

# *Mastering the FISO Factor<sup>®</sup>* *Fit In, Stand Out*

*The Key to Leadership Effectiveness in Business and Life*

## **BLYTHE MCGARVIE**

Volume 2, Issue 5  
by Blythe McGarvie

### **Steps to Financial Security**

During the past year, as I described leaders who meet the “Fit In Stand Out” criteria—including financial acuity—it struck me that readers of all ages are interested in learning about personal financial security. In simple terms, I think that there are three fundamental concepts for personal financial security. First, the sooner you take advantage of the magic of compounding interest, the more secure your financial future will be. The second concept involves where and how you invest your money: smart investors should have a clear asset allocation policy. Finally, stick to your asset allocation unless your financial goals or risk tolerance changes.

### **LIF's Lessons**

Behold the turtle.  
He only makes progress  
when he sticks his neck out.  
— James Bryant Conant

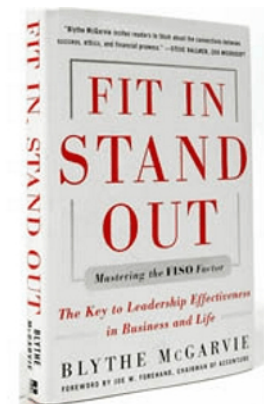
### **Start Now**

When I was beginning my career in the late 1970s, paying off student loans and wanting to spend money on nice things, I had an epiphany. A friend told me he saved \$250 per week. I knew we were earning about the same salary and had similar lifestyles. Yet, my goal was to save \$100 per week. After our conversation, I thought to myself, if he can save that amount, so should I. That is when I started to increase my saving level and writing the first check out of each paycheck to a savings account, then spending the rest on living expenses and any discretionary items, if I had the funds. Although this may seem to be a ridiculously low amount of savings, you have to start somewhere.

In retrospect, budgeting and watching interest accumulate was the first step to financial security. The secret is to ignore the money you put in an interest-bearing account. The magic comes from having your interest income



Billionaire David Murdock, a self-made success and inspiration, with McGarvie.



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**amazon.com.**

continue to earn interest. *Compounding interest* means that you earn interest on your interest. The sooner you start, the quicker your funds grow. To help you plan and give you encouragement, use the same principles Warren Buffet and many investing websites extol: The Rule of 72. This rule allows you to approximate how quickly your money will double. For example, say your funds will earn 5% annually. Divide that into 72 to discover that your money will double in 14.4 years (72 divided by 5). Knowing how quickly funds will grow at different interest rates will help you determine how much risk you will tolerate with your savings that, in turn, can help identify the types of investments that will be appropriate for you.

### Determine Asset Allocation

Once you have the beginning of a nest egg, then it is time to decide how to allocate your funds based on your investment time horizon and risk tolerance. Allocating your funds between US equities (companies with small market capitalization or large market capitalization), non-US equities, bonds, cash and other types of assets is more important in determining your investment returns than selecting specific stocks because few investors can outsmart and consistently achieve returns greater than the market. One of the most compelling books that explains this concept in less than 100 pages is *Investment Policy, How to Win the Loser's Game* by Charles D. Ellis, a veteran investor. It is worth reading if you want proof. My copy was written in 1985, updated in 1993. The author recently expanded the book in 2002 and renamed it, *Winning the Loser's Game*.

No one can accurately predict stock market returns or inflation rates, but we each have our own assessment of the future based on reading, thinking, and assessing what we see and know. Once you consider your own goals in the context of your vision of the market, you will want to plan how to accumulate the funds you need and desire. A quick way to determine how your current asset allocation compares to your desired allocation to reach your goals with financial security can be found at <http://www.smartmoney.com/oneasset/>.

### Gain Confidence

Finally, if it is so easy, why doesn't everyone have financial security? The analogous question is if we know how to avoid getting fat and sick, why doesn't everyone stay thin and healthy? Follow your plan and regularly invest for a secure future. This is easy to say, hard to do. As we start 2007, take an inventory of your current assets and liabilities. Decide how much of your income will be used for immediate gratification or longer term financial security. You can have a little bit of both, but only after you know how much volatility you can tolerate in your investment returns.

Even self-made billionaires will have setbacks and obstacles along the way. David Murdock, with a current estimated net worth of \$4 billion, lost and made millions over his lifetime. Forbes magazine describes him as a "ninth-grade dropout who borrowed \$1,800 to buy a diner; sold it for a modest profit, turned to building homes in Arizona and lost out in the real estate crash of 1964. Later he moved to southern California, bought more property, and eventually pursued leveraged buyouts of Castle & Cooke (Hawaiian real estate) and Dole Food." Today, he pursues his many passions as he develops a bio-tech hub and funds science education. He stands out in many ways both as a confident provocateur and as a life-long learner.

### Items of Note

**Blythe McGarvie** discusses "Risk Management: One Size Doesn't Fit All" in *Directorship*.

**Laura Martin** of *Capital Knowledge* releases her 2007 outlook for media and entertainment.

**Cathy Higgins** releases volume 4, issues 3 of *The Straight Talk Coach*, entitled "Career-Building Part Two: Developing Talent for Competitive Advantage."

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## LIF's Lessons

Enthusiasm is the color  
of inspiration and courage.

— Nido Qubein

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