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# Column: Economic road signs and the literacy to read them

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We've all been there: driving down the highway, listening to the radio without a care … and bam! Fog and rain so thick it becomes difficult to see. You slow down. You engage the wipers. If you're like me, you immediately have a physiological reaction to the situation as a result of the significant increase in the probability of danger. The unknown and unexpected have a way of getting our attention after they have presented themselves. How we prepare for and adjust to these situations often dictates how well we navigate manageable, yet potentially dangerous, times in our lives.

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This April was the 11th anniversary of National Financial Literacy Month as designated by U.S. Senate Resolution 316 of 2004. During April, individuals were encouraged to commit to improving the financial aspect of their lives. The first step in this process is to gain a clear understanding of your current financial status. A relatively easy way to do this is to use one of the data aggregation tools many financial institutions make available to clients. These tools will allow you to access most – if not all – of the financial relationships you have on both sides of your balance sheet. This exercise will create reference and starting points for beginning the journey toward gaining better control over the financial areas of your life.

Your next step should be to create a budget along with a system to track where and on what your money is spent. Be honest. As much as I'd love to think I can get by on $50 per week for groceries, I know that my bill will be significantly greater as long as my twin 18-year-old daughters and 20-year-old son continue to live with my wife and me.

The next part of this process can be eye-opening. Choosing to understand what makes us tick relative to how and why we spend money can lead to a meaningful process of self -discovery. Do we spend to address stress? Do we buy things for people to try to garner their affection or attention? Are we buying things we want *and* value, or just want? Do we contemplate purchases of large-ticket items or are we impetuous? Answering these and other questions can materially improve our relationship with money.

Writing down your financial goals will help prioritize those things important to you in the near, intermediate and long term. Do you want to go on vacation with the kids before they graduate and move out? What do you want to contribute to children's weddings? Is there a new convertible on the list? When do you want to retire?

This exercise will help quantify what is realistic based on your current financial state and money habits. More importantly, it will help you gain clarity on the potential positive result from changes in financial behavior.

Your next step is to create a definable and repeatable investment strategy, reflective of your goals. Are you maxing out retirement plan contributions? Using debt prudently? Are you too conservative? Do you have sufficient cash reserves for an emergency?

This will lead to your investment portfolio reflecting three things at all times – your investment time horizon, tolerance for risk and need for liquidity.

Most important, your plan should center on long-term success, not short-term investment performance. Unfortunately, studies show that most investors' long-term returns typically underperform due to rushing in and out of markets at inopportune times. The field of behavioral finance describes this as hindsight bias, akin to driving your car while looking in your rearview mirror.

By taking the steps to become more financially literate, you can prepare yourself for unpredictable times in your life as well the inevitable, like retirement. Although this process can seem tedious and intimidating, your ultimate return on this investment of time should be very high. As much as no one gets excited about going to the mechanic for new brakes and windshield wipers, it sure feels great to be able to see out of our windshield and slow down to prevent hydroplaning in the rain.

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