

Praise for The 7 Secrets of Money

‘The Seven Secrets of Money is an essential read for anyone currently investing for their future or considering doing so. It provides a simple, yet powerful, framework for making better investment decisions, avoiding the common mistakes that investors make, and simplifying what needs to be done in practice. Not reading this book will be a costly mistake.’

Tim Hale, author of *Smarter Investing*,
MD, Albion Strategic Consulting.

“This book is an easy-to-read guide to how investment works, where the costs arise, what to avoid, and how to choose a financial adviser. Having read this book, the reader will understand the implications of the advice given, and be in a position to make an informed contribution to the decision making.”

Janice Trebble,
Partner at Saunders and Dolleymore LLP

Praise for The 7 Secrets of Money

'For many years an ever widening chasm has been growing between individuals and the vast, confusing machine that is the global financial system. This book and the individuals behind it provide a bridge in a readable and comprehensible manner, at once debunking many of the myths and pseudo science which bedevil finance and at the same time recognising that financial planning is as variable as people themselves.'

To read this book will take only an hour or so, but it may well be rewarded by a lifetime of contentment and will certainly convince the reader that the fools' gold still pedaled far too often by the financial establishment only leads to inevitable disappointment.'

Paul Bradshaw,
chairman of Nucleus Financial Group.

The 7 Secrets of Money

The insider's guide to personal investment success

Simon Brown | Ben Sherwood | Richard Stott | Bruce Wilson

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Introduction

Become a better investor

The 7 Secrets of Money has something new and controversial to say about managing your money. For too long the financial establishment has put its own interests above the needs of individual investors like you. The result is a consistent failure to deliver the returns that you need to meet your life goals.

We want this situation to change. In this book we show you how to take control of your finances and put your interests first. We will demystify the investment process for you and reveal the truth about money. We'll give you the knowledge and tools you need to become a better investor. The route to success is simpler than you would expect.

In *The 7 Secrets of Money* we break down the barriers, exploding the myths around finance and investment, exposing the secrets to success that the financial establishment has for too long kept to itself, and provide you with the investing success you deserve.

Conventional advice has served us badly

The financial establishment has deliberately encouraged ideas such as investing in 'superstar' managers, stock picking and timing and jumping for the latest 'innovative' product in attempt to beat the market.

Conventional approaches such as these better serve the interests of those people manufacturing and selling the products, rather than furnishing investors like you with the returns you need

to reach your goals. This type of advice has resulted in huge disappointment for the vast majority of investors:

- Many investors are devastated when they realise that their savings have not grown enough to meet their financial goals or even worse to enable them to maintain their desired lifestyles in retirement. They do not know where to turn for help.
- The overwhelming majority have no idea what they are paying in fees, whether the results of their investments have been good or bad or whether they are on track to achieve their goals.
- Yet more are spending hours every week reading ‘hot tips’ in the financial pages, picking individual stocks that get them precisely nowhere in the long term.

There has never been a more pressing need for a different approach.

There is a smart way to look after your money

We introduce you to a better way of looking after and growing your money; one that may go against everything you think you know about investment, or at least what the investment business would like you to believe.

Our approach is simple – focusing your energies on things you *can* control – such as saving, spending, costs, taxes and sound financial planning, only taking risks that you know will be rewarded. This places you, the investor, at the centre of the picture, firmly in command of your financial future.

The smart approach to investing your money we outline in this book is not new; it has been very well tested academically in the USA and the UK and is widely used by institutional investors. For individual investors it is a relatively unknown strategy – extremely effective but to date little publicised. There is a good reason for this: the financial services establishment would prefer you not to know

about these secrets. They have a vested interest in keeping them quiet to maintain the status quo because they earn far more money out of the old system than the alternative we propose to you here.

Why we decided to write this book

We are four finance professionals with a century of experience between us who have collaborated to provide this clear guide to personal investment success.

We all have a different finance specialism (Ben and Richard in wealth management, Bruce in life planning and Simon in wealth mentoring); each of us runs a successful independent advisory firm – we could be seen as competitors in the field of financial advice. Despite our different backgrounds and separate companies we share a common belief – that there is a better way to manage and protect your money. We thought it so important to uncover the hidden truths around money that we decided to pool our expertise.

We came together initially as a study group to research investment ideas and strategies that were starting to work well in the United States and for some large, corporate investors around the world. What we learned has led us to change the way we run our businesses and advise our clients. In order to spread these ideas to as many private investors as possible we decided to write this book.

At a time of deep financial crisis our most cherished institutions have been found wanting. We know that there is a desperate need for knowledge and confidence to navigate this and future financial storms. We want to give you the inside track so you can make sound financial choices and build a secure financial future for you and your family.

It is time we passed the industry's secrets on to you.

What you will learn from this book

In *The 7 Secrets of Money* we will show you how to cut through the noise, the advertising and the hype to the truth about money. The book will equip you with the knowledge and tools you need to cope and prosper successfully as you develop your financial plans.

You may be surprised to discover that:

- As an individual investor there are powerful forces conspiring against you – the messages communicated by the financial establishment and much of the media are costing you dear (Chapters 1 and 2)
- Markets are efficient to the extent that hardly anyone beats them over time: forecasting is futile and unnecessary (Chapter 3)
- A solid understanding of risk is important if you are going to make informed investment decisions and avoid disaster (Chapter 4)
- Strategic asset allocation – how you distribute the different types of investment in your portfolio – is the most important decision of all (Chapter 5)
- Your behaviour as an investor will define the returns you get (Chapter 6)

Arming you with these revelations and insider knowledge, we give you a clear path to building your investments and meeting your life goals.

You will be relieved to learn that, if you focus on the things you can control, investing is fundamentally a simple process.

- We set out a straightforward methodology for you to follow – ***just seven smart actions you need to take to ensure financial success*** (Chapter 7 and Conclusion).

Financial planning to meet your life goals

Whatever your financial goals, this book will help you to find a clear way to achieve them. We will help you to make the crucially important connection between your money and your life, stressing the importance of robust financial planning in the context of your life goals.

Our aim is to give you more confidence around finance and investment and a much easier, happier relationship with money.

Who can benefit from reading the book?

There is something for everybody in this book, from the financial novice just starting out and wondering what to do with his/her money to the seasoned investor working hard to get the best return.

- When you start to make financial plans for your future, the breadth and complexity of the choices you have are so vast that many decide to give up before they have really started. This book will help you navigate a clear path.
- More sophisticated investors will learn the secrets that by and large only professional investors know. With the information in this book you will be far better informed and able to make better decisions to increase your wealth through investment.

Whatever situation you are in, the book will give you the information you will need to manage your money intelligently.

This book will also be valuable for professionals on the edge of money management who are expected to know a lot about it (such as accountants and lawyers); for trustees and particularly professional trustees; for financial journalists who want to understand better; for those trying to decide which adviser to instruct; for anyone who has become unexpectedly or suddenly wealthy.

How to use this book

Our book is designed to equip you with the information you need to better understand your relationship with money, engage the right adviser and follow the right investment strategy.

The 7 Secrets of Money is not designed as a do-it-yourself finance and investment manual. As you will read in Chapter 6, we strongly believe (perhaps as you might expect) in the need for expert financial guidance to keep you on track along the way.

If you want to get a thorough understanding of the background to the financial world and the actions you will need to take, we suggest you read the book from beginning to end. The chapters can be read in isolation if you have a particular interest in a certain area.

We have tried to present the facts in a manner that is readable and removes the somewhat dry nature of the academic research it is based on. For those of you whose interest is awakened, we provide more information and sources in the reading list and notes at the end of the book.

You will find further information, articles and resources on the issues and ideas in this book on our website, www.7secretsofmoney.co.uk.

It is time to introduce you to the seven secrets of money and a smarter approach for investment success. Keep an open mind as you read through the chapters. We are going to shoot down some holy cows and replace them with what you will come to understand as pure common sense.

Apply the alternative approach that we lay out here and see how your relationship with money changes for the better.

Warning: Some of what you might read in the following pages will, we hope, challenge beliefs you have held and even make you question some of the financial decisions you have taken in the past.

There is nothing wrong with this: you made those decisions based upon the best information you had available at the time. We made the same mistakes too before we realised that the sources we originally learnt from may not have given us the best information or had our best interests at heart.

I know that most men, including those at ease with problems of the greatest complexity, can seldom accept the simplest and most obvious truth if it be such as would oblige them to admit the falsity of conclusions which they have proudly taught to others, and which they have woven, thread by thread, into the fabric of their life

Tolstoy

Glossary of Terms

Jargon-free definitions of the important financial terms and approaches you will see repeatedly throughout the book:

- **Active investing:** Buying investments to beat the stock market. This strategy is usually based on stock picking, market timing or a combination of both of these.
- **Asset allocation:** The proportion of your investments you decide to hold in different asset classes – the most crucial decision any investor will take.
- **Asset class:** A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The four main asset classes are equities (stocks), fixed-income (bonds), property and cash. Within each asset class there are sub-asset classes which will exhibit different characteristics, such as small companies (small cap) and large companies (large cap) or government-fixed income and corporate-backed fixed income.
- **Bear market:** A stock market in which the prices of shares are falling and expected to continue to fall.
- **Behavioural finance:** The study of the influence of psychology on the behaviour of financial practitioners and investors and the subsequent effect on markets and investor behaviour.
- **Bonds:** A fixed-income investment. A bond is a loan, usually to a company or government, with a formal contract to repay borrowed money with interest at fixed intervals.
- **Bull market:** A stock market in which prices are rising and are expected to continue rising.

- **Buy and hold:** Buying investments for the long term and avoiding trading apart from small purchases and sales necessary to bring a portfolio back into balance (see *Rebalancing*).
- **Diversification:** The process of spreading your investments globally across a number of different types of markets and asset classes.
- **Equity mix:** Deciding which types of equities you want to own in your portfolio. This will include the proportion of value stocks and growth stocks to own as well as the size of the companies involved.
- **Gilts:** A bond issued by a government which might carry less chance of default than a corporate bond.
- **Index fund or Index tracker:** A collective investment scheme that aims to replicate the movements of an index of a specific financial market, or a set of rules of ownership that are held constant, regardless of market conditions.
- **Passive investing:** A 'buy-and-hold' approach to investment, rather than seeking to forecast potential short-term returns.
- **Rebalancing:** The process of buying asset classes which have fallen below their agreed allocations and selling those which have risen above to bring a portfolio back into balance.
- **Smart indexing:** A term coined by the authors of this book to describe our recommended passive approach. This smart approach determines which asset classes are worth holding for the long term, based on academic evidence gathered over the last 50 years. Assets are purchased in the most efficient and diverse manner – without undue trading costs or stock-specific risk – to achieved your desired returns.



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sample chapter

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