WHY ARE MONEY AND FOOD SO SIMILAR?

When it comes to food, we . . .	When it comes to personal finance, we . . .
don’t track calorie intake	don’t track spending
eat more than we know	spend more than we realize—or admit
debate minutiae about calories, diets, and workouts	debate minutiae about interest rates and hot stocks
value anecdotal advice over research	listen to friends, our parents, and TV talking heads instead of reading a few good personal-finance books

HOW TO MAKE $50,000 MORE THAN YOUR FRIENDS (WITH LESS WORK)

	Smart Sally	Dumb Dan
When beginning to invest, the person is . . .	25 years old	35 years old
Each person invests $100/month for . . .	10 years	30 years
With an 8 percent rate of return, at age 65, their accounts are worth . . .	$200,061. Voilà—the value of starting early	$149,036. Even though he invested for three times as long, he's behind by $80,000

CREDIT SCORE VS. CREDIT REPORT

What your credit score is based on:	What your credit report includes:
35% payment history (How reliable you are. Late payments hurt you.)	■ Basic identification information
30% amounts owed (How much you owe and how much credit you have available, or your credit utilization rate.)	■ A list of all your credit accounts
15% length of history (How long you've had credit.)	■ Your credit history, or whom you've paid, how consistently, and any late payments
10% new credit (Older accounts are better because they show you're reliable.)	■ Amount of loans
10% types of credit (For example, credit cards, student loans. Varied is better.)	■ Credit inquiries, or who else has requested your credit (like other lenders)
Get your credit score at www.myfico.com for about $15.	Get your free credit report once a year at www.annualcreditreport.com.

HOW CREDIT SCORES AFFECT WHAT YOU PAY

On a $200,000 30-year mortgage, if your FICO score is . . .	. . . your APR* (interest rate) will be . . .	. . . with interest, you'll pay a total of . . .
760–850 (best range)	4.384%	$359,867
700–759	4.606%	$369,364
680–699	4.783%	$377,021
660–679	4.997%	$386,381
640–659	5.427%	$405,515
620–639 (worst range)	5.973%	$430,427

*APR calculated in January 2009.

GUESS HOW MUCH AN iPOD COSTS IF YOU FINANCE IT WITH A CREDIT CARD?

One of the biggest problems with credit cards is the hidden cost of using them. It may be incredibly convenient to swipe your card at every retailer, but if you don't pay your bill the same month, you'll end up owing way more than you realize. Take, for instance, an iPod. It looks like it costs $250, but if you buy it using a credit card with the average 14% APR and a 4% minimum payment, and then only pay the minimum each month, you'll be out almost 20 percent more in total.

Let's say you buy this . . .	Paying minimum payments, it will take this long to pay it off . . .	You'll pay this much in interest . . .
$250 iPod	2 years 6 months	$47
$1,500 computer	7 years 9 months	$562
$10,000 furniture	13 years 3 months	$4,062

If you paid only the minimum monthly balance on your $10,000 purchase, it would take you more than 13 years and cost you more than $4,000 in interest alone. Remember, this doesn't even factor in your "opportunity cost": Instead of paying off a $10,000 sofa for 13 years, if you'd invested the same amount and earned 8%, it would've turned into about $27,000! Try calculating how much your own purchases really cost at www.bankrate.com/brm/calc/minpayment.asp

DUMB DAN VS. SMART SALLY:
PAYING OFF $5,000 CREDIT CARD DEBT AT 14% APR

Dumb Dan pays the minimum monthly payment		
His monthly payment is . . .	Paying minimum payments, it will take this long to pay off . . .	Total amount of interest he pays is . . .
$200	2 years, 8 months	$1,313.96
Smart Sally pays twice the minimum monthly payment		
Her monthly payment is . . .	Paying twice the minimum payments, it will take this long to pay off . . .	Total amount of interest she pays is . . .
$400	14 months	$436.46

PRIORITIZING YOUR DEBT

	Snowball method: lowest balance first	Standard method: highest APR first
How it works	Pay the minimum on all cards, but pay more on the card with the lowest balance. Once you pay off the first card, repeat with the next-lowest balance.	Pay the minimum on all cards, but pay more on the card with the highest interest. Once you pay off the first card, repeat with the next-highest-APR card.
Why it works	This is all about psychology and small wins. Once you pay off the first card, you're more motivated to pay off the next one.	Mathematically, you want to pay off the credit card that's costing you the most first.

HOW MUCH YOU EARN AT ONLINE BANKS VS. BIG BANKS

If you saved . . .	Online high-interest banks: At 3% interest, you'd earn . . .	Big useless banks: At 0.5% interest, you'd earn . . .
$1,000	$30 per year	$5 per year
$5,000	$150 per year	$25 per year
$10,000	$300 per year	$50 per year
$25,000	$750 per year	$125 per year
$50,000	$1,500 per year	$250 per year

OLDER PEOPLE REGRET NOT INVESTING

I'm not a crotchety old man yet, but when I see these numbers, it's tempting to run around with a cane and a vodka tonic in hand, screaming at young people. Not only do we fail to invest our money, but we don't even know why it's important!

Age of employee	Percentage who participate in a 401(k)	Percentage of pay they Contribute	Median balance of their 401(k)	My comment
18–25	31.3%	5.6%	$1,280	Too busy watching *The Hills*.
26–41	63.1%	7.2%	$14,730	These people have realized that perhaps saving money is important.
42 and up	72.0%	8.3%	$44,330	These older folks are wishing they could go back in time and beat themselves for not saving more, like Biff in *Back to the Future II*.

Source: Hewitt and Associates (http://articles.moneycentral.msn.com/CollegeAndFamily/MoneyInYour20s/YoungAdultsAllButIgnore401ksIRAs.aspx)

A FIFTH OF YOUNG PEOPLE THINK THEY'LL GET RICH THROUGH THE LOTTERY

Percentage of young people . . .	. . . Who believe they'll get rich . . .	My comment
21%	By winning the lottery	I hate you.
11%	Through an inheritance	I hate you.
3%	Via an insurance settlement	How about the insurance of doing some actual work to learn about your money?

INVEST NOW . . .
YOU'RE NOT GETTING ANY YOUNGER

What if you had started investing $10 per week five years ago, receiving an average 8 percent return? Guess how much you'd have? It turns out that by now, you'd have thousands of dollars—all from investing a little more than $1 per day. Think about that $10 a week—where did it go, anyway? If you're like most people, it probably slipped through your fingers on random things like cab rides and lunches. Despite wild rides in the stock market, with a long term perspective, the best thing you can do is start investing early.

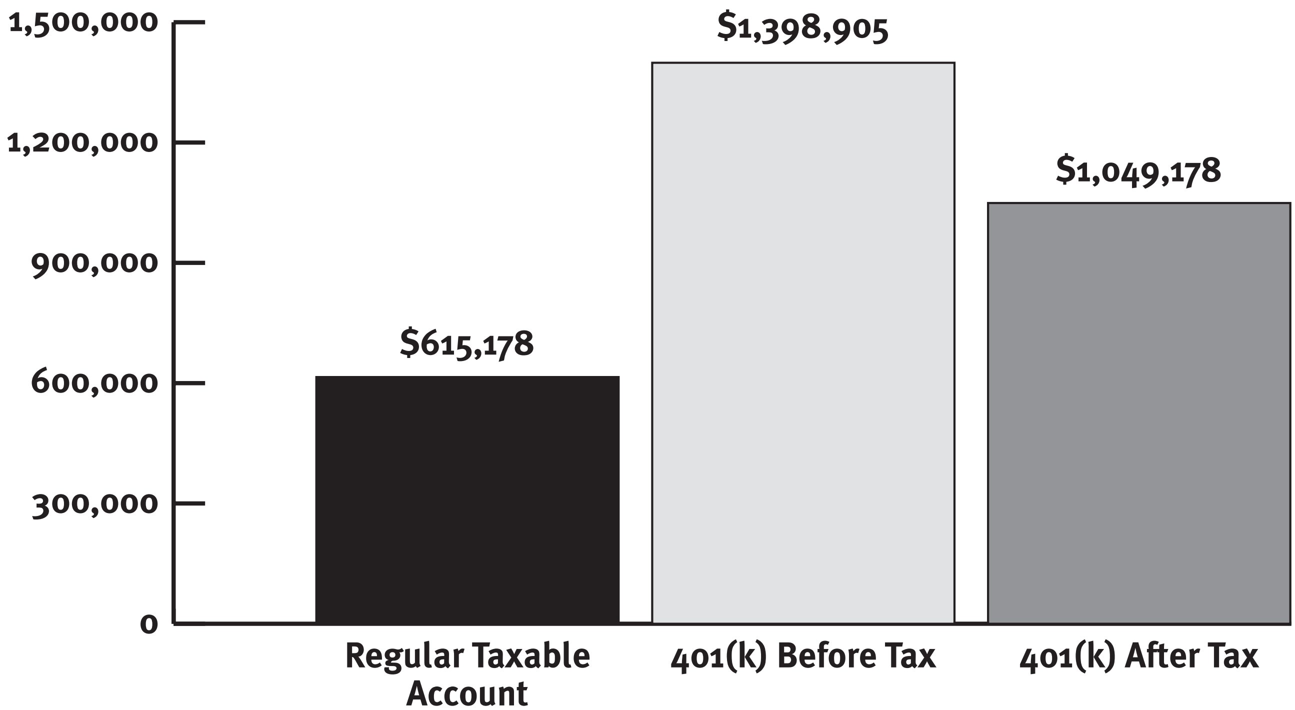
If you invest this much per week . . .	After 1 year, you'll have . . .	After 5 years, you'll have . . .	After 10 years, you'll have . . .
$10	$562	$3,295	$8,136
$20	$1,123	$6,589	$16,271
$50	$2,808	$16,473	$40,678

HOW A 401(K) GROWS

Age	Your contributions	Employer match	Balance without employer match	Balance with employer match
25	$5,000	$5,000	$5,214	$10,428
30	$5,000	$5,000	$38,251	$76,501
35	$5,000	$5,000	$86,792	$173,585
40	$5,000	$5,000	$158,116	$316,231
45	$5,000	$5,000	$262,913	$525,826
50	$5,000	$5,000	$416,895	$833,790
55	$5,000	$5,000	$643,145	$1,286,290
60	$5,000	$5,000	$975,581	$1,951,161
65	$5,000	$5,000	$1,350,762	$2,701,525

RETIREMENT VS. NONRETIREMENT ACCOUNT EARNINGS OVER TIME

(Assumes a 25% tax rate, $5,000 annual contribution ($3,750 after taxes) over 40 years, 8 percent rate of return)



HOW MUCH WILL A ROTH IRA SAVE YOU?

Assumptions: 25 percent tax rate (now and at retirement), 8 percent annual rate of return, yearly contribution of $5,000 (that's $417/month). Notice how much taxes eat out of your returns.

	Roth IRA	Regular taxable investment account	Doing nothing
5 years	$31,680	$29,877	0
10 years	$78,227	$69,858	0
15 years	$146,621	$123,363	0
20 years	$247,115	$194,974	0
25 years	$394,772	$290,782	0
30 years	$611,729	$419,118	0

RECOMMENDED DISCOUNT BROKERAGES

Brokerage name	Minimum to open a Roth IRA	Things to know
Vanguard www.vanguard.com, (877) 662-7447	$3,000	Vanguard is great because of their low-cost funds. But they don't waive their minimums, even with automatic investing. If you want a Vanguard account but don't have $3,000, see page 106 to set it as a savings goal.
T. Rowe Price www.troweprice.com, (800) 541-6066	$1,000	Minimum is waived with $50 automatic monthly contribution. Great low-cost funds.
Schwab www.schwab.com, (866) 855-9102	$1,000	Minimum is waived with $100 automatic monthly contribution. If you set up a high-interest Schwab checking account from page 62, Schwab will automatically link a brokerage account to it. Handy for automatic investing.

CHEAP PEOPLE VS. FRUGAL PEOPLE

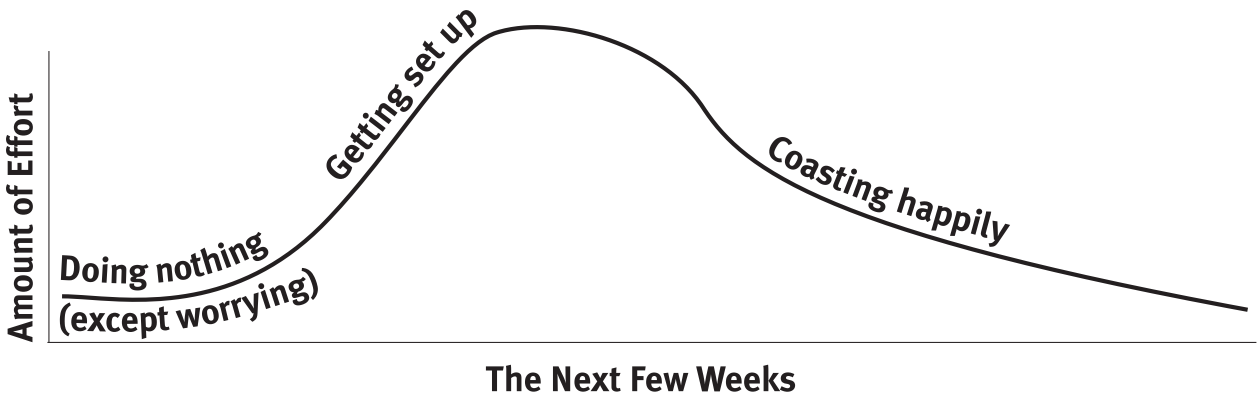
Cheap	Frugal
Cheap people care about the cost of something.	Frugal people care about the value of something.
Cheap people try to get the lowest price on everything.	Frugal people try to get the lowest price on most things, but are willing to spend on items they really care about.
Cheap people's cheapness affects those around them.	Frugal people's frugality affects only them.
Cheap people are inconsiderate. For example, when getting a meal with other people, if their food costs $7.95, they'll put in $8, knowing very well that tax and tip mean it's closer to $11.	Frugal people know they have to pick and choose where they spend their money. If they can spend only $10 on lunch, they'll order water instead of Coke.
Cheap people make you uncomfortable because of the way they treat others.	Frugal people make you feel uncomfortable because you realize you could be doing better with your money.
Cheap people keep a running tally of how much their friends, family, and coworkers owe them.	Some frugal people do this, too, but certainly not all.
Because of the fear of even one person suggesting they spent too much on something, cheap people are not always honest about what they spend.	Neither are frugal people.
Cheap people are unreasonable and cannot understand why they can't get something for free. Sometimes this is an act, but sometimes it's not.	Frugal people will try as hard as cheap people to get a deal, but they understand that it's a dance, and in the end, they know they don't intrinsically *deserve* a special deal.
Cheap people think short term.	Frugal people think long term.

CATEGORIES OF SPENDING

Fixed costs Rent, utilities, debt, etc.	50–60% of take-home pay
Investments 401(k), Roth IRA	10%
Savings Vacations, gifts, house down payment, unexpected expenses	5–10%
Guilt-free spending money Dining out, drinking, movies, clothes, shoes	20–35%

	Eating out	Taxis	Books
Times per month	12	8	5
Amount per event	$23	$9	$17

THE CURVE OF DOING MORE BEFORE DOING LESS



CATEGORIES OF SPENDING

Fixed costs Rent, utilities, debt, etc.	50–60% of take-home pay
Investments 401(k), Roth IRA	10%
Savings goals Vacations, gifts, house down payment, cash for unexpected expenses	5–10%
Guilt-free spending money Dining out, drinking, movies, clothes, shoes	20–35%

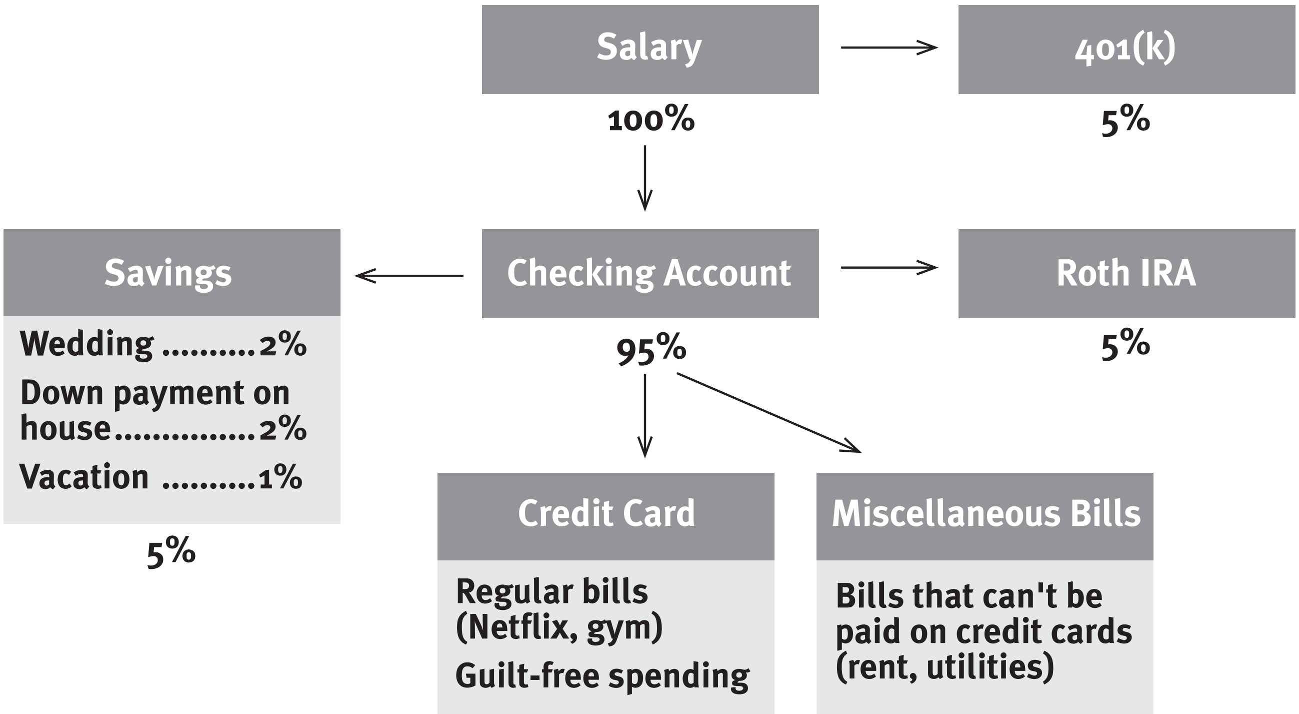
WHERE THE MONEY FLOWS

This account . . .	. . . Should fund this account
Paycheck	■ 401(k) ■ Checking account (direct deposit)
Checking account	■ Roth IRA ■ Savings account (which is sub-divided into savings goals) ■ Credit card ■ Fixed costs that don't allow credit card payment (like rent) ■ Occasional spending cash
Credit card	■ Fixed costs ■ Guilt-free spending

WHEN THE MONEY FLOWS

On this date . . .	. . . these actions happen
2nd of the month	■ Part of your salary goes into your 401(k) ■ The rest of your salary is direct-deposited into your checking account
5th of the month	■ Automatic transfer from checking to savings account ■ Automatic transfer from checking account to Roth IRA
7th of the month	■ Automatic payment of bills from checking account and credit card ■ Automatic transfer from checking account to pay off credit card bill

AUTOMATING YOUR MONEY: HOW IT WORKS

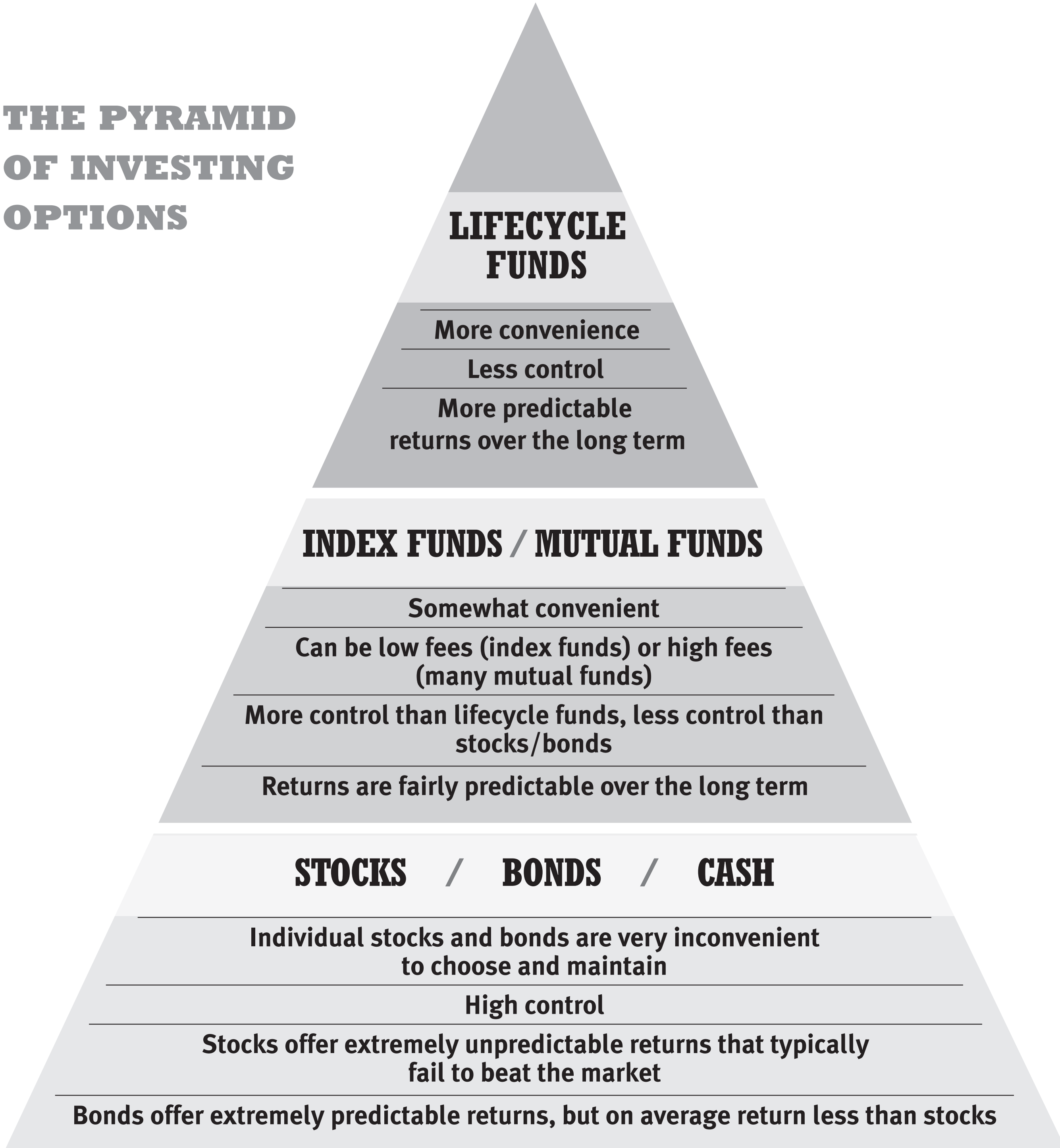


Note: For simplicity, this diagram does not include taxes.

WHAT'S A BETTER DEAL?

Assuming an 8% return on an investment of $100/month	Passively managed index fund (0.18% expense ratio)	Actively managed mutual fund (2% expense ratio)	Investors pay how much more in fees with an actively managed fund?
After 5 years, you have . . .	$14,780.52	$13,488.50	$1,292.02
After 10 years, you have . . .	$21,846.38	$18,193.97	$3,652.41
After 25 years, you have . . .	$70,542.13	$44,649.70	$25,892.43

THE PYRAMID OF INVESTING OPTIONS



80 YEARS OF AVERAGE ANNUAL RETURNS FOR STOCK AND BONDS

The group at Vanguard Investment Counseling & Research recently analyzed eighty years of investment returns to help individual investors understand how to allocate their money. These numbers, which don't include inflation, give us a hint on how to maximize our investment returns.

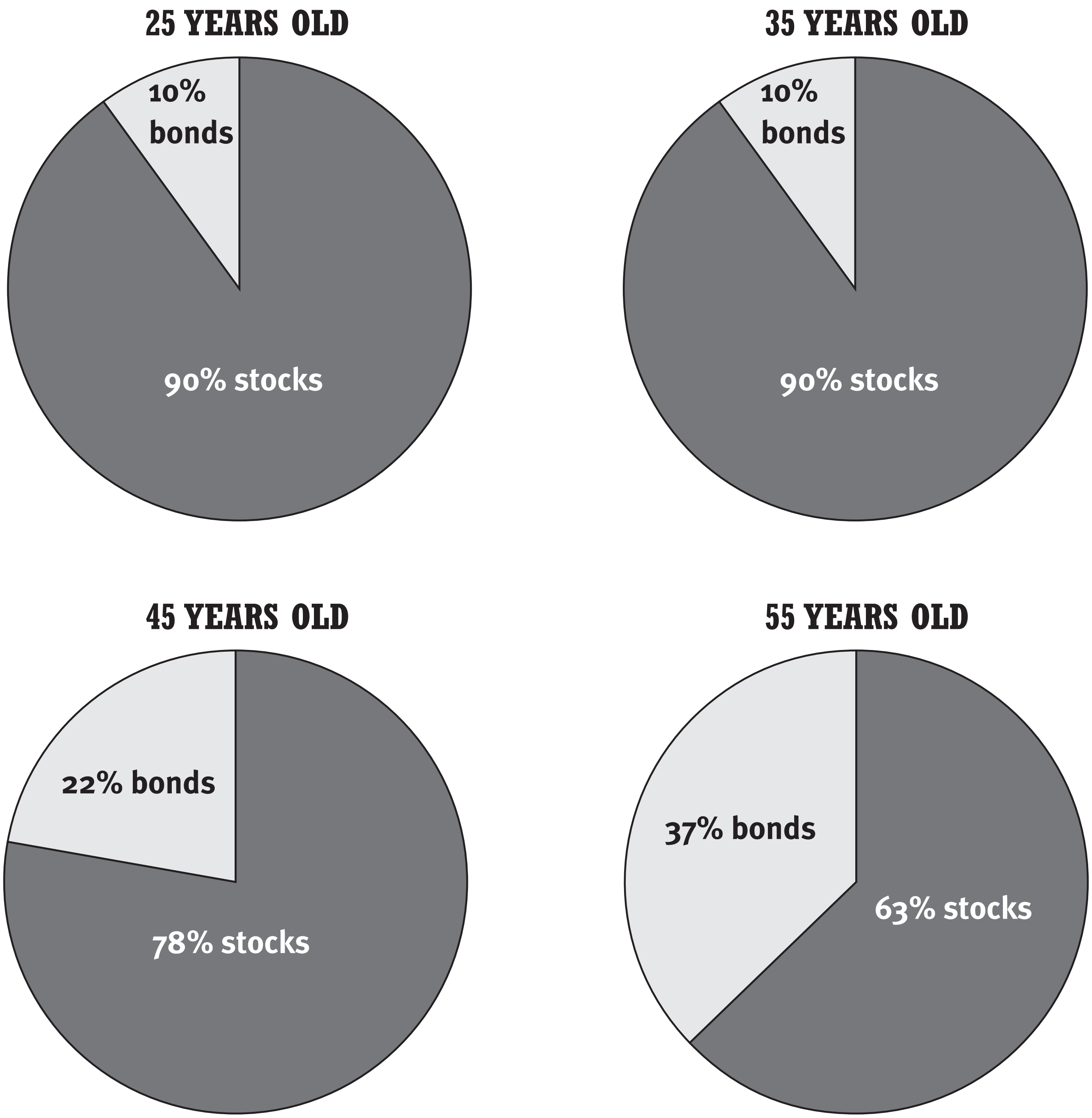
Stocks	Bonds	Cash
Higher risk	Lower risk	Ultra-low risk. Stored in an interest-generating money-market account, not under your mattress.
10.5%	5.2%	3.8%

STOCKS AND BONDS HAVE MANY FLAVORS

Stocks	Bonds
LARGE-CAP Big companies with a market capitalization ("market cap," which is defined as outstanding shares times the stock price) over $5 billion	**GOVERNMENT** An ultra-safe investment that's backed by the government. In exchange for their low risk, government bonds tend to return less than stocks as a general rule of thumb.
MID-CAP Midsized companies with a market cap between $1 billion and $5 billion	**CORPORATE** A bond issued by a corporation. These tend to be riskier than government bonds, but safer than stocks.
SMALL-CAP Smaller companies with a market cap less than $1 billion	**SHORT-TERM** Bonds with terms of usually less than three years
INTERNATIONAL INVESTMENTS Stocks from companies in other countries, including emerging markets (like China, India, and Mexico) and developed markets (like the United Kingdom, Germany, and France) Americans sometimes may buy these directly, or may have to buy them through funds.	**LONG-TERM** These bonds tend to mature in twenty or more years and, accordingly, offer higher yields than shorter-term bonds.
GROWTH Stocks whose value may grow higher than other stocks, or even the market as a whole	**MUNICIPAL** Also known as "munis," these are bonds issued by local governments.
VALUE Stocks that seem bargain priced (i.e., cheaper than they should be)	**INFLATION-PROTECTED** Treasury Inflation-Protected Securities, or TIPS, are ultra-safe investments that protect against inflation.
Note that REITs, "real-estate investment trusts"—which are types of investments that let you invest in real estate through a single ticker symbol, just like a stock—don't neatly fall into any of these categories because of their complicated structure.	

WHAT A GRANNY NEEDS: TYPICAL ASSET ALLOCATIONS BY AGE

Here's what typical investors' asset allocations—remember, that's the mix of different investments—might look like as they get older. These figures are taken from Vanguard's lifecycle funds.



HIGH EXPENSE RATIOS COST MORE THAN YOU THINK

Amount in your portfolio	Annual expenses of a low-cost index fund (.18%)	Annual expenses of an actively managed mutual fund (2%)
$5,000	$9	$100
$25,000	$45	$500
$100,000	$180	$2,000
$500,000	$900	$10,000
$1,000,000	$1,800	$20,000

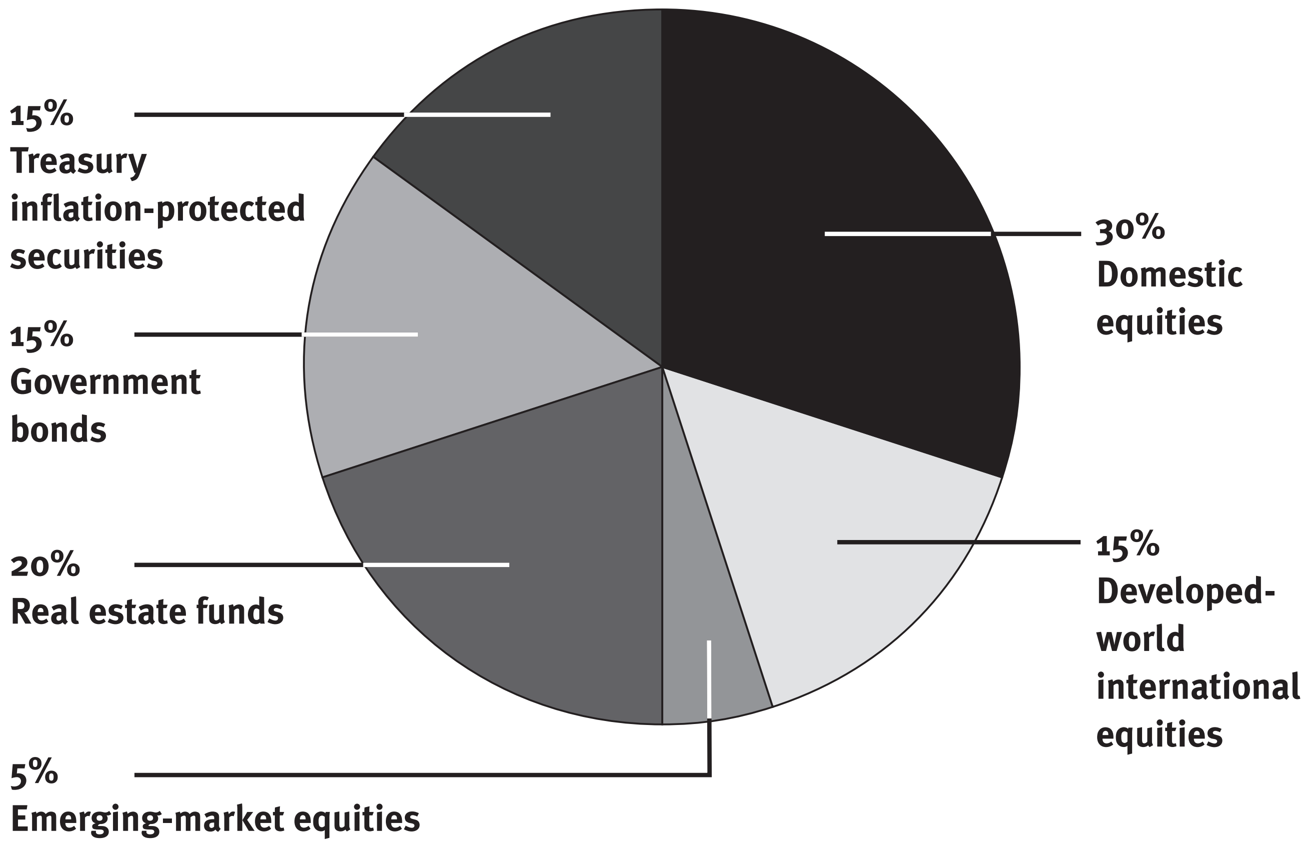
LIFECYCLE FUNDS AUTOMATICALLY ADJUST AS YOU GET OLDER

Here's a comparison of two popular lifecycle funds. These funds target roughly the same age—someone in his or her twenties—and assume retirement at age sixty-five. You should pay special attention to the minimum initial investment (it matters if you don't have a lot of money lying around) and the asset allocation, which will help you determine which fund most suits your risk tolerance. Remember, these are only two example funds; you can choose among many lifecycle funds offered by companies like the ones I list on page 187.

	Vanguard Target Retirement 2050 (VFIFX)	T. Rowe Retire 2045 (TRRKX)
Minimum initial investment	$3,000	$1,000 if within an IRA, $2,500 otherwise
Minimum monthly investment	None (but you should send some money every month)	None (but you should send some money every month)
Asset allocation at 25 years old	90% stocks, 10% bonds	88% stocks, 9% bonds, 3% cash
35 years old	90% stocks, 10% bonds	86% stocks, 11% bonds, 3% cash
45 years old	78% stocks, 22% bonds	74% stocks, 23% bonds, 3% cash
55 years old	63% stocks, 37% bonds	58% stocks, 38% bonds, 4% cash

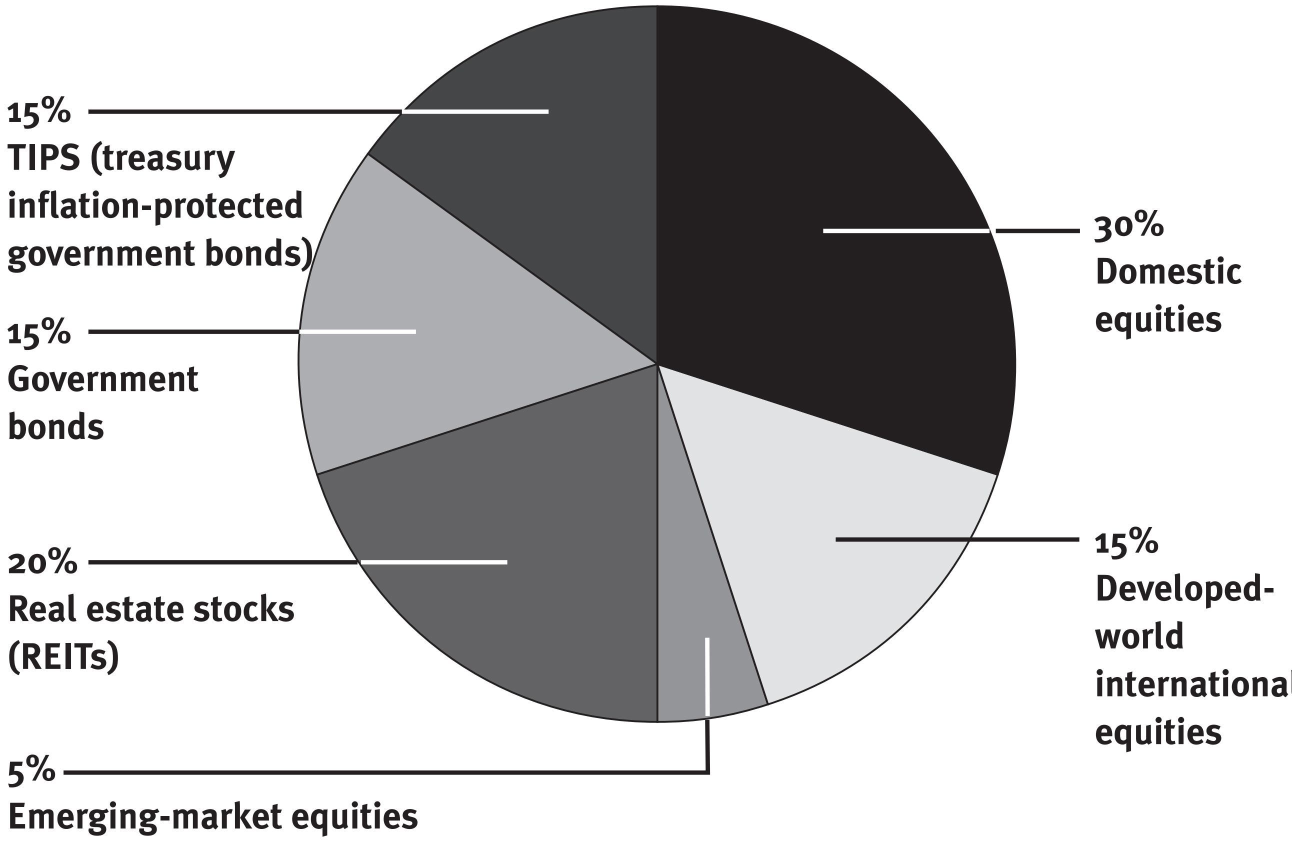
The major benefit to a lifecycle fund is that you set it and forget it. You just keep sending money and your fund will handle the allocation, trading, and maintenance, automatically diversifying for you. If you invest in a lifecycle fund, you could literally spend minutes *per year* on your investments. You may not agree with the exact allocation of the fund, but frankly it's close enough. As you know, 85 percent correct is way better than nothing at all.

THE SWENSEN MODEL OF ASSET ALLOCATION

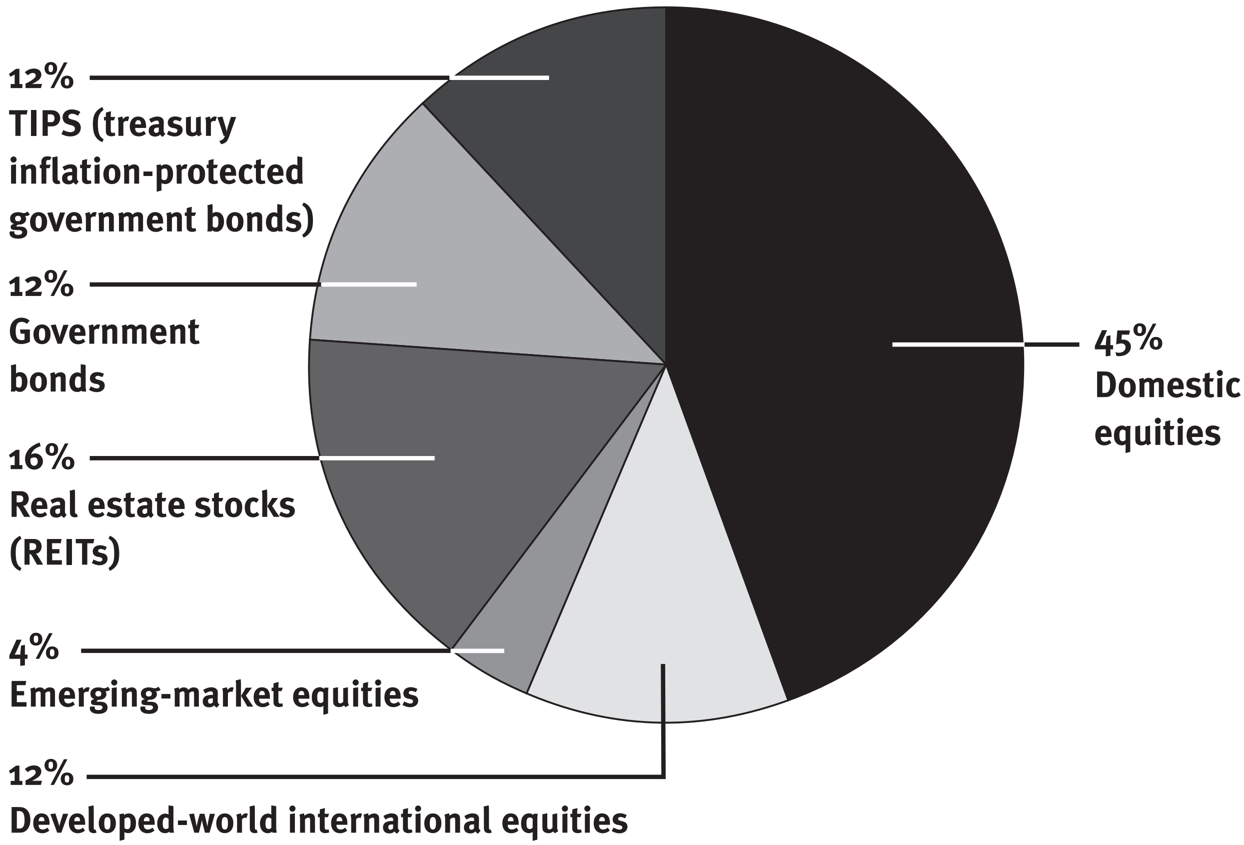


IF YOU INVEST . . .	$100/ month	$500/ month	$1,000/ month
After 5 years . . .	$7,347	$36,738	$73,476
After 10 years . . .	$18,294	$91,473	$182,946
After 25 years . . .	$95,102	$475,513	$951,026

TARGET ASSET ALLOCATION



ALLOCATION AFTER DOMESTIC EQUITIES JUMP 50%



Rebalancing Your Portfolio

$10,000 PORTFOLIO AFTER GAIN OF 50% IN DOMESTIC EQUITIES

Value	$12,727 (New portfolio value)	
	Allocation	Value
Domestic	45%	$5,727
International	12%	$1,500
Emerging Markets	4%	$500
REITs	16%	$2,000
Bonds	12%	$1,500
TIPS	12%	$1,500

Because your domestic equities now represent 45 percent of your portfolio, rather than the targeted 30 percent, you have to take action. Pause your automatic contribution to domestic equities and reallocate that 30 percent by distributing it evenly to the other five asset classes (e.g., each would get an additional 6 percent). $1,000 monthly contributions will now be allocated as follows:

- 0%: Put this investment on pause and evenly distribute the 30% across the other asset classes (i.e., 6% for each).
- 21%: The target is 15%, so add 6% and you'll get 21%. Monthly contribution: $210
- 11%: The target here is 5%, so you again add 6%. Monthly contribution: $110
- 26%: Target is 20%. Monthly contribution: $260
- 21%: Target is 15%. Monthly contribution: $210
- 21%: Target is 15%. Monthly contribution: $210

	Month 2		Month 3		Month 4		Month 5		Month 6		Month 7		Month 8	
Value	$13,727		$14,727		$15,727		$16,727		$17,727		$18,727		$19,727	
	Allocation	Value	Allocation	Value	Allocation	Value	Allocation	Value	Allocation	Value	Allocation	Value	Allocation	Value
Domestic	42%	$5,727	39%	$5,727	36%	$5,727	34%	$5,727	32%	$5,727	31%	$5,727	29%	$5,727
International	12%	$1,710	13%	$1,920	14%	$2,130	14%	$2,340	14%	$2,550	15%	$2,760	15%	$2,970
Emerging Markets	4%	$610	5%	$720	5%	$830	6%	$940	6%	$1,050	6%	$1,160	6%	$1,270
REITs	16%	$2,260	17%	$2,520	18%	$2,780	18%	$3,040	19%	$3,300	19%	$3,560	19%	$3,820
Bonds	12%	$1,710	13%	$1,920	14%	$2,130	14%	$2,340	14%	$2,550	15%	$2,760	15%	$2,970
TIPS	12%	$1,710	13%	$1,920	14%	$2,130	14%	$2,340	14%	$2,550	15%	$2,760	15%	$2,970

Note: In some cases, the numbers in the above columns don't add up to 100% because of the variables of rounding.

CONSUMER-GOODS STOCK

Date	Price	Date	Price
6/3/2002	33.43	1/3/2006	23.78
1/2/2003	31.53	6/1/2006	23.90
6/2/2003	31.01	1/3/2007	26.29
1/2/2004	35.55	6/1/2007	27.68
6/1/2004	35.45	1/2/2008	22.91
1/3/2005	26.45	5/2/2008	20.61
6/1/2005	28.17		

CONSUMER-GOODS INDUSTRY INDEX

Date	Price	Date	Price
6/3/2002	50	1/3/2006	38
1/2/2003	49	6/1/2006	36
6/2/2003	45	1/3/2007	32
1/2/2004	42	6/1/2007	30
6/1/2004	44	1/2/2008	31
1/3/2005	40	5/2/2008	29
6/1/2005	38		

STOCK FROM INDUSTRY A

Date	Price	Date	Price
6/3/2002	43	1/3/2006	23.78
1/2/2003	31.53	6/1/2006	23.9
6/2/2003	31.01	1/3/2007	26.29
1/2/2004	35.55	6/1/2007	27.68
6/1/2004	35.45	1/2/2008	22.91
1/3/2005	26.45	5/2/2008	20.61
6/1/2005	28.17		

INDUSTRY A INDEX

Date	Price	Date	Price
6/17/2002	335.97	1/3/2006	372.26
1/2/2003	317.39	6/1/2006	355.64
6/2/2003	324.38	1/3/2007	388.98
1/2/2004	351.22	6/1/2007	425.47
6/1/2004	358.26	1/2/2008	406.19
1/3/2005	346.81	5/2/2008	372.74
6/1/2005	363.26		

DIVIDING EXPENSES BASED ON INCOME

	You	Your partner
Monthly income	$3,000	$2,000
Rental payment	$600 (3,000 / 5,000 = 60%)	$400 (2,000/5,000 = 40%)

SCARY FIGURES

Your Age	Months until wedding	Monthly amount needed to save
20	84	$333
21	72	$389
22	60	$467
23	48	$583
24	36	$778
25	24	$1,167
26	12	$2,333
27	1	$28,000

SAMPLE WEDDING COSTS

Variable costs		
Guests	150	75
Open bar/person	$20	$20
Lunch/person	$30	$30
Reception/person	$120	$120
Subtotal	$25,500	$12,750
Fixed costs		
DJ	$1,000	$1,000
Photographer	$4,000	$4,000
Rentals: tables, chairs, linens	$1,500	$1,250
Flowers	$750	$600
Hotel for guests	$750	$750
Invitations	$1,000	$750
Rehearsal dinner	$1,500	$1,500
Honeymoon	$5,000	$5,000
Dress	$800	$800
Limo	$750	$750
Rings	$5,000	$5,000
Bridesmaids' dresses	$4,000	$4,000
Misc.	$2,000	$2,000
Subtotal	$28,050	$27,400
Grand total	**$53,550**	**$40,150**

THE COST OF BUYING A HOME OVER 30 YEARS

	2007
Purchase Price (typical single-family home)	$290,000
Interest @ 6.41%; total = $291,000 (after tax: 33% bracket)	$195,000
Taxes & Insurance ($6,000 / year)	$180,000
Maintenance ($300 / month)	$108,000
Major Repairs & Improvements	$300,000
Total Costs	**$1,073,000**

Note: 6.41% was the average mortgage-interest rate in 2006; the national median home price was $222,000. Source: Office of Federal Housing Enterprise Oversight.

THE EFFECT OF CREDIT SCORES ON A MORTGAGE PAYMENT

FICO score	APR*	Monthly payment
760–850	4.384%	$1,499
700–759	4.606%	$1,539
680–699	4.783%	$1,571
660–679	4.997%	$1,610
640–659	5.427%	$1,690
620–639	5.973%	$1,793

*** APR figures calculated in January 2009.**