Lessons learned from an 8-year-old investor

Both Blackman and Farrell point out that the first thing Kevin is doing right is starting to save at an early age. Not only does this allow for more of that compounding magic, it also builds a discipline that is much harder to teach at a later age.

So what have we learned? With only three funds, we can build a portfolio that:
- Owns the entire world and has maximum global diversification
- Has less than 0.25 percent annual expenses, both hidden and disclosed.
- Is extremely tax-efficient.
- Automatically rebalances within U.S. and international markets.

Simple though this may be for most 8-year-olds, it’s harder for you and me. We have to sell assets to build this portfolio, which causes taxable consequences. We are also emotionally attached to our money, and much more likely to make the mental mistakes explained in behavioral finance.

Is it a fair comparison to put a child’s portfolio design against the likes of Goldman Sachs or Merrill Lynch? Of course not.

The Wall Street portfolios are burdened with fees and taxes nearly four times greater than Kevin’s, and are mathematically destined to lose this zero-sum game. Apparently, an 8-year-old can better understand the arithmetic of investing more easily than us adults.

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