10 Financial Myths to Defeat In Economic Downturns

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America has been plagued by financial myths since the Great Depression. With the current recession, perhaps the threat of even another depression, it’s time to expose these financial myths. Anyone who can see and apply the truth beyond the myths will prosper, even under adverse economic factors. The following are ten financial myths—overcome these and you’ll be primed to thrive in spite of any impending recession or depression. 1. The Finite Pie Economists and popular culture teach us that all resources are scarce and limited. Therefore, if you want something for yourself, you’ll have to take it from someone else. This myth is especially prevalent in economic downturns when people experience temporary conditions of scarcity. The reality is that there’s plenty of resources to go around, and that human innovation results in unlimited ways to meet human needs. We can prosper through cooperation, rather than through win-lose competition. 2. You’re In It For the Long Haul The road to wealth is to lock up your money in retirement accounts for thirty years and build your net worth, right? Wrong. The reality is that the traditional “long-haul” approach is an extremely risky and dependent form of investing. The rich maintain more control over their assets and put their money into projects over which they have the ability to manage risk, that are collateralized or insured, and that produce cash flow. Most importantly, they know how their investment creates value for others, as opposed to throwing money into things solely to make money. 3. It’s All About the Numbers We’ve been trained by the financial industry to make decisions based on numbers on paper, as if prosperity can be reduced to and quantified by math. People often choose advisors based on which advisor shows them the best projected scenario. The reality is that wealth is more a function of doing what you love and creating value, rather than the numbers in your investment accounts. Of course, having financial resources aids in living our passions and in creating value, but to prosper you must look beyond the numbers and see your financial decisions within the context of your multi-dimensional life. Numbers must support your passion, not detract from it as so often occurs. 4. Financial Security Financial freedom is often difficult to find because people sell out to false security in the form of government and corporate benefits. The myth of financial security would have us believe that we’re entitled to a good job in a “secure” corporation with health care benefits. The reality is that this entitlement mentality is the enemy of prosperity. Your suffering during hard economic times will be directly proportionate to the degree to which you feel entitled to “security” and benefits from any person or institution. You’re entitled to the fruits of your own labor and ingenuity—nothing more or less. Don’t abdicate your responsibility to prosper to others. Take full responsibility for your money and your life and you’ll find freedom, as well as true security. 5. Money Is Power “If only our schools had more money, then American education would improve.” “If only I had more money, then I would be happy.” “Money is the root of all evil.” You’ve heard these right? It’s as if little green pieces of paper somehow have intrinsic power to erect buildings, create computers, inspire students to read, make people happy, or worse, to corrupt people. The reality is that money has no intrinsic value whatsoever. People have intrinsic value and money is nothing but a representation of stored value. The more value you provide for others, the more currency will flow into your life. Focus on serving others, rather than on money, and money will flow to you naturally. 6. High Risk = High Returns Financial institutions have genius marketing strategies to get ordinary Americans to assume their risks. They’ve convinced us to take on risk in the name of high returns—and they have the gall to label this as “investing.” The reality is that anyone who increases their risk in the hopes of getting higher returns is a gambler, not an investor. The way to increase your chance of winning is to increase your chance of winning—in other words, managing your risk is key to keeping your money and getting good returns. 7. Self-Insurance The myth is that insurance is but a necessary evil, a drain on your resources, and therefore you should spend as little on it as possible. In fact, many teach that once you’ve built enough assets you can drop insurance coverage because you’re “self-insured.” The reality is that, when understood, insurance decreases your risk and increases your productivity. Furthermore, there’s no such thing as “self-insurance”—you’re either insured or you’re not. The more assets you have the more insurance you should have. Self-insurance results in stagnant assets; full insurance coverage unlocks the productive capability of our resources. 8. Avoid Debt Like the Plague We’re taught to “avoid debt like the plague.” The problem with this advice is misconceptions regarding the definition of debt—people think that debt is any form of borrowed money. The reality is that debt is having liabilities that exceed assets. In other words, a person with a mortgage of $200,000 on a home worth $300,000 has zero debt and in fact has $100,000 of equity, which is the opposite of debt. The mortgage is a liability, but it is not debt. Why does it matter? Quite simply, when a person can learn principle-based, debt-free forms of borrowing and lending their productivity can be unleashed in unprecedented ways. For example, they can get a business loan to start a business, all without going into debt according to the correct definition. 9. A Penny Saved Is a Penny Earned While it’s important to be wise stewards of our resources and save money when appropriate, the myth is that price is the most important factor in our purchasing decisions. Furthermore, we’re taught that the road to wealth is to decrease expenses. The reality is that price is a small concern relative to value, and that by focusing on value we save more money in the long run than when price determines our decisions. When buying, don’t just ask, “How much does it cost?”, but also ask such questions as, “Is this what I really want?” “Does it do everything I need it to do?” “How long will it last?” Increasing productivity leads to far great wealth than does decreasing expenses and “pennypinching.” 10. “I have no control over the economy.” The myth of futility leads to internal depression in the face of external, economic depressions. It makes us feel like since there’s nothing we can do to influence the economy, then we’re just doomed to suffer along with everyone else. The reality is that while national economic forces do impact you, you still have control over your prosperity. It’s a myth that the Great Depression was a time of suffering for all Americans; for many it was a time of great prosperity. James Gregory, Associate Professor of History at the University of Washington, says that, “[During the Depression] about a third of the population suffered unemployment and difficulty. About a third of the population maintained their standard of living, and another third of the population did better in the course of the 1930’s than they had done before.” The question is, which third will you be in during the current economic downturn? Will you wallow in poverty, thinking that you have little control, will you simply maintain your current standard of living, or will you seize the opportunity to prosper?