Get Literate About Money

The Motley Fool

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I'd never heard of Jacques Demers until I read an article about him the other day. You, however, may be quite familiar with him. Among other accomplishments, he was the head coach of the last Montreal Canadiens hockey team to win the Stanley Cup (in 1993). Many sports fans have long admired the guy — and many Canadians even urged him to run for the nation's Parliament. Little did they know that he was carrying around a huge and humiliating secret: He couldn't read!

Demers, 61, spent many years explaining that he couldn't sign an autograph or read a document because he'd misplaced his glasses. His secret is out now, and he's relieved.

He recently co-wrote a book, *Jacques Demers: En Toutes Lettres* (the title of which is translated, loosely, as "All Spelled Out"), and he's been learning to read a little. The bottom line now is that he feels less insecure and is in a better position to lead a more enjoyable and rewarding life.

We at the Fool know that illiteracy can extend to financial matters, too. And we're here to help.

Pop quiz!
You may be financially illiterate if:
traditional IRA and a Roth IRA.

You have no idea what the average annual return is for the stock market over the past century.

You don't know why dividend yields go up when stock prices go down.

You think that a stock split is a wonderful, profitable thing.

You think that you'll do well investing in most mutual funds.

You assume that you'll live comfortably in retirement on Social Security and your 401(k) account.

You think that a company with a high dividend yield is a no-brainer investment.

Can you relate to some of the above? If so, know that you're far from alone. Still, remember that this kind of ignorance isn't just a shame — it's dangerous. It can leave you investing very inefficiently and earning much less money than you otherwise could have over long periods.

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Why literacy matters

Take just that last bullet point above. Companies with dividend yields that are unusually high may indeed be good investments, but that's not necessarily the case. When stock prices fall, yields rise. So some high yields represent troubled companies, not healthy, generous ones. (And other high yields belong to REITs, or real estate investment trusts, which are different from common stock.)

Consider this. I recently ran a screen for stocks with high dividend yields. One sported a yield of 8.3%. Tantalizing, eh? But the company was **General Motors** (NYSE: GM), which isn't in the healthiest condition right now. Maybe it will get its act together and turn out to be a terrific investment for those who pounce now. But that's far from assured. Companies in trouble often cut their dividends or eliminate them entirely. GM peer **Ford** (NYSE: F) did just that, by 50%, in 2001. **Xerox** (NYSE: XRX) cut its dividend by about 75% back in 2000, and **Norfolk Southern** (NYSE: NSC) cut its own by some 70%.

Consider also **Friedman Billings Ramsey** (NYSE: FBR), a financial services company. Its recent dividend yield topped 14%! That's pretty tempting — invest $5,000 and you can expect to reap more than $700 annually in dividends alone. Look closer, though, and you'll see that this investment is not a slam-dunk. The firm's debt level has spiked recently, and so have its accounts receivable. Tom Taulli has suggested that the company is mortgaging its future, Mathew Emmert has referred to the firm as a "dog," and John Reeves has written of his troubles with the stock, too.

If you don't know what you're doing in the financial arena, you can lose a lot of money and make lots of boneheaded moves. (Of course, just for the record, we savvier types are not immune from occasionally making our own blunders and losing money.)

Get edumacated

Take some time to learn more about how to manage your money. It isn't as boring a topic as you might think, and the payoff will be well worth it. If you want to learn more, you can:

books by your friends at the Fool or by Peter Lynch, among others.

Take advantage of our How-to Guides, which carry money-back guarantees (and some of which are entirely free).

Test-drive one or more of our investing newsletter services, which are educational and guide you to many effective investments. (You can try them out for free.) *Our Income Investor newsletter,* as an example, will point you to many promising companies with solid dividend yields. After more than two years, it's beating the S&P 500, and about 18 of its picks sport returns above 20%, with more than 10 of them topping 30%.

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You don't have to be financially illiterate. We promise.

Selena Maranjian's favorite discussion boards include Book Club, Eclectic Library, and Card & Board Games. She owns shares of no company mentioned in this article. For more about Selena, view her bio and her profile. You might also be interested in these books she has written or co-written: The Motley Fool Money Guide and The Motley Fool Investment Guide for Teens. The Motley Fool is Fools writing for Fools.