pretty stage philosopher. He says, "Everybody has a plan until you get punched in the face." And he's gotten punched in the face plenty of times. Life is gonna surprise us and our memories are gonna drift if we don't have a strategy ahead of time to say, "Here's who I am. Here's where I wanna be in the future. Here's how I'm gonna get there." Then we will fall off that wagon as life will knock us off. It's the plan that helps us keeping on track to where we wanna go. Nice. I love getting done with couple of seconds earlier. Yeah.

[overlapping conversation]

Cory Shepherd: Yeah, alright.

Paul Adams: I love it.

Cory Shepherd: Not investing. Number 19, Paul. Go.

Paul Adams: Alright, so what people often do is one of two things. They tend to build ups, because most of our clients are between 300,000 and two million of annual income. They've got money to set aside into stuff. They let it build up and then they set it aside, they let it build up, and then they set it aside, often because somebody positioned a product to sell them. But what I would say is, for most clients, they're not investing right now. They are saving, putting some money aside in savings type accounts, and they're speculating. Meaning they're investing in some real estate partnership, or they're investing in a specific stock or they're investing with some asset managements, promising outsized returns of some kind. They are not investing. That if you are only setting aside money in savings, you are gonna lose to inflation over time. If you're speculating your losses, when you make bad bets will likely overcome your good bets. To be in the center, make sure with a appropriate amount of savings and speculation, but primarily have a strategy of investing in an academically allocated globally-diversified portfolio.

Cory Shepherd: Cool, not building a team of counselors. Go.

Paul Adams: You wanna me take that one. Alright. It is often that we have seen people be in a position where they have a person that they listen to. And what comes, "For there's safety in a multitude of counselors", is an ancient proverb. Why? Because the multitude of counselors will help you suss out what is true or accurate for you. One of the things that we dig into a lot, periodically, we come into an environment, a client is paying us to do the design work for them for their finances, and they may have some other advisors in place already. And those advisors have largely been having their opinions accepted by the client. Instead, what we do is go and say, "Well, why does your advisor disagree with us?" Let's get the whys then let's bring it back and test it. It's that testing and the iron sharpening iron of that team that helps make sure your decisions are leading in the same direction that you want your future to go.

Cory Shepherd: Cool. Alright.

Paul Adams: Number 21, Cory, is max out your 401 [k]. This is nearly financial heresy that we would say this does not help you financially, max out your 401 [k] too early in life. Cory, go.

Cory Shepherd: You picture the person straight out of college, just getting started in their first full-time job, and they're encouraged by whoever, their grandpa, their advisor that they have to max out your 401 [k], easy first step, no-brainer. Except that 401 [k] is deferring taxes, kicking the can down the road to some time in the future. And the question is, why is that valuable, because it's, "Oh, you're gonna defer taxes until you're in a lower tax bracket later on." Well, lower than what? Lower than when they were 55 to 65, sure. But the very beginning of their career, it's very likely they're at the lowest tax bracket they're ever gonna be again in their life. Let's pay some of those taxes right now. But that's not even the biggest part. The first, coming out of school, no savings account and they're putting all of their money to a thing that they can't get at for 30-something years. That's the bigger problem, is that they need to build up other things like liquid emergency fund that we already talked about, then they'll earn the right to invest in the market and lock up their money for a long time.

Paul Adams: Right on. Okay.

Cory Shepherd: Alright, now let's turn the coin. Make your 401 [k] your only savings and investment vehicle, no matter what your age you are. Go.

Paul Adams: The biggest problem we find with this is the income of our clients. If you are somebody who's making $500,000, $600,000, $700,000 a year, you could max out your 401 [k] your entire life, and you will never get close to the amount of capital that needs to be set aside for you to have the amount of capital at work for you to reach definite financial independence and fund your work optional lifestyle. Second, you end up with little to no taxation diversification. Everybody talks about asset allocation, that is how your money is deployed in stocks, bonds, small cap, large cap international, then you have asset location, meaning, can I access it. Is it in a midterm bucket, a short-term bucket or a long-term bucket and last after that is asset taxation. Do we have a diversification of places money is, Roth type accounts, tax deferred accounts and tax free accounts and taxable accounts, so that we can pull for money from the most appropriate place at the time we need the distribution. Cory, look at that. I finished seconds early, but Cory likes letting the bell ring on me. Notice he just left it there.

Cory Shepherd: No, I'm just trying to catch it. It was just... Slipping hand.

Paul Adams: I think you like it ringing over me, it looks like I didn't make the cut. Notice that never happens to Cory when he's keeping the buzzer. Okay. Cory, number 23. We are narrowing in on the end of 25 for this episode. Take too much risk when you are young. Go.

Cory Shepherd: Picture a 21-year-old with no cash reserves, just getting started. They might not even own a car, they don't own their own home, they don't even know what investing is, and yet, the financial industry would say, when you're young, you're in the best position to take the most risk. It's just not true. They can't tolerate any variability in the money that they have, especially if they're living paycheck to paycheck for their first few years of working. They can't have any of that loss happen in their portfolio. They are too inexperienced in the market, they've got too little cash reserves, they've got too little of that bedrock, they actually have a very low risk tolerance and if they haven't been able to educate themselves about risk, what risk means, that's the other reason not to take it. Let's not get ourselves into something that we haven't studied and know what it is that we're entering into as a strategy. I think I'm good there.

Paul Adams: You are, yeah.

Cory Shepherd: Let's go on the number 24, Paul. We just did take too much risk when you're young. Now, 24, take too little risk when you are old. Go.

Paul Adams: I just gotta start by saying notice that all the ones that have to do with when you're young, Cory's answering, and when you're old, I'm answering.

[laughter]

Paul Adams: I just wanna say I look much older than Cory than I actually am.

Cory Shepherd: And I look much younger than...

[laughter]

Paul Adams: With that, the idea is that too often, people think, "Well, I gotta be much more conservative because I'm almost 65 years old. I'm gonna be taking income from these assets." And I say, stop everything. It's still a study of how much volatility can you tolerate in your portfolio and what do you want from your investing experience over the next 20 to 30 years? Because the truth be told is, if you and a spouse are healthy at age 65, it is highly likely, and I mean over 50%, that one of you is gonna outlive age 92. That means you still have nearly a 30-year investment time horizon, even after retiring. And the longer you live, the more likely you are going to live longer. Which means your investing time horizon keeps getting further out the longer and the further you get out.

Cory Shepherd: I almost caught it. Sorry. I'm trying.

[laughter]

Cory Shepherd: Honest mistake.

Paul Adams: Alright. Number 25. Cory, why don't you bring us home on this episode, ending with as a reminder, 100 things you shouldn't do to help get your finances in order. Cory is going to put icing on the cake here of number 25, not reading at least a few financial books a year. Cory, go.

Cory Shepherd: A wise person who I can't remember at the moment, Paul, jump in if you remember the name, said, "The only thing that's gonna change your life in the next year are the people you meet and the books that you read."

Paul Adams: That was me.

Cory Shepherd: And I very much... That was you? You made that up from scratch? I don't believe that. No, no, no.

[laughter]

Paul Adams: Nope. But the preacher was John Maxwell.

Cory Shepherd: Oh, John. That makes sense. Financial articles aren't enough, white papers aren't enough. We need some narratives that are put together enough to stand the test of time. A book that's been around for a while, has a coherent hole to give you some financial strategies, some ecosystems of thinking just to keep adding those ideas or reinforcing old ones so that you can grow over time, and grow your education, and grow your perspectives on money.

Paul Adams: With that, everybody, that is our first 25 of the 100 things you shouldn't do to help get your financial life in order. We'll look forward to having you back next week when Cory and I tackle 26 through 50, and I think we're gonna be disrupting the middle of this. We have a legitimate, somebody who we're super excited to have on the podcast upcoming. We're not gonna release who it is yet. But we are super excited about our upcoming celebrity interview. We're gonna have two more episodes on these topics, 25, then I think we're gonna be able to slip in our edited version of the celebrity podcast. And then we'll finish out the next two. Keep a close ear to the ground for upcoming episodes. We're so glad you could be here with us today, and we hope that this has been a contribution to you being able to design and build a good life.

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