How to Manage Your Money: A Guide for the Non-Rich

David Bruce

Dedicated with Love and Respect to

Desmond, Samantha, and Autumn

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Preface

Your net worth is simply what you are worth in terms of money. Too many of us have a negative net worth or very little positive net worth. If you've just graduated from college or from high school, you probably haven't gotten very far in building the wealth that you would like to have in the future (or now!).

This book was written to help you get a net worth with which you can be happy. It was written for the person just starting out, who is just beginning to make money and who wants to use that money wisely. It assumes that you aren't a millionaire—many finance books have already been written for rich people.

Following the advice in this document won't make anyone rich, but it should help many people. Some risk is involved, but the advice should be sound. You, of course, will have to decide whether to use this advice. You certainly don't have to invest in a mutual fund at Fidelity, T. Rowe Price, Vanguard, or anywhere else. And, of course, I am not responsible for any losses that a mutual fund or other investment may suffer. You make your own investment decisions, and you have the responsibility for them.

Chapter 1: How to Learn the Basics

1. Know Your Net Worth

Net worth is one of the few economic terms used in this book (two others are assets and liabilities, and two more are income and expenses). Your statement of net worth consists of two sections.

First is your list of assets, which are the things you own which are worth money. Under assets, you list such things as the money in your checking and savings accounts, the worth of your car and other household belongings, etc. (If your statement of net worth were a Western movie, your assets would be the good guys in the white hats.)

Second is your list of liabilities, which are the debts you owe (the bad guys in the black hats). If you took out a loan to buy a car, the amount you still owe is a liability and would be listed on the liability side of your net worth statement. If you just got out of college, you probably were forced to get loans to help pay for your college degree. Those loans are also liabilities.

To figure up your net worth, add up your liabilities and subtract that amount from the amount of your total assets. Voila! You now know what you are worth in terms of money. If your net worth is positive, wonderful. You are worth more than you owe. On the other hand, if you just graduated or think that credit cards are the best thing since David Letterman started dropping watermelons from tall buildings, at least you know from where you're starting.

In either case, you now have a snapshot of where you stand financially. You should take that snapshot periodically—at least every year. You need to figure out your net worth to determine whether the rats are winning, you and the rats are staying about even, or you're a big cheese.

It's too much to say that your net worth is a measurement of your score in life (in business, maybe), but having at least a little money is better than having none at all.

2. Know Your Income and Expenses

Here are two more economic terms to learn: income and expenses. Income is all the money you have coming in; expenses are all the money, except that flowing into savings and investments, you have going out. You figure out your income and expenses to find out about a third item: net income, or the difference between your income and your expenses. If your expenses are more than your income, you have a negative net income—and perhaps a very serious problem. (Going into debt in order to get a good education that will lead to a good job is acceptable; going into debt so that you can buy more toys that you really don't care that much for is unacceptable.) If your income is less than your expenses, you have a positive net income—and probably a positive outlook on life.

You need to keep an income/expense statement: a statement of your income and your expenses. This statement serves two purposes: one concerning the past, and one concerning the future. First, it serves as a map of where your money has gone. Second, it serves to help you make a plan of where you want your money to go. Both purposes will help you to budget.

Keeping this statement need not be too difficult. At the end of each day write down where you spent your money. Use broad categories such as groceries, rent, eating outside the home, entertainment, reading material. Also, don't worry about keeping track of every last penny. If you can't remember whether you paid $13.50 or $14.50 for that book, call it $14.

It's a good idea to have your own computer with your own copy of a personal finance computer program such as *Quicken*, which will help you keep track of your income and your expenses and will give you a statement of your net worth.

3. Budget

You need to budget for one simple reason: to increase your net income. Your savings and investments come out of your net income, and savings and investments are what make rich people rich and well-off people well off. (Expenses, on the other hand, are often what make poor people poor.)

By keeping a record of where your money goes, you will find those places where you can cut back. You will probably find that you are spending money on things that add nothing to your life, that are junk—or are things that are OK, but you can find better things on which to spend your money. Once you identify the things that are junk, you know to avoid spending money on them. Once you avoid spending money on the things that are worthless, you will have available more money to spend and invest. Once you have money to save and invest, you will have more money to spend on the things that are worthwhile.

It's funny, but by resisting the urge to spend money on junk now, you will have more money to spend on worthwhile things in the future.

To make a realistic budget, keep track of your expenses, at least for a month. After you do this, your expenses for such luxuries as eating in restaurants will probably shock you. (On the other hand, if you consider eating in restaurants a necessity, you may be shocked by the amount of money you spend on such luxuries as groceries.)

Then make up a list of your income for the following month. (This should be easy enough, if you're on salary as are most

people.) Next make up a list of all your necessary, fixed (meaning you have to pay them at regular times, whether you want to or not) expenses, such as rent, house and/or car payments, etc. This should also be easy since they are fixed.

Finally comes the hardest part of the three: Make up a list of non-fixed expenses—that is, expenses you have some control over. Doing this will be easier because you have made an income/expense statement for last month. When you do your planning in this area, you will be aware of what happened to your money last month. If you don't like some of the places where your money went last month, you can make sure that this month you spend less in those areas by monitoring how much you're spending and where you're spending it.

A budget and an income/expense statement should be made up each month. Last month's income/expense statement will help you make up next month's budget.

One very important point: Make sure that you make a place for savings when you make up your budget. You definitely don't want to spend every penny you make. In fact, savings should be the first item of your budget.

Of course, a computer program such as *Quicken* can easily create a budget for you if you enter your income and expenses into the program. It's a good idea to sit down in the evening each day and enter the amount of money you have spent and what you spent it on.

4. Pay Yourself First

How do you avoid not spending every penny you make, especially today in the age of modern advertising?

There is one simple rule you can follow: Pay yourself first. Lots of people have claims on the money you make: the taxman, the landlord, the bank, the finance company, etc.—

sometimes it seems as if that “etc.” includes everybody but you.

That’s not right; after all, you make the money. One way to get out of this dilemma is to pay yourself first. That doesn’t mean to splurge on yourself at the beginning of the month because, after all, it always seems as if there’s never any money at the end of the month. Instead, it means to put some money away in a savings account or some other place at the beginning of the month because otherwise there never will be any money at the end of the month. You’ve got to have a savings plan.

5. Have a Savings Plan

You have to plan ahead to save; otherwise, it won’t get done. If possible, you should plan on saving 10 percent of your take-home income. It can be done—the Japanese save much more than 10 percent.

By saving the money at the first of the month—or whenever you get paid—you will soon form the habit of saving. Once the habit is formed, it’s easy to keep up. Getting started is the hard part.

You may not realize this, but living on 90 percent of your income is almost the same as living on 100 percent of your income in the short run. And in the long run, of course, when the money you will have saved has a chance to earn interest and the interest it has earned has a chance to earn interest, then your standard of living will be much higher than if you had spent every penny you made.

One good formula for budgeting is the 10-20-70 rule. According to this rule, 10 percent of your take-home income is (or should be) for long-term (do not touch until you retire) savings, 20 percent is savings for big-ticket (expensive) items such as a car (or the 20 percent may be used to get yourself out of debt, if you are just beginning to get serious

about your money), and 70 percent is for living expenses. Savings for a down payment on a house would come from the 20 percent of your salary earmarked for big-ticket items. Once you buy the house, the mortgage payment could come from both the long-term savings part (for the equity in your home) and from the living-expenses part of your budget (for the interest on the mortgage).

6. Have an Emergency Fund

The first thing you will do when you begin saving is to start an emergency fund. This will be the core of your savings, which you will put in a safe place such as a Federal Deposit Insurance Corporation (FDIC)-insured bank (in other words, the federal government guarantees that if the bank collapses financially while your money—any amount up to $100,000 for an individual—is in it, you will get your money back). Your emergency savings should be the equivalent of at least two months of your take-home salary. As you grow older, you will continue to add to the emergency fund (after all, two months' take-home salary will grow larger as your earning power increases), and you may even make it six or more months of your take-home salary.

Your emergency fund is for just that: emergencies. If you get hurt in a car accident, or are suddenly transferred, or your boss asks you to do something ethically unsavory and you quit, or you get hit by lightning not of the intellectual kind, or whatever, you've got some money to pay the bills until the insurance or Social Security checks start coming in.

7. Make a Will

Even if you're single and even if you have a negative net worth, you should make a will. Although you may be loaded to the gills with debt, you probably still have things that members of your family would like to have if you should die suddenly—would Aunt Edna want those embarrassing bare-

butt baby photos of yourself that you keep hidden in the overnight case in the closet? If so, you might as well leave them to her.

When you make a will, you simply go to a lawyer to have a document made up that states whom you want to get what should you die. This need not be time-consuming or expensive. My simple (everything to be divided equally among my surviving brothers and sisters) will, which I had made up when I had a net worth of only a couple of thousand dollars, cost only $25. (Of course, it was a long time ago.) Even though my net worth is now much higher, I still haven't found it necessary to have my will changed, although it will be easy to make alterations should the time come.

Another advantage of having a will is that you can put final wishes in it. For example, I asked that donations be made to charity in lieu of flowers. (By the way, I don't want a funeral; I have donated my body to the Ohio University School of Osteopathic Medicine.) However, it's important that your wishes be communicated to the executor (the person you charge with carrying out your wishes as listed in the will) of your will before you die; otherwise, the decision to give you an expensive funeral with loads of flowers may be made before your will is read.

8. Make a Living Will

Make a living will. A living will is a document that will make known what kind of medical decisions you want made for you when it comes to life-prolonging medical treatments.

What happens if, God forbid, you go into a coma from which you are not expected to awake? You will be incapacitated and unable to make your own judgments. In your living will, you can state what decisions you want to be made for you. You can state that you don't want expensive, life-prolonging treatment, or that you do want expensive, life-prolonging

treatment, or that you do want expensive, life-prolonging treatment for only a certain period of time.

One reason to make a living will is to spare your relatives the pain of wondering whether they made the right decision on your behalf. In your living will, you can spell out the decision to make.

You can also make a document that gives your health care power of attorney to a trusted relative or other person. You may be incapacitated and unable to express your wishes but your health is not so dire that you have a terminal illness or are in a permanent vegetative state (in those, the living will comes into effect). If you have given your health care power of attorney to a trusted relative or other person, that person will be able to make decisions on your behalf.

9. Work Together

It's important that you share your financial details and end-of-life desires with someone. If you suddenly die, someone ought to know where you've saved or invested your money, where your insurance documents are, etc. Suffering a death in the family is terrible enough without also having to worry about uncovering a complicated trail of financial papers.

If you are married, certainly your spouse ought to know and understand your finances. Leaving a lot of insurance isn't enough; your spouse ought also to know how to handle money. What better way to learn than by working on finances together. So, if you are married, both of you ought to be familiar with the household finances and investments. If you're not married, a significant other or relative ought to know about your finances.

Even if you are single and without a significant other, you still need to leave a record of your finances and investments. My will is on file at my lawyer's (the filing fee is part of the $25 I paid her when she made up the will). I also sent copies

of my will to my two brothers, whom I named co-executors of my will. My essential papers, including my will, are kept in my safety deposit box at my bank. In my safety deposit box, I have written a letter to my two brothers. In this letter, which I update every year or so, I spell out where my money is invested, complete with addresses and telephone numbers of my mutual funds, etc. When I die, they will know where all my investments and savings are located.

Chapter 2: How to Get Out (and Stay Out) of Debt

1. Control Your Expenses

If you are seriously in debt, or are just uncomfortable with the debt you have, you need to get rid of some of that debt. Bankruptcy is one way to get out of debt, but it can be, and often is, a dishonorable way. The honorable way to get out of debt is to pay off your debts. It's only fair that if you buy something, you pay for it.

Paying off debts means paying out money. So the problem is, how to get more money? There are two ways: 1) reduce (which means taking control of) your expenses, and 2) increase your income. Reducing your expenses is usually the easiest.

Preparing a budget and keeping a record of your income and expenses are two of your major weapons against unnecessary expenses. Keeping a record of income and expenses makes you aware where the unnecessary expenditures are, and making a budget means making a plan to avoid spending for those unnecessary expenses.

Another major weapon against unnecessary expenses is the ability to say no. Once you know that you spend too much money on eating out, for example, you need to decide not to eat out as often and then stick to your decision. You can come up with personal strategies about how to do this. Buying prepared foods is expensive compared with buying the ingredients needed to cook from scratch, yet the prepared foods are much cheaper than restaurant food. You can start cutting expenses by eating prepared foods at home, then, if you need to reduce expenses further, you can decide to do more cooking from scratch.

Saying no to minor purchases is an easy way to cut down on expenses. Joining a record or book club means spending money that you may want to spend elsewhere. If the

brochure didn't come every month, perhaps you wouldn't have bought those albums you never play anymore or bought those books you still haven't read. (I love the library, not book clubs.)

It's the small purchases that dribble your money away that hurt most of us. Because we spend money on the little things, we never have money to get the big things. Many of us are being nickel-and-dimed to death.

However, if you can save money on the big things, do so. Can you shop around for cheaper car insurance? Can you get by with basic cable TV instead of having all the extras? Can entertainment be a DVD and a couple of steaks at home instead of an expensive evening out? Can you reduce bills by having fewer telephones or TVs?

2. Increase Your Income

Increasing your income is usually much more difficult than controlling your expenses and much more time consuming. It also can be much harder physically because most of us sell our labor. Still, there are ways to pick up some extra money here and there.

When I was in college, I was a very good student academically but a very poor student financially. So I made up an advertising flyer on my typewriter (this was before the days of the Macintosh), copied it (I may want to work for Xerox someday, so I didn't write that I 'Xeroxed' it), then gave it out to my professors. This led to several small jobs such as painting, raking leaves, and cleaning out basements and garages. It also led to one of my nicest small enterprises.

You see, many professors tend to do a lot of travelling, but these same professors have homes, pets, and plants. So they hired me to look after them. I was getting $6 a day to stay in a professor's home, eat his perishable food, watch his TV, and oh yes, feed and play with the pets and water the plants.

This was great for me, and great for the professor, because it kept the pets, plants, and the home insurance man happy. Since I never held any wild parties in their homes, I got a good reputation and soon was making a few hundred dollars a year housesitting for a small circle of professors.

This employment brought me some much-needed money and also brought me closer to these professors (and their pets).

Be careful, though, if you start spending the money you make from working odd jobs or a second job, or from selling items from a profitable hobby, you may start relying on that money. Use the money to reduce your debt or to increase your savings. Don't use it to increase your expenses.

3. Avoid Unnecessary Installment Debt

Not all debt is created equal. Some debt is necessary and desirable. Few people can buy a car without using credit, and hardly anyone can buy a house without using credit. But using credit to buy a stereo system? Come on! If you really want a stereo system, save up for it, then buy it with cash. If you don't want a stereo system enough to be willing to save for a stereo system, then you don't really want a stereo system.

When you need to decide whether to use credit, consider whether what you want will contribute measurably to your earning power. Education—especially practical education in such things as nursing—usually will, so you can probably justify going into debt to pay tuition now so you can get greater earning power later. A house contributes immensely to your quality of life, so going into manageable debt to buy a house is worthwhile. But going into debt to buy a TV or a VCR or a vacation or most other things is plain foolish.

4. Burn (or Control) Your Credit Cards

With interest on credit card debt running at 19 percent (or more), who needs credit cards? One of the smartest things you can do is to burn your credit cards. Nobody needs credit that's very easy (and tempting) to get, and nobody needs to pay 19 percent on that credit.

If you pay just the minimum on your credit card bill this month (your company will smilingly say there's no hurry to pay it all off), the rest of the statement will come around again next month, with interest charges added—and probably with the charge for all the new things you've bought since last month. It keeps getting bigger and bigger.

You say that you think having a credit card is necessary in the 21st century? I don't believe that is strictly true for most people, but if you do (you may shop online), then the least you can do is have just one credit card, seldom use it, and always pay your debt promptly. But if you are uncomfortable with the debt you have now, burn your credit cards.

5. Pay Your Bills On Time

My mother never paid all her utility bills on time. The next month, the unpaid bill (or bills) would come again, with a late charge—and with another month's charge for water, gas, electricity, whatever. So my mother would pay the bills she had to pay to keep the utilities going, meaning that because of the late charges she had to let some other bills go that month. These bills would re-arrive the next month, with a late charge and a charge for another month's worth of gas or electricity or whatever ... etc. My mother ended up paying a fortune in late fees; if she had paid her utility bills promptly, when they were due, she would have avoided a great deal of aggravation, and she would have had more money to buy the things she and her kids wanted.

Don't get me wrong. I love my mother. I learned a lot from her. However, one of the things I learned, through her horrible example, was to take care of my money.

Pay your bills—especially those bills to which late charges are added or on which interest is charged—on time.

Unfortunately, some companies seem to want you to pay bills late so that they can collect late fees. My telephone company (Verizon) sent the bills to me in envelopes that look like they contain advertising, not a bill. Occasionally, I wouldn't open the envelope, with the result that I got hit by a late fee. (Now Verizon is my ex-telephone company.)

6. Keep Making Payments on Your Debt

Your debt may seem to you bigger than Godzilla, but continual payments can whittle it to down to size. Pay something, no matter how little, on your debts, no matter how big. When I took over my mother's finances, she had a large hospital bill. We paid $5 a month (all we could afford, because of all the other debts which we were making payments on) for a long time. As the number and size of her debts decreased, we were able to increase our payments to the hospital. Eventually, it—and all her other debts—were paid off.

One exception to this can be credit-card debt. It is possible to make payments each month, yet have the outstanding debt go up each month because of interest. In such a case, you will probably want to pay off your debt with the highest interest rates first.

7. Don't Get in Debt in the First Place

Of course, the best thing to do is not to get in debt in the first place, unless you have a good reason for getting into debt (such as getting an education or buying a house or car). Unfortunately, too many college students will fill out an application in order to get a free T-shirt, but then they end up

getting in unnecessary debt because they have a credit card. That free T-shirt ends up being very expensive. If you can resist getting the free T-shirt, and if you can resist getting a credit card, you can resist getting into the credit-card debt in the first place.

Chapter 3: How to Handle Your Cash

1. Open a Checking Account

Unless you're a sheepherder in Lower Mongolia, you need a checking account. Today, it's virtually impossible to get by without one. You can get by, but then you have to use money orders to pay at least some of your bills, and money orders are expensive—more expensive than checks.

But then, checking accounts can be expensive, too. First you have to pay for the checks, then you have to pay service fees each month. We all know about service fees, since most of us pay $5 or more a month to our bank so we can keep our checking account there. What's to be done?

What you can do is to cut out or reduce the service fees to the bank by shopping around. Perhaps you can get your checking account at a credit union that has no or low fees for checking accounts.

You should keep more than the minimum balance in your account. Form the habit of never dropping below the minimum balance, and always keep $100 or $200 above the minimum balance. Pick a figure, then stick to it.

2. Get Automatic Deposit

If you are like most people, you sell your labor for a paycheck. Do yourself a favor and have that paycheck deposited into your checking account automatically. It will save you time, and your time is valuable. In addition, you don't run the risk of losing or misplacing your paycheck.

3. Start an Emergency Fund

You need to start an emergency fund. You can have two emergency funds. The first emergency fund will be in a savings account so that it is handy. This emergency fund will be for small emergencies. You will pick a figure and you will

save that amount of money in your savings account. Each time you withdraw money for a small emergency, you will immediately begin saving again until you have the desired amount of money in your savings account. Let's say you picked $1,000 for the figure in your first emergency fund. Once you save $1,000, stop putting money in that account. (Instead, you will be putting money into your second emergency fund.) If you have a car repair that costs $500 (perhaps that is your deductible), you will take $500 out of your savings account to pay for the car repair, and then you will save money again and keep depositing it into your savings account until you have $1,000.

The second emergency fund can be in a money market fund at a mutual fund such as Fidelity, T. Rowe Price, and Vanguard. This emergency fund will be for big emergencies. Again, you will pick a figure and you will save that amount of money. This time, however, you will keep saving. What is above the figure you picked out can be used for big-ticket items such a vacation. Let's say you picked $5,000 as your figure for your second emergency account. If the amount you have saved here reaches $7,000, you can feel free to take a $2,000 vacation or spend the $2,000 on whatever you want.

Of course, the $1,000 and the $5,000 figures are completely arbitrary. You will choose the figures that you think are right for you and your situation.

4. Start an IRA

Actually, you should do one more thing before you take that vacation: start an Individual Retirement Account. Set up an IRA at a mutual fund such as Fidelity, T. Rowe Price, and Vanguard.

The two types of IRAs are Traditional and Roth. With a Traditional IRA you may avoid paying income taxes on the money that you put into your IRA each year; however, you

have to pay taxes on the money you withdraw from the IRA after you reach age 59 ½. You don't have to withdraw from your IRA until you reach 70 ½, but after that age you must withdraw a minimum amount of money per year.

With a Roth IRA, you pay taxes on the money you deposit into your IRA, but you do not have to pay taxes on the money you withdraw from the IRA after you reach age 59 ½. You don't have to withdraw from your IRA until you reach 70 ½, but after that age you must withdraw a minimum amount of money per year.

As of 2010, you may deposit $5,000 into your IRA each year, but if you are over age 50, you may deposit $6,000 into your IRA each year.

Other rules apply. I advise you to go to the Web site of a large mutual fund company such as Fidelity, T. Rowe Price, or Vanguard and research IRAs there.

IRAs are a good idea. Even if you have nothing but an IRA and an emergency account (plus, of course, a checking account), you will be doing better than many families in the United States.

This is my advice:

• Start an IRA early. Once you have an emergency fund, start an IRA as quickly as you can. The earlier you start an IRA, the longer the money has a chance to grow.

• Do not feel that you have to fully fund your IRA right away. The important thing is to set up with the minimum investment, and then to keep adding to it each month. If you can't afford to invest $5,000 per year right now, invest $1,000 or whatever you can afford each year. The main thing is to get started as quickly as possible. Each time you get a raise or more money, you can invest more in your IRA.

• Choose a mutual fund such as Vanguard that is known for its low costs to its investors. Other mutual funds have high fees that hurt their investors.

• Have money deposited into your IRA each month automatically. You can arrange to have money taken out of your checking account and sent to the mutual fund each month.

• How should you invest? Personal finance expert Scott Burns recommends what he calls a Couch Potato portfolio. A simple idea is to invest 50 percent in the Vanguard Total Stock Market Index fund and 50 percent in the Vanguard Total Bond Market Index fund. Once per year, you move money from one fund to the other so that once again you are 50 percent invested in each fund. The theory is that diversification (stocks and bonds) will help prevent very big losses. A person who is fully invested in stocks can have very big losses. A person who has 50 percent invested in bonds will suffer lesser losses because bonds are not as volatile (go up and down in value) as stocks. Be aware that some years you will lose money because some years are very bad years for the stock market.

Vanguard guru John Bogle recommends investing in both stocks and bonds. He recommends investing a percentage of your investment money corresponding to your age in the Vanguard Total Bond Index Fund, and the remaining percentage in the Vanguard Total Stock Market Index Fund. For example, if you are 30 years old, you will invest 30% of your mutual-fund money in the Vanguard Total Bond Index Fund and 70% of your mutual-fund money in the Vanguard Total Stock Market Index Fund. When you are 70, you will invest 70% of your mutual-fund money in the Vanguard Total Bond Index Fund and 30% of your mutual-fund money in the Vanguard Total Stock Market Index Fund. That way, your portfolio will become more conservative as you grow older.

By the way, index funds are different from actively managed funds. An index fund tries to match a benchmark. For example, an index fund may try to match the S&P 500 (500 large companies selected by Standard and Poor's to be representative of large companies. The managers of the index fund simply try to do as well as the S&P 500. In an actively managed fund, the managers of the fund try to do better than the benchmark—most fail to do that consistently.

Index funds tend to have lower costs than actively managed funds. It is very difficult to any manager to do better than the benchmark year after year.

5. Make Your Investing Automatic

I mentioned this briefly in the section above. You can arrange to have money automatically taken out of your checking account at a certain time each month and sent to a mutual fund such as Fidelity, T. Rowe Price, or Vanguard to be invested.

At your mutual fund company you may have both your big emergency fund and your IRA. Your big emergency fund may be a money market account on which you can write checks as long as they are for an amount of $250 or high. You may have two IRA accounts (perhaps the Vanguard Total Stock Market Index fund and the Vanguard Total Bond Market Index fund; other mutual fund companies have similar funds). You also should have your paycheck automatically deposited into your checking account each month. I recommend that you that you have money taken out of your checking account and sent to a mutual fund to be invested each month, perhaps a day or two after your paycheck is deposited.

You can easily go online and set this up after you have established an account at a mutual fund company. You can

have a certain amount of money sent to your money market fund (your big emergency fund) and to your IRAs.

Each month you will live on the money that is left in your checking account after your monthly investments have been made.

This has many advantages:

• You are paying yourself first. You make your investments, and then you live on what's left. Paying yourself last does not work for most people. Some people think about investing the money that is left over at the end of the month, but seldom is any money left over.

• It is done automatically. All you have to remember to do is to go to your personal computer and put the transaction in your personal finance such as *Quicken*.

• The money will add up quickly over the months and years.

• With money in the bank and money in investments, you will feel better about yourself.

6. What to Do With Your Next Raise

It's easy for me to tell you to save so that you can establish your emergency fund, but you've got to do the hard work of actually saving the money so you can stash a few months' take-home pay somewhere safe so it's there when you need it—and to start an IRA. That can be tough.

I've given you one rule to follow so you can do it: Pay Yourself First. In following this rule, you take some money (at least ten percent) out of every check you get and save it even before you begin paying the bills. By saving it immediately, you form the habit of saving and soon learn that you can live as well or almost as well on ninety percent of your take-home salary as you used to live on all of it (eventually, you will live much better because you have saved ten percent of your

take-home salary). Also, by saving it immediately, you don't notice that it's no longer there for you to spend. My next hint is related to this hint.

The next time you get a raise, save 50 percent of your raise each paycheck in addition to your normal ten percent of your take-home pay. You've managed to get along without the raise before; now you can manage to get along without spending the raise now. This method is a good way of increasing (without pain) the amount of your savings.

The same hint applies to the bonuses you may receive at Christmas or at other times. As soon as you get a bonus, earmark 50 percent of it immediately for savings. However, don't wait for a bonus to begin saving; always save ten percent of your take-home salary. It's the best habit you can make, and after making the habit, you start saving money automatically, without pain.

Of course, in the hard economics times of today, raises and bonuses for many people are nonexistent.

Chapter 4: How to Deal With Insurance and Other Evils

1. How Much Insurance Do You Need?

Insurance is widely viewed as a desirable thing, and it can be. Too often, however, it is not. The first thing you need to realize about insurance is that it should be used to protect yourself against very costly expenses, not against every expense that comes your (or your family's) way. Realizing that, we can start talking about the insurance you do (and the insurance you don't) need.

Life Insurance. First off, do you need life insurance? If you are young and single, you probably don't need it. Instead of paying the expense of insurance premiums, save and invest the money yourself. The purpose of life insurance is to protect the family you would leave behind if you die, so if you don't have a family, why bother with paying life insurance premiums? The only exception to this is when you want to leave an estate behind should you die tomorrow. If you are worried about what would happen to your parents or brothers and sisters when you die, you may choose to get life insurance. If that is the case, or if you are married, you should buy renewable term insurance, about which more in the second part of this chapter. Be aware that you don't need to get life insurance on your children. Children tend not to be wage earners, and you probably don't have to worry about replacing their income when they die.

Car Insurance. Next, if you have a car, you definitely need liability insurance. Liability insurance is necessary insurance. If you cause an accident and seriously harm someone, you could be liable for large sums of money—the kind you can't go to your savings account to get. This is the kind of situation that good insurance is designed to cover. Get plenty of liability insurance.

You may or may not want insurance to cover your own car. If you drive a clunker, don't bother (but be sure to get liability insurance). Simply put the money that would have gone to the insurance company into a savings account. If you have an accident, take the money out of your savings account and replace your clunker. As long as you can replace fairly easily what's lost, you don't need insurance.

If you have a new car or one you could not easily replace if it should get totaled, then you should have insurance on it. Get the highest deductible you can to save on insurance premiums. Your insurance will help you out if your car is totaled, but you won't be spending a fortune on premiums.

Two more tips about cars and car insurance. First, shop around to find out what kind of deal you can get on premiums. Be sure to check out a few places and compare their rates. Second, drive defensively and carefully. If you die in a car accident, it won't be much comfort to you that your car is insured.

Fire Insurance. If you have a house, you definitely need fire insurance. You may want to insure everything in your home for its replacement value, not for its actual value. If your stereo burns in a fire, you want to be able to replace it. Otherwise, if your $1,000 stereo burns in a fire, you may only get $800 for it (because of depreciation before the fire), although it may cost you $1200 to replace it at today's prices.

Tenants Insurance. If you rent, it is a god idea to have tenants insurance, both to replace property in case of a fire and to protect in cases of liability if someone were to fall on your stairs.

Health Insurance. Another essential is health insurance. One kind of expense you ordinarily can't handle by yourself is that resulting from a long illness. Be sure to shop around,

and get the highest deductible you can to save on premiums. And hope to have a job that provides good health insurance.

Disability Insurance. If you are young, you are much more likely to become disabled than you are to die. Becoming disabled either temporarily or permanently will be very expensive, so disability insurance can take some of the financial sting out of being disabled. Be forewarned: disability insurance is expensive and most insurers will not cover 100 percent of your salary (they want it to be to your advantage to get back to work). Be sure to compare policies and to check out each insurance company's definition of "disability" very carefully. You probably will want to get disability insurance that covers you if you can't work at the job you now hold. Some policies won't pay you if, for example, you are injured and can't work at your usual job, but are not so injured that you can't hold down a job at McDonald's for a much smaller salary.

Many kinds of insurance you do not need. You don't need flight insurance or any other kind of insurance that covers one type of accident or one type of illness. Instead, make your health insurance comprehensive.

2. Renewable Term Life Insurance

If you really do need life insurance, then you should get renewable life insurance. Stay away from whole-life insurance and its variations—or check them out carefully. These are insurance-with-savings programs; however, usually they are expensive and the savings portion of the plan ineffective. The situation bears watching, but probably you can do much better by paying for renewable term insurance and banking the difference in your own savings plan. With term insurance, all you get is insurance. If you have a $100,000 term life insurance policy and you die while you're covered, your beneficiary will get $100,000. It's as simple as that. Renewable simply means that you can renew it year after year.

3. Take Care of Your Body

The people I'm writing this small book for aren't millionaires who can live off investment income. Instead, they're people who will work for salary or perhaps will start a small business of their own. As such, much of the money they will make will come from their own labor. Because of this, one of the best investments they—and you, and I—can make is to take care of our bodies. An illness or accident—even if we have disability insurance—can take away much of our income (and happiness), so we need to practice preventive medicine by taking care of our bodies. Exercising, watching our diets, paying attention to symptoms, getting annual dental and medical checkups—all these can play a role in keeping us whole both in health and in finances.

And, of course, pay attention to these rules:

• Drive defensively.

• Wear your seatbelt.

• Don't smoke.

• Avoid dangerous illegal drugs.

• If you drink, drink moderately.

• Eat your fruits and vegetables.

• Eat whole grains.

• Avoid trans fats.

• Maintain a healthy weight.

• Exercise regularly.

• Enjoy life.

• Maintain good relations with family and friends.

- Avoid doing evil.
- Do good.
- Pay attention to the spiritual side of life.

Chapter 5: How to Invest Your Money

1. Diversify

Perhaps the most important rule in investing is to diversify. This rule is based on no more deep thought than the cliché "Don't keep all your eggs in one basket." If you put all your eggs in one basket and you drop the basket, then all your eggs will break. If you put all your investment money in one investment and that investment crashes, then so does all your investment money.

Even before you begin to invest (if you are following my financial program), you should have some diversification because some of your savings are in cash (savings and checking accounts, money market accounts) or cash equivalents (Certificates of Deposit, aka CDs, which are available at banks and credit unions). By now, of course, you've started your checking account and have stashed your small emergency fund in a safe place, such as a FDIC-insured bank. In the next step of your financial plan, you need to make sure that you don't put all your investment money into one basket.

If you also have your big emergency fund in a money market account at a mutual fund such as Fidelity, T. Rowe Price, or Vanguard and if you have two IRAs (one invested in stocks, and the other invested in bonds), you are diversified. If you also have a house, you are further diversified.

Read further for a basic understanding of a few basic investments.

2. Mutual Funds

Mutual funds are run by professionals for anyone, including the public, who chooses to invest with them. In a mutual fund several people—perhaps several hundred thousand

investors—pool their money together so that the professionals who run the fund can invest it for them.

Mutual funds come in several types. Many invest their funds in stocks; others concentrate on bonds; others are money-market mutual funds. The similarity of all these mutual funds is that investors pool their money so that a professional can invest it.

Often, mutual funds come in families. This means that you can choose from and invest in several mutual funds. One may be a money-market mutual fund; one may be for bonds; another may be for equities. Equities are stocks—a share of stock is simply one portion of ownership in a company. As you can imagine, large corporations are divided into many millions of shares of ownership.

This arrangement has several advantages for the investors. First, the investor with little money to invest has immediate diversification. Let's say that the investor wishes to invest in stocks. Instead of buying a few shares in just one company on the New York Stock Exchange, the investor buys a few shares in a mutual fund that has its assets invested in many stocks on the New York Stock Exchange (and perhaps other exchanges, as well).

For extra diversification, invest in a family of mutual funds as your savings increase. Start with a money-market mutual fund (for your big emergency fund), and then invest in an equity (stock) mutual fund, and in a bond mutual fund. Since you now have diversification, sit back, send in money regularly, and watch your net worth increase over time (knowing that, unfortunately, in some years the mutual fund(s) may go down in value).

As owners of shares in a mutual fund, we can relax and let the professionals do the work for us. Instead of our spending hours each week reading the *Wall Street Journal* and other

financial publications, we can simply go online once in a while to see how our mutual funds are doing.

Since we don't have to spend hours each week studying the stock and bond markets, we can concentrate on professional development in our own jobs. Let the professionals do their job; that'll let us do ours.

Our mutual fund will do a lot of our record keeping for us. Usually, we'll receive a statement each quarter of every year, and for tax purposes, a statement by Jan. 31 of every year. The statement will tell us how much we've made in interest or in dividends, as well as how much we've invested in the mutual fund. Our record keeping is limited mostly to filing away the statements we receive from our mutual fund.

Another advantage is that costs can be kept to a minimum, especially if you choose a no-load fund to invest in.

3. Make Your Mutual Fund No Load

The kind of mutual fund I've been writing about, and that I recommend the small investor invest in, is open end. This means that the number of shares in the mutual fund varies day to day. If lots of people want to invest in the mutual fund, the fund will sell them new shares. If lots of people want to get out of the mutual fund, the fund will redeem (buy back) their shares. So the number of shares of the fund varies from day to day.

This is opposed to the closed-end fund, which has a fixed number of shares and which is traded on a stock exchange. You can buy shares in open-end funds directly from the fund, thus avoiding the brokerage fee you have to pay if you bought directly from a broker.

The kind of open-end mutual fund I recommend that you invest in is no-load. If your fund has a load, that means that there's a sales charge—which can be four percent, or eight

percent, or more!—each time you buy (and sometimes each time you sell) shares in your mutual fund. Who needs that!

Whatever mutual fund you choose, make it no-load.

4. Re-Invest Your Dividends or Interest

When you invest in a mutual fund, you can make money in two ways: dividends or interest, and capital appreciation. Your capital will appreciate (increase) when the stocks your equity mutual fund invests in sell for more than when it bought them, or when the bonds your bond mutual fund invests in sell for more than when it bought them. When that happens, great. (Sometimes, your capital will decrease.) Since we're talking in this book about increasing your net worth, let it keep on happening. Keep investing money in your mutual fund.

One way to continue to invest in your mutual fund is to re-invest all dividends and interest in your mutual funds. A dividend is money that a company's board of directors votes to send to its stockholders. If your mutual fund owns 100 shares of Company XYZ, and the board of directors of Company XYZ votes an annual dividend of $1, then you will receive $100 (paid in four quarterly installments of $25). Interest is the money you earn from holding bonds. Whatever dividends or interest your mutual fund earns, it's a good idea to re-invest them.

When you start an account with a mutual fund, that mutual fund will ask if you want to reinvest your dividends and/or your interest. Tell your mutual funds to reinvest your dividends and interest. That way, small sums (which over the years will turn into larger and larger sums) get invested and start working for you. This is a painless way of investing—and one you should not ignore.

5. Dollar-Cost Averaging

Dollar-cost averaging is another good idea that the small investor can take advantage of. A small investor can invest a certain amount of money in his or her mutual fund each month, month after month, year after year. By doing so, the investor buys fewer shares of stock when share prices are high, more shares of stock when share prices are low. The advantage of this is that the investor doesn't have to worry about timing the market—that is, trying to guess when the market is low so the investor can buy shares of stock at low prices. Instead, the small investor simply invests the same amount of money month after month, year after year. When you get a promotion, increase the amount of money you send in to be invested. And, of course, have money automatically taken from your checking account to be automatically invested each month.

6. Investigate Before You Invest

Another very important rule in investing is to investigate before you invest. A lot of people out there would love to have your investment dollars. Some of those people are honest; some are not. To tell the difference, you have to investigate; that investigation should come before you hand over your money. Remember, if an investment sounds too good to be true, it probably is.

Many investments, such as mutual funds, are accompanied are prospectuses, which are booklets that state the rules you must follow to invest in the mutual fund and to redeem your shares. The prospectus also gives you a lot of information that you can use to determine whether that mutual fund would make a good investment for you. It will give such information as this:

1) the philosophy of the fund: whether it's most interested in growth, maximum growth, income, or whatever. Of course,

when it comes to stocks and bonds, I recommend index funds.

2) the expenses of the fund. Some funds have higher expenses than others—guess who pays the expenses.

3) the past returns of the fund. Of course, past performance is no guarantee of the future performance of the fund.

7. The Fancy Stuff: Avoid It

The best thing I can tell you about the fancy stuff is to avoid it. As a small investor, the fanciest thing you need to invest in is an Individual Retirement Account (IRA), which can be called the poor man's tax shelter. If you should ever get a call about investing in gold mines, or fancy tax shelters, or penny stocks, or new issues, or whatever, hang up. The better the deal sounds, and the more "guarantees" the promoter gives you, the faster you should hang up.

Remember: If a deal sounds too good to be true, it probably is excellent for the promoter, but not at all good for you.

A good rule to follow is to understand something before you invest in it. I have written about investing in mutual funds, but before you invest in one, you should write for its prospectus and read it carefully.

Chapter 6: How to Prepare for Retirement

1. The Three Legs of Retirement

Usually, three legs support your retirement. The first of these is Social Security; next comes your Individual Retirement Account and other investments; last is your pension. None of these by themselves may be enough to support you in retirement, but all three of them together can lead to a happy and prosperous retirement. Unfortunately, pensions seem to be becoming fewer in number, so if you can, save and invest more money.

Although you may be only in your 20s or 30s, now is the time to start planning your retirement. After all, someday you hope to be well off (or you wouldn't be reading this), and someday you hope to retire (dying an early death may be romantic in the movies but is hardly satisfactory in real life). Begin planning now so that your net worth increases each year and so that in retirement you won't have to worry about money.

2. Social Security

Social Security is something you have probably been paying into since you began working. It is something you have earned, not something you are being given by the government. Our government has made us fork over some of our hard-earned cash each time we receive a pay check, and in return it has promised to give us a check each month after we retire until we die.

Despite the noises government officials and others are making about Social Security being in a hole when the baby boomers finally start retiring in great numbers, we can assume that we will get something when we retire. Otherwise, the government would probably not survive the resulting loss of its credibility. (Vote the rascals out! And televise the revolution!) Believe me, politicians are well aware that old

people vote. We can also assume that what we receive from Social Security will not be enough to support ourselves well.

3. IRAs and Other Individual Plans

You really don't have much control over Social Security; the government makes all the decisions concerning that. However, you do have control over your Individual Retirement Account (IRA) and other personal investments and savings. Here is one place you can help ensure that you will have a comfortable retirement.

An IRA is an account that you can set up today so that you can withdraw money from it after retirement. The first essential of an IRA is that it really is money for retirement, so you would invest money in it that you won't need until retirement. The other essential to realize is that since you do intend to retire someday you should open an IRA today. If you have a 10-20-70 budget (10 percent of take-home pay is kept in long-term savings; 20 percent in savings for big-ticket items such as a house, a car, or a computer (or to pay off debt); and 70 percent for living expenses), then an IRA is a good place to keep at least some of that 10 percent of take-home pay that you reserve for long-term (not to be touched until retirement) savings.

Opening an IRA account is easy and can be done in many different places. You can open your IRA account at either a bank or a credit union. At either place the form for opening an IRA account is easy to fill out. If you open your IRA at a bank, you would probably invest in CDs.

I recommend that you open your IRA at a mutual fund such as Fidelity, T. Rowe Price, or Vanguard. If you open your IRA at a mutual fund, you may choose two mutual funds to invest in and decide the percentage of your IRA money you want to invest in each one. I have recommended a broadly

based stock fund and a broadly based bond fund, with 50 percent invested in each.

In general, you will try to save as much as possible in your IRA so as to have it when you retire. You may have a good reason not to invest the maximum amount of money in an IRA; however, there are not as many good reasons as a heavy spender might expect. If you are saving for the down payment on a house, you may not want to contribute the maximum amount of money to your IRA. Since your own house would be a major asset and since it would greatly contribute to your quality of life, for many people it is a wise move to buy your own house.

However, even if you are planning to save the down payment to buy your own house, I recommend that you start an IRA for the simple reason that getting started is the hardest thing to do. What you may wish to do is to start your IRA, contribute to it a small amount each month at the same time you are saving up to buy a house. After buying the house, immediately start contributing more money to your IRA.

Your IRA is just part of the money you can invest for your retirement. If you own your home, it is a major asset that may appreciate in value. Other savings and investments mean that you will have more money in retirement. Still, because of its tax-advantaged status, an IRA is an investment that can reduce your tax bill now and grow for the future.

The age at which you start your IRA and the percentage return you get affect the amount you will eventually have in your IRA. One point is obvious: The earlier you start investing, the longer the time your money has to grow.

In building up your IRA, compound interest works wonders. The money you invest makes interest, then that interest make interest, then the interest that the interest made makes interest, etc.

4. Pension

Your pension is another leg of your retirement. Many of us will work years for a company, the government, or a school system, and will receive a pension when we retire. Your pension fund managers should give you an accounting each year, letting you know how much you have invested in the pension fund. Get information about this at your place of employment.

5. Putting It All Together

So, the three legs of retirement are Social Security, your IRA and other personal savings and investments, and your pension. All three of these will work together to support you in retirement. Normally, you will receive checks from Social Security and from your pension fund, and you can withdraw money as needed from your IRA. If your IRA is invested at a mutual fund, you can have the mutual fund send you a check each month.

One advantage that you will have when you retire is that your expenses should decrease, thus making living on a smaller annual income easier. A disadvantage is that as you grow older, your medical expenses will probably increase.

In retirement, your only concerns won't be financial, although financial concerns are the focus of this book. You will need a reason to get up in the morning. That reason can come from hobbies, volunteering, whatever. Practice an art now, and continue to practice it when you retire. Chances are, you want to do more in retirement than watch TV. One important recommendation I can make is for you to make taking care of your body a priority when you retire—and now. (This is an important recommendation for me, too.)

Getting your finances together is only one thing you need to do to get ready for retirement.

Chapter 7: How to Spend Your Money

1. The Advantage of Having Money

Ever notice how those who have always seem to be able to get more? It definitely seems that those who have, get more, while those who don't have, never get at all. There is a lot of truth in this. As country singer Roy Clark says, if you don't have a nickel to your name and suddenly boats are on sale for five cents each, all you'll be able to do is to run up and down the bank and shout, "Ain't that cheap!" Meanwhile, the people with the money are buying the bargains.

One major reason that you need money is so that you've got money when things are on sale. Otherwise, you'll have to buy things when you need them, whether they're on sale or not. A person with money in the bank can buy winter gloves, hats, and coats when they're on sale early in the spring; a person without money in the bank has to buy them when they're needed, whether they're on sale or not.

2. A Well-Stocked Larder

One of the advantages of having money is having a well-stocked larder. When things are on sale, buy more of them than you need. Fill your kitchen or storage room with canned food (bought on sale), paper goods (bought on sale), and items that are used every day (be sure to buy them on sale).

The advantages of doing this are many:

• You've saved money by buying on sale.

• You'll have a nice feeling of security that comes from having a storage room stocked with things you need.

• You won't run out of the items you keep stored.

• You won't need to run to the store as often to get something essential.

• You won't be affected by inflation so much since the stuff that's stored was bought at yesterday's (sale) prices.

• You won't need to dip into savings to buy food at the end of the month if your larder is well stocked with food bought on sale.

• If there's ever a natural (or man-caused) disaster in your area, you'll be better prepared than many of your neighbors.

3. Houses, Cars, and Other Big-Ticket Items

Some things we most want (and often most need) also cost the most. "Big-ticket" items such as buying a house, car, or perhaps a home computer fall into that category. Buying these items takes special preparation.

Arranging a 10-20-70 budget is a good way to prepare for buying these high-priced items. With this budget, 10 percent of your take-home goes into long-term savings, 20 percent is used to save up for big-ticket items such as the down payment for a house, and 70 percent is used for living expenses.

The 10-20-70 budget is a good way to manage your budget at all times. The 20 percent of your budget that you save for the big-ticket items mounts up quickly, and soon you will be able to make a substantial down payment on or buy outright that big-ticket item you've set your eyes on.

4. Saving on Mortgages

A big-ticket item almost everyone has his or her eyes set on, but hardly anyone can afford to buy outright, is a house. A mortgage is a necessity for most people who want t own a house. Here are two ways to save on your mortgage:

1) If you are able, get a 15-year mortgage instead of a 30-year mortgage. True, your monthly payments will be higher, but the money you save on interest will be greatly significant. Why pay the bank for 30 years when you can pay for

only 15 years? By taking out a 15-year mortgage instead of taking out a 30-year mortgage, you will own your home 15 years earlier, your equity will build up much more quickly, and you will save a fortune in interest payments.

2) Set up your mortgage so that your bank doesn't charge a penalty for your paying off your mortgage early. Then send in additional money each time (or as often as you can) you make a mortgage payment. Along with the extra money, send the bank a note saying that the money is to be applied to the principal (not the interest) of your loan. Be aware, however, that although you send in extra money one month, you still need to make your usual mortgage payment every month.

Chapter 8: How to Give to Charity

1. Peter Singer's Argument to Assist

Should we give money to charity?

Most people would probably answer yes, but other than giving a few coins when someone waves a canister under their nose, do not in fact give to charity.

The philosopher Peter Singer, however, would argue that we have a moral obligation to give money to charity.

In his book *Practical Ethics*, Singer bases his argument on the premise that "if we can prevent something bad without sacrificing anything of comparable moral significance, we ought to do it." He uses this premise to argue that we ought to give money to poor people in undeveloped countries. His basic argument, however, can be used to show that we ought to give money to many other charities.

Singer argues that, since absolute poverty—that is, poverty by any standard—is bad, and since there is some absolute poverty that we can prevent without sacrificing anything of comparable moral significance, we ought to prevent some absolute poverty.

No one would argue that absolute poverty is bad. We have all seen photographs of starving families in third-world countries. We would agree that no child ought to go to bed hungry, and we find it horrifying that in some parts of the world half of all children will die before they reach the age of five.

More controversial is Singer's premise that we can prevent some absolute poverty. We have all read of inefficient or corrupt charities that collect money for a worthy cause, but somehow, only a fraction of the money collected gets into the hands of the people who need it. The rest of the money

goes for “expenses,” more fundraising or even parties. We also have read of corrupt governments that take the money collected for their people and instead put it in private Swiss bank accounts or buy weapons with it.

Still, some organizations seem to be efficient and to address the needs of the absolutely poor. These programs show that some absolute poverty can be prevented. If we agree with Singer’s argument, then we should work to prevent some absolute poverty.

Singer leaves it to us to determine how much we ought to give. Most Americans have enough food, clothing and shelter, as well as money left over for luxuries such as a color television or a second car.

The basic form of Singer’s argument can also be used to show that we ought to try to prevent other bad things from happening. Absolute poverty is bad, but so is rape. Some absolute poverty is preventable; with rape prevention programs, some rapes can be prevented. So we can conclude that we ought to prevent some rapes and we ought to help the survivors of rape. Chances are, your community has a rape crisis center. It deserves to be supported.

Many other things are bad, but can be alleviated. When we can, we should alleviate them.

Giving to charity is in many ways an act of faith. The person who gives to charity has faith that his or her gift will make the world a better place to live than before he or she gave the gift. In many cases, they are right.

2. Investigate Before You Give

In a way, giving to charity can be regarded as an investment. It’s an expense in financial terms, of course, but still you can regard the money you spend as an investment in the future of the world. There are many places to give your money, but

no matter to whom or to which charity you give your money, you are trying to make the world a little better—both now and in the future.

In your financial life, you will probably both be investing for a personal return of wealth for yourself and giving to charity as a way to invest in a better world for all. Some of the same rules apply to both kinds of investments.

The most important of these rules is this: Investigate Before You Give. Yes, you are giving your money away, but still, you want to give wisely, just as you want to invest wisely. So you need to become familiar with the charities to which—if they deserve it—you will give some of your money.

Sometimes judging charities can be difficult. Much of the money raised by Mothers Against Drunk Driving (MADD) goes toward sending out fund-funding letters, but one can argue, as financial writer Andrew Tobias does, that these letters are a forum to educate the public about the dangers that drunk drivers pose.

Investigating charities before you give money to them is an unfortunate necessity simply because some charities are inefficient and others are outright frauds.

3. Diversify

I recommend a certain amount of diversification in your charitable donations. For one thing, you may find out later that one charity has been less efficient than it should be. If you diversify, you will avoid giving all of your charity dollars to an inefficient charity. However, I also recommend diversification because there are so many worthwhile causes to support, so many worthwhile battles to fight.

Diversify, if possible. The first kind of diversification is to donate to more than one charity, the second is to give to both local and national or international charities, and the third is

to give to both the kinds of charities that serve to help humankind to survive and to the kinds that serve to uplift humankind through the arts.

You may not want that much diversification. No problem. It's your money. Give it to whichever charity or charities you want.

A final word: One of the pleasures of having money is being able to help other people. If you read about a tragedy in your newspaper and read that money is being collected for the people who suffered the tragedy, you can do a couple of things. One, you can say, "Isn't that awful," then turn to the comic page. Two, you can reach for your checkbook and send some money where it can do some good.

4. Limit Your Diversification

Still, when giving to charities, you don't want to spread your donations too thin. You'll find your mailbox full of solicitations, and those letters cost the charity money. Instead, investigate a few charities and then stick with them. If you ignore the other charities, they'll stop sending solicitations to you and spend that money better elsewhere (we hope!).

If you donate money to a national or international charity, you will find your mailbox full of solicitations. Charities often share lists of donators. If you give money to each charity, you will have to be very rich, indeed. In my opinion, it's better to give more dollars to fewer charities than to give fewer dollars to more charities. I want my money to go to people who need it; I don't want it to be spent on sending out form letters.

5. Know When Not to Give

There is a time not to give as well as a time to give. Much of the money we Americans give to charity is given when someone waves a canister under our noses. This is usually

not a good time to give, even if all we give is pocket change. There is no time to investigate the charity and no way to tell if the money gets to where you intended it to go. This is a field for thieves.

Of course, exceptions exist. If the street is filled with kids wearing band uniforms and they say they are collecting for their high school band, it’s a reasonable assumption that they are telling the truth. The Salvation Army Christmas kettles are well known, too, and the Salvation Army is an efficient charity.

But, in general, keep your change in your pockets; when you donate, write a check and send it directly to the charity—avoid the middleperson.

Also, be aware of what are known as “guilt gifts.” Often, a charity will send you a fund-raising letter and a guilt gift—a trinket such as a key ring or something such as address labels. The purposes for doing that are to get you to open the envelope and to make you feel as if you have to give money to such a nice charity. I don’t like guilt gifts, and I don’t give money to charities that send me guilt gifts. I want the charity to spend money on people who need it, not spend money to send me a key ring—I already have a key ring.

If a charity sends you guilt gifts, I recommend writing the charity and asking it to take you off its mailing list. A charity once sent me a dime—and spent money on postage to do so. I wish that all of the dimes that the charity had sent to contributors (and all of the money spent on postage) had gone to the people that the charity was supposed to be helping.

6. Charity Begins at Home

Another good use of money is simply to take care of your own. You don’t want your family to have to rely on charity, so help take care of them. If you want to, spend your money

on gifts that you know that the old folks (or the young folks) in your family will use and appreciate.

And, of course, you may want to support your church or synagogue.

Chapter 9: Free Advice

1. Form good habits.

You decide which good habits you want to form. Some of them will be things that you ought to do and so you form a habit of doing them so that you do them automatically.

Other habits may be such things as reading every day. It's up to you.

2. Do not form bad habits.

Avoid forming the habit of over-eating, and avoid forming the habit of under-exercising, and you won't have to worry about becoming obese.

Avoid the habit of smoking, and you increase your chances of living a long, healthy life.

Avoid addiction to illegal drugs, and you can save yourself a heaping helping of trouble.

And so on.

3. Divide actions into three groups: 1) actions you have to do, 2) actions you ought to do, and 3) actions you want to do.

Try to be efficient at doing the actions you have to do. They usually include making a living for adults, and studying for students. Try to find ways to do them well, and perhaps quickly. For studying, you may want to form the habit of studying at a certain time and place. In some families, once the dishes are washed and dried after the evening meal, the kids sit down at the dinner table and do homework until the homework is done.

Try to make habits of the things you ought to do. Make a habit of eating one or more veggies at every meal. Make a habit of flossing in the morning and in the evening. Make a

habit of stretching when you wake up in the morning (or some other habitual time). If they become habits, you will do them automatically.

If the things you want to do don't conflict with the things you have to do and the things you ought to do, go ahead and do them. If you are an adult and you want to read fairy stories, go ahead and read fairy stories.

Conclusion

Everyone wants to live well instead of just living. Just living can mean living from paycheck to paycheck, always needing something and always having to spend your paycheck because of your many needs. It can mean being afraid of financial emergencies—even minor ones. By following the program set out here, you can alleviate that situation.

If you follow the steps outlined above—budget, know your net worth, pay yourself first, save and invest—the financial part of your life should soon be under control, but of course that's just one part of your life. In addition, you should realize that having control of your financial life doesn't mean that you can buy anything you want.

Actually, it's the people who try to buy anything they want who run into trouble because of huge credit card bills. They try to have it all and end up having little or nothing. No wonder; after all, how much is enough? No matter what you have, it's easy to want more (and often to *need* more).

However, with the program outlined here, you should be able to have the things that are the most important to you, even if it means having to save for them. The real meaning of security doesn't mean having everything you've ever wanted; instead, you will be more financially secure by having money in the bank, a well-stocked larder, an emergency fund in a safe place, and most important, being in control of your finances.

Following the advice in this document won't make anyone rich, but it should help many people achieve at least some of their goals (assuming that not all of your goals are things such as this: being invisible). Some risk is involved, but the advice should be sound. You, of course, will have to decide whether to use this advice. You certainly don't have to invest in a mutual fund at Fidelity, T. Rowe Price, Vanguard, or

anywhere else. And, of course, I am not responsible for any losses that a mutual fund or other investment may suffer. You make your own investment decisions, and you have the responsibility for them.

Of course, other things are important: being with family, loving other people, enjoying the arts, life, and work, and taking care of your body and mind. Not being overly stressed about money can help you to enjoy those other things more.

A Small, Select Bibliography

Clason, George S. *The Richest Man in Babylon.* New York: Bantam Books, 1955. Written in parables, this book contains much excellent advice.

Thoreau, Henry David. *Walden*. Read especially the first chapter, titled "Economy."

Tobias, Andrew. *Money Angles.* New York: Avon Books, 1984. Tobias is both intelligent and funny. His books about money make sense for the small investor. Some of them are divided into two parts: The first part deals with financial basics which everyone, including the small investor, should know, while the second part details Tobias' adventures (and misadventures) in the financial markets. We, of course, should avoid the fancy stuff. However, we can enjoy Andrew Tobias' adventures (and misadventures) when he engages in the fancy stuff.

Tobias, Andrew. *Still! The Only Investment Guide You'll Ever Need.* New York: Bantam Books. Updated every few years.

About the Author

It was a dark and stormy night. Suddenly a cry rang out, and on a hot summer night in 1954, Josephine, wife of Carl Bruce, gave birth to a boy—me. Unfortunately, this young married couple allowed Reuben Saturday, Josephine's brother, to name their first-born. Reuben, aka "The Joker," decided that Bruce was a nice name, so he decided to name me Bruce Bruce. I have gone by my middle name—David—ever since.

Being named Bruce David Bruce hasn't been all bad. Bank tellers remember me very quickly, so I don't often have to show an ID. It can be fun in charades, also. When I was a counselor as a teenager at Camp Echoing Hills in Warsaw, Ohio, a fellow counselor gave the signs for "sounds like" and "two words," then she pointed to a bruise on her leg twice. Bruise Bruise? Oh yeah, Bruce Bruce is the answer!

Uncle Reuben, by the way, gave me a haircut when I was in kindergarten. He cut my hair short and shaved a small bald spot on the back of my head. My mother wouldn't let me go to school until the bald spot grew out again.

Of all my brothers and sisters (six in all), I am the only transplant to Athens, Ohio. I was born in Newark, Ohio, and have lived all around Southeastern Ohio. However, I moved to Athens to go to Ohio University and have never left.

At Ohio U, I never could make up my mind whether to major in English or Philosophy, so I got a bachelor's degree with a double major in both areas, then I added a Master of Arts degree in English and a Master of Arts degree in Philosophy. Yes, I have my MAMA degree.

Currently, and for a long time to come (I eat fruits and veggies), I am spending my retirement writing books such as *Nadia Comaneci: Perfect 10*, *The Funniest People in Comedy*, *Homer's* Iliad: *A Retelling in Prose*, and *William Shakespeare's* Hamlet: *A Retelling in Prose.*

If all goes well, I will publish one or two books a year for the rest of my life. (On the other hand, a good way to make God laugh is to tell Her your plans.)

By the way, my sister Brenda Kennedy writes romances such as *A New Beginning* and *Shattered Dreams*.

Some Books by David Bruce

Retellings of a Classic Work of Literature

Ben Jonson's The Alchemist: *A Retelling*

Ben Jonson's Bartholomew Fair: *A Retelling*

Ben Jonson's The Case is Altered: *A Retelling*

Ben Jonson's Catiline's Conspiracy: *A Retelling*

Ben Jonson's The Devil is an Ass: *A Retelling*

Ben Jonson's Epicene: *A Retelling*

Ben Jonson's Every Man in His Humor: *A Retelling*

Ben Jonson's Every Man Out of His Humor: *A Retelling*

Ben Jonson's The Fountain of Self-Love, or Cynthia's Revels: *A Retelling*

Ben Jonson's The New Inn: *A Retelling*

Ben Jonson's Sejanus: *A Retelling*

Ben Jonson's The Staple of News: *A Retelling*

Ben Jonson's Volpone, or the Fox: *A Retelling*

Christopher Marlowe's Complete Plays: Retellings

Christopher Marlowe's Dido, Queen of Carthage: *A Retelling*

Christopher Marlowe's Doctor Faustus: *Retellings of the 1604 A-Text and of the 1616 B-Text*

Christopher Marlowe's Edward II: *A Retelling*

Christopher Marlowe's The Massacre at Paris: *A Retelling*

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Dante's Purgatory: *A Retelling in Prose*

Dante's Paradise: *A Retelling in Prose*

The Famous Victories of Henry V: *A Retelling*

From the Iliad *to the* Odyssey*: A Retelling in Prose of Quintus of Smyrna's* Posthomerica

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George's Peele's Edward I: *A Retelling*

George Peele's The Old Wives' Tale: *A Retelling*

George-A-Greene, The Pinner of Wakefield: A Retelling

The History of King Leir: *A Retelling*

Homer's Iliad: *A Retelling in Prose*

Homer's Odyssey: *A Retelling in Prose*

Jason and the Argonauts: A Retelling in Prose of Apollonius of Rhodes' Argonautica

The Jests of George Peele: *A Retelling*

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John Ford's The Broken Heart: *A Retelling*

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John Ford's The Lady's Trial: *A Retelling*

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John Ford's Love's Sacrifice: *A Retelling*

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John Ford's 'Tis Pity She's a Whore: *A Retelling*

John Webster's The White Devil: *A Retelling*

King Edward III: *A Retelling*

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The Trojan War and Its Aftermath: Four Ancient Epic Poems

Virgil's Aeneid: *A Retelling in Prose*

William Shakespeare's 5 Late Romances: Retellings in Prose

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William Shakespeare's Macbeth: *A Retelling in Prose*

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William Shakespeare's Pericles, Prince of Tyre: *A Retelling in Prose*

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