Introduction

Money is one of the most influential forces in our lives, bringing security, freedom, and happiness but also triggering stress, anxiety, and fear. Money is intricately woven into all aspects of our lives, from paying for necessities like housing and food to impacting significant decisions that affect relationships with family and friends. Managing your finances can be daunting and highly emotional, so learning about and making **SENSE** of life's decisions involving your **DOLLARS** is essential.

The first and most fundamental step toward establishing a solid foundation and achieving long-term financial goals is planning. Without a plan, it's too easy to get sidetracked, overspend, and fall into debt. But with this book as a guide, you will:

- Learn how and why to set financial goals, create a budget, manage debt, and build wealth.
- Discover strategies for navigating life's changes, maintaining financial success, and developing habits and mindset for long-term economic prosperity.
- Explore the essentials of investing and navigating life's big purchases, along with retirement, estate, and tax planning.
- Access valuable tools and strategies to achieve financial success.

Whether you're just starting your financial journey or ready to retire, this book will help you develop a solid plan for achieving your financial goals.

Chapter 1

Human Behavior

As humans, we are constantly bombarded with news and information. Unfortunately, most of it is negative. Why?

Well, as my good friend and longtime radio and television personality John “Bud” Hedinger once said to me years ago, “Well, you know Joel, negative news sells better than positive news.”

He was right. A commercial news source or media company is not actually in the business of sharing information but in selling advertising opportunities. Focusing on the negative side of things helps retain and enlarge an audience. Increasing viewership allows a media company to charge advertisers more and thereby increase their profits. This reality sheds a very different light on the fundamental nature of the information around us.

The Role of Negativity

Negative news can have a profound impact on a person's financial decision-making. This is because people tend to react emotionally to any news, especially if it's negative, which can cloud their judgment when making financial decisions.

One study conducted by the University of Michigan found that people exposed to negative news about the economy were more likely to make conservative financial decisions, such as saving more money and investing less. This happens because negative news can create a sense of fear and uncertainty, which leads people to be more cautious with their money.

Another study conducted by the University of California, Berkeley, found that people exposed to negative news about the stock market were more likely to sell their stocks, even if it meant taking a loss. This is because negative news can create a sense of panic, leading people to make impulsive decisions without fully considering the long-term consequences.

Furthermore, negative news can also impact people's perception of risk. A study conducted by the University of Chicago found that people exposed to negative news about the economy perceived the risk of investing to be higher than those who were not exposed to negative news. This perception of increased risk can lead people to avoid investing altogether, which can negatively impact long-term financial goals.

Additionally, research shows that humans experience triple the amount of pain from a loss than they do the pleasure from a gain. In other words, if we lose $1,000, we feel an emotional response that is three times greater than our feelings about gaining $1,000. This psychological reaction can dictate our financial decision-making.

These and countless other studies have uncovered many cognitive biases that cause our minds to work against us and prevent our financial success. Cognitive bias occurs when someone interprets a situation based on their subjective opinion and personal experiences, which may not be impartial or correct. The rest of this chapter explores these behaviors and biases and how to prevent them from negatively impacting our finances.

Familiarity

According to the American College of Financial Services, our minds often use what we already know, or familiarity, against us when making financial decisions. This is because our brains are wired to prefer something familiar over something unfamiliar, even if the unfamiliar option is the better choice.

This cognitive bias can lead to poor financial decisions, such as sticking with a familiar investment even if it is underperforming or holding onto a losing stock because we are familiar with the company.

For example, far too many people held onto Sears Roebuck stock way too long just because they grew up with their Christmas catalog. Familiarity can cause us to overlook new opportunities or investments that could potentially benefit us in the long run.

To combat this bias, be aware of our tendency to favor the familiar and actively seek out new information and perspectives by researching new investment opportunities, seeking advice from financial professionals, and challenging your own assumptions and biases.

Anchoring

Anchoring is a cognitive bias that occurs when we rely too heavily on the first piece of information we receive about a topic. In the context of investing, this can cause us to fixate on a particular stock or investment, even if it is no longer the best option, leading to missed opportunities and poor investment decisions. To avoid the anchoring bias, remain open to new information and perspectives, and regularly reassess investment decisions.

In the late 90s, many people invested heavily in technology companies fixing anticipated Y2K concerns—potential catastrophic computing errors in switching from the year 1999 to 2000 (which wasn't accounted for when software programs were initially developed). When the calendar turned to the year 2000, and the world continued to spin, many of these same companies experienced dramatic declines as their products were no longer needed to prevent a catastrophe that never happened!

Oversimplification

Oversimplification is another cognitive bias that occurs when we try to simplify complex financial information or situations into easy-to-understand concepts or rules of thumb. While this may be helpful in certain circumstances, oversimplification can hinder your comprehension of financial concepts, resulting in poor investment decisions or missed opportunities for growth.

The reality is that every person is unique, with their own set of needs, wants, and desires. To avoid oversimplification, always seek out multiple information sources and perspectives and take time to fully understand the complexities of financial decisions before making them. We often see this oversimplification bias when it comes to retirement planning, as people forget to include their total healthcare costs or the impact of income taxes. At Nelson Financial Planning, we often spend several hours over multiple years mapping out a retirement income plan for clients approaching retirement.

Hindsight

Hindsight bias is the tendency for people to believe they could have predicted an event's outcome after it has occurred. This bias can lead people to overestimate their ability to anticipate events and underestimate the role of chance or other factors in contributing to the outcome. Hindsight bias is also known as the "I knew it all along" phenomenon. It can negatively affect decision-making when people make overconfident decisions based on their belief in a past event.

This is one bias that I recognize most often when talking to people at the office. They ask, "Why didn't you see this (name the event over the last 25 years) coming?" Sadly, there are no crystal balls or other ways to predict the future accurately and consistently. This behavioral bias can also manifest itself when people get out of the market during bad times and then try to get back in during good times. This results in selling low and buying high, which undermines investment results.

Endowment Effect

The endowment effect is when people tend to overvalue objects or investments they own because of a personal attachment. In the context of investing, this can cause people to hold onto underperforming investments or assets simply because they feel an emotional connection.

The best example of this is when people continue to own stock because their parents or grandparents once owned it, like General Electric. But the company is not the same as it was thirty years ago! After being part of the Dow Jones Industrial Average for more than a hundred years, General Electric was removed from the index in 2018 due to poor performance. To avoid the endowment effect, remain objective, take a fresh look at all available information, and keep personal feelings about a company out of your financial decision-making.

Status Quo

The status quo effect is the propensity for people to prefer things to stay the same or maintain the current situation. This bias can manifest in a variety of ways, such as resisting change or choosing familiar routines. Status quo bias can be a powerful force, as people often feel more comfortable with what is expected and may avoid taking risks or trying new things. However, this bias can also prevent people from making necessary changes or taking advantage of new opportunities.

To avoid the status quo effect, set specific goals and create a plan for making changes, which provides a sense of direction and purpose. If you are using a financial planner or advisor, make sure to meet face-to-face at least annually to review your account and make adjustments regularly. Many people struggle with change, but life changes every day, so why not use it to your investing advantage?

Bandwagon Effect

The bandwagon effect is when people favor a particular behavior or belief simply because others are doing the same thing. This bias is often observed when people are influenced by the actions or opinions of a large group of people, such as in politics, fashion, or marketing. The bandwagon effect can be a powerful force, as people often desire a sense of belonging and feeling part of a larger group.

However, these biases can also lead to irrational decision-making and prevent people from thinking critically about their choices. To avoid falling prey to the bandwagon effect, take time to consider the facts and make decisions based on objective information rather than simply following the crowd.

The interesting point is that the bandwagon plays a different tune nearly every year. From dot-com and meme stocks to crypto, by the time everyone is talking about something and on the so-called bandwagon, any potential investment opportunities are long gone.

As humans, we all fall victim to these behavioral biases at some point in our lives. My wife would say I am most susceptible to favoring the status quo and not as adaptable to change as I used to be. I sure do like my regular routine! So, how about you? Have you ever favored keeping the status quo? For that matter, how many of these basic human behaviors led you in the wrong direction?

Questions & Notes

Chapter 2

The Fundamentals

A handful of truths exist that are essential to understand and appreciate when it comes to investing your money and managing your finances. These are the fundamental building blocks for creating a successful financial plan and staying committed throughout your life.

As you review them, you may scoff at the seemingly simple words of advice that appear so easy to follow, but don't be fooled. As discussed in the prior chapter, innate human behavior and normal emotional responses can hinder even the most rational and diligent people from adopting the most straightforward concepts.

A favorite quote by Steve Jobs summarizes the importance of simplicity and the difficulty of achieving it:

"Simple can be harder than complex:
you have to work hard to get your
thinking clear to make it simple."

Ironically, you may need to reread that quote a few times to comprehend it fully. To help get (and keep) your "thinking clear," this chapter details the seven most important financial concepts that you need to follow now and in the future.

1. Time In, Not Timing

I can't begin to recount the number of people who have told me, "Joel, I am not going to invest now because of headline XYZ." Unfortunately for them, the market has proven repeatedly throughout its history that in the long run, getting into the market as early as possible, not at the best time possible, is what matters most.

Nobody can predict the future, but far too often, people wait to prepare or invest until they think the "timing is better." When this happens, they miss valuable earning opportunities and are usually forced into taking more significant risks later to make up for lost time.

Negative headlines and troubling events will always exist, providing a continual stream of reasons to put things off. Remember, though, that media outlets are in the business of selling advertising and negative news sells. Falling victim to the "wait and see" mentality due to the proliferation of pessimistic information is a distraction from achieving your goals.

For perspective, refer to the chart on the following page (courtesy of Putnam Investments), which reveals the pitfalls of waiting by showing the gains of not waiting. It demonstrates that if you had invested $10,000 in the market on December 31, 2007 (as measured by the S&P 500), you would have done so with perhaps the worst timing possible because the financial crisis in 2008 spurred a 39.6 percent market decline the following year.

Fast forward just three years for another memorable headline excuse to delay investing, which was continuously followed by multiple others:

- 2011—*S&P downgrades U.S. credit for the first time*
- 2016—*Brexit: Britain breaks with EU*
- 2018—*The U.S.-China trade war begins*
- 2020—*Economic fallout from COVID-19 continues*

A world of investing®

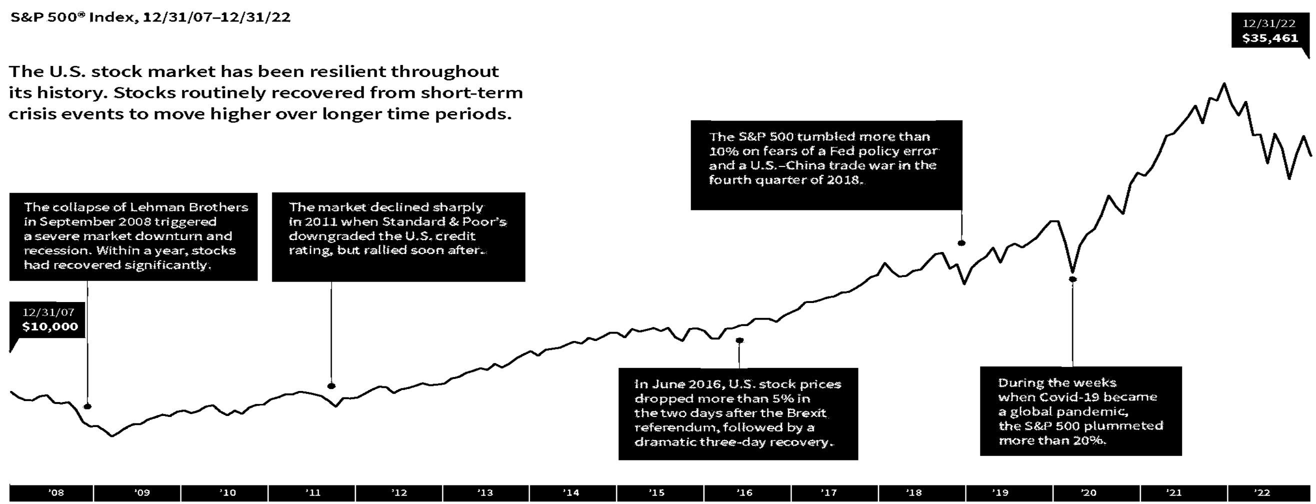
Putnam INVESTMENTS

Time, not timing, is the best way to capitalize on stock market gains

By trying to predict the best time to buy and sell, you may miss the market's biggest gains.

S&P 500® Index, 12/31/07–12/31/22

The U.S. stock market has been resilient throughout its history. Stocks routinely recovered from short-term crisis events to move higher over longer time periods.



Data is historical. Past performance is not a guarantee of future results. The S&P 500® Index is an unmanaged index of common stock performance. You cannot invest directly in an index.

Not FDIC Insured | May lose value | No bank guarantee

These headlines are prime examples of when many people decided to wait to invest until the "timing is better." But the results speak for themselves.

Your time in the market during all these terrible headlines would have been richly rewarded. That $10,000 investment turned into over $35,000 in the fifteen years between 2008 and 2023!

When you stop waiting for better timing, you can instead follow the "time in" concept, invest earlier, and achieve profitable long-term investment results.

2. Pay Yourself First

Another simple-sounding concept that is more difficult to achieve is the strategy to pay yourself first. Far too often, people only save whatever is left over after paying all the bills. This nearly guarantees you will never save enough money because it's been relegated to an afterthought rather than a priority.

Instead, every time you get your paycheck, first set aside a portion of it for savings, and it's done! You are successfully paying yourself first. Even a minimal amount is better than nothing because it will build and grow over time, reinforcing the "time in" concept. Later, you can increase your savings amount as your income grows.

You can manage to pay yourself first by establishing a budget. We discuss budgeting extensively in Chapter 4, but for now, the pay yourself first strategy is critical to saving for priorities like retirement, emergency savings, and debt repayment.

Moreover, when creating a budget, recognizing the fundamental differences between your wants and needs is pivotal. Needs are crucial for survival, like food, housing, or healthcare, whereas wants are everything else, like dining out, new cars, and travel. You'll find that many regular expenses are wants, not needs. Putting a proper budget into place that prioritizes your needs and savings early in life will help ensure you get all your needs and wants in retirement!

Allocating a specific amount from each paycheck to savings eliminates any inconsistency, and establishing automatic transfers streamlines the pay yourself first approach.

If you are currently living paycheck to paycheck, consider earmarking the total amount of your next salary increase to go directly to savings. Then you won't get used to spending that extra money and can really get a jump-start on improving your financial picture immediately.

3. Be Consistent

This concept always strikes me as the most straightforward investing concept since being consistent means maintaining the same pattern of behavior over time. That sounds like an easy thing to do, right? After all, the human body likes inaction, and being consistent literally involves no extra effort. Consistency is like sitting on the sofa instead of running a marathon. Trust me, I've run marathons, and they are not easy! The only good thing about marathons in Florida is that the route is flat. Sitting on the sofa, like consistency, is much easier.

Another way to think of consistency is with the familiar direction to "just leave it alone!" You've probably said or heard it yourself at some point in your life and know just how hard it is to follow. Well, it applies to investing as well—leaving it alone is often best.

Distractions in a Disruptive World

When trying to achieve a financial objective, it's very easy to get distracted. Other seemingly more critical or urgent goals arise, shifting your focus to something else. This is particularly true with asset allocation, which is the precise mix of cash, bonds, and stocks utilized to reach your financial goals, which is discussed in depth in Chapter 12.

For instance, perhaps a few years go by after establishing a financial plan and something significant happens, like a job loss, a global pandemic, or a startling update from your social media. Suddenly, you feel compelled at that very moment to change everything. However, your plan was designed specifically to reach your goals over time and not instantaneously, so your most important role is to stay consistent and not get distracted.

These urges are intensified by the powerful devices tethered to us every hour of the day. With the average American checking their phone ninety-six times per day, it's impossible to avoid the latest distressing story. On many, many occasions, I have had phone calls with clients nervous about whatever disturbing current event is occurring. A considerable part of my job is providing a rational perspective in a wild world, so it's never the phone calls that bother me. It's the media frenzy and its harmful effect on my clients. The ironic part of these conversations is when I have to ask someone to turn down the volume on their television because I can hear the announcers in the background screaming at each other about whatever is going on and how bad it's going to be.

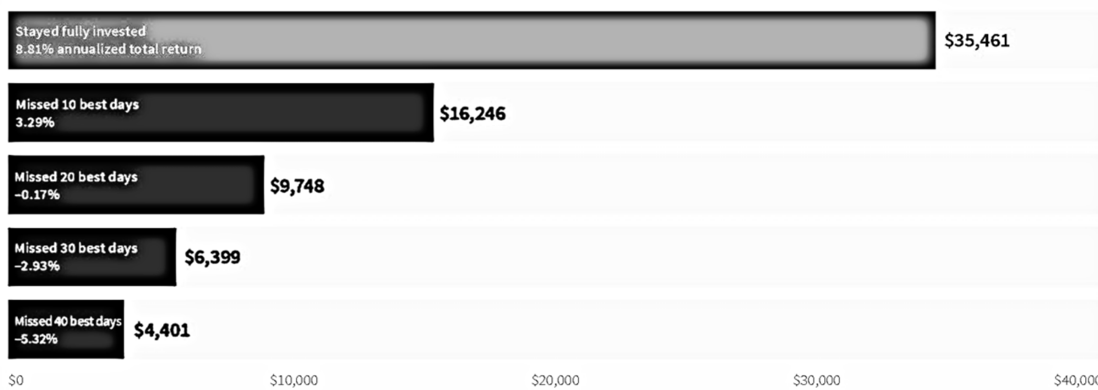
The fixation in the media and internet on all things destructive and outrageous messes with our minds and causes reactionary and usually poor decisions. That is why it is imperative to remain consistent amidst this barrage of inconsistent information!

Reactionary Decisions

From an investment perspective, making reactionary decisions can have dramatic consequences for your investment results. The chart on the following page (also courtesy of Putnam Investments) analyzes the same fifteen-year period from 2008 to 2023 discussed earlier in this chapter.

Stay invested so you don't miss the market's best days

$10,000 invested in the S&P 500 (12/31/07–12/31/22)



By staying fully invested over the past 15 years, you would have earned $19,215 more than someone who missed the market's 10 best days.

Data is historical. Past performance is not a guarantee of future results. The best time to invest assumes shares are bought when market prices are low.

For informational purposes only. Not an investment recommendation.

Investors should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. For a prospectus, or a summary prospectus if available, containing this and other information for any Putnam fund or product, call your financial representative or call Putnam at 1-800-225-1581. Please read the prospectus carefully before investing.

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If you stayed fully invested for that period, your return would be nearly 9 percent per year. But jumping in and out of the market based on panic and fear could significantly reduce any gains. Just missing the ten best days out of the roughly 3,750 trading days in those 15 years drops your return by more than 60 percent per year. The accumulated impact of this performance differential is devastating to your financial results. When a difference of 3.5x more money in your hand is at stake—you merely need to be consistent and "just leave it alone."

Even more astonishing is that most of the market's very best days are clustered around the very worst days. So, all it takes is to react to a bad day, shift out of the market to "see how things turn out for a while," and your investment return goes in the toilet.

4. Be Diversified

Diversification is the act of spreading out your money across multiple asset types to reduce your risk and maximize your return. Because various investments perform better or worse at different times, you don't want all your eggs (or money) in one basket.

A diversified portfolio should have an asset mix consisting of stocks, bonds, and cash, providing flexibility when certain parts of your portfolio aren't doing as well. For example, if stocks are declining and you need money from your investments, you can access other assets like cash or bonds that should be performing better.

Balancing Risk vs. Reward

Diversification also means accepting a lower return than what the very best-performing asset class may be doing at any given time. That tradeoff is a necessity to minimize risk in any investment portfolio.

- **Riskier assets** may have better historical returns, but you could lose more money at certain times.

- **Less risky assets** come with lesser returns, but you lose less money during their worst periods.

It's the classic risk/reward tradeoff. The more risk you take, the greater the potential for reward, but also a greater chance of sleepless nights worrying about your money. Striking a balance is crucial to creating your proper asset allocation, which we discuss in depth in Chapter 12.

Diversification for the Long Term

The chart and key on the following pages (courtesy of MFS Investments) highlight the performance variability of different asset classes over the past 10 years. You should see that there is no discernible pattern of performance among the various categories of stocks and bonds. Each one, at separate times, had their day as the best-performing investment for a particular calendar year. This fact makes it impossible to anticipate which asset category you should own at any given time.

More importantly, chasing returns is useless at best. Far too often, investment products advertise their performance after a good year, so the money flows into that investment category only to experience disappointing results once it's there. We see it all the time.

For instance, look at the Large Cap Growth Stocks category on the chart on the following page. From 2019 through 2021, they were a dominantly performing investment. However, those who then concentrated their investments in that "hot" category wound up having a very disappointing 2022 when that category was the very worst performer.

In contrast, note the consistency of the Diversified Portfolio category, which represents an equal allocation among the various asset categories. It's never the best, but it's never the worst, which leads to more predictable and consistent returns over time.

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Diversification Has Paid Off Over the Long Run (2013 – 2022)

Diversification, however, can potentially add value and help manage risk.

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	10 YEAR ENTIRE DECADE ANNUALIZED RETURN 2013-2022	20 YEAR WHOLE PERIOD ANNUALIZED RETURN 2003-2022
Small/Mid Cap $136,797 36.8%	REITs $131,227 27.1%	Large Cap Growth $159,457 5.7%	Small/Mid Cap $167,234 17.6%	Large Cap Growth $222,325 30.2%	Cash $103,113 1.9%	Large Cap Growth $298,639 36.4%	Large Cap Growth $413,594 38.5%	REITs $259,224 39.9%	Commodities $87,869 16.1%	Large Cap Growth $373,967 14.1%	Large Cap Growth $772,263 10.8%
Large Cap Growth $133,485 33.5%	Large Cap Value $150,355 13.5%	REITs $134,232 2.3%	Large Cap Value $169,675 17.3%	International $146,250 25.0%	Bonds $110,964 0.0%	REITs $196,859 28.1%	Small/Mid Cap $269,532 20.0%	Large Cap Growth $527,732 27.6%	Cash $107,690 1.5%	Large Cap Value $266,320 10.3%	Small/Mid Cap $704,850 10.3%
Large Cap Value $132,527 32.5%	Large Cap Growth $150,904 13.0%	Bonds $104,392 0.5%	Commodities $63,230 11.8%	Small/Mid Cap $195,347 16.8%	Global Bonds $102,776 -1.2%	Small/Mid Cap $224,623 27.8%	Diversified $177,798 10.6%	Commodities $75,688 27.1%	Large Cap Value $266,320 -7.5%	Small/Mid Cap $260,026 10.0%	REITs $550,378 8.9%
International $122,778 22.8%	Small/Mid Cap $146,468 7.1%	Cash $100,112 0.0%	REITs $146,692 9.3%	Large Cap Value $192,860 13.7%	Large Cap Growth $218,960 -1.5%	Large Cap Value $223,871 26.5%	Global Bonds $119,903 9.2%	Large Cap Value $288,032 25.2%	Bonds $111,079 -13.0%	REITs $194,148 6.9%	Large Cap Value $542,806 8.8%
Diversified $113,415 13.4%	Bonds $103,821 6.0%	International $115,809 -0.8%	Diversified $125,542 8.7%	Diversified $142,121 13.2%	REITs $153,714 -4.1%	International $153,838 22.0%	International $165,861 7.8%	Small/Mid Cap $318,539 18.2%	Diversified $180,398 -13.6%	Diversified $180,398 6.1%	Diversified $397,816 7.1%
REITs $103,209 3.2%	Diversified $119,452 5.3%	Small/Mid Cap $142,219 -2.9%	Large Cap Growth $170,740 7.1%	REITs $160,287 9.3%	Diversified $133,623 -6.0%	Diversified $160,790 20.3%	Bonds $129,692 7.5%	Diversified $208,829 17.5%	International $157,873 -14.5%	International $157,873 4.7%	International $347,652 6.4%
Cash $100,050 0.0%	Global Bonds $97,972 0.6%	Global Bonds $94,882 -3.2%	Bonds $107,156 2.6%	Global Bonds $104,024 7.4%	Large Cap Value $176,916 -8.3%	Bonds $120,636 8.7%	Large Cap Value $230,130 2.8%	International $184,543 11.3%	Global Bonds $95,694 -16.2%	Bonds $111,079 1.1%	Bonds $184,111 3.1%
Bonds $97,976 -2.0%	Cash $100,083 0.0%	Diversified $115,467 -3.3%	Global Bonds $96,861 2.1%	Bonds $110,951 3.5%	Small/Mid Cap $175,808 -10.0%	Commodities $ 61,466 7.7%	Cash $106,048 0.6%	Cash $106,096 0.0%	Small/Mid Cap $260,026 -18.4%	Cash $107,690 0.7%	Global Bonds $170,985 2.7%
Global Bonds $97,402 -2.6%	International $116,760 -4.9%	Large Cap Value $144,600 -3.8%	International $116,968 1.0%	Commodities $64,308 1.7%	Commodities $57,076 -11.2%	Global Bonds $109,806 6.8%	Commodities $59,546 -3.1%	Bonds $127,692 -1.5%	REITs $194,148 -25.1%	Global Bonds $95,694 -0.4%	Commodities $131,210 1.4%
Commodities $90,477 -9.5%	Commodities $75,088 -17.0%	Commodities $56,574 -24.7%	Cash $100,383 0.3%	Cash $101,227 0.8%	International $126,081 -13.8%	Cash $105,436 2.3%	REITs $185,322 -5.9%	Global Bonds $114,260 -4.7%	Large Cap Growth $373,967 -29.1%	Commodities $87,869 -1.3%	Cash $127,335 1.2%

Best ← ANNUAL RETURN → Worst

About the chart (chart key and risks on next slide): The historical performance of each index cited is provided to illustrate market trends; it does not represent the performance of a particular investment product. Index performance does not reflect the deduction of any investment-related fees and expenses. It is not possible to invest directly in an index. The investments you choose should correspond to your financial needs, goals, and risk tolerance. For assistance in determining your financial situation, consult an investment professional. For more information on any MFS product, including performance, please visit mfs.com.

Past performance is no guarantee of future results.

The Diversified Portfolio: Equal allocations among the market segments are represented by the various market indices defined herein (excludes cash).

Note that the portfolio's assets were rebalanced at the end of every quarter to maintain equal allocations throughout the period. Diversification does not guarantee a profit or protect against a loss.

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Chart Key

- Cash[1]
- Bonds[2]
- Global bonds[3]
- Diversified portfolio
- Large-cap value stocks[4]
- Commodities[5]
- International stocks[6]
- Large-cap growth stocks[7]
- Small-/Mid-cap stocks[8]
- REITs[9]

International: Investing in foreign and/or emerging market securities involves interest rate, currency exchange rate, economic, and political risks. These risks are magnified in emerging or developing markets as compared with domestic markets. Small/Mid Cap stocks: Investing in small and/or mid-sized companies involves more risk than that customarily associated with investing in more-established companies. Bonds: Bonds, if held to maturity, provide a fixed rate of return and a fixed principal value. Bond funds will fluctuate and, when redeemed, may be worth more or less than their original cost.

[1] The **FTSE 3-Month Treasury Bill Index** is derived from secondary market US Treasury bill rates published by the US Federal Reserve.

[2] The **Bloomberg Barclays U.S. Aggregate Bond Index** measures the US bond market.

[3] The **Bloomberg Barclays Global Aggregate Bond Index** provides a broad-based measure of the global investment-grade fixed income markets.

[4] The **Russell 1000® Value Index** measures large-cap US value stocks.

[5] The **Bloomberg Commodity Index** is composed of futures contracts on physical commodities.

[6] The **MSCI EAFE Index** measures the non-US stock market.

[7] The **Russell 1000® Growth Index** measures large-cap US growth stocks.

[8] The **Russell 2500™ Index** measures small- and mid-cap US stocks.

[9] The **FTSE NAREIT All REITs Total Return Index** tracks the performance of commercial real estate across the US economy.

Commodity: Commodity-related investments can be more volatile than investments in equity securities or debt instruments and can be affected by changes in overall market movements, commodity index volatility, changes in interest rates, currency fluctuations, or factors affecting a particular industry or commodity, and demand/supply imbalances in the market for the commodity. Events that affect the financial services sector may have a significant adverse effect on the portfolio. Real Estate: Real estate-related investments can be volatile because of general, regional, and local economic conditions, fluctuations in interest rates and property tax rates; shifts in zoning laws, environmental regulation and other governmental actions; increased operation expenses; lack of availability of mortgage funds; losses due to natural disasters; changes in property values and rental rates; overbuilding; losses due to casualty or condemnation, cash flows; the management skill and creditworthiness of the REIT manager, and other factors.

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5. Ignore Your Neighbor

It may be noble to "love thy neighbor," but chances are you probably want to ignore what they are doing when it comes to money, finances, and possessions. After all, looks can be very deceiving.

Your neighbor may have a big house, but that can come with a big mortgage, too. Those fancy cars in the driveway also could have expensive loans. Throw in credit cards that finance their fabulous travels, and your neighbor's financial picture looks a bit like a house of cards. Any changes, such as the loss of a job, medical issues, or an accident, and their whole false sense of financial security collapses—immediately.

Unfortunately, as humans, we are highly emotional beings who succumb easily to peer pressure, cultural expectations, and wanting to keep up with the Joneses. We all have a desire for approval, respect, and acceptance by our family and friends.

You might be surprised, however, by the actual statistics and characteristics of people who are millionaires (and those who aren't). The numbers paint a realistic picture of financial success that is very different from what many people view in their minds.

A Case in Point: Real Millionaires

In 2019, financial radio personality Dave Ramsey and his company Ramsey Solutions compiled the broadest analysis to date of millionaires, their lifestyles, and how they achieved their financial success. They found that:

- Eighty-five percent were hard-working individuals with regular jobs.
- One-third never made six figures in a single working year.
- Another third averaged about $100,000 a year throughout their career.

Not exactly a bunch of doctors, lawyers, and CEOs! Almost 80 percent received zero inheritance and did not grow up in upper- or upper-middle-class homes. They also didn't attend expensive, fancy colleges.

- 62 percent attended public state schools.
- 8 percent attended community college.
- 9 percent never graduated college at all.

The key finding? A staggering 94 percent of millionaires *live on less money than they make*, compared to 55 percent of the general population. Basically, almost all millionaires earn more than they spend to live—a critical concept known as *living within your means.*

The survey also found that the top two contributing factors to becoming wealthy were discipline and consistency. As you might imagine, only 7 percent of millionaires felt pressure to keep up with their friends and families.

6. Compounding: A Mathematical Wonder

When it comes to saving and investing, many people focus on return. "What's the rate of return for this particular investment?" they ask. Indeed, the rate of return is important, but there's a far more powerful force at play with what those rates of return can produce over time: compounding.

The power of compounding is described by many as a mathematical wonder. Compounding is applying the rate of return not just to the original amount invested but also to the profit that accumulates and reinvests each year. As that underlying amount grows, the profit generated grows as well, allowing your money to build on itself exponentially over time.

Here's how it works. Let's take a forty-year period, the typical timeframe people spend working in their lifetime. We'll also assume a 9 percent annual rate of return, which is in line with the markets over the past one hundred years.

Add in the rule of 72—a little-known mathematical concept that determines the time needed for your principal investment to double. To use this method, divide 72 by the annual rate of return. So, 72 divided by an assumed 9 percent return equals 8. That means every 8 years, your original investment, with the profit reinvested each year, doubles in value.

Successive doubling produces astounding growth. Assuming you invest $1,000 at twenty-five with a 9 percent annual return, you can see the increases in eight-year increments.

- **By thirty-three**, that $1,000 becomes $2,000.
- **By forty-one**, it would be $4,000.
- **At forty-nine**, it's $8,000.
- **At fifty-seven,** it's $16,000.
- **When you retire at sixty-five**, it's $32,000. That's right – a 32x profit!

And that's just for one single $1,000 investment. Imagine how large the number would be if you invested $5,000 per year (roughly $400 per month) for the entire forty-year period. By the way, it's nearly $2 million! Doesn't that sound like a decent amount to retire on by just saving $400 per month?

7. Congratulations, You're Living Longer

That's right, you will live longer, on average, than prior generations. The average life expectancy in the United States today is around eighty. Just fifty years ago, it was about seventy. Of course, your actual life expectancy depends on a host of factors, such as genetics, lifestyle, and access to health care. But those extra ten years or so on this good earth obviously come with ten more years of expenses.

Even more dramatic is how much life expectancy increases once you reach retirement age. After all, at sixty-five, you have already managed to avoid what could have killed you in your 20s, 30s, 40s, and 50s. Consequently, the average life expectancy for a sixty-five-year-old woman today is nearly eighty-seven years old, and a sixty-five-year-old man has a 50 percent chance of living to eighty-four. That's twenty years of retirement; is that good news for you, or is that bad news?

This longer life expectancy requires you to plan differently than prior generations. Many of the traditional approaches to investing or rules of thumb about allocation worked well when people lived to seventy but won't really work when people live into their eighties. Frankly, longer life expectancies require people to understand their financial picture better and sooner than prior generations.

If you aren't prepared to live longer with the assets you accumulated while working, then your golden years may turn out to be quite tarnished.

So, how are you doing? Are you following all these fundamental concepts regularly, or are you skipping over some of them? At Nelson Financial Planning, we send our clients regular, proactive communications to provide perspective and encourage continued adherence to these financial fundamentals.

In addition, our weekly radio show and podcast, *Dollars & Sense*, offers the very latest economic and financial news, so we encourage you to listen and subscribe. The About the Author section at the back of this book contains several QR codes to connect directly to our various channels. For your convenience, our most popular platforms are directly accessible using this QR code.

Dollars & Sense

Chapter 3

Financial Goals

Setting financial goals is important for a host of reasons. If you have a dream, setting specific goals increases your ability to make that dream a reality. Likewise, clarifying what you want to achieve provides a clear sense of direction, which can help you stay focused and motivated to accomplish your goals.

It's the same in business, where companies must set goals and objectives to ensure long-term viability. At Nelson Financial Planning, we set corporate objectives on a one-, three-, and even ten-year basis to measure our progress.

Additionally, goals help prioritize your spending by making sure money is used in a way that aligns with what you ultimately want to achieve. With specific targets in mind, it's much easier to stay committed to saving money.

More importantly, having financial goals and tracking your progress shows how far you've come, which is a great motivator for staying on track toward achieving your objectives. Overall, realizing your financial goals also improves your economic well-being, reduces stress, provides a sense of accomplishment, and enhances your overall quality of life.

Identifying and Prioritizing Goals

Goal setting is all about developing a vision for your future—that first step toward obtaining financial well-being and achieving your dreams. This involves thinking about what you want for your life and how your financial objectives can help achieve that vision. Some people imagine retiring early, whereas others want the freedom to start a business.

Crafting a clear future vision helps you stay motivated and make informed financial decisions in support of your goals. You can start by identifying what you want to achieve financially. When setting financial goals, asking yourself the right questions will help you think about what matters most. Here are some to consider:

- What are my short and long term financial goals?
- How much money do I need to achieve them?
- What steps do I need to take?
- What sacrifices am I willing to make?
- How will achieving these goals improve my life?

Types of Financial Goals

You can set many different types of financial goals because they are personal to you and vary based on your circumstances and priorities. The list below contains some of the more common, fundamental goals to consider.

- **Emergency Savings**: One of the most common goals involves creating an emergency fund that provides cash in case of an unexpected event such as a job loss or medical emergency.

- **Debt Reduction**: Paying off debt, such as credit cards, student loans, or car loans, can help save a lot of money on interest and improve your credit score. Therefore, it's another goal most people have at some point in their lives.

- **Retirement Savings**: Saving and investing for retirement is an essential goal to adopt as soon as possible because the earlier you start saving money, the more it grows over time.
- **Home Purchase**: Putting money aside for a down payment on a house may help you qualify for a mortgage with better interest rates and reduce your monthly payments.

Create a Plan of Action

Setting goals is a critical first step; however, goals without a plan of action are just words on paper with little benefit to your future vision. To attain your goals and objectives, they must be clearly defined, measurable, and monitored. Here are five tips for creating a plan that will help improve your ability to reach your goals:

1. **Make Your Goals Specific and Measurable.** Once you have determined your financial goals, make them clear and measurable. Instead of saying you want to save money, identify exactly how much you want to save by a defined date.
2. **Prioritize Your Goals.** Decide which goals you care about most and prioritize them accordingly. This will help focus your efforts and resources on reaching your most important goals by allocating money toward those things most valuable to you.
3. **Create a Plan.** This involves identifying the steps necessary to accomplish your financial goals, such as creating a budget, increasing your income, or reducing your expenses. It's essential to create a realistic and achievable plan instead of a lofty pie-in-the-sky dream. For example, you shouldn't plan

to save 50 percent of your income if you need 80 percent of it to cover your regular expenses.

4. **Monitor your Progress.** Regularly monitoring progress toward your financial targets helps you identify when adjustments are needed and stay on track. Just like the activity tracker on your smartwatch motivates you to increase your step count or get more sleep, regularly monitoring your financial progress reminds you to stick to the plan for achieving your financial goals.
5. **Celebrate your Success.** It's beneficial to take time to recognize your accomplishments along the way. Reaching financial goals requires time and effort, so it's helpful to acknowledge and celebrate your achievements. Share your success with your family and friends—it might motivate them to improve themselves as well!

Pay Yourself First

I wrote about it in the prior chapter, and I'll repeat it now. Paying yourself first is one of the most valuable financial strategies you can adopt. Too often, people only save what's left over at the end of the month, and often, they find it's not much.

Paying yourself first simply means setting aside a part of your income for savings or investments *before* paying your bills or other expenses. This doesn't mean you don't pay your bills, but you may need to reevaluate how you spend your money. By paying yourself first, you prioritize your financial goals and ensure you're making progress toward them every month.

Reaching Your Vision for the Future

Don't forget that setting financial goals is just the first step. Making a plan and taking action are necessary to attain your objectives. Without action, goals are just words on paper, but with determination and commitment, you can achieve the financial success you've envisioned for yourself.

Don't forget the old adage that obtaining financial success is a journey, not a destination. By setting clear targets and taking consistent action, you can make progress toward the life you want to live. One of the best actions you can take is to establish a budget, which is what the next chapter is all about.

Questions & Notes