

1. GETTING STARTED

Why Am I Even Reading This, I Don't Have Time!

I think I can change your financial life, from muddle-along to easy, permanent success. That's why I wrote this book.

"Easy" sounds phony but trust me, it's not. Of all the ways of managing money, nothing beats the simple ways. I'll go even further—the simple ways are not only smart, they're also the most sophisticated. It takes a clear head and a wise eye to distinguish the good from the bad in the confusing world of personal finance. Only the good can make you financially secure.

From experience, I know how much time it takes to find the financial products that work the best, and time is what nobody has today. The path of least resistance carries you toward the usual stuff that the money industry sells—investment, insurance, and banking products with high (and often hidden) fees. They're what most people buy, so you figure they must be okay.

I wish that were so. When you really study this subject, as I have, you learn that what's on offer is mostly mediocre and sometimes downright bad. The products are expensive, which wastes your money. They're often complicated, with risky angles that you didn't know about. If you pick your own investments, you may choose things that don't go together well, leaving big gaps in your security fence. If you buy from brokers and planners who earn commissions, you may find yourself trapped in a product you didn't understand. Even your company's 401(k) may be stuffed with losers. Maybe everything will still work out, but maybe not. No wonder so many people feel a little bit anxious about their money, and out of control.

It doesn't have to be this way! Managing money isn't hard, as long as you keep it simple. Not only are simple products, er, *simple* to understand, they cost less, gain more in value, and leave you more secure. In this book, you'll find the most straightforward, sensible

products and strategies I know—and in case you’re wondering, I use them all. In fact, they’re all I use.

Why am I so sure they’ll lead you to success? Because simple systems fit into our busy, daily lives. That’s where lots of personal-finance advice falls short. You’re expected to morph into some kind of expert—a lover of picture-perfect budgets, a student of stock price/earnings ratios, a sponge for new financial terms. If you could do that—or wanted to—you’d have done it already. Maybe you’ve even tried, by reading other money-management books. If so, I know what happened. You underlined sentences, made some notes to yourself, and then went to the movies. Maybe you tracked your spending for a couple of weeks before giving up. You thought about fixing your 401(k) but your mind (or gut) still clenched. Given this history, you assume you’re a failure—a klutz who’ll never be any good at personal finance.

Not true. To start with, you’re smart (this isn’t a “dummies” book). You’re good at your job, wise about your children or friends, and know about stuff that mystifies me—airplanes, synthesized music, quarks, patent law, ultimate Frisbee, cooking (yes, cooking). You’re perfectly capable of managing money, if it interested you. But it doesn’t, so you defer, denounce, deny (and worry in the night).

This book understands that. Good financial planning builds from your personality up. To gain control of your money, your strategies have to fit you like a glove so you know—without fretting—that you’re doing the right thing. You need a program you can practically write on the palm of your hand. One that understands the distractions and inertia that embody normal life.

Including my normal life. Money is my business but it’s not my hobby. I think, talk, and write about personal finance all day. After hours, I want family and friends. I’d rather read a John Grisham thriller than settle in with Sydney Homer’s *History of Interest Rates*. All my bills get paid on time, and I glance at the monthly totals on my investment statements. I may make a change in my mutual funds (usually later than I should have). Generally, however, money management lies near the bottom of my list. I don’t have the time to spend. Well, maybe I have potential time, but I’d rather spend it on things I find more fun. And the same with you.

Happily, you can get away with it. You can give just a nod to your finances and still do better than your friends who play with their money all the time. Playing around leads to mistakes. “Hands off” is one of the easy-money rules that works. Buy the right insurance, set up an automatic system for saving, investing, and clearing your debts, then let your finances run themselves while you get on with the rest of your life.

A HYMN TO THE SIMPLE FINANCIAL LIFE

— Most of us can manage wonderfully, using just a few strategies and tools. That sounds crazy, at first. All financial advertising tells us we're incredibly special, needing products that have to be tailored to us personally. A smiling "financial adviser"—a wizard, by implication—stands ready to steer you through the mysteries for a fat, though often hidden, fee.

Pooh. The only wizard that Wall Street resembles is the Wizard of Oz. Out front, a mighty voice and megaphone; behind the screen, an ordinary person trying to impress. Financial firms love to make investing look complicated, so you'll need their help. But all good financial advice springs from the same short list of principles that you already know: Save more, borrow less, pay attention to taxes, invest regularly, diversify, limit risk, and hold down fees. You can do that yourself, without a wizard in sight.

Once you start looking into ways of managing money, you'll get two big surprises.

First, you don't need discipline. Save your discipline for your diet, where you'll need it more. You can set up your finances so you'll get rich without thinking about it (or at least, rich enough). You can reach this comfortable goal on an ordinary salary, without hitting the jackpot in business or investing in a lucky stock. You don't even need a financial adviser to help. All the tools exist to do the job properly, while you sleep. You just have to trigger them and then yawn off.

The second surprise is how few things you really need. Sure, there are thousands of financial choices out there in Money World, but when you look at them closely you find that they're mostly fluff. It's a world of copycat mutual funds, funds whose high fees will demolish your returns, seemingly safe (but actually risky) investment annuities, costly insurance policies, mortgages that never end—all salable products, but often stupid and sometimes even deceptive. The later chapters spell out the products that every smart planner should ignore. You even have to be careful with useful investments, such as low-fee mutual funds, because there are too many to choose from, especially in your 401(k) or Individual Retirement Account. When you can't investigate everything, or don't have a basis for choosing, you often put off making any choice at all. Or you don't revisit choices you made ten years ago because—as usual—you have no time.

To cut through the clutter and help you make good, new decisions fast, I've made a short list of things that work. They're not

money “basics”—this isn’t a kindergarten class. Just because something is simple doesn’t make it naïve. In fact, this book’s investment strategy is pursued by hundreds of major institutions that invest billions of dollars of workers’ pension money and college endowments. The strategies for insurance and savings are endorsed by top academics and financial planners. .

I’m not proposing a cookie-cutter strategy, with just one plan for everyone. Life is personal. We all make choices with our money. What I’m saying is that the list to choose from—the good list—is surprisingly small.

There are just two little secrets to personal finance. First, *managing money isn’t hard*. Sure, you can complicate it, but why would you want to? Lots of evidence proves that the simpler things work better than the alternatives touted by the Great American Financial Sales Machine. Once you’ve cleared your mind of what Wall Street says, you’ll hit on the other little secret: *You don’t need what they’re selling!* Difficult to believe, I know, but true. You can ignore almost every financial ad you see and everything your friends boast about when they talk money (remember, some of them lie!). This program works better, and with less risk.

YOUR NEW LIFE: GETTING STARTED

You don’t have to start by getting organized. If you ever catch me in organization mode (filing bills, cleaning closets, sorting the piles of paper on my office floor), you’ll know I have something hard to do that I’m putting off. You’ll eventually want to track your net worth and create good financial files, but that can come later. It’s best to begin with something that moves the ball down the field right away.

So surprise yourself by discovering what financial products you already have. This might require some excavating. You’ve probably forgotten some of the choices you made in earlier years. Some spouses and partners don’t know what decisions the other has made—not because anything’s hidden but because you haven’t thought about it very much. On the retirement front, you might be ignoring your 401(k) or other investments, crossing your fingers and hoping for the best. But by letting things ride, you give up on the chance of making them better. You might even find that your situation isn’t as wiggly as you feared, just not well enough on track. If you truly haven’t been doing enough, it’s never too late. Or almost never. All you have to do is start.

So . . . make a pile of your latest financial statements—bank accounts (checking and savings), debts (mortgage, home-equity line, credit-card, and any other), insurance (life, homeowner’s, auto,

disability, umbrella—the amount and type), retirement accounts (what the plans are worth and how much you're contributing), any college savings, brokerage house and mutual-fund statements, real estate holdings, and other investments.

List all your debts—the balance, the interest rate, and how much you're paying every month—then set that part of the pile aside (don't even add it all up, if that will scare you off).

Now for the interesting part. List all your investments and insurance policies, along with their current value. If you don't know their value, an approximation will do. Next to each item, write down why you own it. Something simple is enough. "I own life insurance to protect my family if I die." Or, "I chose this mutual fund because it's a growth fund and I want my money to grow." Or (be honest, here), "I bought 5,000 shares of Wierdo General because a guy told me it would triple." If you know more, put that down, too. For example, "I chose this mutual fund because I looked it up and it did well over the past five years." If you have no particular reason for owning something on your list, that's fine, too. Just leave it blank.

Or rather, leave it blank for now. This is your starting place. The idea is to fill in the blanks as you proceed, chapter by chapter, through this book. You'll be amazed at how helpful the "why" question is going to be. Asking it (and working out better answers than you had before) will do three wonderful things. (1) You'll reflect on whether you need that particular item at all (maybe Wierdo General out to be dumped). (2) You'll nail down, in your mind, what that product is supposed to contribute to your life. (3) You'll start thinking about whether it really meets your goals and, if not, what to substitute. Some of the financial products or services on your current list you'll find that you definitely want to keep, because they fit your needs exactly. Other things you will probably change because you've found something better.

As you make your decisions, you should record more detailed answers to the question, "why." For example, instead of saying you own life insurance "to protect my family," you'll write something like the following:

"I bought \$900,000 worth of term insurance from Neverfail Life Insurance Co. to support my family if I die. I figured that my spouse will need \$35,000 per year for 20 years, to supplement his/her salary, plus \$100,000 for each child's higher education. At age 55, I'll check to see if I still need coverage and, if so, how much."

Does that sound too complicated? Don't worry, you'll easily figure it out when you read Chapter Four. By recording these details, you'll have more than a mere life insurance policy—you have an insurance *plan*. Here's another example: Next to "401(k)," you might write:

"I'm contributing 7 percent of salary. When I get my raise next March, I'll go up to 10 percent."

Bingo, that's another plan. You can tell your computer's calendar to remind you about your decision next March, or write it on the wall or desk calendar you use.

These notes have a very practical purpose. They help you keep track of your thinking process, which will be important when you forget (again!) why you made a particular choice. And don't worry, everyone forgets, me included. That's what happens when you have a busy life. At some point in the future, you'll have a new question about your personal finances. When you check back, this list will put you into the picture right away. It keeps you in control of your money and your plan. If something needs changing, you can pick up from where you left off without starting the "why" process all over again, from scratch. These notes can also be terrifically reassuring, if—in the dark of night—you start wondering whether you've done the right thing. Let me say right here, that answer is going to be *yes*. When you've thought about "why," you'll almost certainly be on track.

On which track? Toward your goals, of course—so after you've finished this list, start another one headed, "Goals." We all have goals, but they generally live only in the backs of our minds. That makes it all too easy to get sidetracked into stuff we hadn't intended. To make things happen for you, put your goals front and center. Frame the question this way: What are you working *for*? If all your money goes out the door for groceries, credit cards, entertainment, and the electric bill, you're always working for someone else. To work for yourself, as well, you should deliberately set aside some of your income aside for the specific things you want.

So list your personal goals, along with a time frame for achieving each one (don't break your head on the time frames; words like "soon," "in a few years," and "way out there" will do). The goals labeled "soon" might include a new car, a vacation, a first house, clean credit cards (no consumer debt—what a concept!). "In a few years" might be college tuition or starting your own business. Retirement might be "way out there." It depends on your age and life events. You're going to find this list a huge help when you reach Chapter Seven and think about how to arrange your savings and

investments. For each time frame, there's a perfect place for your money to be.

Pulling together your key financial records and making these two lists shouldn't take more than three or four hours (two, when you know where your records are). *Then* you can go to the movies. If you already have a good filing system, add a file labeled "Goals and Decisions" or somesuch, where you'll keep your notes, or keep them in your computer (with a good backup!). If your records are in a jumble, keep the pile you made today in a single place. You can work on your filing system later, as you start to consider what to do.

To make the smart changes you're looking for, you need to learn the rules of the financial road. It won't take long. The rules are the same, for men and women, singles and marrieds, the young and the old. Simple solutions work especially well for spouses and permanent partners who haven't thought about coordinating their finances (or haven't been able to agree). Clarity helps create trust, in yourself and each other. That leads you to a better place.

I'm not promising that you'll end your working life as a millionaire (although that could easily happen, with steady savings and smart investing). I'm not promising that you'll be able to retire at 55 (also possible, but do you really want to?). What I can promise is an end to that nagging worry that you've overlooked something, chosen badly, or made a big mistake. You won't be investing blind or overpaying for bad advice. There are plenty of "wrongs" in personal finance, but not on this short list. Using it, you'll be okay—in fact, better than okay. You'll retire with good money and, in the meantime, feel secure with the choices you've made.

Temptation always rears its head. We can't help but dream that, somehow, some financial pied piper can pipe \$100 bills into our bank accounts. Somewhere, we think, there exists a genius who'll whisper the secret of tripling our investments in a year. This broker, that newsletter or message board, a "miracle money manager" who supposedly made your cousin a fortune—one of these gurus (you imagine) will put you on easy street. Don't believe it. That's Wall Street legend, urban myth. A few people win the financial lottery, but that's luck, not foresight or skill. You can't predict that any particular mutual fund or investment adviser will make it happen. In real life, no one but you can buy your ticket to success.

So it's time to act. Every chapter in this book gives you things to do and ways to do them, to build your financial security. You'll also free yourself from the common fears that come with money decisions. Will you make a big mistake? *No*. Will you understand what I'm talking about? *Yes*. Will you lose your money? *No*. Will you come to see that you're a fabulous manager? Maybe not, but it

doesn't matter. This plan manages itself. To beat your normal, human inertia—the urge to leave everything as it is—leave this book on your desk or hall table, so it will give you a kick.

Maybe you won't make these changes because you think I'm nuts. I am, in a way, in my drive for the simple financial life. But I'm here at my keyboard, yelling in print, because I know this system works. I have covered personal finance for, um, many, *many* years. I've watched fads come and go. I've seen trusting investors lose their money in bubbles while others made money the old-fashioned way. I've talked to the best people in the financial planning and investment worlds, and usually found that they manage their own money simply, too. I've tracked these rules of personal finance over decades, which is what gives me such confidence in them. One last thing I can promise: You'll find nothing in this book that I don't do myself.

These are my first rules:

Only a few things work, and they work really well.

If you set up a system that runs automatically, you can't fail.

Success comes from starting right, then keeping your itchy fingers off.