

## THE WALL STREET JOURNAL SUNDAY.

Getting Going / By Jonathan Clements

## Advice I'll Pass Along to My Daughter

In 1985, I graduated from college. This past August, I dropped off my daughter Hannah for her freshman year.

Despite the two decades in between, I can still vividly recall the financial struggles of early adulthood, including grappling with credit-card debt, scrambling to come up with a house down payment and watching as one of my stocks plunged 80% in a few short months.

Hannah, of course, will have her own financial struggles, and those will teach her far more about money than I ever could. Still, there are nine key financial insights I'm hoping to pass along—and most have precious little to do with picking stocks and buying mutual funds.

**1 More isn't always better.**

Money may not make you happy. But it could make you desperately unhappy. Lots of folks stagger through life, buffeted by credit-card debt, unpaid bills and gnawing fears about their financial future.

Sure, these worries are more likely to hit those with lower incomes. But don't kid yourself: Collecting a handsome salary won't necessarily save you from financial stress. How you handle money is far more important than how much you earn.

**2 Forget appearances.**

That brings us to the family down the road, living in the McMansion with the pristine lawn and his and her European sedans gracing the driveway.

You can't be sure the family has a boatload of money. But you can be absolutely certain they've spent a boatload. In fact, the cars may be leased, the house may be fully mortgaged and the couple may spend their evenings huddled over the kitchen table, sweating over how they will pay the bills.

**3 Save yourself.**

All of this is a reminder that the secret to financial success isn't much of a secret: You've got to spend less than you earn.

And, no, you won't be missing



Scott Pollack

out. You may get a brief thrill from the new sofa or the faster car. But, as everybody eventually learns, the thrill doesn't last and soon enough you are lusting after something else.

Indeed, it is one of those basic life choices: You can spend your days chasing after material goods that will always ultimately disappoint—or you can step off this treadmill, reduce your financial stress and instead devote your energies to far surer roads to happiness, such as seeing friends, pursuing hobbies and helping others.

**4 Buy right.**

I am not suggesting that you constantly defer gratification and that you always pinch pennies. This isn't just an unpleasant way to lead your life. It can also be shortsighted, especially when it comes to possibly the biggest financial decision you will ever make: buying a home.

If you are purchasing a house in an area where you foresee staying for a long time, consider stretching to buy the home you really want, even if it is a little more expensive than you can truly afford. The fact is, trading up is enormously expensive, so your best bet is to buy the right house the first time around.

**5 Valuable lesson.**

If you can develop some financial competence, you

will save yourself a lifetime of heartache and a heap of money. Suppose that, over the course of your adult life, you have an average portfolio balance of \$250,000.

If you use a broker or financial planner, you might pay the adviser 1% of that sum each year, or \$2,500. That is \$2,500 you would save if you learn to manage your own money.

Maybe more important, by learning to build your own portfolio and pick your own mutual funds, you will have that comforting sense of control that comes with fully understanding your finances.

**6 Give it time.**

As soon as you enter the work force, start saving and investing. Initially, your financial progress will seem agonizingly slow and the sacrifice involved will hardly seem worth it.

But if you sock away 10% or 15% of your salary every year for 10 or 15 years, you should hit critical mass—and suddenly your portfolio will start growing by leaps and bounds.

**7 Buy yourself options.**

This burgeoning wealth could come at just the right time.

At age 22, your career may fill you with excitement. At age 42, the excitement will likely have faded and you may be hankering

for a change. If you have money, you have options.

What if you have little or no savings? Put it this way: It's pretty depressing to be in your 40s, stuck in a job you hate—and knowing it will be decades before you can escape.

**8 Sit quietly.**

We all tend to think we're better-than-average drivers, pretty good looking and smarter than most. This overconfidence spills over into our investing and fuels our headstrong pursuit of market-beating returns.

Yet this is almost always self-defeating. Trying to beat the market typically involves a heap of investment costs, and those costs mean our efforts to beat the market usually fail miserably. Indeed, you will probably fare far better by sitting quietly with a handful of low-cost mutual funds, preferably market-tracking index funds.

But it isn't just that efforts to beat the market are usually self-defeating. They are also unnecessary. Want to retire rich? All it takes is time and regular savings.

**9 Know yourself.**

Overconfident investors misjudge not only the markets, but also themselves.

It is easy to talk tough and act brave when the market is going up. It's a completely different story when prices are headed the other way.

The reality is, until you have been through a brutal bear market, with your portfolio deeply underwater and everyone around you filled with doom and gloom, you won't truly know how much risk you can tolerate.

Self-confident, decisive action may serve you well in the world. But in the financial markets, it will leave you with a fistful of disappointing stocks and a longer road to retirement. My advice? Try humility.

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