WHY DIDN'T THEY TEACH ME THIS IN SCHOOL?

99 PERSONAL MONEY MANAGEMENT PRINCIPLES TO LIVE BY

CARY SIEGEL

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99 Personal Money Management Principles to Live By

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Information provided is from the author's perspective. The author assumes no responsibility for your financial success or failure.

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A Gift to My Children

Sam, Sabrina, Julia, Jack, and Luke: I hope the wisdom you gain from this book will allow you to avoid the financial pitfalls of my generation.

Caveat to All

Understand this is one man's perspective that he is giving to his children. It worked for me in my early years and works for me now as I am firmly entrenched in middle age. Hopefully, it will help others think about their own personal money management. As young adults mature, so should their money management skills.

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FOREWORD

Although I was fortunate to attend an exceptional high school, college, and business school, none of these schools provided me with even a cursory understanding of personal money management.

This is amazing considering I attended one of the top business schools in the country and graduated with a finance concentration. Thus, nothing you will read in this book comes from a textbook. It comes from experiences I've had and events I've witnessed over time.

It still amazes me that high schools and colleges don't make personal money management courses mandatory. Young adults go out into the world as versed in this area as they were when they were infants. Yet, being able to manage your personal finances is essential to the long-term success of anyone entering any occupation. More importantly, it is essential to managing one's everyday life.

My hope is that I provide young adults (and older adults) with the principles that will allow them to live prosperous lives by making good, sound personal financial decisions.

LIFE
LESSON

Principle 1

MARRY THE "FINANCIALLY RIGHT" PERSON

When I say this, I don't mean marry a financial genius or someone who is wealthy. Marry someone who has good financial habits. This personal quality is often ignored during the "courting" process. In fact, you are usually trying to impress the opposite sex with expensive dinners, extravagant dates, and impressive presents.

If you can't afford something when you're dating, you most likely won't be able to afford it when you're married. Show your partner who you really are financially, and make sure he or she shows you who he or she is before marriage. Don't surprise your partner by changing your financial habits when you're married (and ask the same of your spouse). At that point, it will cause significant issues. Money is one of the biggest things couples fight about.

Talk about your "money philosophy." Are you a saver? Is she a spender? Do you believe in debt? Do you want to own a home? What are your assets? What is her salary? Does she owe money? What are the credit histories and credit scores for both of you? Does she have a budget and adhere to it?

These are easy questions to answer but not so easy to ask. They are so important, though. You need to have full disclosure of your past, present, and future financial lives. You will learn not only a lot about your potential future spouse but quite a bit about yourself.

Principle 2

STAY MARRIED TO THE “FINANCIALLY RIGHT” PERSON

The quickest way to a financial downfall is divorce. Think about it: Besides the emotional turmoil, at best you split your money in half. At worst, you lose almost all of it through legal fees, administrative costs, excess living costs, alimony, and child support.

I always tell my wife that staying married to her is the main reason I was able to retire at age forty-five. Sure, I did well in business and followed my principles of money management. However, thousands of executives who made more money than I still have to work to support their third or fourth family. Be happy with what you have. The grass is rarely greener on the other side.

Do your homework with principle 1. Make sure your spouse is frugal, shares the same “money philosophy” as you, and understands that marriage is forever. Have honest discussions about your financial life throughout your marriage. By this, I mean write down and talk about your monthly budget, net worth, financial problems, opportunities, and future financial goals. These need to be ongoing discussions—not once a year, but monthly or more often.

This thought process will extend to other aspects of your marriage. If you do this, you’ll be setting yourself up not only for financial success but also for an open, honest marriage.

Principle 3

HAVING AND RAISING CHILDREN COSTS LOTS OF MONEY

First, let me say that I love children. Given that I have five of them, it should be obvious. However, I also have to say that the cost of raising them continues to surprise me. It's very difficult to say no to your children. You want them to be happy, and happiness usually means that they get "stuff."

When you add up the cost of raising kids, the obvious expenditures come to mind: education, childcare, healthcare, food, and clothing. However, don't forget to include things like a larger house, larger car, higher utility bills, entertainment, sports, and other activities they will participate in during their childhood.

The cost of having and raising a child is anywhere between $200,000 and $250,000 (before college expenses), depending on your income level and spending habits. That's a huge expenditure for anyone!

Ultimately, you will spend more money on them than on yourself.

You can't be selfish (monetarily or otherwise) if you are going to have children. More importantly, you need to fully understand the long-term financial (and lifestyle) tradeoffs of your decision. In financial terms, children are a significant expense that you and your spouse need to consider prior to starting a family.

I know it sounds cold to look at children this way, and very few people do so. Once you've done this and decide to have children, focus on loving them, and everything will work out from there.

Principle 4

ALWAYS LIVE BELOW YOUR MEANS

If you want to manage your money successfully, this is one of the most important principles to follow. And this is where most Americans have gone, and will continue to go wrong. People want to have everything…***now***. They just can't wait until they can afford it.

Wait until you can afford something before you buy it. It will feel better when you get it. If you continue to purchase things you can't afford, you will be on a downward spiral that will continue until you go bankrupt.

If you always live below your means, you will always have extra money to save and invest. Over the years, your money will continue to grow, and ultimately you will find yourself with significant financial security.

Keep in mind that living below your means doesn't mean living badly. It means you need to prioritize your spending and focus on what is most important to you. It means "living smartly."

TAKE CARE OF YOUR "STUFF"

Your parents told you this when you were growing up, and many of you probably blew it off because you may not have been paying for your "stuff."

Well, now that you're on your own, you're paying for everything you buy. And, you want it to last. I guarantee that if you take care of your "stuff," you will save tens of thousands of dollars over your lifetime.

Let's take something that you don't even own and look at the advantage of taking care of it: your first apartment. You will most likely have to put down a significant security deposit (usually one month's rent) in case any damage is done to it. Thus, you need to clean it regularly, be careful not to scratch/dent the walls when you're moving in, and call the landlord if something breaks down (so you're not charged for it when your lease is up).

When you buy a house, it's even more important to take care of your "stuff." Paint your house (inside and out) every ten years. Follow manufacturers' instructions for using, maintaining, and cleaning all household utilities (washer, dryer, refrigerator, oven, stove, dishwasher, air conditioner, toilets, etc.). It makes sense to get a service contract that protects all the household utilities.

How about something as simple as clothing? If you take care of clothing properly, it will last twice as long as the clothing of somebody who doesn't take care of it. The same can be said for furniture. If you clean it regularly and use it properly (no food or drink on it), some furniture can last for decades.

It's important to realize that the costs of maintenance and repairs can be significant in the short term. However, the cost of not maintaining and repairing "stuff" is much more significant in the long run.

EXPAND YOUR CIRCLE OF FRIENDS/ASSOCIATES AND KEEP IN TOUCH WITH THEM

This advice will help you both financially and emotionally. There is nothing better for the human spirit than developing lasting friendships. As you are doing it, you won't even realize you are helping yourself in the personal money management area.

Most good financial advice I've received has come from friends and associates. The advice is not only good but also free. Quid pro quo— I'm sure I've also helped others through the years.

Start with your friends from high school and college. Over time, it's difficult to keep in touch with all of them. However, try to keep up with as many as possible. I didn't have the advantage of e-mail, texting, and Internet social networking as your generation does. Take advantage of this asset. Make it a point to keep in touch regularly. Remember birthdays. Remember anniversaries. It's amazing how many friends you will cultivate over the years.

Friends from high school and college become insurance salesmen, CFOs, accountants, real estate investors, realtors, consultants, and financial writers. Even those who don't get involved in financial careers will have personal money management experiences that you can learn from.

The same can be said about individuals you meet at work. When you begin your career, spend time developing friendships with your associates (at all levels of your organization). Don't limit yourself to the people in your department. Expand into other areas. Definitely get to know people in the accounting department. If you have the opportunity, introduce yourself to your CFO. My CFO became my accountant (and one of my best friends).

All this said, do not have a friend as your investment advisor. The downside far outweighs the upside. A good friend will understand.

It's OK to get advice from your friends. People love giving advice. And people love helping other people. Ask questions, and you will get answers (either opinions or facts). Just make sure to make your own personal money management decisions.

Principle 7

YOU TAKE AWAY MORE FROM YOUR FIRST COUPLE OF JOBS THAN YOU GIVE

This principle is a bit philosophical, but if you practice it properly, it will provide you with significant long-term financial gains. Your first jobs are usually learning experiences during which your employers benefit less from your contribution than you do from theirs. I know that's difficult for your ego to handle, but it's true.

Whether you realize it or not, they are paying you to learn. Most young adults don't take advantage of this opportunity and put in the bare minimum needed to get the job done. Few work beyond the 9:00 to 5:00 requirement because they see others who are being paid more and believe they aren't working hard.

This is where they go wrong. Most young adults feel that if they do more than the minimum, the company is taking advantage of them. On the contrary, the more you put into your first positions, the more knowledge you will gain for jobs later in your career. And you may even get an early promotion!

Volunteer for extra duties, ask your boss (and her boss) questions, and take the free evening seminars. By doing so, you will be helping yourself more than you will be helping the company.

Think of your first job as an extension of college learning. With one important change: The company is paying you to learn! If you have this attitude, you will find yourself worlds ahead of others—both in your career and financially—just a few years later.

Principle 8

SPEND JUST ONE HOUR EACH WEEK LEARNING ABOUT PERSONAL FINANCE

You can spend this hour on personal finance in several ways. If you consistently do this, you will find yourself spending more than that one hour. Once you realize you're gaining so much valuable information and becoming significantly more educated in an important area, you won't be able to stop.

So, where should you spend your time and energy? Start with free resources. Here are a few to consider:

- **The Internet**—There is enough free personal finance information on the Internet to provide you with in-depth information in all areas I've discussed in this book and more.
- **The library**—The local library has sections with a significant number of books in this area.
- **Your company**—See if your company offers any seminars, and take advantage of them.
- **Find a mentor**—People enjoy helping others. Seek out individuals who are financially savvy. Develop a list of questions and ask them for an hour of their time. It could result in hours of free advice over time.
- **Friends and family**—You will be surprised what people know but haven't passed on to you. If Uncle Joe retired young and has a big bank account, ask him for the details of how he did it. I guarantee he will enjoy talking about it. And you will learn more from him than you will from any book (including mine)!

And here is one I believe you should pay for: a subscription to *MONEY* magazine (I'm not affiliated with the magazine, so I have no ulterior motive for this recommendation). It's easy to read, inexpensive, and it provides good information and excellent advice. Most importantly, it makes you think about different personal money management issues.

Think about it: During your school years, you spent no (or very little) time and energy learning about personal finance. What is one hour a week? Well, it actually adds up to a lot of time over a few years: fifty-two hours your first year, two hundred and sixty hours over five years, and five hundred and twenty hours over ten years. That's a minimum of five hundred and twenty hours more than the average person spends learning about personal finance.

If you put in that amount of time and energy, I guarantee you will be much better versed in personal money management than the average individual. More importantly, I guarantee that you will have earned/saved tens of thousands of dollars through your learning!

Principle 9

GET RICH SLOWLY

The fact is 99 percent of millionaires earned their money over time. Very few became millionaires overnight. We all have heard about the exceptions—lottery winners and those who inherit a big sum, to name a couple. It's important to remember that these individuals are the exception.

You also need to realize that it wasn't just happenstance for the individuals who built their net worth over time. Most of them started with a little money (or no money) and little knowledge of how to make it. Just like you, they started work out of school and started earning a little money.

Over time, their income grew; they saved more money, invested more money, and learned a little more about personal money management. They made both good and bad money management decisions. They didn't "live large," but they lived well. They didn't care about conspicuous consumption but cared that they received the best value for their money.

Whether they realized it or not, they developed their own principles of personal money management and followed them on their slow journey to wealth. It's important here to realize that you need to enjoy the journey. If you work solely for the almighty dollar and ultimate wealth, you may find yourself waking up and realizing all that you have to show for your journey is wealth.

So, enjoy the journey to wealth. It's slow, but if you do it properly, you will realize that the rewards involve more than just money.

SET (REALISTIC) SHORT-TERM FINANCIAL GOALS

It's important to have short-term financial goals to be working toward. The goals need to be realistic and attainable. If not, then you will stop setting them.

Your short-term financial goals should include—but not be limited to—saving and investing goals. You should include rewards as part of your financial goals.

An example may help:

Monthly goals

- Put $250 in a savings account.
- Put $350 in a 401K account.
- Put $150 toward a vacation.
- Save for and buy a new iPad.

Annual goals

- Add $3,000 to a savings account.
- Add $4,200 to a 401K account.
- Increase your net worth by $12,000.
- Take a vacation to Jamaica.
- Buy a fifty-two-inch television.

If you set financial goals (and keep track of them), you will have a good chance of achieving them. If you don't set financial goals, you have absolutely no chance of achieving them. Set them both monthly and annually. Periodically, analyze them to see what you achieved and what you missed. Continue the process quarterly.

Principle 11

SET (REALISTIC) LONG-TERM FINANCIAL GOALS

Long-term financial goals are easy to lose track of, but you need to be relentless at setting (and recalibrating) them. Set them annually when you are doing your budget. They don't need to be complicated. Just make them realistic and attainable.

Here is a quick example (these were my long-term goals when I was twenty-five):

- Buy my next car with cash (within five years).
- Pay off all college loans by the age of thirty.
- Own a home by thirty-five.
- Attain a net worth of $1 million by the age of forty.
- Own a beach property by age forty-five.
- Retire by the age of fifty.

These goals changed considerably as my financial situation changed over the years. While they may have changed, they still served the same purpose. They focused me on financial goals that I needed to think through regularly. Just as importantly, they provided a purpose for me to work hard.

If you set realistic and attainable long-term goals, you will be surprised at how often you will achieve them. You will be even more surprised at how often you exceed your goals.

Principle 12

ALWAYS KNOW THE SCORE—YOUR NET WORTH

Remember, you're managing your money for a reason. You want to increase your net worth over time. Thus, you must keep track of your net worth. This is very easy to do: You just need to develop a simple net worth statement and update it regularly. You then can develop goals and assess your progress regularly.

As an aside, many experts say you only need to look at this annually. Personally, I look at it monthly. Doing so allows me to always know my overall financial position and to react before any emergency.

Net worth is what dollar value you are worth. To come up with this number, you add up all that you own and subtract everything you owe.

So, how do you develop a net worth statement? Follow these steps:

1. Develop a form similar to the example provided on the next page.
2. List all your ***assets (what you own)*** and total up their value: This includes cash, investments, real estate, vehicles, and anything else that has value (to make it easier for yourself, make a conservative estimate of your personal property, or don't bother including it if the value is minimal).
3. List all your ***liabilities (what you owe)*** and total up their value: This includes your mortgage, loans, credit card debt, and any other debt you may have.
4. Subtract your liabilities from your assets. The total is your net worth.

Sample net worth statement: Shane Furlong

December 31, 2017

ASSETS	
Cash	
Cash on Hand	$1,000
Checking Account	$5,000
Savings Account	$15,000
Investments	
Stocks	$75,000
Bonds	$10,000
401K/403B/IRA	$10,000
Real Estate	
Home	$160,000
Other Property	$0
Other	
Automobile	$24,000
Other Vehicles	$0
Personal Property (Conservative Estimate)	$3,000
TOTAL ASSETS	**$303,000**
LIABILITIES	
Real Estate	
Home Mortgage	$110,000
Home Equity Loan	$0
Loans	
Automobile	$18,000
Education	$12,000
Other (i.e. Personal)	$0

Credit Card Debt	$5,000
TOTAL LIABILITIES	**$145,000**
NET WORTH (Assets – Liabilities)	**$158,000**

Budgeting and Saving Lesson

Principle 13

DEVELOP A WRITTEN BUDGET AND EVALUATE IT EVERY SINGLE MONTH

At first, it may be painful to do this. However, once you develop a monthly budget, it's extremely easy to track and analyze.

The principle behind having a monthly budget is simple: each month, more money must come in than goes out. There is no alternative; you can't spend more than you make. I know this is contrary to how our government and most Americans manage their finances. However, if you adhere to the budgeting process explained (and shown) over the next few pages, you will become financially secure over time.

The simple act of ***developing, tracking, and analyzing*** your monthly budget will result in sound fiscal management. So, let's break the process into these three parts:

1. **Develop a budget**—List all your expenses and all your income, and account for them in your budget.
2. **Track your budget**—The first day of every month, summarize your performance against last month's budget, and prepare this month's budget. Once you have done this a couple of times, it will take you next to no time at all to manage.
3. **Analyze your budget**—Look at your budget and see where you are doing well and where you're not. Make the necessary changes that allow you to save more money.

In order to understand budgeting better, let's look at the first step, ***developing*** a budget.

To develop a budget, you need to estimate (1) what is going ***in*** your pocket (income) and (2) what is coming ***out*** of your pocket (expenses) every month.

Let's look at what is going ***in*** your pocket:

1. **Salary**—Look at the after-tax dollars in your paycheck.
2. **Bonus and commissions**—If you are eligible to receive this, it will have to be an estimate (in after-tax dollars). I usually don't include it and end up saving the "surprise" income.
3. **Dividends and interest**—Estimate this based on your prior year's investment history.
4. **Gifts**—You usually receive these only on birthdays and holidays (and they go away as you get older).

Now, let's estimate what is coming ***out*** of your pocket. Major expense categories include the following:

1. **Housing**—Mortgage or rent is usually your biggest expense. However, you can't forget property tax, insurance, and estimated maintenance/repairs. Renting will usually eliminate some of those expenses.
2. **Utilities**—It's amazing how many "support services" are needed to run your house. Electric, gas, water, garbage, cable, Internet, and phone services are the major utility expenses.
3. **Automobile**—Until you can purchase your car with cash, your major automobile expense will be your car payment. However, you will also need to include insurance, gas, parking, maintenance, and repairs. If you're smart, you will also start a fund that enables you to purchase your next car with cash.
4. **Food**—The two major expense categories here are groceries and restaurants.
5. **Entertainment**—My example includes movies, sports, clubs, vacations, electronics, and cell phone service. This works for the individual in my example, but you definitely need to personalize this area for yourself (depending on your personal entertainment habits).
6. **Miscellaneous**—Here, I lump together any items I didn't account for in other categories. Include expenses like gifts, supplies, and toiletries, but personalize this category based on your own habits.
7. **Other insurance**—This is where you need to account for health and life insurance payments. I used this category as a catchall for health care expenses, so I include physicians, dentists, optometrists, prescriptions, and any other health care-related expenses I have.
8. **Other loans**—In addition to loans included in other categories (home and car), you may have student loans or credit card debt. Include both of these in this category.
9. **Charity**—It's nice to have this one broken out. It makes you think about giving not only money but also time to various charities.
10. **Savings**—You need to have this in your budget, even if it's $0 when you first start out. This is one of the main reasons you are budgeting: to find a way to save money every month.
11. **401K fund**—If a 401K is available with your employer, this is another forced savings method you need to use. We will discuss this in a later lesson (see principle 58).
12. **Emergency fund**—Do you have money in case of an emergency? You need to. We'll also discuss this in a later lesson.

Now let's look at an example of a budget that takes into account all the categories we just outlined.

Shane Furlong December 2017 Budget

OUT		
	Projected	**Actual**
House/Apartment		
Mortgage/Rent	$900	
Property Tax	$0	
Insurance	$20	
Maintenance/Repairs	$0	
Utilities		
Electric/Gas/Water	$150	
Cable/Internet/Phone	$75	
Garbage	$0	
Automobile		
Car Payment	$275	
Insurance	$100	
Gas/Parking	$100	
Maintenance/Repairs	$0	
"Next Car" Fund	$150	
Food		
Groceries	$350	
Restaurant	$200	
Entertainment		
Movies/Sports/Clubs	$500	
Vacation Fund	$125	
Electronics/Cell Phone	$100	
Miscellaneous		
Clothing	$100	
Furniture/Appliances	$0	

Other*	$150	
Other Insurance		
Health**	$250	
Life	$100	
Other Loans		
Student Loans	$200	
Credit Card/Personal	$0	
Charity	$55	
Savings	$250	
401K	$150	
Emergency Fund	$100	
TOTAL OUT	***$4,400***	

IN		
	Projected	**Actual**
Salary (After Tax)	$4,000	
Bonus	$0	
Commission	$375	
Dividends	$0	
Interest	$25	
Gifts	$0	
Other	$0	
TOTAL IN	***$4,400***	

* *Include gifts, fees, toiletries & all other supplies*

** *Include insurance and any other health costs for physicians, dentists, optometrists and prescriptions*

Note that the budget you just looked at is a balanced ***projected*** budget. What is coming in equals what is going out. This is mandatory for any personal budget you are developing.

Of course, depending on your lifestyle, you may add, delete, or change expense categories. Importantly, develop categories that make sense to you.

The only thing that matters is developing a budget that works for you. "Working for you" means that you can track and analyze it. Which brings us to the next step: ***tracking*** and ***analyzing*** your budget.

To ***track*** your budget properly, you must be able to track your income and expenses. Income tracking is easy; use your paycheck and investment statements.

Expenses are also fairly easy to track. You just need to be aware of them and develop a system to track them. The system I use relies on using the following items:

1. Check register/debit card receipts.
2. Credit card receipts—I have only one card and I pay it off every month; we'll discuss this in a later lesson.
3. Cash receipts—While these are more difficult to keep, make sure you do so. As you get more experienced, it will get easier to track these. Now (after over twenty-five years of budgeting), I track cash expenditures as miscellaneous spending.

I set up files for each expense category. As the month goes by, I put the receipts in their proper file. At the end of the month, I total them up and fill in the ***actual*** numbers in my monthly budget.

Let's look at the example to see how the ***projected*** and ***actual*** numbers reconcile.

Shane Furlong December 2017 Budget

OUT		
	Projected	**Actual**
House/Apartment		
Mortgage/Rent	$900	$900
Property tax	$0	$0
Insurance	$20	$20
Maintenance/Repairs	$0	$0
Utilities		
Electric/Gas/Water	$150	$138
Cable/Internet/Phone	$75	$77
Garbage	$0	$0
Automobile		
Car payment	$275	$275
Insurance	$100	$100
Gas/Parking	$100	$114
Maintenance/Repairs	$0	$35
"Next car" fund	$150	$150
Food		
Groceries	$350	$323
Restaurants	$200	$290
Entertainment		
Movies/Sports/Clubs	$500	$417
Vacation fund	$125	$150
Electronics/Cell phone	$100	$96
Miscellaneous		
Clothing	$100	$140
Furniture/Appliances	$0	$0
Other*	$150	$155

OTHER INSURANCE		
Health* *	$250	$150
Life	$100	$100
OTHER LOANS		
Student loans	$200	$200
Credit card/Personal	$0	$0
CHARITY	$55	$25
SAVINGS	$250	$600
401K	$150	$200
EMERGENCY FUND	$100	$167
TOTAL OUT	***$4,400***	***$4,822***

	IN	
SALARY	$4,000	$4,000
BONUS	$0	$0
COMMISSION	$375	$800
DIVIDENDS	$0	$0
INTEREST	$25	$22
GIFTS	$0	$0
OTHER	$0	$0
TOTAL IN	***$4,400***	***$4,822***

**Includes gifts, fees, toiletries, and all other supplies.*

***Includes insurance and any other health costs for physicians, dentists, optometrists, and prescriptions.*

While many of your expenses will stay constant over a year (e.g., rent and car payment), many expenses will vary monthly (e.g., entertainment, food, and utilities).

In the preceding example, the actual income was greater than the projection ($4,822 versus $4,400) due to an increased commission. This allowed Shane Furlong to save a lot more ($600 versus $250) and to put a bit more into the emergency fund ($167 versus $100).

In this manner, you can quickly ***analyze*** your budget. Where did you spend too much? Where didn't you need to spend as much? What else do you need to include next month? How do you set yourself up to save more in the future? What are your financial goals for next month and for the next twelve months?

I hope you see that the monthly budgeting process isn't complex. In fact, after you do it two or three times, the process will take you less than one hour to complete.

I promise that if you adhere to this process, not only will you optimally manage your finances but you will also feel better about your financial position.

Principle 14

GIVE YOURSELF AN ANNUAL FINANCIAL PHYSICAL

When I took my first financial physical, I was on life support! Coming out of business school, I was $60,000 in debt. Student loans, a business school emergency loan, and a loan from my employer before I even started working amounted to a low salary and high debt. The results of my first financial physical provided me with my first goal: to get out of debt and never owe anyone money again.

I started earlier than most do (in fact, most people never give themselves a financial physical). However, I recommend doing one during your first year in college. This is really the basis for everything you do in your personal financial life. You need to have a starting point every year.

The best time to do your financial physical is annually in December. Start with a budget recap of the existing year. If you do monthly budgeting, this should be easy. Tally up your income and expenses for the current year and then forecast your income and expenses for the following year (see the sample budget that accompanies principle 13). At the same time, develop a net worth statement for the existing year and forecast a statement for the following year (see the sample net worth statement you saw in principle 12).

Doing these tasks will allow you to analyze your financial health. Are you sick or healthy? Do you have a positive or negative net worth? Will you be spending more than you make next year? Which assets will you use to fund your shortfalls?

Once you've ascertained your financial health, you then can develop strategies for managing it. Where/how can you cut spending? Where do you invest your excess income? How do you develop an emergency fund? Focus on this annual financial physical and keep coming back to it every month. It will allow you to manage your personal budget effectively and to make thoughtful decisions about your personal financial life.

SAVE/INVEST 50 PERCENT OF EVERY SALARY INCREASE

This easy concept is difficult to implement unless you have the discipline to do so. Think about it; you were living on your old salary before you got a raise. You can have the best of both worlds. Why not live a little bit better (remember that 50 percent of your salary increase goes toward living a better lifestyle) and save/invest more money for the future? Sounds like a good plan to me.

So then, why do most people not do this? It's simple; they get behind in the first place. They start by spending more money than they make. Thus, they are constantly trying to catch up. If you don't fall behind at the beginning, this plan will easily fall into place.

In fact, this principle is what will put you ahead of the game. If you do this every time you get a raise, you will find yourself ultimately saving a significant amount (upwards of 50 percent) of your income and investing it in your future. Combining this with my next principle (on saving bonuses) allowed me to save over 50 percent of my total income annually for several years.

This was probably the most important idea I learned in business school. And it was a random comment made by my accounting professor. I would have missed this if I hadn't attended class and instead just read his textbook. This brings credence to the thought that going to classes is important in school.

Principle 16

SAVE 90 PERCENT OF EVERY BONUS (OR NON-PLANNED INCOME)

If you understand the previous principle, this one makes sense. Many people plan bonuses into their lifestyle. That is a quick way to get into financial trouble. Remember that bonuses aren't guaranteed income. They change year to year, and sometimes they don't come at all. If this happens, you can end up in a bad financial state.

So, treat your bonus like a pleasant surprise at the end of the year (or whenever you get it). Take a little bit of it (10 percent or less) and buy something you really want (not need!). Take the other 90 percent and save/invest it. Remember, you weren't planning on getting any bonus, so it truly is a bonus.

You should also apply this principle to any unexpected income (like inheritances or tax refunds). Use unexpected income as an opportunity to get ahead financially. When you take the attitude that it is found money, you tend to waste it rather than use it wisely.

The last two principles should show you that there is a way to enjoy the short-term and effectively plan for your long-term financial goals. The key to doing this is not to get in debt. Live below your means!

UNDERSTAND YOUR EMPLOYEE BENEFITS; THEY ARE WORTH SIGNIFICANT DOLLARS

Read through your employee benefits and make copious notes regarding questions you have. Then, schedule a meeting with a senior Human Resource (HR) representative. HR will probably want to schedule you with an entry-level HR representative. Insist on someone senior because this person will more fully understand the benefit plan. Benefit plans can be complicated. Make sure you ask questions until you truly understand the answers.

Benefit plans will include some or all of the following:

1. **Health insurance**—It would take its own book to explain health insurance. Just make sure you fully understand your plan's co-payments, deductibles, and coverage.
2. **Vacation/personal days/sick days**—Understand the requirements for each. Is a doctor's note needed for sick days? If you don't use your vacation days during the existing calendar year, do you lose the unused days or can you take them the following year?
3. **Long-term and short-term disability**—Are these offered and what are the terms?
4. **401K plans**—I cover these in principle 58.
5. **Bonus plans**—Do you have such a plan and how does it work? Do you need to be employed on the last day of the year or on the date a bonus is paid to receive it?
6. **Stock options**—Stock options give an employee the right to purchase shares of company stock at a specified price during a specified period of time after the option has vested (the time period is normally expressed in years). Options are usually offered to certain individuals in major companies. If you are eligible for this benefit, your company will most likely offer a seminar or detailed explanation of the stock option plan. Without going into details on this (again, it could be a book unto itself), make sure you fully understand the details of your stock option plan.

All of these benefits will likely be new to you. Take the time to understand them and learn about the elements of the plan that are important for you. If you manage these benefits properly, they will provide you with tens of thousands of dollars in benefits over the life of your career.

ALWAYS HAVE AN EMERGENCY FUND

Build an emergency fund into your budget, and as the years go by, make sure you increase the amount you put in it. The simple rationale for this is that something will go wrong and you'd better have the funds to pay for it. In addition, something may go right and you'll need to have the funds to be able to enjoy it.

Let's first talk about the good. What if you make a new friend at work, and he invites you to his wedding on the other side of the country? You're going to want to go to it. That means you need money for airfare, hotel, a gift, and other things. This trip was unplanned at the beginning of the year, so you'd better have an emergency fund that can fund this expense.

On the bad side, what if your car gets hit and insurance covers all but $500 of it? You will need to find that $500 or you won't be able to get to work. As you will learn in the debt and credit card lesson, you don't want to charge this expense on your credit card. It would cost you significantly more to pay it back using your credit card. Your best bet is to have your emergency fund take care of it.

The most common unexpected expenses are automobile, medical, prescription, home maintenance/repair, and veterinary (please don't buy a pet until you can afford one). I'm sure you can think of some other unplanned expenses that may affect you.

Early in adulthood, it's difficult to have a large emergency fund. Make sure you budget for one and increase it as you get older. Doing so will save you headaches, stress, — and money.

Principle 19

HAVE AN EMERGENCY MONTH EVERY JANUARY

Take one month every year and strip your spending down to the bare essentials. Act as if you have next to nothing (moneywise) and need to survive for that month.

This sounds like a strange way to live, but it works. It works because it shows you how difficult (or easy) it is to do so. It puts your priorities—your wants and needs—in order. Do you need to go out for dinner twice a week? Can you bring lunch from home instead of getting fast food every day? Is TV as good as a movie? Is it nice staying home and just hanging out with your friends?

It is also a good time to call your cable, cell phone, Internet, and other providers to find out if you're getting the best deal. Tell these companies you're looking at switching to other providers and see what happens!

Believe it or not, emergency month can actually be fun. My wife and I have been doing it every January since we've been married. Not only do we save money that month and alter our long-term spending habits, but we also get more in touch with our relationship.

January is a good month to do this because of the rampant spending that occurs during the holiday season. It's sort of like beginning-of-the-year weight-loss programs, only, in this case, it's "expense loss"!

Principle 20

COUPONS MAKE SENSE

I find it amazing that many people think coupons are too much trouble to use. It is even more amazing that many others believe they look cheap if they use coupons.

If a company gives you a $1 bill or in some cases $20 or $100 for using its product, are you cheap for using this product? Or do you look like an idiot for not taking the money and using the product? Believe it or not, fewer than 3 percent of people use coupons!

I use coupons now, and I used them when I was making a significant amount of money. I especially used them when I was just starting out. It is truly unbelievable to see how much money you can save using coupons. One year, I saved over $5,000 with coupons. During an average week, coupons save me over $50.

From haircuts, to groceries, to restaurants, to oil changes, to home services, and more, there is always a coupon that saves you money on stuff you are already buying. You just need to Google coupons, discounts, and incentives on the Internet.

Go on a restaurant's website before dining out. Chances are, you will save yourself some money. Don't let a Sunday go by without cutting coupons from the newspaper. Don't throw away the coupon mailings you get without looking at them.

More importantly, don't buy products just because they are discounted. Only use coupons or buy advertised discounted products that you would have purchased anyway. Otherwise, you're not really saving money because you really didn't want or need the product.

Don't be embarrassed to use coupons, and don't think they're not worth it. It's an incredible feeling to do something so easy and to know you're saving money. Use coupons wisely and you'll save enough money to pay your annual cell phone bill.

Principle 21

SHOP AROUND FOR DISCOUNTS ON ALL PRODUCTS AND SERVICES

Clearly, the Internet helps you here. There is no reason to go from store to store comparing prices. Save time, gas, and money by looking on the Internet. If you find a better price at a store far from you, call your local store and let management know what you found. It is very likely the store will match or beat that price.

If you frequent a specific restaurant and the competitor is across the street, ask the manager for a "frequent diner" discount. I've done this at my favorite pizzeria, and the owner not only gives me a discount but sometimes throws in a freebie.

Whenever you are doing work on your home, get two to three estimates and play them off each other. The time and energy you spend here will save you tens of thousands of dollars during your lifetime. I recently saved $2,000 on an air conditioning system by doing just that. See how much the price comes down when you offer to pay cash (make sure you wait until the company has given you its original estimate).

I advise you to make a game out of adhering to these last two principles. Keep track of how much you save in year one. In subsequent years, try to improve on your savings consistently. You will be amazed at how much you save.

Principle 22

MAKE SURE YOU MAIL IN YOUR REBATE OFFERS RIGHT AFTER YOUR PURCHASE

Believe it or not, a large percentage of consumer rebates aren't redeemed. Most people purchase a product thinking they will get the rebate, but they never send in the required paperwork on time.

Therefore, if you buy a product that offers a rebate (and the rebate is usually substantial), make sure you do the following:

- Fill out the rebate form in full.
- Provide the proper form of receipt (original or copy).
- Send it in immediately (even if the company says you have thirty days).
- Keep a copy for your records in case you don't get your rebate (often, you can track it via the Internet).

It usually takes up to ninety days to receive your rebate, but be patient. My general rule of thumb is to send in the rebate for anything over $5. The use of rebates has saved me several thousand dollars over the last thirty years.

Principle 23

HAVE A SAVING VERSUS A SPENDING MIND-SET

Once you start focusing on saving (versus spending), you will find it becomes contagious and it will be a positive way of life.

There really are "savers" and "spenders." Some people say they are "spendaholics" and could never change. I beg to differ with them. They don't want to change. They like spending money that they often don't even have. They lack the discipline to change their habits to become "savers." If they want to develop saving habits, they can. It really is their choice.

Just as the "shopaholic" derives pleasure from shopping (and spending), you will get great pleasure from saving your money. In fact, this is where budgeting and net worth statements come in. They will be the "scorecards" for your financial achievement.

Spending Lesson

Principle 24

DON'T TRY TO KEEP UP WITH THE JONESES; THEY'RE GOING BANKRUPT

Conspicuous consumption lives on, as does keeping up with the Joneses. People want others to believe they can afford more than their income allows them to. My philosophy is "Who cares about the Joneses?" The only people you ultimately answer to are you and your family.

If my neighbor gets a new BMW, I don't need to follow her. If she can afford it, then good for her. In all likelihood, she can't afford it. Much of the time, you'll find she is just trying to keep up with the neighbor on the other side of her house. We have seen the reality of this in the past few years as the number of home foreclosures and car repossessions has increased astronomically.

The most important aspect of this principle is that you recognize there will always be people who live better than you. And you should feel good for them. On the other hand, there will always be people who can't afford as much as you (though their purchases may make you think otherwise!).

Your goal is to be financially responsible now so that you can progressively increase your financial standing in the future. Don't be concerned with where you are financially in relation to others.

DON'T UNDERESTIMATE THE COST OF OWNERSHIP

This is a significant pitfall you might fall into when purchasing a car or a home. Since you will most likely be purchasing a car before a house, let's look at the monthly cost of automobile ownership (not including the purchase price):

- Insurance ($50–$300)
- Registration & Title ($2–$20)
- Maintenance and repairs: oil changes, tires, car washes, etc. ($10–$100)
- Gasoline ($40–$200)
- Parking and tolls ($0–$300)

All of the above vary depending on the following factors (and many others):

- The type/size of your car (e.g., the cost of insurance increases as the price of the car increases)
- Where you live (e.g., parking in New York City versus in the suburbs)
- How many miles you drive a year (e.g., commuting thirty miles/day versus ten miles/day)
- Your driving record. When you factor everything in, the monthly cost of ownership can be as high as your monthly payment, especially if your insurance costs a lot!

Now let's look at the cost of home ownership (not including your down payment and mortgage):

- Taxes (in some states as high as 2 percent of your home's value)
- Insurance
- Maintenance and repairs (plumbing, carpeting, painting, etc.)
- Filling your house with furniture and appliances
- Utilities (e.g., gas, electric, water, and garbage)
- Homeowner association fees
- Landscaping
- Closing costs
- Home inspection

A couple of these are one-time costs (closing costs and home inspection) that people forget to budget for at the beginning of their home purchase. Some people would classify other costs (like maintenance and repairs) as “unexpected,” but experienced homeowners know that you need to budget for “unexpected” maintenance and repair costs since they tend to occur every year.

The bottom line is that you shouldn’t just think of the purchase price of your home or car. If you forget about the cost of ownership, you will find yourself selling your home or car sooner rather than later.

Principle 26

PRIORITIZE YOUR SPENDING

Sorry to burst your bubble, but you can't have it all. Even millionaires don't have everything they want. However, you can ultimately get most of what you want (and all of what you need)—if you prioritize spending.

By this, I mean look at all your ***wants*** and ***needs*** and prioritize them. ***Needs*** are simple: a roof over your head, food, clothing, transportation, entertainment, and health care. When it comes to your ***wants***, expand on them. How big an apartment/house do you covet? How nice a car do you desire? What type of clothing? Restaurants: four nights a week? Extravagant vacations? And, of course, much more.

Now comes the difficult but necessary part. What is most important to you? If socializing is most important, then budget more dollars toward social events and eating out. If you like home entertainment, then prioritize a large-screen TV. If a nice car is important, then compromise on the size of the apartment you rent. However, realize you can't have it all unless you can afford it. You will have to prioritize and have trade-offs.

Let me give you a real-life example, me at the age of twenty-five. I think fondly of the days when I lived in a family's two-hundred-and-fifty-square-foot basement and had a one-burner stove and a mini-refrigerator. I didn't spend a lot of time at home, so I didn't need a heck of a lot more. It was what I needed at the time, and living in this small space allowed me to spend my money on other things that were more important to me: savings and entertainment. Those were numbers one and two on my prioritization list.

As an aside, if you don't make savings a top priority of yours, it will never happen, so make sure it is number one or two on your list of priorities.

You are the only one who knows what's most important to you. Remember that: What is important to YOU? Not what is important to the Joneses next door.

Principle 27

STAY AWAY FROM "GREAT DEALS" THAT REALLY AREN'T

How many times have you heard someone say, "I had to buy it because it was a bargain"? There really is a sucker born every minute. Unfortunately, that sucker is often the individual who is just starting out and learning how to manage his or her money.

So, let's talk about the big deals (i.e., scams) you should avoid. Most of this is common sense, but people fall for these scams every day:

- **Telemarketers of every kind**—I'll make this easy. Do not purchase anything from a phone solicitor.
- **Mailings that promise you free trips or other prizes**—ultimately, there is always a "hook" here, and it almost always results in your loss of both time and money. These kinds of mailings will often ask you to pay handling fees and taxes in advance. Rest assured that once you send in your taxes/handling fees, you will never see the prize you won (or it won't be as described).
- **Internet e-mail offers**—We have all received one telling us we've been selected by a foreign individual to receive hundreds of thousands of dollars. To receive it, all you need to do is send this person a few dollars and/or your bank account information. If you ever did it, you wouldn't find anything left in your bank account a few days later.
- **Paying fees in advance for receiving loans or credit cards**—No matter how bad your credit is, don't ever do this.
- **Advertised job opportunities that ask for a fee**—If you're asked for an up-front fee to get the job, walk away from the opportunity. Many "work at home" opportunities are scams that take away both your money and your identity (don't ever give out your social security number to a prospective employer until you've met someone there and have confirmed the company's legitimacy).
- **Miracle products**—Pills that guarantee you will lose fifteen pounds in two weeks, sprays that make your bald head full of hair, knives that will cut through a four-hundred page book. OK, you get the point.

Even though I've warned you about some potential pitfalls, I'm almost certain you will still fall for one of these. I did!

When I was a twenty-two-year-old graduate student, I received a truly unbelievable mailing. It said that I had won a car, a sailboat, or $5,000. The mailing showed the specific prizes. I was instructed to call and set up an appointment to pick up my prize. Being skeptical, I called and asked a number of questions, including “Would the boat be large enough to sail in a lake?” The person couldn’t specify the size of the boat but assured me that it would be large enough to sail in a lake. I learned that I would find out which prize I would receive after they “talked to me” for thirty minutes or so.

The location was about an hour away, so I fueled up my car and went to claim my prize. I sat through the time-share presentation and afterwards went to pick up my prize. I was excited to win the boat. I wasn’t so excited when I saw that the boat was a $3 toy boat that indeed could sail in a lake!

I lost virtually no money on this (just my gas money). However, the poor guy who was in line right after me had taken a day off work and had driven two hours with his family for the prize. He lost time, money, and his pride in front of his family.

If something sounds too good to be true, it probably is. Stay away from it. Strangers aren’t just going to give you something for nothing. I can guarantee that.

Principle 28

STAY AWAY FROM "SMALL BARGAINS" THAT REALLY AREN'T

This is a bit different from the last principle. Every day, you see "deals" and "bargains" on everything from food to television sets. The deal is usually good only for a specified period of time, so you're forced to think and act quickly. Remember one thing: Just because someone says something is a bargain doesn't mean it is one to you.

What do I mean by this? Let me ask you this question, and it should bring everything to light: How many times have you bought something that was a "bargain" and later realized you had absolutely no need for it? Or, that you purchased much more than you needed? Or, that the price really wasn't a bargain?

A simple case in point: the kiosk salespeople in malls; they attack you with special lotions, cell phone deals, remote control helicopters, and numerous other bargains. Avoid them like the plague. Just about all of their "bargains" are overpriced. Worse yet, many of them are products you will never use.

I fell prey to paying too much for a "bargain" a few years ago, when I was doing last minute Christmas shopping at the local mall. I bought an advanced nail buffer (it made your nails magically clear with just a quick "buff" using this special polish and "buffer") for my wife at a kiosk for only $25. I was assured that this "buffer" kit normally cost $50 and that they were including an extra one for free.

After I presented it to my wife on Christmas Day (yes, along with a few other nicer presents), she told me she already had one, and she showed me the one she had purchased at the local drug store for only $3. Needless to say, she thought it didn't even warrant a place in her stocking. I never did tell her what I paid for it. When she reads this book, she'll find out just how badly I got ripped off that Christmas Eve!

I use the following criteria to evaluate whether a "bargain" is something that will save me or cost me money:

1. Do I know what a fair price is for the product?
2. Would I be interested in it if it were at full price?
3. Is it something that I will use?
4. Besides food, is it something I will use more than a couple of times?
5. Is the quality good or is it something I'll need to replace soon?
6. Is the cost of getting the "bargain" too much (e.g., do I need to travel far to get it)?

7. Are they asking me to buy too much of the product?

I know it’s difficult to resist that deal on clothes or games as you walk though stores in the mall, but think twice about the “bargain.” Is it something you absolutely have to have? If it’s something you don’t need, then use your willpower.

Principle 29

DETERMINE WHAT EVERYDAY PRODUCTS AND SERVICES ARE IMPORTANT TO YOU

It doesn't matter what others determine the value of a product or service to be. It matters only what the value of the product or service is to you.

It is imperative that you don't give in to the peer pressure of purchasing only the best product all the time. Let me give you an example that pertains to me: footwear.

I spend money buying good running sneakers because I run a few miles every day. I make sure they are comfortable and can handle everyday usage. However, since I rarely need to wear shoes, I purchase inexpensive ones that look nice for the rare occasion I need them.

In both instances, I don't care about the brand name. I'm buying what is important to me regardless of the name. Remember, this is me. This may not be the same case for you. Brand name may be important for you in shoes—if you're wearing them for a special occasion and you want them to "say something about you." Just remember, there is a cost that comes with the brand name. You can't have the best brand of every product. You need to make dollar tradeoffs that make sense to you.

When it comes to service, I use the same principle. Let me use an example of two totally unrelated services here: haircuts and computer repair service.

I get the most inexpensive haircut possible because I have a simple short cut that doesn't need anything special done to it. I probably save over $200 in haircut expenses annually. However, whenever my home computers need repair (our family of seven owns multiple computers), I pay a premium to have the best service. While it costs me more money than the average service, I know it saves me money in the long run.

My perspective is that anything of high value and high importance to you (like a computer) needs to be serviced by the best possible company within your budget. History has shown me that dollars spent here will save you significant time, aggravation, and money later on.

I hope what you've learned from this principle is to understand your own value system. What is important to you may not be important to someone else. Whatever your product and service values are, understand them and spend money on them appropriately.

Principle 30

MAKE SURE THE LUXURIES YOU AFFORD YOURSELF ARE TRULY IMPORTANT TO YOU

What do I mean by this? As a young adult, you often purchase something because you just have to have it. Someone else has it or it's the latest and greatest item. Manufacturers and marketers make their money by quickly making products obsolete and by using advertising to persuade you that you need a new product now.

Analyze your purchase behavior. If you're constantly buying new products while the old product is functional, then look to prioritize which new items you truly need. So the new iPod looks "cooler" and has more gigabytes. Well, if your old one holds ten thousand songs and you have only one thousand on it, then you probably don't need to buy the new one.

An example on a larger scale is your first couple of car purchases. You may feel that you deserve a car with all the bells and whistles, and the car salesman will definitely tell you why they are all so very important. Think about how much the extra-wide wheels will matter to you a month from now (especially when you realize they cost you $1,000). Or how valuable that $750 upgraded stereo is when the standard one sounds just the same to your ears (unless you're a true aficionado).

Based on experience, this is the most difficult area of spending to maintain discipline. Try this approach: Every time you balk at buying the latest and greatest product, put the money saved in a special saving area reserved for big-ticket items. When you go to buy something that truly matters to you, you will be amazed at how much money you've saved up.

Principle 31

BEFORE YOU BUY ANYTHING EXPENSIVE, STOP AND THINK ABOUT WHETHER YOU REALLY NEED IT

You will have to judge what is expensive to you. When I was in my twenties, a meal in a decent restaurant or a $15 shirt seemed expensive (remember, this was over twenty-five years ago).

I'm not telling you not to purchase anything expensive. I'm just asking you to stop for a moment to understand your motive. Do you really need the $30,000 car if you live in New York City? Only you know the answer to that.

When I say **STOP**, I really mean **STOP**. Stop yourself every time you want to purchase something over $100. Now, wait one month and see if you still want that product or service. If you do and it's within your budget, then buy it. If not, then put the money you were going to spend into your savings or investment account.

Please avoid impulse purchases of expensive things. Be hard on yourself about really needing stuff; you'll find yourself enjoying your life while saving money.

Principle 32

DROP "UNHEALTHY" SPENDING HABITS

Unhealthy spending habits really are unhealthy; they are the expenditures that will hurt you both monetarily and physically. It is very easy for young adults to get hooked on some unhealthy habits as they begin their adult lives.

It should go without saying that you shouldn't smoke. I won't get into the physical effects of smoking. However, I will tell you about the monetary effects of this habit. Depending on what state you're in, cigarettes will cost you $6 per pack (or more!). In New York City, the cost is more than $12 per pack!

A habitual smoker who smokes one pack a day will spend over $2,000 on cigarettes annually (and this does not include the cost of lighters, breath mints, dry cleaning, etc.). Add to that increased medical costs and health care premiums, and you have a very expensive habit. The cost of cigarettes alone would be at least $50,000 over a twenty-five-year period. If you put that money into an IRA and kept it there until retirement, it would most likely be worth over $100,000!

You can do the same analysis when you look at buying a case of beer a week or eating at fast-food restaurants three times a week. If you do eat at fast-food restaurants this often, simply eliminating your soda purchase (and substituting tap water) will eliminate over $6 of unhealthy spending a week (that's $312 a year).

Clearly, you will make your own personal decisions based on your preferences. No one except yourself should judge you on your choices. My job (in this book) is only to let you know the financial ramifications of the choices you make.

Principle 33

KNOW WHAT YOUR MONTHLY BILLS ARE, AND TAKE ACTION WHEN THEY ARE INCREASED

It's quite easy to stop your bills from creeping up each year. When your cable, Internet, or cell phone company tells you it is increasing its rate, call up the company and say no. However, in order to do so, you must know what the history of each bill is.

It's amazing how many people don't know how much they're paying their service providers. If you don't know to the nearest $5 what each of your monthly bills is, then you are probably overpaying on many of them. Simply put, you must know what each of your monthly bills is (that's where diligently preparing and reviewing your monthly budget will help).

There is a way to say no effectively. In all instances, ask for a detailed rationale for the price increase. Just asking this will often immediately stop the increase. Also, make sure you're speaking with the decision maker, whether it's the owner of the business (if it's your lawn service) or the highest-ranking manager (if it's the cable company).

A few actual personal examples should help you see how to do this:

- **Cable company**—Call the customer service number and ask for the "retention department." This department aims to retain good existing customers (another reason to pay your bills on time). Make sure you stress how loyal you've been. At the same time, let the company know you have been receiving solicitations from its competitors. If possible, use a specific mail solicitation that you have recently received. Most of the time, this strategy will keep your rate from increasing, and sometimes, it will even decrease your bill. If you get the "wrong" person (someone who doesn't accommodate you), call back the next day and speak with someone else. Every year, I spend ten minutes on the phone with the cable company to save $200. Not a bad return on my investment.
- **Landlord**—If your landlord raises your rent, just say no. This works if you are a good tenant who pays your bills on time. Make sure to use that rationale when you explain why you don't deserve (and won't tolerate) a rent increase. The landlord does not want to spend the time, energy, and money to find another tenant (who may not be as good as you). Believe me, the landlord won't want to lose you as a tenant.
- **Lawn service**—As in the two above cases, ask the company for detailed rationale. That may immediately stop the increase. If not, tell the company you are going to get a couple of competitive estimates. If this strategy doesn't work, then actually get the

estimates. You may be surprised at the amount you save.

If you effectively say no to monthly increases, you will save thousands of dollars during your lifetime.

Principle 34

PAY ALL YOUR BILLS ON TIME EVERY SINGLE MONTH

This principle is extremely important when you want to manage your money properly. If you pay everything you owe on time every single month, you will prevent yourself from developing a money management problem.

I can't tell you how many people pay significant late (and interest) charges just because they are too lazy to mail their check on time. They have the money, but they don't have the time and energy to write the check, put it in an envelope, and mail it.

I think about it this way: If I worked for somebody and he or she didn't pay me on time every month, I would stop working for that person. Well then, you shouldn't be surprised that if you don't pay people, they'll stop providing services or charge you more for a late payment.

It's not just about the money. It's about respecting the people/companies to whom you owe the money. It's not fair to them if they have to beg you (i.e., send you late notices) for payment.

However, the money is important. It's clear that paying your bills on time every month will save you considerable amounts of money over time. Just in your enhanced credit rating alone (we'll go through that in another lesson), you will save thousands of dollars in your lifetime.

So, pay your bills on time every single month.

Principle 35

DON’T FORGET TO PAY THE GOVERNMENT—ON TIME

This goes for IRS taxes, property taxes, state taxes, speeding fines, parking tickets, automobile registrations, and anything you owe to the government. So many people have gotten themselves into financial (and legal) trouble by either ignoring or delaying their government financial obligations.

If you don’t pay the IRS, or you don’t properly prepare your taxes, the IRS will come after you. If you don’t pay your parking tickets today, some day you will pay a much larger fine. If you don’t pay your speeding ticket on time, you will pay significantly more to get your license back.

More importantly, in the long run, you will spend hours of wasted time delaying these payments, and we all know that time is money.

Of course, in all of the above instances, I’m referring to cases where you legitimately owe the government money. If you feel you don’t legitimately owe the money, then go through the proper channels to defend your case.

Just remember, sometimes you’re better off paying a fine rather than fighting it. Pick the right principle to stand on. For example, if you don’t agree with a $20 parking fine, don’t spend $100 in time and money to fight it.

Combining the last two principles, you should clearly understand that paying what you owe—on time, every time—makes very good financial sense.

Principle 36

IT'S OK TO OVERPAY THE IRS (BY A LITTLE) OVER THE COURSE OF A YEAR

Most people will tell you that this is a bad financial decision. The IRS is earning interest on money you could be earning interest on. And…I won't disagree with them. You are probably now saying, "Well then, why do you make this one of your principles?"

I'm recommending you overpay just a little (less than $3,000 annually) when you are in the first few years of your career. My basic rationale is that it is forced savings. If you had that money during the year, you probably would have blown it on some irrational expense that is now worth nothing to you.

Additionally, the $3,000 you are overpaying the IRS during that year is worth less than $50 in interest loss. It's not enough in your pocket to make you manage your IRS deductions that closely. However, it is important to do so, if you're overpaying the IRS by $10,000 a year.

Having received that $3,000 check at tax time many times in my life, I can tell you it felt good. Many times, I put it in my investment account, and it ultimately resulted in much more than $50 in my pocket.

CHECK EVERY BILL YOU GET, ESPECIALLY THOSE FOR HEALTH CARE

Unfortunately, most people take a cursory glance at their bill and pay it. Or, worse, now with automatic pay from your checking account, you don't even look at your bill. Please be careful. This is an expensive habit to get into.

In today's mail, I received three bills that in total overcharged me by $230! Two of these bills were health care bills that most individuals would have missed.

Many bills from a doctor come two months (or more) after the service, and you don't realize your insurance carrier covered a larger portion of the cost than you already paid the physician. Thus, the physician owes you money for your overpayment at the time of service (two months ago). Believe me, the doctor's office won't be calling to tell you that you overpaid. This isn't because the office is unethical. It's because its billing service, located in a different city, may not be set up to handle the situation.

You need to look over more than just your health care bills. Examine every single one of your bills. Last month, my auto insurance company overbilled me by $150. If I hadn't read through the details carefully, I would have missed it.

On average, I save over $1,000 annually by reviewing each of my bills in detail. I hope you're saying, "What's the big deal? I already do this." If so, that's great; continue doing so.

Principle 38

REVIEW AND KEEP ALL YOUR RECEIPTS

Reviewing and keeping receipts has saved me thousands of dollars over the years. It sounds silly, but it’s true, and it’s more difficult than you would think.

It’s difficult mainly because it takes discipline. Most people toss low-ticket receipts out without so much as a glance. They will look at high-ticket receipts but throw them out in a month or even that day.

Here is what I do: Low-ticket receipts (grocery, gas, restaurant, and anything under $100 or so), I review quickly and put in my monthly receipt file, which I throw out at the end of the month. By doing this, I save at least $100 a year on cashier (or cash register) mistakes.

Higher-ticket receipts and credit card statements are totally different. I hold onto them for years. I file away credit card statements and look at them yearly so I can analyze my spending habits. It’s amazing how consistent they are year over year. And, unfortunately, I see how they consistently increase every year! By analyzing these receipts (it takes about one hour annually), you can see areas where you can easily reduce your spending (e.g., two fewer spa services can save $200 annually).

I keep receipts for high-ticket items (products and services that cost me $200 or more and have a life expectancy of over one year) in a separate file.

On the product end, this has provided me with valuable information when a product has broken down. For example, last month, my pool cleaner broke, and it was twenty-two months old. When I looked at the old receipt, it showed a two-year guarantee. While I may have been told that, I didn’t remember it. Rather than pay $300 for a replacement, I took it to the pool store (with receipt in hand) and received a new one absolutely free.

On the service end, whenever I have a service performed in my house, I ask the provider to write the guarantee on the receipt. Repairmen and installers are always willing to verbally guarantee their services. You’re just asking them to put it in writing. When a problem occurs after the service is performed, I look up the receipt and see what guarantee was made.

Saving my high-ticket receipts and credit card statements has saved me thousands of dollars over the years. It takes discipline, but it’s certainly worth doing.

Principle 39

BUY A CAR THAT FITS IN YOUR CURRENT BUDGET

When you're first starting out, it's difficult to afford a brand new car. Yet, it's the first thing most young adults purchase when they start their careers. You are much better off purchasing a reliable used car (for cash) and saving for a new car you will purchase later.

Continue the used-car-buying strategy until you can afford buying a new car with cash. You can accomplish this by including in your monthly savings plan a "new car fund" (or "next car fund"). It will take you a few years to build this up. In the meantime, continue driving your used car. Try not to lease a car; it really becomes the most expensive way to operate a car. In addition, if you continue to take out loans on cars, car payments will become a way of life.

Another good tip for buying new cars inexpensively is to purchase last year's model (as long as the exterior design hasn't changed). If you wait a few months into the new model year, you will be amazed at the new-car deals you can get on last year's models. One year, I purchased a $75,000 car for only $42,000, and it was brand, spanking new.

Once you can buy the new car for cash, you should be able to do so for life. You do this by taking the following steps:

1. Keep contributing to your new car fund (every month without fail).
2. Drive your new car for several years (at least seven years).
3. Shop around for a new car that is last year's model.
4. Repeat the process.

The key to the car-buying process is patience. Buy used cars until you can afford to purchase a new car for cash. Keep with the principle of buying only what you can afford, and eventually you will be surprised at how nice a car you will be buying.

Principle 40

PURCHASE LAST YEAR'S MODEL ON HIGH-TICKET ITEMS

This principle refers to high-ticket items like cars, televisions, electronics, and appliances. Changes in these areas year to year are rarely revolutionary. In most instances, the new model varies little from the old. You can usually purchase last year's model for significantly less than the "new" model. Manufacturers want to get rid of the previous year's inventory, so they are very willing to significantly reduce their prices.

As discussed in the previous principle, about cars, this strategy can save you thousands of dollars. A caveat here is to make sure you don't buy last year's new car when the manufacturer is bringing out a radically changed new car model this year (automakers usually do this every six to seven years). In those instances, your car becomes obsolete quickly and thus loses value quickly.

Many people purchase the latest model so they can tell friends that they have the "latest and greatest" product. Since the changes are so minimal, that really would be your only reason to buy this year's model.

As far as appliances and TVs go, when is the last time you told someone the year your television or dishwasher was made? As long as the older models have the same (or similar) features, their quality will be the same or better than that of the newer models.

Another thought is to look for last year's model (or even this year's) with small scratches on it (in unnoticeable places). You will always get a discount on these products. This happened to me when I purchased a brand new TV; I paid $125 less when I showed the salesperson a small scratch on the side of the TV (negotiation skills discussed in the next principle helped here). Since the TV was going in an entertainment center, I knew the small defect would never be seen!

Over your lifetime, you will save tens of thousands of dollars purchasing last year's model on high-ticket items.

NEGOTIATE EVERYTHING

Never accept the price of any product or service (particularly big-ticket items). Most people accept the price as a given when it's not. Negotiation is uncomfortable. It causes stress and tension. It makes you look cheap. It makes you feel rude. Sometimes it even makes you feel dumb. All of these are true (at times), but negotiation also saves you hundreds of thousands of dollars in a lifetime.

Here are a few quick tips:

Ask lots of questions, and let "them" do the talking. You will be amazed at what you learn.

- Do your research and have all the facts.
- Never "absolutely have to have" something; be willing to compromise on what you purchase.
- Delay your purchase until the price and terms are acceptable.
- Pay cash for a better deal.

The best example of this is when you purchase a car. Follow the tips above, and this is what will happen:

- The salesperson will ask you lots of questions. Do the reverse to him or her.
- Use the Internet to find out pricing and discounts.
- Don't fall in love with one specific car. Make sure the salesperson knows you have plenty of alternatives.
- Don't buy until you've left the showroom at least a couple of times. It's rare when a salesperson won't come after you with "one final, better deal."
- At the end, pay cash (don't lease). Buy only what you can afford.

If you use these five quick tips, you will save yourself thousands on just one car purchase.

As you know, this is not a book about negotiation, so I won't teach you all the ins and outs of negotiation. If you're interested in becoming more skilled in this area, check out the helpful books and seminars that are available.

If you keep in the back of your mind that prices and terms are always negotiable ***and*** if you're not afraid to negotiate, you will get better prices and terms more often than not. Remember, if you never ask for something, it is impossible to receive anything. Use negotiation to get what you want at the price you want to pay.

SPEND NOW TO SAVE LATER

This is an interesting principle. Sometimes it's important to spend more money now so that you save money later. This does not mean you should spend more than you can afford. It means you need to continue making appropriate tradeoffs so that you can follow this principle.

Here are a few examples where it makes sense to spend now to save later:

- **Car maintenance**—People always put this off but shouldn't. Follow your car's maintenance manual and immediately check out any problems you see (or hear). The few dollars it costs will save you thousands of dollars over the life of your car (and tens of thousands over the many cars you will purchase in your lifetime).
- **Home mortgage**—If you pay one extra month's mortgage (write, "Principal only" on the check and send a note to the lender), you will take seven years off a thirty-year mortgage.
- **Fitness equipment**—Unfortunately, a lot of inexpensive equipment is available. It breaks down often and is expensive to fix. If you buy high-quality equipment (it will cost more), it should last for years. I have the same gym equipment that I purchased twenty years ago. It was the best quality and expensive, but I use it every day. Caveat: Make sure you're going to use it!
- **Health care**—While this may not even require money (if your company covers it), I have to put my two cents in here. Get an annual physical, annual eye exam, and twice a year dental cleaning. This will save you thousands of dollars in your lifetime. More importantly, it may save your life and allow you to live longer!

I hope this principle teaches you that spending in the "right" areas is OK—and is, in fact, necessary—to save you money in the long term. Just make sure you understand which areas are important.

Debt and Credit Card Lesson

DEBT IS BAD

Of course, debt is bad. Why do I even have to put this down as a principle? Because you will run into many finance folks who will tell you debt is good. Why in the world would they tell you that debt is good?

It's simple; that's how finance folks make money. Why do you think investment banks, local banks, mortgage companies, credit card companies, and a whole slew of others in the financial industry are in business? They make money by loaning you money. Through interest payments and fees, they make billions of dollars a year.

You will also hear this pitch: "Consolidate your loans and take out a little more so you can continue to live your lifestyle. If you do this, you can pay everything off over time." Wrong! You're just taking on more debt and training yourself to take on more debt.

Our federal government's debt is over $19 trillion and increasing by over $500 billion a year! If the government can have debt, why can't you? Because it's irresponsible, and, most importantly, it will cause you to play "financial catch-up" your entire life.

I have said it before, and I will continue to drill it into your head: Don't buy "stuff" you can't afford, and stay within your budget. Definitely don't take on debt. You may not have everything you desire in the short term but in the long term, you will be well off.

IF YOU ARE IN DEBT, GET OUT OF IT QUICKLY

If you are to manage your money effectively, this is job one. You must get rid of any debt you have. So, how do you do it?

First, stop spending more than you have! Second, develop a good plan. One of the mottos that I live by is “Plan your work; work your plan.” Without a plan, it’s difficult to succeed. If you don’t execute that plan, then the plan is worthless. OK, I’ll get off my soapbox now.

What steps should you take to get out of debt?

1. As I said above, immediately stop spending more than you have.
2. Stop using your credit card. Use only cash and debit cards.
3. Keep one credit card in your wallet (the one with the lowest interest rate) for emergency purposes, and throw away the rest of them. True emergencies occur once every couple of months (at the most).
4. Tally up your debt. Determine exactly how much you owe and to whom and the interest rates you are paying. It’s important to note (a) smallest to largest debts and (b) the interest rates you’re paying on each debt.
5. Make a long-term plan that pays off all of your debts within a specified amount of time. Include what you will be spending less on. Look closely at your spending habits and cut/reduce all possible expenses to fund your debt elimination. Unfortunately, this may mean some drastic cuts in key areas (e.g., housing). Make sure you stick to this plan.
6. Pay off the highest interest rates and smallest debts first (so you have some quick, easy wins). It will make you feel better and will get you psychologically ready to pay off the larger debts. It’s sort of like losing weight.
7. Pay at least the minimum due on all other debt.
8. Start paying off larger debts (again, those with the higher interest rates first).
9. Follow your plan until you’re debt free—and never get in debt again.

Focus all your energy on getting out of debt. Your reward is getting out of debt. It is not getting a new computer or a new car. Once you are out of debt, you need to live by the principles espoused in this book ***EVERY SINGLE DAY***.

Most experts give you some variation of the steps above but don’t tell you how difficult the steps are to implement. I’m going to say something that you’re not going to like: It’s not easy to get out of debt.

You will have to make sacrifices.

The last few years have proven that Americans hate to make financial sacrifices. I will say it again: If you are in debt, you do not have an option. You must make sacrifices.

Principle 45

JUST SAY NO TO CREDIT CARDS; DO NOT GET A CREDIT CARD IN COLLEGE

In college, you will get inundated with special offers from credit card companies. There is a reason for this. They want to hook you early on using credit cards. In fact, 80 percent of graduating college seniors have credit card debt (before they even have a job).

Some may say my next comment is radical, but I hope it gets your attention.

Getting hooked on credit cards is as bad as getting hooked on drugs. Once you start using one, you'll want to use it more. Then, you will want to get more credit cards because they have special offers. Before you know it, you'll be leaving college with more debt than you can handle for the rest of your life.

You can also compare having a credit card to having a dangerous weapon that you have no idea how to use. Pulling it out the first time may make you nervous. But the more you take it out, the easier it gets to use it.

You want a new shirt, an expensive dinner, or just some tickets to a concert all your friends are going to. Unfortunately, you don't have the money, but you have the credit card. It's so easy to just use it now and pay later. Don't do it.

There is absolutely no reason to have a credit card in college. You can use checks, a debit card, or—why not pay the good old-fashioned way?—cash! Buy only what you can afford. College is a time to enjoy life. It's also a time when you see others doing things you want to do and having things you want to have. You can still enjoy life without having a credit card.

I didn't have a credit card until I started working, and the only credit card I had for the first few years of my career was a business credit card that my company gave me. There was absolutely no need for one. The little money I had was in my checking account or in my pocket. I found that when I paid for stuff with cash, it made me aware of the cost and held my spending in check.

Live within your means. This also means living without a credit card while you're in college.

Principle 46

AFTER COLLEGE, HAVE A MAXIMUM OF ONLY ONE CREDIT CARD

It boggles my mind why people have more than one credit card. Is one not enough to buy all the stuff they need? Do they want to get points from different airlines? Do they want that one-time 5 percent discount from their favorite retailer?

There are so many small, short-term incentives to have multiple credit cards. Remember that the benefits are small and short term. It’s not worth the potential long-term debt to succumb to the promotions of the credit card companies.

Some people believe credit cards are status symbols (see the person who has five credit cards, and they’re all Platinum level). I don’t get it: Since when is having more debt something to aspire to? Be proud you have only one credit card.

Having one credit card makes it easy to keep track of your debt (which you won’t have if you follow the principles in this book). Better yet, forego a credit card and just use a debit card. A debit card will do everything a credit card does, except one thing: It won’t get you in debt!

Principle 47

IF YOU HAVE TO HAVE ONE CREDIT CARD, PAY THE BALANCE EVERY MONTH

This should be simple: Purchase only what you can pay for. If you need a big-ticket item, then save up the money until you can afford it. Buying more than you can afford results in a downward spiral of increasing debt.

Let's take a simple example:

- Purchase a $10,000 home entertainment system with your credit card.
- Your credit card has an APR (annual percentage rate) of 15 percent.
- You pay the minimum payment of 2 percent of the balance.
- Your first payment is $200, of which $125 goes to interest; only $75 goes to the principal.

It will take almost seven years and close to $16,000 to pay off that $10,000 credit card purchase. You will be paying 60 percent more for the home entertainment system than if you had paid cash! So, don't do it. Wait until you can afford it, and pay only the actual price for the entertainment system.

In addition, if you do decide to get one credit card, make sure you shop around for the best APR, terms, and fees. Don't be suckered into high interest rates because you'll get freebies from your favorite airline, hotel, or store. Those freebies will be costing you a pretty penny if you have a high interest rate and/or high annual fees.

If you pay your entire credit card bill monthly, it will become a way of life. Once you do this, you will never consider getting behind in your payments. You will truly enjoy the financial freedom and stress-free life that doing so provides.

DEVELOP AND MAINTAIN A GOOD CREDIT RATING

A good credit rating is essential for a number of areas that affect your financial health, including these:

- Securing home loans, auto loans, and other types of loans.
- Getting the most favorable interest rate, which will save you hundreds of thousands of dollars in your lifetime.
- Renting an apartment; landlords look at this for the ability to pay.
- Getting a job; employers use the rating to see if you will be a reliable employee.

Getting a good credit rating is simple. Pay your bills on time, all the time. This includes mortgage, rent, utilities, service bills, and, of course, credit cards. Believe it or not, even one late payment can affect your credit rating. Your payment history is the major component in developing your credit rating.

Don't apply for multiple credit cards. Applications for credit cards often are listed on credit reports as "inquiries." Too many "inquiries" will cause lenders to believe that you are taking on too much debt and thus are a high risk for nonpayment. Having many credit cards with multiple balances shows credit companies you are bad at managing your money. Thus, it will be difficult to get future credit.

You've heard the expression "I've maxed out on my credit card." Definitely don't do this. Lenders look unfavorably on people who use most of the available credit on their credit cards. To be safe, you should try to use up to only 35 percent of your available credit.

It's time now for me to get on my soapbox regarding the relationship between good credit and character. Having a good credit rating is not only a financial imperative but also a moral one. It reflects on your personal character. It boggles my mind how people can turn their backs on bills they personally owe. These people clearly show a lack of character.

Have you ever lent money to a friend who hasn't paid you back? How did you feel? What did you think of that friend? What if not paying you back meant you couldn't pay your bills? How would you feel then?

Personally, if I didn't pay my bills, it would be difficult to look at myself in the mirror. Unfortunately, many debtors can look at themselves in the mirror, and not paying their bills becomes their way of life. Ultimately, it catches up with them and hurts them both socially and financially.

Remember, your credit rating is built over time. Once you have a negative rating, it will take time to change it. If you pay your bills on time, every time, from the start, you will reap the rewards in the future.

Principle 49

MAINTAIN A GOOD FICO SCORE

What is a FICO score? It is a credit score that lenders (and landlords) use to determine your future ability to pay bills. It is a mathematical equation that looks at multiple pieces of data from your credit report.

The scores go up to 850 points. If you have a score of 700 or higher, then you are in good shape. A FICO score consists of five categories:

1. **Payment history (35 percent)**—Paying on time is the criterion. Missing payments hurts you here.
2. **Debt (30 percent)**—How much debt do you have? Too many credit card accounts will hurt you here.
3. **Duration of your credit history (15 percent)**—How long have you had debt? Your youth hurts you here, but you can’t do anything about that!
4. **Amount of new credit (10 percent)**—You don’t want to have a lot of new credit.
5. **Types of credit you have (10 percent)**—Good versus bad credit. A home mortgage is better than an unsecured loan (a loan that isn’t backed up by real property).

When you first start out, you need to establish a strong credit history so you have a good FICO score If you continue to maintain good credit, you will easily save yourself tens of thousands of dollars in mortgage interest alone.

UNDERSTAND THE TIME VALUE OF MONEY

By this, I mean understand interest rates. Understand what you are earning on your money, and, just as importantly, understand what you are paying to borrow money (e.g., credit cards).

Let's take a simple case:

- You put $10,000 in an account that earns you 5 percent interest annually for five years.
- After one year, you will have $10,000 + ($10,000 x 5 percent) = $10,500.
- After two years, you will have $10,500 + ($10,500 x 5 percent) = $11,025.
- After five years, you will have $12,762.

Now, remember the credit card example, in which you're paying interest (at a much higher rate than you get in a savings account—because that's how credit card companies make so much money):

- Purchase a $10,000 home entertainment system with your credit card.
- Your credit card has an APR (annual percentage rate) of 15 percent.
- You pay the minimum payment of 2 percent of the balance.
- Your first payment is $200, of which $125 goes to interest and only $75 goes to principal.
- It will take almost seven years and close to $16,000 to pay off that $10,000 credit card purchase. So, you're paying an extra $6,000 for something because you bought it before you could actually afford it!

It seems like a good concept: You save money, you invest it properly, and it goes to work for you. On the other hand, if you borrow money and pay higher interest rates, money starts working against you, and the slippery downward slope begins!

If you understand this principle (and the previous ones regarding credit card debt), then you will always pay off credit card debt before saving money (the interest rate you're paying is always higher than the interest you will earn on savings). Actually, the better choice is not to ever have credit card debt.

Investing Lesson

Principle 51

MANAGE YOUR OWN MONEY

This is contrary to what financial experts advise. They tell you to get a financial advisor to help you invest your money. And why wouldn't they? That's the way they make money—by investing your money and taking a small portion of it.

Most financial advisors make money on fees charged to you. They're not bad people, and many of them are very smart when it comes to investments. Without getting too deeply into it (because this isn't an investment book), not many financial advisors "beat the market." Therefore, you're basically paying for nothing and putting your trust/faith in an individual.

The trust part is difficult—even if your advisor is a family member or a friend. Remember, it's your money, and no one will care about it as much as you. While I'm sure 98 percent of all money managers are trustworthy, I worry about the 2 percent who aren't.

Admittedly, I'm biased here. My ex-brother-in-law was my one and only money manager. When I needed the down payment for my first home, I asked him to sell my investments. Lo and behold, he had stolen my money. While he was with a top ten brokerage, he had been sending me fraudulent monthly updates for the previous few years (using the company's letterhead and forms). I had my own mini-Madoff in my family (I say mini because I didn't have much money at the time).

My personal opinion is that you should open your own investment account with a firm such as Charles Schwab and buy no-load (no sales fee) and low-expense mutual funds.

Principle 52

DON'T FALL FOR "GET RICH QUICK" SCHEMES

The only people getting rich off "get rich quick" schemes are the people marketing and selling them. Just as you should avoid "great deals" and "small bargains," you need to stay away from "get rich quick" schemes.

"Get rich quick" schemes are investments that promise extremely high rates of return for a relatively small investment of time and money. They look and sound too good to be true because they are.

Some examples of these schemes include the following:

- **Advance fee fraud**—Here, you are asked for small sums of up-front fees on the promise of making huge sums of money because of the fee payment.
- **"Work-at-home and make millions" promise**—If it were that easy, everyone would be doing it. This usually requires a purchase of some product, marketing, or sales kit that will be a total waste of your money.
- **Infomercials**—Avoid the ones that show people making tens of thousands of dollars using a real estate strategy.
- **Pyramid schemes**—Your job is not to sell product but to get more people selling underneath you.
- **Ponzi schemes**—These schemes offer investors guaranteed high returns with no risk. The problem is if you ever want to get your principal back, it has already been given to someone else.
- **Pitches that sell you their "secret formula" to success**—Let's face it: Nothing is a secret in our world anymore. If it were successful, people would already know about it.

When you see anything that looks like a "get rich quick" scheme, run (don't walk) away. Remember, the good old-fashioned way of working hard and working "smart" is the best way to get rich.

Principle 53

DON'T LOOK FOR THE FINANCIAL HOME RUN; SINGLES AND DOUBLES RESULT IN THE LONG-TERM WIN

If you didn't get this drilled in your head with the last principle, I'm going to re-emphasize it here. However, this is the reverse of the previous principle. The previous principle points out problems with people ***finding*** and ***approaching*** you with "get rich quick" schemes. This principle deals with you ***looking*** for the financial home run.

To put it simply, it's rare to find the home run, but you can regularly find singles and doubles. They add up to more "runs" and wins in the long run.

One example is the way you purchase stocks. The person looking for the financial home run will put all her money in a newly issued Internet stock that looks like the next Google. The person looking for the single may invest 1 percent of his stock portfolio in the newly issued stock and the rest in a diversified stock portfolio.

Another extreme example is someone who takes his weekly savings and buys lottery tickets rather than putting it toward future investments. He may be the one in one hundred million who hits the financial home run. However, in all likelihood, he will end up with nothing saved. If he had invested the money, he would have been able to retire early with considerable savings.

Most millionaires became millionaires by hitting singles and doubles. While you often read about the ones who hit the financial home run, they are the rarity. Stick with the smart, long-term, lower-risk investments.

Principle 54

DON’T INVEST IN JUST A FEW STOCKS (OR INVESTMENTS)

While I am certainly not skilled enough to recommend which stocks you should purchase, I will tell you to diversify your stock (and investment) portfolio. Diversification is the act of buying a number of different investments so you lessen your investment risk.

I learned this through watching a couple of individuals make the mistake of investing all their money in just three stocks. Over a five-year period, their investments grew from a few hundred thousand to several million. Unfortunately, during the sixth year, one of the companies went bankrupt, and the other two were worth significantly less than the original investments.

Thus, these individuals went from multi-millionaires to paupers in just twelve months. If they had put their money in multiple investments, they would have done fine.

Believe me, this is not an anomaly. It occurs all the time. Investors get infatuated with a stock (or bond or real estate) and put all their money into it. However, this is rarely a successful investment strategy.

So, don’t put all your eggs in one basket. You will read more about this in the following investment principles.

Principle 55

DON'T PLAY "HUNCHES" IN THE STOCK MARKET AND DON'T INVEST IN A FRIEND'S "CAN'T MISS" TIP

If it hasn't happened yet, there will come a day when a friend tells you to buy a hot, "can't miss" stock. Do yourself a big favor and forget you ever got your friend's advice. Of the twenty or so "can't miss" stocks friends have told me about, only two performed reasonably well.

There will also be a day that you have a hunch about a stock. You have a feeling that the stock will do well. Unless you have researched the company and understand the risk/opportunity associated with the investment, don't "play your hunch."

I'm sure you've heard stories about people who have done well in both of the above scenarios. Just remember that they are by far the minority. If you absolutely feel the need, invest a minimal amount (less than half a percent of your total savings) in a hunch or "can't miss" stock. Please don't invest the bulk of your savings.

EASY INVESTMENT MANAGEMENT AT A YOUNG AGE: PURCHASE THREE OR FOUR STOCK INDEX MUTUAL FUNDS

Big caveat here: I am not an investment counselor. The biggest hurdle for investing—and it causes individuals to delay investing for years—is that it is complicated, and they don't know where to put their money.

Thus, my advice for people starting out is to make it as simple as possible. Otherwise, I know you will wait years and miss opportunities to grow your money.

So, here is a quick lesson on stock mutual funds:

- **Definition**—An investment vehicle that is managed by a financial professional. A mutual fund allows you to be invested in a number of stocks managed by that professional rather than purchasing each of the individual stocks. This is called diversification.
- **Fees**—All mutual funds charge fees. Some charge additional sales fees. I'll discuss sales fees further in the next principle.
- **Index mutual funds**—These funds focus on replicating the performance of a specific financial market or specific type of stock category (e.g., large company stocks). Since they don't require active management, they charge lower fees.
- **Types of stock mutual funds**—You can invest in different categories of mutual funds, including large company (large cap), mid-size companies (mid-cap), and small company (small-cap). Categories also include many specific areas, including international, country specific (e.g., China), technology, and health.
- **Growth versus value funds**—Growth funds consist of companies in high-growth industries that are expected to have high future earnings growth. Value funds are those that are trading at a discount in relation to their expected future value because they are in depressed industries.

When I started out, I put a total of $4,000 in four different stock index mutual funds (low fee/no sales fee funds):

1. Large company value ($1,000)
2. Mid-cap company growth ($1,000)

3. Small company growth ($1,000)
4. International growth ($1,000)

From this basic start, I grew my stock portfolio. In twenty-five years, I haven’t varied much from this focus. I’ve just added different categories and have grown my portfolio from there. More importantly, I have always kept my investments very simple and easy for me to understand. I hope I’ve done the same for you.

Please don’t do exactly what I did. Just take the learning and develop a simple approach that makes it easy for you to invest. I will remind you again that I am not an investment advisor. I just want you to invest and to do so at an early age.

ALWAYS BUY NO-LOAD RATHER THAN LOAD MUTUAL FUNDS

You know from the previous principle that all mutual funds have fees (they vary depending on the fund). However, not all mutual funds have sales fees.

No-load mutual funds are those that do not charge a sales fee. Load mutual funds include a sales fee (anywhere from 1 percent to about 7 percent). Some funds charge this fee because they believe their fund managers are more effective than others at developing a better mutual fund portfolio.

Just about everything I have seen over the past twenty-five years has proven that you aren't getting extra investment performance when you pay a sales fee. In fact, most no-load mutual funds have performed more effectively than their loaded counterparts.

So, my nonprofessional advice is to save your money and don't pay sales fees for mutual funds. Maximize your investment by letting all your money work for you.

INVEST IN YOUR 401K—AT LEAST TO THE COMPANY MATCH

I didn't quite understand this when I first started working. However, it's a pretty simple principle (once someone explains it to you). Many companies have a 401K investment plan in which you can invest.

The 401K consists of different investment vehicles in which you can elect to invest. They are separate and distinct from your company stock. The 401K will probably also provide an option to invest in the company stock.

A significant benefit of 401K plans is that you invest in them with pre-tax dollars. In other words, you don't have to pay taxes on the dollars that go into them (directly from your paycheck). However, you must use only dollars that you won't need until retirement (there is a significant penalty for withdrawing the funds before you turn sixty-five). This is another forced saving vehicle for you.

Another significant advantage of 401K plans is that companies will often match anywhere from 1 to 5 percent of your gross salary. For every dollar you put in your 401K plan, your company will also put in a dollar (sometimes, the company will match 50 cents or 25 cents on the dollar). Over the past couple of years, the economy has forced some companies to cut back on this benefit. Still, many companies continue to offer their match.

An example will help you understand it better. Let's say you elect to invest $5,200 a year in your company's 401K. Thus, the company will automatically take $100 (pre-tax) from your salary every week and invest it in your choice of investment options.

Let's say your gross salary is $65,000 a year. If the company matches the first 4 percent of your $65,000 salary, then it will add $2,600 a year to your 401K investment (for free). That's pretty significant, especially if you do this over time. Now, let's look at how much is being invested annually:

- Your 401K investment = $5,200/year
- Company match = $2,600/year ($65,000 x 4 percent)
- Total 401K investment = $7,800/year ($5,200 + $2,600)

I don't want to confuse you with the math. ***Simply put, you're making 50 percent ($2,600) before you even start investing your money***. If given the opportunity, I would do this every chance I got. Yet many people bypass this company benefit.

So, force savings by using your company’s 401K benefit, and contribute up to the point of the company match. This principle should make you significant money over time.

Principle 59

DON'T INVEST WITH FAMILY AND FRIENDS (OR LOAN THEM MONEY)

A surefire way to lose family and friends is to invest your money with them. I'm not saying all of these transactions turn out badly, but some of them do. Most of the time, it's not because of any impropriety. It just happens.

If you begin your adult life with this philosophy (and make it known to friends and family), then it will be easier to follow through with this throughout your adult life. As a matter of fact, because you've made it known, people will be shy about approaching you on money matters.

For those who get upset with you for managing your finances this way, they weren't your friends in the first place. Keep that in mind, and it will be easier to deflect their monetary requests.

If you decide to loan money to a relative, then look at it as if you are giving it away. Your expectation should be to receive nothing in return. However, make sure you get the terms of the loan in writing. If the relative balks at that (or makes you feel bad about asking for a written agreement), then run in the other direction. If in fact the loan gets repaid, you should look at that as a bonus. Of course, I am not suggesting you don't give a loan/gift to immediate relatives (like your child or parent). It's important to help family members in need. Just understand that it is a gift, not a loan (no matter how you term it). Again, the expectation should be that you will not be receiving payment for it. That way, you will be pleasantly surprised if the loan is repaid.

Housing Lesson

Principle 60

RENTING—RENT, DON'T BUY (UNTIL YOU'RE SETTLED)

This flies in the face of everything you've ever heard, so why do I say it? Because it absolutely makes sense.

Young people are told that they are wasting their money renting when they should be building up home equity. And, of course, they get a tax deduction for the interest and property taxes they are paying on their home.

Well, last time I checked, interest and property taxes were expenses. It doesn't make sense for you as a young adult starting out in the workforce to have unaffordable expenses so you can deduct a small portion of that expense on your income tax. Wait until it makes financial sense for you.

Additionally, there are significant transaction costs in buying and selling a home—and don't forget the significant maintenance and repair costs that are needed to properly maintain your home.

On the practical side, purchasing a home when you're in your twenties makes sense only if you have stability in your life. If you're married, feel comfortable about the long-term prospects of your job, and aren't planning to move anytime in the next few years, then you might think about buying a home.

However, most young adults need the flexibility to move when they are starting their careers. More often than not, their careers cause them to move once or twice while they're in their twenties. Selling a house takes time and money (there are significant transaction costs for the seller). It doesn't make sense to be held captive in your location and at your job because you have a home.

Thus, if you're single and want flexibility in your lifestyle, rent instead of buying a home. You won't be encumbered by the financial and maintenance headaches that come with managing a home.

Understand this, though: I'm not advocating that you never purchase a home. I'm just telling you to wait until you can afford it and until it fits properly into your lifestyle.

Principle 61

RENTING—BUDGET 25 PERCENT OF YOUR GROSS SALARY (MAXIMUM OF 30 PERCENT)

When you’re looking for the best place to rent, you must make so many tradeoffs. Here are a few:

- Old versus new
- Apartment versus house
- Distance to work
- City versus country versus suburbs
- Roommate or not
- Include utilities or not
- Size of rental (e.g., studio versus one bedroom)

How do you make your decision? Let’s face it: Cost is the overriding parameter. If you could have everything you wanted without thinking about affordability, then you would. The secondary consideration will always be location.

So, how do you figure out what you can afford? Use a simple rule: Budget 25 percent of your gross salary. This should allow you flexibility in managing the rest of your expenses. If you really want to stretch, then you can go to 30 percent of your gross salary. However, if you do this, you will have to make other tradeoffs in your lifestyle. You just can’t have it all.

Let’s look at an example. Your gross salary is $48,000 a year. Thus, you should spend $12,000 a year (25 percent of your gross salary) on rent. This allows for $1,000 a month on rent. Obviously, the type of apartment/house you can rent will vary significantly depending on where you live.

If utilities are included in the rent, then you can afford a little bit more than $1,000 a month. In addition, if you can spend less than the $1,000 in rent, you should put the amount you save in a savings account for a future down payment on a house. As an example, when I made $48,000 a year, I spent only $550 a month in rent and saved the difference.

Just remember, there will always be tradeoffs in where you live. Make sure you are finding the place that suits both you and your budget best.

Principle 62

RENTING—IF YOU HAVE PAID ONE MONTH'S SECURITY DEPOSIT, DON'T PAY YOUR LAST MONTH'S RENT

Unfortunately, some landlords look at the security deposit as part of the rent. Too many times, I've seen friends lose their security deposit even though they've kept their apartments clean and in great shape.

If the landlord won't return your security deposit, you will have to sue him/her to get the money back. In all likelihood, the cost of doing so will result in you foregoing your deposit. If you haven't paid your last month's rent, the landlord will use the security deposit as the monthly rent. Then, he or she can look to see if any damage was done to the apartment.

This does not mean you shouldn't pay for damages you caused to the apartment. If you caused legitimate damages to the apartment, either fix them yourself or pay the landlord the appropriate amount to fix them.

By using your security deposit as your last month's rent, you are just protecting yourself against losing a significant amount of money, and you are putting yourself in control of the process.

Principle 63

BUYING A HOUSE—BUY LESS HOUSE THAN YOU CAN AFFORD

This again flies in the face of what many so-called “experts” say. What they say—buy more house than you can afford because your income will always grow—is a risky proposition that puts too much pressure on you.

Why not start out buying a house you know you can afford? When your income grows enough to support a nicer, larger home in a better neighborhood, then you can purchase that home.

When you buy your first home, you can take the extra income that you’re not overextending yourself with to invest/save for your next home. Before you know it, you will be buying homes for cash (or a limited down payment).

This is consistent with another principle you read about: Always live below your means. It works. After buying my first house (after renting for ten years) with a small mortgage, I purchased all subsequent houses for cash. In addition, all subsequent homes were more than affordable based on my existing assets.

Most importantly, this strategy allows you to enjoy your young adult days without the pressure of a high mortgage and the responsibility of owning a home.

BUYING A HOUSE—THE TOP TWO CONSIDERATIONS ARE LOCATION AND PRICE

Location, location, location! You may have heard this statement in relation to successful businesses and good housing. You must understand a number of important factors when it comes to location and purchasing a house, including these:

- **Neighborhood safety and security**—Talk to people living in the neighborhood. Look at the local crime and accident reports.
- **Proximity to work**—Drive to work during rush hour. You would be surprised to see how much "drive time" increases during peak hours, and it varies considerably based on location and closeness to highways.
- **Proximity to shopping and restaurants**—You don't want to drive fifteen minutes to get to the grocery store.
- **Proximity to schools**—Will your kids (or future kids) get bus service? Are the schools easy for you to get to?
- **Quality of schools**—It's important to be located where there are top-rated schools, if not for your child's education, then for your home's resale value.
- **Traffic**—Is there too much traffic going through your neighborhood?

You may find the perfect house in the best location, but you still need to get it at the best possible price. Things to consider in regard to pricing include the following:

- **Current price**—Don't overpay. The only way to do this is to research housing prices in the area and learn the average price per square foot for houses that have been selling. A good place to find this information is realtor.com.
- **Appreciation potential (and resale value)**—The likelihood that the price will increase in the future is based on many of the location criteria discussed above, along with acquiring the home at a good price.
- **Utilize effective negotiation**
  - Make sure the sellers know you are looking at several houses and theirs is just one option.
  - Find out what the house's "Achilles heel" is, and bring it up when offering a price.
  - Always offer a price that is at least 10 percent below the listed price. You can always increase your price later.

– Discuss with the seller any maintenance fees and the costs associated with them.

Use the Internet to research all of the above areas. Also, ask anyone and everyone questions. Obviously, your realtor is important in your evaluation process. However, be certain he or she isn’t biased about certain areas (or just trying to make a sale). In other words, it’s mandatory you use a high-quality realtor who knows the area where you’re searching for homes.

Your home is the single most important purchase you will make in your life, and it will weigh significantly in your future approach to personal money management. Make sure you take the time and put in the effort to evaluate it properly. The next principle will help you do so effectively.

Principle 65

BUYING A HOUSE—EVALUATE THE HOUSE USING SPECIFIC CRITERIA

When you are buying a house, there are so many factors to consider. Evaluating all the alternatives can really numb your mind.

To make it easier, use my “House Evaluator,” provided in the next few pages, for every house you look at and compare your results. If you use this tool properly, it will become clear what house (along with second and third alternatives) you should buy.

Keep in mind that houses you are looking at may not have all the elements that are being evaluated (e.g., pool and basement). Just eliminate those from the “evaluator” and add in elements that you want to include.

More importantly, make sure you understand the effect of your purchase decision on your future budget and net worth.

House Evaluator

Address

Comments

GENERAL	SCORE
Location	______
Price	______
School system	______
Square feet	______
Year built	______
Number# of bedrooms	______
Builder quality	______
Best features	______
Extras to consider	______
Utility costs	______
Problems/achilles heel	______

Scoring system
1=deal breaker
2=unacceptable
3=acceptable
4=good
5=great

Comments

INSIDE	SCORE
Master bedroom/closets	______
Master bathroom	______
Guest/kids rooms	______
Guest/kids bath	______
Den	______
Play room	______
Living room/dining room	______
Family room	______
Kitchen	______

Eating area	_______
Appliances	_______
Basement	_______

Scoring system
1=deal breaker
2=unacceptable
3=acceptable
4=good
5=great

Comments

INSIDE	**SCORE**
Laundry room/area	_______
Air conditioning/heating	_______
Lighting	_______
Storage/closet areas	_______

OUTSIDE	
Landscaping	_______
Outside appearance	_______
Kitchen area	_______
Pool area	_______
Sprinkler system	_______
Neighbors/Neighborhood	_______
Noise	_______

OTHER

Scoring system
1=deal breaker
2=unacceptable
3=acceptable
4=good
5=great

Principle 66

MORTGAGE—MAKE SURE YOUR DOWN PAYMENT IS AT LEAST 20 PERCENT OF THE PURCHASE PRICE

I know I told you earlier to rent, not buy. That is how you should get started. Rent until it is affordable for you to buy. Use the principles in this book to determine the right time for you to purchase a home.

When you decide to purchase a home, the most important criteria will be price, mortgage, interest rate, and down payment. However, please don't forget to factor in taxes, insurance, and home maintenance costs. Let's take a quick look at my principle regarding your down payment.

Some lenders will give you a mortgage if you put less than 20 percent down. They will just charge you more for it, and you will have to get private mortgage insurance (PMI), which is a significant added cost to your mortgage.

Even if the lender doesn't charge you more, you should still keep to the principle of putting down at least 20 percent. This is an important component in making sure you don't buy more house than you can afford.

The rash of foreclosures over the past couple of years can be directly tied to homebuyers putting less than 20 percent down on home purchases. The assumption was that home prices would continue to rise. People who put small down payments on homes (as little as 3 percent) found themselves in deep trouble when they couldn't afford the house payments on a house that was worth less than the purchase price!

Remember, the larger the down payment, the lower your monthly payment. The lower your monthly payment, the easier it is for you to pay off your house—and paying off your house is your ultimate goal.

MORTGAGE—MAKE SURE YOUR MONTHLY PAYMENT DOESN'T EXCEED 28 PERCENT OF YOUR GROSS SALARY

Keep your monthly mortgage within your budget limits. This means keeping your monthly mortgage plus property tax plus insurance to 28 percent of your current monthly gross income. If you truly want to be safe, bring the 28 percent down to between 20 and 25 percent.

Many people forget to factor in insurance and property tax costs. These are significant costs that can affect your ability to pay your monthly fees.

To bring this to life, let's look at an example:

- $250,000 home purchase
- $50,000 down payment (20 percent down)
- $200,000 fifteen-year mortgage (with a 6 percent interest rate)
- $1,687/month mortgage payment
- $300/month property tax ($3,600/year)
- $100/month insurance ($1,200/year)

Your monthly mortgage plus property tax plus insurance costs would equal $2,087 ($1,687 plus $300 plus $100).

Thus, using the 28 percent rule, you would need to make around $7,500/month ($2,087 = 28 percent of $7,500), or $90,000 a year, to feel comfortable purchasing the home.

Many people buy their homes without doing these simple calculations (you can find similar calculators on numerous Internet sites). By changing the variables (price, down payment, interest rate, taxes, and insurance), you will find that monthly payments can change considerably.

Just make sure you stay at (or below) the 28 percent level so you can avoid the trap of buying more house than you can afford.

MORTGAGE—SHOP AROUND FOR INTEREST RATES

Two of the biggest factors that can affect your mortgage payment are interest rates and mortgage length. First, let's talk about interest rates. Here's some easy advice: Get the lowest rate possible without paying points or additional fees.

It doesn't matter from which bank or lender you get your mortgage (as long as it is reputable). In all likelihood, your mortgage will be sold to one or more lenders during the life of your loan. It means nothing to you except you will be writing your check to someone else.

Therefore, find the lowest rate possible. My recommendation is to use a local well-known mortgage broker, who can look at hundreds of lenders (from different states) and find the one with the lowest rates and best terms (low fees, no points, and minimal closing costs). One caveat to remember: Mortgage brokers earn their fees by bringing borrowers to lenders. However, they also build their reputation and business by bringing borrowers good deals (favorable interest rates).

Do your own homework by researching through the Internet and by going to a couple of local banks. Remember, bank loan officers are limited to offering rates offered by their specific bank. When you're ready to get the loan, sit down with the mortgage broker and compare the broker's rates/terms with the information you found.

Remember, you are looking for the lowest rate with the best terms regardless of the lender.

MORTGAGE—GET A FIFTEEN-YEAR MORTGAGE

While there is no "one size fits all" with mortgage rates, it's clear to me that a fifteen-year mortgage is your best option. A fifteen-year mortgage (versus a thirty-year mortgage) accomplishes two things: (1) assures that you're not buying more house than you can afford and, as importantly, (2) saves you tens of thousands of dollars.

An example will show you why:

Option A: A thirty-year mortgage

- $200,000 mortgage, thirty-year-term, 6.5 percent interest rate (interest rates for thirty-year mortgages are typically at least 0.5 percent higher than those for fifteen-year mortgages)
- Monthly payment: $1,264
- Interest paid over the life of the loan: $255,089

Option B: A fifteen-year mortgage

- $200,000 mortgage, fifteen-year term, 6 percent interest rate
- Monthly payment: $1,687
- Interest paid over the life of the loan: $103,788

The fifteen-year mortgage costs you $423/month more than the thirty-year mortgage. However, ***you pay $151,301 less in interest with the fifteen-year mortgage***. More importantly, with the fifteen-year mortgage, you own your home fifteen years earlier than you do with the thirty-year mortgage.

I am not going to get into different types of mortgages (variable rate, jumbo, etc.). I believe a fixed fifteen-year mortgage allows you to effectively manage your budget without getting into trouble by "betting" that you're going to sell your house sooner than expected.

Insurance Lesson

ALWAYS CHOOSE THE HIGHEST DEDUCTIBLE FOR HOME AND AUTOMOBILE INSURANCE

While you hope you never need to use it, you must have insurance in both of these areas. Without home or auto insurance, you could lose everything you have (and more). You just need to make sure you don't pay high premiums (payments). The best way to manage this is to protect yourself against worst-case (or catastrophic) situations.

First, let's make sure you understand what a deductible is. A deductible is the amount of money that the insured party must pay before the insurance company starts reimbursing the insured for losses. Insurance companies include a deductible in their policies to avoid paying out benefits on relatively small claims.

An example should help you understand this better. If you were in an auto accident that caused $3,000 in damages and your deductible was $500, then your insurance company would reimburse you for $2,500 of the loss.

The higher your deductible, the lower your insurance premium. Thus, it makes no sense to report minor damages to your insurance company. Once the deductible is fulfilled, you will get reimbursed for the rest of the damages. However, your future insurance premiums will often increase to more than offset the reimbursement you received for damages.

If you consistently claim insurance losses, you will be deemed a high-risk individual. This will result in either significantly increased costs for insurance or refusal by insurance companies to insure you.

Let's recap:

1. You need both home and auto insurance.
2. Purchase insurance that has the highest deductible for auto and home (usually at least $1,000).
3. Claim insurance for only catastrophic (high-value) occurrences.

Principle 71

RENTER'S INSURANCE—DON'T FORGET TO GET IT

This is an easy principle to forget (or blow off), but don't. You may even believe that you don't need it, that your landlord's building insurance covers everything. Wrong!

Your landlord's insurance policy doesn't cover any of your personal property. Thus, if the apartment burns down or someone steals your stuff, then you get nothing back unless you've purchased renter's insurance.

Worse yet, what happens if someone slips and is injured in the hallway and it's found to be your fault? What if water damage occurs and ruins all your stuff? All of these are unlikely scenarios, but you still need to protect yourself.

Renter's insurance protects you against damage to or loss of personal property. When purchasing renter's insurance (or homeowner's insurance), you need to think of these four things:

- **How much coverage do you need?**—Think about all the personal property you have and protect yourself against all loss.
- **Deductible**—My advice is always to get the highest deductible possible. It lowers your insurance premium (cost) and protects you against catastrophic loss.
- **Replacement cost**—It costs a little more but provides for the actual replacement value of the item with no deduction for depreciation.
- **Inventory**—Take an inventory of all the "stuff" you own. Videotaping all your belongings will help in case you need to claim a loss.

The good news is that renter's insurance is inexpensive. It shouldn't cost you more than a couple hundred dollars a year. My hope is that you will never have to use it. However, if something ever happens to your personal property, you will be glad you remembered to buy it.

Principle 72

YOU MUST HAVE HEALTH INSURANCE

With all the recent attention health insurance has been given, this should go without saying. However, when you first start out in the workforce, this might not be at the forefront of your mind.

You've probably had health insurance handled by your parents and believe that everyone has some sort of health insurance. Actually, forty-six million Americans have no health insurance. You need to make sure you are not one of them!

If your job provides for it, make sure you take advantage of it. If you take a job that doesn't provide it, make sure you get insured. If you are unemployed coming out of school (or find yourself unemployed and without insurance for any period of time), make sure you purchase health insurance.

If you don't have health insurance, you are taking a significant gamble. Annual health costs for an individual who is healthy run in the thousands of dollars.

For those who develop a chronic disease or need hospitalization, the costs run in the six figures. Without health insurance, not only will you not be covered for either situation but also it will be difficult (if not impossible) to ever get coverage for the chronic disease.

Obviously, this would be both a physical and financial nightmare. Don't leave yourself open on the financial end. Make sure you are always covered by health insurance.

TERM LIFE INSURANCE WORKS BEST FOR YOUNG ADULTS

Term life insurance provides life insurance protection for a specific time period. If you die within the term period, your beneficiary is paid the value that you were insured for. Unlike with other forms of life insurance, you are paying only for the cost of insuring your life.

Other forms of insurance are more complicated and can be used as investment options (however, in my opinion, these are expensive). In fact, the fees paid on other types of life insurance policies can be exorbitant. My advice is to avoid them unless you fully understand the financial effects. Most experts consider term insurance to be the best value for your insurance dollar. It’s easy to understand and easy to purchase.

You can buy term insurance for five-, ten-, twenty-, and thirty-year periods. If you buy term insurance, make sure it is renewable and noncancellable. Also, some term insurance policies allow you to convert them at a later date to permanent policies. That could be favorable for you as long as the cost isn’t prohibitive.

Bottom line: Term insurance maximizes your coverage for minimal cost, and it’s cheaper the younger you are. This is because your chances of dying are lower the younger you are. Thus, insurance companies don’t have to pay out on these policies as often as they do for those that are older. Perfect for young adults!

Quick Tips

Principle 74

IF IT'S OFFERED, TAKE THE HOUSE DOWN PAYMENT (OR THE BIG CHECK) VERSUS THE BIG WEDDING

If you're lucky enough to have someone offer to pay for your wedding, ask that person (kindly) for the money instead. You want to do this for several reasons:

1. A wedding is just one day, whereas you can use the money to kick-start your entire future.
2. You can have just as memorable a wedding on a low budget as you can on a high budget (my wife and I did this since no one offered to pay for ours). In fact, I can guarantee a great wedding is not directly proportional to the amount of money spent on the wedding.
3. Using the money puts you in the right mind-set as you begin your life together. It sets the stage for the philosophy of enjoying life to the fullest while effectively managing your money.

Pay attention here: You will learn a lot about your future financial life with your spouse during the wedding-planning process. Make sure wedding expenditures are consistent with your thought process regarding your finances.

Principle 75

DON'T INVEST YOUR TIME AND MONEY IN MULTI-LEVEL MARKETING PROGRAMS

Avoid multi-level marketing programs like the plague. I guarantee that at some point (actually, it will happen more than once) you will be approached by someone (most likely a friend, colleague, or even a family member) who has a "ground-floor, ground-breaking opportunity for you." This will come in the form of a presentation offering you a tremendous amount of money for selling a product that "sells itself" because of its product attributes.

In fact, money is made in these multi-level marketing programs by recruiting others (who recruit others) to sell the products. For some people, I'm sure it works. For the vast majority, it becomes a wasted investment, wasted time, and even a loss of friendships (as you try to recruit others).

Please do not spend any time, energy, or financial resources on multi-level marketing programs.

Principle 76

DRIVE YOUR CAR UNTIL IT DROPS

Even though it's tempting, do not buy new cars regularly. Whenever you have something old, you can't help but be tempted to buy a new version of it. Americans' love of automobiles (and the constant advertising by the auto industry) makes us feel that we need to have a new car every three years or so.

If you do this, it is an extremely costly mistake. Automobiles are now made to last several years (most can last over a decade if properly maintained). Given their high cost, why not take advantage of their durability?

Drive your car as long as it is safe to do so. You will save thousands of dollars over your lifetime by adhering to this principle.

Principle 77

READ YOUR AUTOMOBILE MANUAL COVER TO COVER

Most people skip this or skim through the manual. However, it contains valuable information that will save you both time and money. Here are just a couple examples:

1. **Tire pressure**—The manual will tell you the proper pressure at which to keep your tires. If you do this (and check your tire pressure monthly), then you will save yourself hundreds—if not thousands—of dollars over the life of your car. Proper tire inflation saves you gas money (better mileage) and wear and tear on the car. Additionally, it may save your life by preventing a highway blowout.
2. **Oil changes**—Many people assume their oil needs to be changed every three thousand miles. That's simply not true; your manual will tell you exactly how often to change your oil. In many cases, your car will also tell you when an oil change is needed.

Just as with many other areas covered in this book, spending just an hour or so can save you hundreds of dollars. Please heed my advice to invest your time wisely.

Principle 78

DON’T PURCHASE EXTENDED WARRANTIES ON CARS, ELECTRONICS, APPLIANCES, AND TELEVISIONS

Extended warranties are rarely worth it. One reason is the cost versus the benefit. Another is that the contract usually limits the warranty extensively. Most importantly, do not—I repeat, do not—get sold an extended warranty by the car dealer, no matter how much pressure the salesperson puts on you.

Principle 79

DON’T BUY PREMIUM GAS FOR YOUR CAR— IT’S JUST NOT WORTH IT

I’ve owned a BMW, Audi, Acura, and Cadillac, and I never put a drop of premium gas in any of their engines. These cars all performed well with regular gas, and no damage was done to their engines.

Principle 80

DON’T EVER DO “RENT-TO-OWN”

I am not even going to bother going through the math on this one—not because it’s difficult but because it doesn’t warrant a lengthy discussion. Bottom line: If you do “rent-to-own,” you can’t afford the product you’re renting. So don’t rent it!

Principle 81

IT'S OK TO BUY GENERIC GROCERY/DRUG PRODUCTS, AND DOING SO SAVES YOU LOTS OF MONEY

A little-known secret is that many of the generic products (aka private label or store brand) are manufactured by major brand manufacturers. Whenever it makes sense, purchase the generic product.

Amazingly, I have found that the products cost 30 to 50 percent less but taste and perform the same as their brand counterparts. Your grocery dollars add up. This is another area where I have saved thousands of dollars over the past thirty years.

Principle 82

BRING YOUR LUNCH TO WORK AS OFTEN AS POSSIBLE

Don't do this every day. You will miss out on some networking and coworker bonding opportunities. However, if you do this two to three times a week, you will save over $500 a year.

Principle 83

DON’T PURCHASE THE FIRST GENERATION OF A PRODUCT; WAIT UNTIL THE SECOND, THIRD, OR FOURTH

Think big-screen TVs. Remember how costly they were when they first came out. You don’t have to be the first one with everything. Technology improves products and makes the costs lower.

Principle 84

INVEST IN SURGE PROTECTORS FOR YOUR EXPENSIVE ELECTRONICS

Investing a few dollars will save you thousands of dollars of loss. If you don’t, it is highly likely that at some point in your life, you will lose an expensive piece of electronic equipment during a storm.

Principle 85

INVEST IN A FIREPROOF SAFE

You may think you don't have anything valuable when you begin your life's journey—certainly nothing that needs to be put in a safe, since you have little or no money. Well, think again.

Even during your first couple of years as a young adult, you will begin accumulating documents that are irreplaceable. If they aren't irreplaceable, then it may be a significant hassle or expense to replace them.

The items to be put in your safe include these:

- Birth certificate
- Social Security card
- Stock and bond certificates
- Insurance policies
- Car title
- Home title
- Financial and tax records (computer backup)
- Important personal items (jewelry, photos, etc.)

Besides having the security of the safe, putting everything important in one place makes it much easier to manage your life. You can use the safe as a catchall for the most valuable items you own.

SET UP A HOME FILING SYSTEM TO KEEP TRACK OF ALL YOUR FINANCIAL RECORDS

The files should include the following:

- Bank statements
- Credit card statements/receipts
- Taxes
- Medical bills/receipts (keep bills from physicians, dentists, and eye doctors, as well as prescriptions, separately)
- Investment accounts
- Service and maintenance bills
- Insurance policies and anything else that is part of your financial life

Be assured that having a filing system for your financial records will save you thousands of dollars in your lifetime. When billing, payment, and other financial questions come up, you will have the answers at your fingertips.

MANAGE YOUR ELECTRIC BILL

It's amazing what savings you will achieve if you actively manage the amount of electricity you use in your home or apartment. If you want to save money on your electric bill, here are a few things to keep in mind:

1. Replace all light bulbs with compact fluorescents; they will last ten times longer and save you 50 percent or more on your current lighting costs.
2. Turn off your lights and electronics (including your computer) when you're not using them. This will save you thousands of dollars in your lifetime.
3. Raising your thermostat by just one degree in the summer will decrease your energy use by 3 or 4 percent. The same can be said for decreasing your heating temperature in the winter.
4. Use ceiling fans in lieu of the air conditioner whenever possible.
5. Wash all clothes in cold water; it's several times more expensive to wash your clothes in hot water.
6. If purchasing a new washer, buy a front-loading washer instead of a top-loading one.
7. Keep your refrigerator temperature between 38 and 40 degrees and your freezer between 0 and 5 degrees.

Principle 88

LEARN HOW TO FIX “THINGS”

Fixing “things” is not my thing. I can’t repair cars, bikes, anything mechanical, or anything associated with my home. In fact, if I try to repair something, it costs me more money to replace the item.

Over the years, it has cost me thousands of dollars to hire people to repair “things” that I should be capable of repairing myself. Don’t be like me. Take home improvement classes, learn from your friends and family, read up on simple plumbing and home repairs on the internet.

However, remember my caveat. Don’t try to fix things you don’t have the ability to repair.

READ EVERY LINE OF EVERY CONTRACT YOU SIGN

It amazes me how many people sign a lengthy contract without taking the time to read it. Often, they ask the person they are signing the contract with, “Is there anything important I need to read through?”

Think about how ridiculous that is. The other party in your contract has an incentive for you to sign a contract that is advantageous to him or her. Please understand that most people aren’t trying to mislead you or rip you off. However, there will be a very few who will do so.

Even if the contract is straightforward, it makes sense to understand what you are signing. Take the time to read and understand everything in a contract prior to signing it. You are bound by everything you sign. You cannot go back a year later and say, “Oh, I didn’t see that” or “I didn’t understand it.”

Make appropriate changes to a contract and have both yourself and the other party initial the changes. In addition, as I’ve said before, make sure to keep your contracts in an appropriate file.

The most important contracts you will sign are mortgage contracts, rental/leasing contracts, automobile loan contracts, and employment contracts. If you have any questions on these significant contracts, you should have an attorney look at them.

I guarantee that by reading and fully understanding every contract you sign, at some juncture you will avoid a critical mistake that would have cost you thousands of dollars.

Principle 90

AVOID LAWSUITS UNLESS ABSOLUTELY NECESSARY

Mark my words: At some point in your life, you will know you are absolutely right to sue somebody. Unless the financial gain is significant (at least $100,000), walk away (or quickly settle out of court). Even if the financial gain is significant, before you decide to pursue the matter, you need to take into account the time and energy required to win the lawsuit.

I come from a family of attorneys, and every one of them recommends avoiding lawsuits. It rarely makes economic sense to sue somebody. More often than not, attorneys will eat up more money than you stand to gain in the lawsuit. This is usually not a fault of theirs. It's because the client wants to win at all costs.

At least twice, I have clearly been "right" and knew I would ultimately (years later) win my lawsuit. However, I decided against initiating the lawsuit. I made the correct decision that the money, time, and energy spent outweighed the potential dollars gained by pursuing the lawsuit. In fact, settling out of court can result in a more favorable financial settlement for you.

The same goes the other way. If it looks as if someone is going to initiate a lawsuit with you, attempt to settle it before the other party takes legal action. If both parties can think rationally instead of emotionally, both sides will find a way to benefit.

Principle 91

MAKE NO ORAL AGREEMENTS FOR ANY SIGNIFICANT PURCHASES OR SALES

While oral agreements are generally as valid (and legally binding) as written agreements, they are much more difficult to enforce. Thus, for any product or service of significant value that has specific terms, make sure you have a written contract.

If for some reason you have made an oral agreement, follow-up with an e-mail detailing the terms of the agreement. This would most likely suffice to prove terms of your offer in a court of law.

Follow this principle regardless of who the other party is. Unless you have it in writing, you may end up with the short end of the stick.

Principle 92

GET YOUR BOOKS AT THE LIBRARY

My wife saw me writing this book and insisted I include this principle. After she explained to me her rationale, it was a no-brainer. Not counting the books our children read, the two of us read approximately 6 books a month. We’ve been together for twenty years.

Getting our books at the library has saved us close to $15,000 (and that’s comparing it to buying paperbacks, not hardbacks). However, don’t get this book at the library. You will want to save it for reference later!

Principle 93

RECONCILE YOUR CHECKING ACCOUNT EVERY MONTH, DON'T BOUNCE YOUR CHECKS, AND USE ONLY YOUR BANK'S ATM

Reconciling your checking account monthly is imperative if you want to manage your money responsibly. If you do not know how to do it, then ask someone at your bank to show you. This person will be more than happy to take you through the process.

Bouncing a check is a strong warning that you're not effectively managing your money. Unfortunately, most young adults do this more than once. If you're doing this, it probably means you're not reconciling your checking account monthly.

Overdraft fees (i.e., bounced checks) have increased significantly over the past few years. Expect to pay $75 or more for a bounced check. It's so easy not to ever have to do this. Just keep accurate track of your checking account, and don't write a check for something you can't afford.

A minor reminder regarding banking is to use only your bank's ATM. If you use those of others, you will be charged a fee any where from $2 to $5 for each transaction. Basically, you're paying for nothing. Keep in mind, if you're being fiscally responsible, every wasted dollar counts, so be smart with the use of your bank account.

Principle 94

SET UP BOTH A CHECKING AND A SAVINGS ACCOUNT

It is important not to put all of your paycheck into a checking account. A fail-safe way of doing this is to set up both a checking and a savings account.

Have your paycheck automatically deposited into both your checking and savings accounts. To figure out what amount goes into checking and what amount goes into savings, you need to develop a budget (see principle 13).

You should keep enough in your checking account to pay approximately two months' worth of all your bills. Include a little more if you are going on a vacation or know of a significant payment you will soon need to make.

Believe it or not, this results in habitual savings. You don't have to think about it every two weeks. The forced savings just happens. If you don't do it, you will end up spending the money somehow.

The next key step is to periodically invest the savings you've put into your savings account (after accounting for your emergency fund). How often depends on the amount you save. The first two to three years of your working life, you should do it annually. After that, find something you can invest in monthly (e.g., a mutual fund).

Keep this savings account throughout your adulthood, and you will see your savings grow as your income grows.

Principle 95

THERE IS NO SUCH THING AS FREE CHECKING

Here are a few more things to think about when you are deciding on a bank:

1. Make sure you understand that the terms of "free" checking usually include carrying some sort of minimum balance. If you don't keep the minimum in your account, then you will be charged for having a checking account.
2. Use the Internet (bankrate.com is a good site) to find the best rates for banks, loans, savings, etc. Go with the bank that gives you the highest savings rate and the lowest loan rates (these may be different banks).
3. Ask your bank for discounts and the "latest offers." Banks are not effective at communicating these to their customers, so ask your bank quarterly whether you are getting its best rates and service.
4. Bypass your bank and purchase inexpensive checks directly from the printer. It will save you $10 or more every time you order checks.
5. Ask your bank for overdraft protection. If you are a good customer, the bank will most likely give it to you. If everything is equal, choose a local bank.

Banks want your business, and you can make them work for you—as long as you select the "right" one and effectively make the right choices regarding your account.

Principle 96

GET A GOOD ACCOUNTANT (WHOM YOU CAN TRUST)

You may think you can do your own taxes because there isn't much to them. Often, you are correct. However, it isn't expensive to hire an accountant for a simple tax return, and you will need one as your income and assets grow.

Here are some things to consider when selecting an accountant:

1. **Degrees**—You definitely want an accountant who is a CPA.
2. **Age/experience**—You want someone who has several years' experience but who is young enough to do your taxes for many years to come.
3. **References/reputation**—Call a few of the people who use the accountant's services.
4. **Availability**—Make sure you can get appointments and services completed in a timely manner.
5. **Fees**—Ask this upfront so you're not surprised later on (and compare the fees with what other accountants in the area charge).

If you can find an accountant you can use for many years, he or she will grow with you and help you maximize your before-tax dollars. Initially, the accountant may not save you much, but as your income grows, this person will know how to save you taxes by recommending effective strategies.

Principle 97

USE CASH AS OFTEN AS POSSIBLE

I do this for the simple fact that you feel the impact of your spending when you have to use cash rather than a check or credit card. It's much easier to overspend when you are just signing one piece of paper rather than handing over hard-earned cash.

Principal 98

APPROACH YOUR JOB FOLLOWING THE THREE P'S: PASSION, POLITENESS, AND PERSISTENCE

Exhibiting these three characteristics will guarantee that you will never get fired from a job (thus guaranteeing you lifetime employment and lifetime income). Let me explain:

Passion—The most important job interview question I ask people is "What is something you are passionate about?" If an individual can carry this passion to the job, there is no doubt he or she will succeed. People want to be around those who are positive and passionate. The passion they exude gets them beyond roadblocks that impede others on their way to success.

Politeness—Saying, "Please" and "Thank you" will get you far in life. It sounds silly, but, believe me, it's true. Don't take others for granted; instead, make them feel appreciated. I promise you three things: Showing appreciation will make others feel good, it will make you feel good, and it will help you out professionally. It's amazing how many people forget about this in their professional lives.

Persistence—Half the battle is showing up every day and putting your best effort behind what you're doing. If you try your hardest all the time, no one will ever fire you, and as a result, you will find yourself in an economically secure place.

At the beginning of this principle, I said following this principle would guarantee you would never get fired. In fact, if you follow this principle, you will be amazed at how successful you will end up. And, the more successful you are, the more likely you are to have money to manage by the principles of this book.

Principle 99

SUCCESSFUL PERSONAL MONEY MANAGEMENT IS ALL UP TO YOU

You must recognize that you are the only one responsible for your financial success or failure. This is a simple and fundamental principle that most people refuse to believe. They believe they are a victim of bad circumstances or people taking advantage of them. However, in most situations, they are the ones who got themselves into financial trouble.

You will hear them say things like, “They locked me in to a high mortgage interest rate,” “I didn’t know there were extra fees,” and “My car payment is too high.” Whose responsibility is it to make the financial decisions that they made?

If you realize that you need to actively manage your finances and take responsibility for your financial decisions, you will succeed in doing it effectively. The key is to actively manage it. Ask questions. Know your budget. Look at the long term.

Bottom line: Heed the advice offered in this book, and develop your own principles. You, and only you, can make sure you effectively manage your financial life.

I ask the question one more time: Why didn’t they teach me this in school?

AFTERWORD

And, kids, the best advice I can give you is "The harder you work, the luckier you get."

Written with all my love, Dad

If you have any questions or would like personalized/group training in personal money management, please contact me at carysiegel@yahoo.com or visit my website whydidnttheyteachmethisinschool.com.