



Common Cornerstones of Financial Success

Financial challenges of a lifetime

Despite exceptions for some, there seems to be a certain predictable pattern of meeting and passing certain major challenges that constitute the cornerstones of one's life. As each of these challenges is met and passed, the playing field of progress tends to tilt upward and forward toward meeting the next challenge. However, it can also be noted that failure to meet an earlier challenge can stagnate and dissipate one's overall progress. Three challenges constitute the most common cornerstones of financial success.

Challenge 1. Developing your human capital

Human capital includes all those things that add to our capabilities, such as our knowledge, attitudes, skills, and ambitions. This is the foundation for our lifelong employment and income. We spend much of the first two and a half decades of our lives preparing to work and earn income. The quality of this preparation has consequences that unfold over the rest of our lives. And yet, many children and young adults waste their formative years and risk their future with little thought of the consequences.

Challenge 2. Buying a home of your own

After meeting the challenge of developing your human capital as a solid basis for our lifelong employment and income, the next major goal for most of us is home ownership. In owning our homes, we stabilize our housing costs over the long term and build equity through what is a leveraged, interest-deductible, and (thanks to the 1997 tax law) a largely tax-excluded investment. For most people, home ownership represents their biggest investment and greatest store of wealth.

Challenge 3. Accumulating a retirement nest-egg

Finally, we dedicate our energies and incomes toward accumulating the wealth we will need to retire. Although we may have many other goals and expenses related to our material strivings and support of family, accumulating retirement



funds becomes our next great challenge. Fortunately, the incentives for saving and investing retirement funds are greatly supported by many opportunities and valuable tax advantages. At work or at home, qualified retirement plans such as IRAs, 401(k)s, 403(b)s, and Keogh plans offer tax-deferred saving and investing for accumulating our retirement nest-eggs.

Importance of meeting these challenges

Not everyone develops their financial success based on meeting and passing these three major challenges. Some people have never been able to earn a decent income, buy a home of their own or accumulate satisfactory retirement funds.

What will you do? Each of us must recognize the importance of focusing a preponderance of our financial time and energy on meeting these challenges, and meeting them in sequence. A failure to adequately develop our human capital will almost certainly impact our employment, income, housing, and retirement. A failure to purchase a home of our own will almost certainly impact our long-term housing costs and our accumulation of largely tax-excluded wealth in home equity.

Focusing on first things first

We must set and achieve our goals in terms of first things first. While some financial advisors recommend saving for retirement even before purchasing a home of your own, I do not. If your next major financial challenge is to buy a home, then I recommend focusing your saving and investing to accomplish this goal. Only if your location, employment, personal preference, or financial situation does not support it would I recommend foregoing this cornerstone of wealth.

Each step paves the way for the next

Meeting the three greatest challenges of your financial life may not be easy, but remember: each step paves the way for the next. And this makes financial progress that much more achievable and that much more worthwhile.

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