
The Elephant in the Room

Book Report

"The Elephant in the Room, Sharing the Secrets for Pursuing Real Financial Success" by Ed Baker is the story of how a young couple, Michael and Jennifer Davidson, counseling with Michael's successful Aunt Katherine, find the road to financial success. The story shows there is no magic bullet or secret to financial success.

Michael, who has been frustrated with the lack of control of the finances of the couple, seeks the advice of his admired Aunt Katherine over lunch. Over a series of several weekly luncheon meetings, they discover that several east-to-understand fundamental elements, all under their control, are the real secrets to that will have a profound impact on their family's financial future.

Behavior

The first lesson is understanding Behavior. Behavior is the "elephant in the room" when it comes to financial success. Viewing the past and future realistically you need to think about your behaviors and how they might affect your financial situation.

Since Michael had a partner he learned that it was necessary to discuss his finances with Jennifer to discover what their attitudes were toward money and how they differed. Building a sound financial future entails more than just making money or investing it wisely. There are specific traits, or behaviors that people who are successful in their finances adopt and incorporate

into their lives. In his second lesson Michael had to figure out what traits and attitudes affect the way they earn, spend, and save. He got the message from Aunt Katherine and brought Jennifer with him to the second lesson. This was a good thing, because he did not fulfill the homework assignment of discovering his attitude. She took that opportunity to less Michael know that she was making a commitment to him for these meetings and she needs him to be committed, too.

Attitude

Since he was confused about what his assignment was, Aunt Katherine explained what the right attitude was. "There's no easy answer to that one," she said." First, understanding the principles of financial security is all about maturity. Being mature about money means having the ability to see the long-term implications of current choices. Kind of like having a big-picture view of your life versus a snapshot of only one day or month of your life. Your attitude is the foundation for a lot of different behaviors and actions. With the right attitude your chances for financial success are greatly enhanced." She went on to discuss the immaturity of impulsive buying that only produces short-term gratification.

They discussed the friction that they are currently facing when discussing money. Aunt Katherine told them they have the courage to identify what they need to change and then do what is needed. Identifying the roadblocks and attitudes that are causing them to get in a bind will lead them to change their choices for the better as they learn more and gain experience. When Michael wrote in his notes "no pain, no gain," Aunt Kath encouraged him with "done right, small pain can yield great gain." From the lesson on Attitude, Michael learned that they need to consider and constantly reconsider their attitudes regarding

their financial situation. That wants are not needs and to be honest in their assessments. They also learned procrastination is a killer when it comes to pursuing long-term financial success.

Knowledge

The third lesson was Knowledge. By this week Michael came to the meetings with renewed purpose. He did his homework and thought about their discussions all week, thinking about how people's behavior is the single greatest factor that impacts financial success. He thought about his attitude. And the lesson for this week his homework was to think about the things he knew about money and the things that he did not know. This lesson taught him that they need to have a sound foundation of knowledge about financial issues, but they need to pick their knowledge sources wisely. You cannot 'know it all,' especially if you are not a financial professional. Aunt Kath uses a financial advisor even though she is pretty sharp in that regard. Wisdom is as much about what you don't know as it is about what you do know.

They learned from Katherine that the national savings rate in 2006 was a *negative* 1 percent. That is caused by spending more than is earned or running up more debt.

Aunt Katherine told them that the one thing a people don't think about is the magnitude of their future financial needs, like college, healthcare, life insurance, and inflation. Also, how very important it is to pass on this knowledge to their kids.

Katherine's financial advisor keeps her current on what's going on with her finances as well as any current changes in laws or other things that may affect her financial well-being.

Financial Beliefs

Financial beliefs, truths, beliefs, and

misconceptions, was their next topic. Knowledge is based on facts where beliefs are opinions with no factual evidence, but can have a significant impact on your financial situation.

Michael was getting impatient by this time and wanted to get to the bottom line, Katherine's secret to building wealth. He did not want to talk about feelings and beliefs. He wanted to know what to invest in and the stocks she picked. Katherine told him there was no secret. That it is a long race. The financial journey is a marathon not a sprint.

Everything we do affects the way we earn money, save money, and spend money. Everything we believe and feel affects the way we act. Those behaviors, the way we act, the things we do, affect our financial future.

There are three variables that impact wealth accumulation: time, rate of return, and amount invested. Time has the greatest impact on the outcome of your investments. The key is getting started, to save and invest early, and take full advantage of the power of compounding. Beliefs strongly shape our behavior ... if the belief is faulty, our behavior will be misguided. Time is a huge element in the pursuit of long-term financial success ... procrastination HURST! Get a Round TO IT.

Values

Underlying values that contribute to your value system. Integrity in the application of a value insures its continuity and this continuity separates a value from beliefs opinions and ideas.

Michael learned that money is not the only component of a successful future. Money is important, but what in life is more important than money to his family is what he needs to discover. Money facilitates those values that are really important ... freedom, supporting his family,

leaving a legacy, etc.

He and Jennifer were to discover their values and how does financial success play in those values.

Goals

Goals help guide behavior. They put a stake in the ground toward which to navigate in life, both near and on the horizon.

Developing meaningful goals for their financial life will take work for Michael and Jennifer, and they will need to be periodically reviewed and updated.

Values based goals should be developed properly, based on what they value in life.

Goals should be specific, measurable, understandable, and achievable.

Without goals, life very often will be nothing more than aimless wandering. A budget helps puts goals in proper perspective.

Patience and Discipline

Patience and discipline are two more elements that affect behavior. Here Michael remembers that achieving financial success and security is a marathon, not a sprint.

Time is the key component in building wealth ... being patient over long periods of time by remaining focused on their value-driven goals. They discovered that they have to have the discipline to "pay themselves first and that they need to spend less than they earn.

The Plan

Michael discovered these elements from The Plan lesson:

Values – Who are we? What do we value? Why?

Vision – Where are we ultimately going? How do we want to define ourselves?

Goals – What substantive things do we want to achieve that will lead to our vision?

Strategies – What will we do in the broad sense to achieve our goals?

Activities – What will we do on a daily and continuing basis to implement our strategies?

Objectives – What intermediate goals will help measure the progress with our plan?

Accountability – A plan is just the plan and keep it updated as our circumstances change – it's our plan!

Planning helps bring order to life situations amidst challenge, confusion, and change.

The Financial Planning Model

Personal behavior has a big impact on the financial future.

Financial Behavior is affected by:

1. Attitude about financial matters.
2. Knowledge about financial matters (or lack of it)
3. Beliefs can be wrong or misguided
4. Values - what is really important, what guides us
5. Goals in life
6. Patience – a marathon not a sprint
7. Discipline – pay yourself first, spend less than you make

Modify and guide financial behavior with a well-constructed plan

A plan has Values, Vision, Goals, Strategies, Activities, Milestones

A plan needs personal accountability.

GET A ROUND TO IT!

This book was very enjoyable and a quick easy

read.

Figure 1: This is a caption