

TOP 10 INVESTMENT TIPS FROM THE ANCIENT TEXTS OF CLASSIC ROCK 'N' ROLL

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Apologies to David Letterman,¹ Benjamin Graham,² and musicians everywhere

Are you the type of person who asks, "Why can't radio stations play 'Free Bird' and 'Stairway to Heaven' more often?" or who muses hopefully, "I wonder if there is a radio station that plays 'Born to Run' 24/7?" If so, consider the following top 10 investment tips gleaned from the ancient texts of classic rock.

10. "HOTEL CALIFORNIA," THE EAGLES (1977)

*"We are programmed to receive.
You can check out any time you like,
But you can never leave."*

Carefully review your liquidity. If a fund requires manager approval for redemption, you should understand that in a difficult environment, the manager may decline your request. Speak with your adviser about the balance between earning extra income and maintaining necessary liquidity. The liquidity characteristics of money funds, bank money market accounts, and bond funds differ considerably, and although each has a role for someone, that person may or may not be you.

9. "TAXMAN," THE BEATLES (1966)

*"(If you drive a car, car)
I'll tax the street
(If you try to sit, sit)
I'll tax your seat*

*(If you get too cold, cold)
I'll tax the heat
(If you take a walk, walk)
I'll tax your feet"*

Consider the effect of taxes on withdrawals. It may make sense to draw from your after-tax accounts rather than tax-deferred accounts. In addition, note that one tax issue you can control is when to buy or sell assets. Be careful about buying into a mutual fund that is about to declare a dividend and, in the United States, also about whether the interest earned on municipal bonds is potentially taxable (i.e., included in pre-tax income for the calculation of the Alternative Minimum Tax, or AMT).

8. "LADY MADONNA," THE BEATLES (1968)

*"Lady Madonna, children at your feet,
Wonder how you manage to make ends meet.
Who finds the money when you pay the rent?
Did you think that money was heaven sent?"*

Plan, plan, and then plan again. Committing yourself to a realistic investment plan requires understanding your resources and obligations as well as the essential attributes of your future desired lifestyle. As you plan your investment strategy, leave room for investment underperformance.

Committing your plan to writing may force you to address issues that you might otherwise glide over.

7. "STAIRWAY TO HEAVEN," LED ZEPPELIN (1970)

*"There's a lady who's sure
All that glitters is gold
And she's buying a stairway to heaven."*

Don't be dazzled by fancy new investment products. If you cannot understand the description in the prospectus, consider not making the investment. The investment risks section, in particular, warrants your attention.

6. "TAKIN' CARE OF BUSINESS," BACHMANN TURNER OVERDRIVE (1973)

*"If it were easy as fishin',
You could be a musician,
If you could make sounds loud or mellow
Get a second-hand guitar
Chances are you'll go far
If you get in with the right bunch of fellows"*

Get Help. Investing successfully is hard. For that reason, many investors engage an investment adviser to show them a prudent path. You should feel comfortable discussing all your financial

concerns with your adviser, or you should look elsewhere. Your adviser needs you to provide a frank assessment of your goals and resources. You will be more likely to meet your needs if your adviser understands your views of acceptable and unacceptable outcomes. Consider the useful resource "[What Every Investor Should Know... Choosing a Financial Adviser](#)" (PDF) to help you make informed decisions.

5. "SYMPATHY FOR THE DEVIL," ROLLING STONES (1968)

*"But what's puzzling you
Is the nature of my game, um mean it, get down
(woo woo, woo woo)"*

How do you know if your adviser has a clean record? In the United States, the Securities and Exchange Commission (SEC) and state regulators maintain databases for brokers, brokerage firms, and investment advisers. The [SEC website](#) is free to use and easy to navigate. Some investment advisers report to state securities regulators. If your adviser is state regulated, consult the [NASAA website](#) for the regulator in your jurisdiction.

For additional ideas on this topic, please consult "[Ten Ways Investors Can Avoid Investment Fraud](#)" (PDF).

4. "WHEN I'M SIXTY-FOUR," THE BEATLES (1967)

*"Will you still need me
Will you still feed me
When I'm 64."*

Be suspicious of promises and projections, especially over longer modeling periods. You may want to introduce some setbacks into your projections, such as a period of inflation, a sustained drop in equities, or more onerous tax provisions affecting Social Security. You should plan on being able to meet your goals even if some projected income fails to materialize. Perhaps when you harvest your investments, you'll be pleasantly surprised, but don't count on it.

3. "MY GENERATION," THE WHO (1965)

"I hope I die before I get old (talkin' 'bout my generation)"

Longevity risk (i.e., outliving your money) is a serious issue. For example, the second-to-die life expectancy of a husband or wife, even where one individual is in poor health, can greatly exceed

the longevity estimates for the husband or wife when considered individually. In addition, the older you are, the longer your life is likely to be. According to the most recent (2005) actuarial tables of the Social Security Administration, at birth, a girl in the United States can expect to live, on average, 80 years. As of age 80, however, that same individual can expect to live, on average, an additional nine years, to age 89.

2. "DREAM ON," AEROSMITH (1973)

"Everybody's got their dues in life to pay"

Watch expenses. Research suggests that investors should focus on products with low fees. Even before compounding, reducing your management fees by 1.5 percent annually can increase your wealth accumulation by 15 percent over 10 years or 30 percent over 20 years. As a result, index funds tend to outperform actively managed funds.

1. "TEACH YOUR CHILDREN," CROSBY, STILLS, NASH & YOUNG (1970)

*"You who are on the road
Must have a code that you can live by"*

Consider retaining a financial adviser who is dedicated to your interests. Certain financial professionals have a fiduciary responsibility to you, which means they must consider your interests before their own or their employer's. This standard does not apply to all individuals who hold themselves out as investment advisers or account executives. In the United States, the SEC imposes that standard on Registered Investment Advisors (RIAs). In addition, CFA Institute, the global association for investment professionals, requires those with the Chartered Financial Analyst (CFA) designation to observe this standard regardless of jurisdiction. Investors should be aware that an adviser might hold any number of designations, degrees, and regulatory certifications.

However, none are as rigorous and focused on the investment decision-making process as the CFA designation is.

- i David Michael Letterman is a comedian who hosts the "Late Show with David Letterman," a late-night talk show broadcast on CBS. He is known for his "top-ten" lists.
- ii Benjamin Graham was a U.S. economist, professional investor, and proponent of value investing. In 1934 he co-wrote with David Dodd *Security Analysis*, a groundbreaking text on investments that remains in print today. Graham is also credited as being an early proponent of analyst certification, which ultimately led to CFA Institute establishing the CFA Program.

For more information, please consult <http://www.cfainstitute.org/about/investor/>

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