

WATERING YOUR MONEY TREE

It's easier than ever to rack up a staggering amount of debt in a very short time, but good financial planning is a characteristic too often ignored. Scott Ward (Missouri '88), a financial adviser and long-time contributor to the Fraternity, shares his wisdom.

What are some of the bedrock principles of good financial planning?

Here's the easiest principle: Spend less than you make.

There are three other solid principles that should be taken into consideration:

1. Save money regularly and automatically. If you can have an automatic deduction from each paycheck, do so. Don't rely on yourself to put money in a separate account. You won't do it.
2. Establish an emergency fund of three to six months' worth of living expenses. If you lose your job or have unexpected expenses, you'll be glad you have the financial padding.
3. Obtain at least basic insurance coverage, including health, disability and liability. The expenses are small and the potential savings are huge.

What if you're a young earner thinking of putting into a company's matching 401(k) plan. Should you consider it?

If your company does offer matching funds, you should almost definitely take advantage of that offer. You should maximize your tax-deferral opportunities, either looking at a 401(k) plan – one that grows tax-free until you take the money out – or a Roth IRA, where you pay taxes on the money up-front.

Day trading is very popular. How does it affect your financial future?

Day trading is a diversion that can harm your long-term finances. There are high fees and high taxes without the benefits of capital gains. Most money made through investing is made by sitting and letting your winners run. Day traders, who have a little bit of money to play with, are going up against the professionals. It's the same thing as going to Vegas. It's not a good way to invest.

Are there any other parting thoughts on financial planning?

Seek counsel in any area where you're not an expert. You can't know as much as a professional in areas such as home mortgages, car leases, marriage finances and so on, and those decisions will affect your long-term financial future.

One more point: Education is the best investment you can make in yourself, but no one is going to give you a scholarship, grant or low-interest loan for your retirement. Make sure to weigh the pros and cons of every financial decision.