The 5 Rules of the Financial Armadillo

In the heart of a bull market in March 1997, I was urging investors to ignore the “TV media financial gibberish, most of which is sensationalized to keep you twitching to the max.” I wanted to show readers how to insulate themselves from a bear market. To do so, I gave them my Financial Armadillo Strategy, an armor-plated long-term plan I use myself to this day. I wrote:

1. Take a pledge of allegiance each day to your most trusted investor ally, compound interest. Learning how to better harness the awesome power of compound interest assures you of long-term success. It is interest on interest that allows you to invest like the world’s most successful capitalist, Warren Buffett.
2. Commit to memory the first two rules of investing. Rule #1: Do no lose your capital. Rule #2: Do not forget Rule #1.
3. Ruthlessly slash, hack and chop your investor costs. None of us knows the future for certain. Yet while you may not know the future, you sure as heck can know your costs today. Most mutual funds and annuities are high-cost breeders. Get rid of these leeches. You win every day by keeping your costs low.
4. Armor-plate yourself against the taxman. Your best strategy is to hold trading to an absolute minimum. The mutual fund arena is fraught with trading excess. The average turnover rate is 80%, or more than 10 times what I target in my own account and advise for you. In every mutual fund’s annual and semiannual reports is a statistical display of portfolio turnover. Aim for 40% or less for your CORE funds. Don’t forget, each time a mutual

fund manager sells a stock at a profit, you get a tax bill. These guys invest with no regard for your tax bill or your devotion to compound interest. You simply cannot pay enough attention to mutual fund portfolio turnover.

5. Diversify, diversify, diversify. Proper diversification will help you sleep well during bear stock markets. We have not seen a bear market in years, and we are all, quite honestly, spoiled. Today is a dangerous time in the annals of the stock market and the least safe time in the last 16 years to be inadequately diversified. Sooner or later the music will stop, and you do not want to be the one left without a chair. You want to properly diversify yourself before it's too late. You will never regret your diligence.

Times are never too good to ignore these basic tenets of investment philosophy. When you take off your investment armor, that's when you become vulnerable to the swings of the market. If you aren't already following this plan, start today.