

IN THIS CHAPTER

- » Defining what financial literacy includes and means
- » Looking at what your parents and others taught you about money
- » Questioning reliability and objectivity
- » Overcoming real and imagined barriers to financial success

Chapter **1**

Embracing Financial Literacy

A continuing stream of studies has indicated that many Canadians are, by and large, financially illiterate. The vast majority of survey respondents have “failing” scores — meaning that they often struggled just to answer half of the questions correctly.

We know from our many, many years of work as personal financial teachers, trainers, writers, and commentators that many folks do indeed have significant gaps in their personal financial knowledge. Though more folks have greater access today to more information than in prior generations, the financial world has grown more complicated, and there are more choices, and pitfalls, than ever before.

Unfortunately, most Canadians don’t know how to manage their personal finances because they were never taught how to do so. Their parents may have avoided discussing money in front of them, and most high schools, colleges, and universities lack courses that equip students with this vital, lifelong-needed skill.



REMEMBER

Some people are fortunate enough to learn the keys to financial success at home, from knowledgeable friends, and from the best expert-written books like this one. Others either never discover important personal finance concepts or they learn them the hard way — by making lots of costly mistakes. People who lack

knowledge make more mistakes, and the more financial errors you commit, the more money passes through your hands and out of your life. In addition to the enormous financial costs, you experience the emotional toll of not feeling in control of your finances. Increased stress and anxiety go hand in hand with not mastering your money.

This chapter examines what topics fall under the heading of “financial literacy” and where people find out about finances, and it helps you decide whether your current level of knowledge is holding you back. You can find out how to improve your financial literacy and take responsibility for your finances, putting you in charge and reducing your anxiety about money. After all, you have more important things to worry about, like what’s for dinner.

What Being Financially Literate Means

We start with the basics. What exactly are we talking about when it comes to being literate in personal finance? Following are the three key subjects to become acquainted with:

- » **Managing your everyday transactions:** We cover accounting for money in the short term that passes through your hands and your transaction accounts.
- » **Investing for the long term:** We discuss the best ways to invest money for better returns and longer-term purposes.
- » **Protecting your money:** We provide an overview on the generally less popular but highly important topic of protecting your income and assets with insurance.

In addition to these major topic areas, the field of personal finance includes plenty of jargon. As you read this book, you’ll become familiar with the terminology, which will boost your confidence and your decision-making skills.

Starting with the basics: Budgeting and transaction accounts

If you’re like most people, as you earn money, much of it too quickly passes through your hands or, more specifically, into and out of your transaction accounts. As you surely know, a hefty chunk of money you earn is siphoned off to federal and provincial taxes. What’s left is used to pay your monthly living

expenses, such as housing, food, utilities, clothing, and hopefully some entertainment and recreation. Chapter 2 delves into the different kinds of transaction accounts and how to use them.

Managing your monthly living expenses (including taxes) and budget and establishing and working toward financial goals take time and effort. Parts 1 and 2 help you accomplish these important tasks.

Making your money work for you: Investing

When you're spending less than you earn and are able to add some more money to your savings each month, you will have the pleasant but challenging problem of deciding where and when to invest your savings. Or maybe you already have additional money you want to invest so it will work harder for you.

The world of investments is complicated and filled with pitfalls. That contributes to some folks leaving their excess money sitting in their everyday — and low-interest — transaction accounts by default. While you could do worse (by losing money in poor investments), you can certainly do better — and you probably actually need to do better in order to accomplish your financial goals. Part 3 covers all things investing and helps you master that important task.

Protecting your income and assets: Insurance

When you're earning money and have some assets (for example, a car, house, and so forth), insurance protects you against both the loss of that income and the loss of — or damage to — your assets. If others are dependent upon your employment income, you likely need some life insurance. Even without dependents, you probably rely on your own income and thus should have adequate disability insurance.

Assets like a car and home require sufficient insurance protection. And, as your investments and net worth grow, having some excess liability insurance to protect that makes sense as well. See Part 4 for the important details on insurance.

Talking Money at Home

We were both fortunate — our parents taught us a lot of things that have been invaluable throughout our lives, and among those were sound principles for earning, spending, and saving money. Our parents had to know how to do these

things because they were raising large families, often on one modest income. They knew the importance of making the most of what you have, and of passing that vital skill on to your kids.

However, most parents' financial knowledge has some significant gaps. Many people have observed firsthand the struggles of parents dealing with making decisions about everything from buying and financing a home to handling retirement money after being laid off to helping to support their own parents.



WARNING

In many families, money is a taboo subject — parents don't level with their kids about the limitations, realities, and details of their budgets. Some parents believe that dealing with money is an adult issue and that children should be insulated from it so they can enjoy being kids. Others readily admit the many holes in their financial knowledge and thus don't feel comfortable teaching their kids about personal finance. In too many families, kids hear about money *only* when disagreements and financial crises bubble to the surface. Thus begins the harmful cycle of children having negative associations with money and financial management.

In other cases, parents, with the best of intentions, do try to teach their children about personal finance, but they end up passing on a harmful combination of wrong assumptions, incorrect principles, and bad money-management habits. You may have picked up from a parent, for example, that buying things is a good way to cheer yourself up. Or you may have witnessed a family member maniacally chasing get-rich-quick business and investment ideas. Now, we're not saying that you shouldn't listen to your parents. But in the area of personal finance, as in any other area, poor family advice and modelling can be problematic.

Think about where — or *if* — your parents learned about money management, and then consider whether they had the time, energy, or inclination to research their options before making their decisions. For example, if they didn't do enough research or had faulty information, your parents may mistakenly have thought that banks were the best places to invest money, or that buying stocks was like going to Las Vegas. (You can find the best places to invest your money in Part 3 of this book.)

In still other cases, the parents have the right approach, but the kids do the opposite out of rebellion. For example, if your parents spent money carefully and thoughtfully, and often made you feel denied, you may find yourself doing the opposite, buying yourself gifts the moment any extra cash comes your way.

Although you can't change what the educational system and your parents did or didn't teach you about personal finances, you now have the ability to find out what you need to know to manage your finances.



TIP

If you have children of your own, don't underestimate their potential or send them out into the world without the skills they need to be productive and happy adults. Buy them some good financial books when they head off to university or begin their first job.

PERSONAL FINANCE AT SCHOOL

In schools, the main problem with personal finance education is the lack of classes, not that kids already know the information or that the skills are too complex for children to understand.

Nancy Donovan teaches personal finance to her fifth-grade math class as a way to illustrate how math can be used in the real world. "Students choose a career, find jobs, and figure out what their taxes and take-home paycheques will be. They also have to rent apartments and figure out a monthly budget," says Donovan. "Students like it, and parents have commented to me how surprised they are by how much financial knowledge their kids can handle." Donovan also has her students invest \$10,000 (play money) and then track their investments' performance.

Urging schools to teach the basics of personal finance is just common sense. Children need to be taught how to manage a household budget, the importance of saving money for future goals, and the consequences of overspending. Unfortunately, few schools offer in-depth classes like Donovan's. In many cases, the financial basics aren't taught at all.

In the minority of schools that do offer personal finance-related courses, the classes are often in economics (and an elective at that). "Archaic theory is being taught, and it doesn't do anything for the students as far as preparing them for the real world," says one high school principal. Having taken more than our fair share of economics courses in university, we understand the principal's concerns.

Some people argue that teaching financial basics to children is the parents' job. However, this well-meant sentiment is what we largely rely on now, and for all too many, it isn't working. In some families, financial illiteracy is passed on from generation to generation.

Education takes place in the home, on the streets, and in the schools. Therefore, schools must bear some responsibility for teaching this skill. However, if you're raising children, remember that no one cares as much as you do or has as much ability to teach the important life skill of personal money management.

Identifying Unreliable Sources of Information

Most folks know that they're not financial geniuses. So, they set out to take control of their money matters by reading about personal finance or consulting a financial advisor.

But reading and seeking advice to find out how to manage your money can be dangerous if you're a novice. Misinformation can come from popular and seemingly reliable information sources, as we explain in the following sections. (Because the pitfalls are numerous and the challenges significant when choosing an advisor, we devote Chapter 20 to the financial planning business and tell you what you need to know to avoid being duped and disappointed.)

The dangers of free financial content online

In addition to being able to quickly access what we want, the other major attraction of the internet is the abundance of seemingly free websites providing piles of apparently free content. Appearances, however, can be decidedly deceiving!

While there are exceptions to any rule, the fact of the matter is that the vast majority of websites purporting to provide a seemingly never-ending array of “free” content are rife with conflicts of interest and quality problems due to the following:

- » **Advertising:** Any publication that accepts advertising has a potential conflict of interest because it may not want to publish articles that would upset its advertisers. This mindset can stand in the way of telling consumers the unvarnished truth about various products and services. For example, credit card companies aren't very interested in advertising someplace that publishes articles highlighting the negatives of credit cards. (Check out the section “Publishers pandering to advertisers” later in this chapter for more on the power of advertising to influence the financial information you encounter online, on TV, and elsewhere.)
- » **Advertorials:** Too many website owners are unwilling or unable to pay real writers for quality content and instead publish articles that are written and provided by advertisers. These pieces of “content” are known as *advertorials* or *sponsored content* and, in the worst cases, aren't even clearly labeled as advertisements, which is precisely what they are.
- » **Affiliate relationships:** Many companies pay “referral fees” to websites that bring in new customers. Here's how that practice causes major conflicts of interest. On a financial website, you read a glowing review of a particular

financial product or service. And the site provides a helpful link to the website of the provider of that product or service. Unbeknownst to you, when you click on that link and buy something, the seller kicks money back to the “affiliate” who reeled you in. At a minimum, such relationships should be clearly disclosed and detailed in any review.

- » **Insufficient editorial oversight:** At most established, quality print publications, there are usually numerous editors who oversee the publication and all its articles. This structure helps ensure the accuracy of what gets into print (although bias, such as political bias, isn’t necessarily controlled). Unfortunately, the shoestring budget on which many websites operate precludes these quality-control checks and balances. Thus, sites operated by non-experts proffering advice place you at great risk.
- » **Lack of accountability:** In part because of a lack of editorial oversight, there’s also often a lack of accountability for advice given online. This situation is especially problematic on the numerous sites that are run without disclosure of who is actually in charge of the site and/or who is writing the articles. Although such anonymity may be helpful to the site and its content providers, it’s certainly not in your best interests because it prevents you from checking out the background, qualifications, and track record of the providers.

The dangers of following financial gurus (and celebrities)

While new mediums may come as others fade, the same types of dangers continue to trip up people with their money. In this section, we highlight what you can do to protect yourself from being led astray by supposed financial gurus and celebrities.

Know who’s talking



TIP

Before you take financial advice from anyone, examine their background, including professional work experience and education credentials. This is true whether you’re getting advice from an advisor, writer, talk show host, or TV financial reporter.

If you can’t easily find such information, that’s usually a red flag. People with something to hide or a lack of something redeeming to say about themselves usually don’t promote their background.

Of course, just because someone seems to have a relatively impressive-sounding background doesn’t mean that they have your best interests in mind or have honestly presented their qualifications.

You can't always accept stated credentials and qualifications at face value, because some people lie (witness the billions lost to hedge fund Ponzi-scheme-man Bernie Madoff). You can't sniff out liars by the way they look, their résumé, their gender, or their age. You can, however, increase your chances of being tipped off by being skeptical (and by checking out the "Guru Watch" section of co-author Eric's website at www.erictyson.com).

Beware celebrity endorsers

Celebrities were used big-time as endorsers in recent years in the problematic cryptocurrency space. You've perhaps heard of the now defunct and bankrupt off-shore cryptocurrency exchange FTX, which spent hundreds of millions of dollars on advertising and paying celebrity endorsers like basketball stars Shaquille O'Neil and Stephen Curry, NFL quarterbacks Trevor Lawrence and Tom Brady, comedian Larry David, supermodel Gisele Bündchen, tennis great Naomi Osaka, baseball stars David "Big Papi" Ortiz and Shohei Ohtani, and *Shark Tank's* Kevin O'Leary.

In some of the advertisements for FTX, the well-paid celebrity endorsers not only joked about not knowing much about cryptocurrencies, but then suggested that that was why they used FTX, implying that FTX was the expert. In other ads, some celebrities acted like they were calling friends to ask if they too were in to invest through FTX. Lawyers have filed a class action lawsuit against the celebrities for being bought off, failing to disclose large endorsement fees, and misleading the public to invest billions of dollars in FTX, which turned out to be nothing but a wholesale fraud.

Always remember that celebrities may have a talent that brings them fame and fortune, but they are no smarter than anyone else when it comes to their personal finances. Furthermore, and too often, they have enormous (and rarely well disclosed) conflicts of interest in what they tout.

Watch out for outrageous performance claims



WARNING

You can see a number of hucksters for what they are by using common sense in reviewing some of their outrageous claims. Some sources of advice, such as the late Wade Cook's investment seminars, lure you in by promising outrageous returns. The stock market has generated average annual returns of about 9 percent over the long term. However, Cook, a former taxi driver, promoted his seminars as an "alive, hands-on, do the deals, two-day intense course in making huge returns in the stock market. If you aren't getting 20 percent per month, or 300 percent annualized returns on your investments," he said, "you need to be there." (We guess we do, as does every investment manager and individual investor we know!)

Cook's get-rich-quick seminars, which cost more than \$6,000, were so successful at attracting people that his company went public and generated annual revenues of more than \$100 million. Cook's "techniques" included trading in and out of stocks and options after short holding periods of weeks, days, or even hours. His trading strategies can best be described as techniques that are based upon technical analysis — that is, charting a stock's price movements and volume history, and then making predictions based on those charts.



REMEMBER

The perils of following an approach that advocates short-term trading with the allure of high profits are numerous:

- » You'll rack up enormous brokerage commissions.
- » You won't make big profits — quite the reverse. If you stick with this approach, you'll underperform the market averages.
- » You'll make yourself a nervous wreck. This type of trading is gambling, not investing. Get sucked up in it, and you'll lose more than money — you may also lose the love and respect of your family and friends.

If Cook's followers were able to indeed earn the 300 percent annual returns his seminars claimed to help you achieve, any investor starting with just \$10,000 would vault to the top of the list of the world's wealthiest people (ahead of Bill Gates and Warren Buffett) in just 11 years!

Publishers pandering to advertisers



WARNING

Thousands of publications and media outlets — websites, blogs, podcasts, radio, TV, magazines, and even some newspapers still, and so on — dole out personal financial advice and perspectives. Although some of these "service providers" collect revenue from subscribers, virtually all are dependent — in some cases, fully dependent (especially the internet, radio, and TV) — on advertising dollars. Although advertising is a necessary part of capitalism, advertisers can taint and, in some cases, dictate the content of what you read, listen to, and view.

Be sure to consider how dependent a publication or media outlet is on advertising. We find that "free" publications, websites/blogs, podcasts, radio, and TV are the ones that most often create conflicts of interest by pandering to advertisers. (Almost all derive all their revenue from advertising.)

Much of what's on the internet is advertiser-driven as well. Many of the investing sites on the internet offer advice about individual stocks. Interestingly, such sites

derive much of their revenue from online brokerage firms seeking to recruit customers. (See Part 3 for more information about your best investment options.)

Keep in mind that you have virtually zero privacy on “free” websites because they make money by selling access to website visitors like you to companies and people with something to sell.

As you browse online, read various publications, watch TV, or listen to podcasts and radio, note how consumer-oriented these media are. Do you get the feeling that they’re looking out for your interests? For example, if lots of auto manufacturers advertise, does the media outlet ever tell you how to save money when shopping for a car or the importance of buying a car within your means? Or are they primarily creating an advertiser-friendly broadcast or publication?

Jumping over Real and Imaginary Hurdles to Financial Success

Perhaps you already know that you really should live within your means, buy and hold sound investments for the long term, and secure proper insurance coverage; however, you just can’t bring yourself to do these things. Everyone knows how difficult it is to break problematic habits that have been practised for many years. The temptation to spend money lurks everywhere. Ads show attractive and popular people enjoying the fruits of their labours — a new car, an exotic vacation, and a lavish home.

Maybe you felt deprived by your tightwad parents as a youngster, or maybe you’re bored with life and like the adventure of buying new things. If only you could hit it big on one or two investments, you think, you could get rich quick and do what you really want with your life. As for disasters and catastrophes, well, those things happen to other people, not to you. Besides, you’ll probably have advance warning of pending problems, so you can prepare accordingly, right?

Your emotions and temptations can get the better of you. Certainly, part of successfully managing your finances involves coming to terms with your shortcomings and the consequences of your behaviours. If you don’t, you may end up enslaved to an unsatisfactory job so you can keep feeding your spending addiction. Or you may spend more time with your investments than you do with your family and friends. Or unexpected events may leave you reeling financially; disasters and catastrophes can happen to anyone at any time.

Discovering what (or who) is holding you back

A variety of personal and emotional hurdles can get in the way of making the best financial moves. As we discuss earlier in this chapter, a lack of financial knowledge (which stems from a lack of personal financial education) can stand in the way of making good decisions.

But we've seen some people caught in the psychological trap of blaming something else for their financial problems. For example, some people believe that adult problems can be traced back to childhood and how they were raised.

We don't want to disregard the negative impact particular backgrounds can have on some people's tendency to make the wrong choices during their lives. Exploring your personal history can certainly yield clues to what makes you tick. That said, adults make choices and engage in behaviours that affect themselves as well as others. They shouldn't blame their parents for their own inability to plan for their financial futures, live within their means, and make sound investments.

Some people also tend to blame their financial shortcomings on not earning more income. Such people believe that if only they earned more, their financial (and personal) problems would melt away. Our experience working and speaking with people from diverse economic backgrounds has taught us that achieving financial success — and, more importantly, personal happiness — has much less to do with how much income a person makes but rather with what they do with what they have. We know financially wealthy people who are emotionally poor even though they have all the material goods they want. Likewise, we know people who are quite happy, content, and emotionally wealthy even though they're struggling financially.

Most Canadians — even those who have not had an “easy” life — ought to be able to come up with numerous things to be happy about and grateful for: a family who loves them; friends who laugh at their stupid jokes; the freedom to catch a movie, play some pickleball or read a good book; or a great singing voice, a good sense of humor, or a full head of hair.

Developing good financial habits

After you understand the basic concepts and know where to buy the best financial products when you need them, you'll soon see that managing personal finances well is not much more difficult than other things you do regularly, like tying your shoelaces and getting to work each day.



REMEMBER

Regardless of your income, you can make your dollars stretch further if you practise good financial habits and avoid mistakes. In fact, the lower your income, the more important it is that you make the most of your income and savings (because you don't have the luxury of falling back on your next big paycheck to bail you out).

More and more industries are subject to global competition, so you need to be on your financial toes now more than ever. Job security is waning; layoffs and retraining for new jobs are increasing. Putting in 30 years for one company and retiring with the gold watch and lifetime pension are becoming as rare as never having problems with your computer.

Speaking of company pensions, odds are increasing that you work for an employer that has you save toward your own retirement instead of providing a pension for you. Not only do you need to save the money, you also have to decide how to invest it. Chapter 13 can help you get a handle on investing in retirement plans.

Personal finance involves much more than managing and investing money. It also includes making all the pieces of your financial life fit together; it means lifting yourself out of financial illiteracy. Like planning a vacation, managing your personal finances means forming a plan for making the best use of your limited time and dollars.



REMEMBER

Intelligent personal financial strategies have little to do with your gender, ethnicity, or marital status. All people need to manage their finances wisely. Some aspects of financial management become more or less important at different points in your life, but for the most part, the principles remain the same for everyone.

Knowing the right answers isn't enough. You have to practise good financial habits just as you practise other good habits, such as brushing your teeth, eating a healthy diet, and getting some exercise.



REMEMBER

What you do with your money is a quite personal and confidential matter. In this book, we try to provide guidance that can keep you in sound financial health. You don't have to take it all — pick what works best for you and understand the pros and cons of your options. But from this day forward, please don't make the easily avoidable mistakes or overlook the sound strategies that we discuss in this book.

Throughout your journey, we hope to challenge and even change the way you think about money and about making important personal financial decisions — and sometimes even about the meaning of life. No, we're not philosophers, but we do know that money is connected to many other parts of our lives.