

Information, knowledge and wisdom when it comes to financial planning

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I was marveling at the vast amount of information available with Google and Wikipedia this week, when I began to consider what to do with the information. I thought that it really is just information that I'm looking up, but neither knowledge or wisdom necessarily flows from the process.

Several examples spring to mind. I can look up the rules for making a Roth IRA contribution and don't have to remember all the various income levels that govern these contributions. But then I need the knowledge to remember that if either spouse participates in a retirement plan such as a 401k, that the rules change. Now it is time to apply wisdom-does funding a Roth IRA (even if allowed) make sense for a particular family? Would they be better off taking a tax deduction in a Traditional IRA since they are in a high tax bracket and are likely to be in a lower bracket when they retire?

Or, let's consider a newly retired couple with a variety of retirement accounts and after tax savings. I can look up the information on how various sources of income and withdrawals are taxed. But then I need to apply some knowledge on the particular family's goals and needs in perspective to their retirement sources. Finally, the application of wisdom determines how any particular use of the various accounts "fits" the family's goals becomes the determining factor in the recommendations that are made.

Or, consider asset protection. We can look up some aspects of how assets are protected in various situations and locations. We can use some knowledge to then make suggestions on how a family's assets can be reasonably protected. But applying wisdom in this arena is most helpful. What has happened before in similar situations? What has been gleaned from a lifetime of reading and listening to skilled attorneys? How does estate planning often interfere with good asset protection, and for any particular family-and at any time, which is more important?

I can go on, but you get the picture. Information alone has limited value outside of just "knowing a fact."

Knowledge can be acquired over time and study and makes information ever so more useful. And finally, the wisdom that comes from experience and empathy allows information and knowledge to be applied correctly.

Confusing information, knowledge and wisdom is unfortunately common in financial matters. The internet and media explode with information and recommendations that pass as knowledge. Hundreds of web sites and message boards spout opinions, "facts", and recommendations on complex financial topics that can be disastrous if followed.

The same is true, but less common, on a variety of medical issues. In both the areas of finance and health, taking information as all that needs to be understood can lead to great harm.

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