

PRICE VALUE PARTNERS

Here is wisdom

“If God materialized on earth and wrote the secret of the universe on one page, he wouldn't be able to find a publisher.”

- Scott Adams.

“I always say you could publish rules in a newspaper and no-one would follow them. The key is consistency and discipline.”

- Richard Dennis.

The UK general election is now less than two weeks away and with Labour nibbling away at the Conservatives' lead in the polls, things are starting to heat up. In a piece for the Financial Times, Merryn Somerset Webb intriguingly suggested imposing a fee cap on fund managers in order to pay for the rising costs of social care. Unsurprisingly, this generated some 'below the line' passion on the part of subscribers, most of which, also unsurprisingly, was directed at fund managers themselves. Perhaps the most thoughtful 'below the line' correspondent to the piece was the FT reader 'Muppet', who offered the following genuinely helpful advice:

Education is at the heart of this.

Modest proposal:

Mandatory as part of every degree and equivalent in the country would be a course entitled: 'Personal Finance and Investment Management: It's simpler than you think (if it isn't, either you are getting it wrong or somebody is lying to you); now wise up and get out there and do it – it's your life and your money'.

Obviously that's a little unwieldy, so it would be known as the 'WISE UP'.

It would be one hour a week or maybe a fortnight taken in the last year of the degree so momentum was maintained without overloading the thing. Say 15 - 25 hours in all. It would include:

£) understanding what equities and bonds are

£) inflation (deflation)

£) Risk/volatility

£) diversification (including how it can be overdone)

£) indexes

£) yield concept

£) Compounding etc (dividend re-investment, pound cost averaging etc.)

£) leverage (and how it applies when you buy a house but (hopefully) not when you buy a stock)

£) learning to love graphs (linear X axis / log Y axis etc)

£) lying with stats generally (none of the maths would be beyond 13 year old level).

At the end of the course there would be a one hour easy test. Passing it would be required in order to graduate (no limit on retakes). Upon passing you would win a prize of £100. This would be credited to your account with the Government's 'Citizen's Tracker and Universal Investment Brokerage Platform' which I refer to above...

(didn't I?)

All of which is a terrific idea. (We would propose segments dedicated to 'Great investment thinkers' which would definitely include Benjamin Graham and which would definitely not include any current political leaders, but we are cavilling on the ninth part of a hair.)

If 'Muppet's list of recommendations is too lengthy (and it clearly isn't), here is one made by Scott Adams, the US creator of the Dilbert cartoon strip.

Dilbert's One-Page Guide to Everything Financial:

1. Make a will.
2. Pay off your credit cards.
3. Get term life insurance if you have a family to support.
4. Fund your 401k to the max. [British readers can use 'pension fund' here.]
5. Fund your IRA to the max. [British readers can use 'pension fund / ISA account' here].
6. Buy a house if you want to live in a house and can afford it.
7. Put six months worth of expenses in a money-market account.
8. Take whatever money is left over and invest 70% in a stock index fund and 30% in a bond fund through any discount broker and never touch it until retirement.
9. If any of this confuses you, or you have something special going on (retirement, college planning, tax issues), hire a fee-based financial planner, not one who charges a percentage of your portfolio.

That's just *nine* line items – one less than the Ten Commandments, and they were pretty brief.

Concision, of course, struggles with complexity. The current investment environment can be described as many things, but 'normal' doesn't happen to be one of them. So in the interests of capital preservation we see merit in using active (value) management as opposed to lower cost passive, even as we applaud the entry of Vanguard Group into the UK investment marketplace.

Meanwhile, readers of a sceptical hue may wonder why some of the most practical financial advice today is coming via either an anonymous furry puppet, or from a cartoonist. But again, these are not exactly normal market conditions.

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