The Solution - Only follow financial strategies that are scientific, passive, diversified, savings focused, risk controlled, low cost, and tax efficient

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Summary: A previous article, "The Problem - Straight answers about personal financial and investment planning are difficult to find," summarized important reasons why individuals may experience difficulties, even if they are intent upon doing better with their personal financial planning. This article summarizes some general decision rules to address those problems. This article also introduces a series of additional articles, which will discuss these decision rules and related financial practices in more detail. In general, individuals will benefit greatly and get more enjoyment out of their financial affairs, if they decide ONLY to follow financial and investment strategies that are: a) scientifically grounded, b) completely passive, c) thoroughly diversified, d) savings focused, e) risk adjusted, f) cost effective, and g) tax efficient. While this might seem very challenging to do, in reality all these factors are interrelated. In fact, when you choose financial strategies with these characteristics, your financial life tends to become less complicated. When the complications of personal finance diminish, you can get on with living. You can plan to live and not live to plan.First, you should always demand that your financial strategies be scientifically valid. Far too many financial and investment strategies have no objective basis and are in fact contrary to what has been established in the financial science literature. Second, the more passive your strategies are, the better they are. Motion without real purpose in finance wastes both your money and your precious time. Motion in finance is futile, because asset price setting is generally very efficient, and the costs of making changes push you backward.Third, thoroughly diversified strategies eliminate unnecessary risk. In addition, fully diversified strategies usually are completely passive, and they tend to have lower investment risk. Fourth, by earning more and spending less, most people will have much more impact on their future financial well-being than they ever could by trying to be more clever investors. Investment cleverness tends to be counter-productive for individual investors. In contrast, another dollar saved is another dollar to invest. (See: What is the cost to individual investors of sub-optimal portfolio diversification?)Fifth, investing is about risk-adjusted asset returns. Securities markets tend to pay a premium for risk taking, but only for market-oriented risk taking. Securities markets tend not to compensate for the risks associated with holding the securities of individual companies. Individuals need to understand this. There is no risk free money in investing.Sixth, your financial and investment practices need to be cost effective. Cost reduction is the single most important factor that will improve investment returns for most people. In addition, when you cut out investment costs, you also cut out the incentive for someone to sell something to you. When you stop listening to financial sales people and start looking proactively for low cost, passive, risk adjusted, and fully diversified investments, you simplify your choices. You will still have plenty of investments options. Furthermore, the scientific evidence indicates that these choices will be the most favorable to your interests. Finally, greater tax efficiency simply tends to be a by-product of following the other decision rules listed above. More risky, poorly diversified, active strategies tend to incur higher taxes. To cover these decision rules and some related subjects in more detail, *The Skilled Investor* intends to publish sequentially, the eighteen "viewpoint" articles listed below. These financial planning and investing articles will give you a better understanding of why you should ONLY follow financial and investment strategies that are: a) scientifically grounded, b) completely passive, c) thoroughly diversified, d) savings focused, e) risk adjusted, f) cost effective, and g) tax efficient.

*As these articles are published, we will add links to these articles. You will find these links in the category listing near the bottom of this page. If you do not yet find a link below and you wish to be informed when these articles are published, you can stay tuned by selecting our RSS feed from the side column.*Forthcoming financial decision rule articles from *The Skilled Investor*:1) Your financial and investment strategies should have a scientific basis.2) Your personal earnings, expenditures, and savings are the most important determinants of your family’s long-term financial wealth. 3) For individual investors, risk-free investment money is fantasy money.4) You must stay invested in the securities markets to earn market risk premiums.5) Build asset buffers to protect yourself from market volatility.6) Always completely diversify your portfolio.7) Own investment funds and not individual securities.8) Spending your valuable time on the wrong financial activities is just plain bad for you.9) Passive index investment strategies are superior, because they narrow range of outcomes .10) Searching for superior investment fund managers is a waste of your money and time.11) Never invest solely because of superior past mutual fund and ETF performance.12) Tax-advantaged investing is very good for most people at most times.13) Excessive investment costs are a huge problem for individual investors.14) Financial advisor costs and the value of their investment strategies determine your return on investment from these investment advisor services.15) If personal finance is difficult for you carefully hire a good financial and investment advisor.16) Do not ignore insurable risks that could destroy your best laid financial plans.17) Your investment portfolio and other property assets are simply your evolving estate.18) No financial planning software and no investment growth calculator can predict the future.

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