The Barefoot Investor Summary

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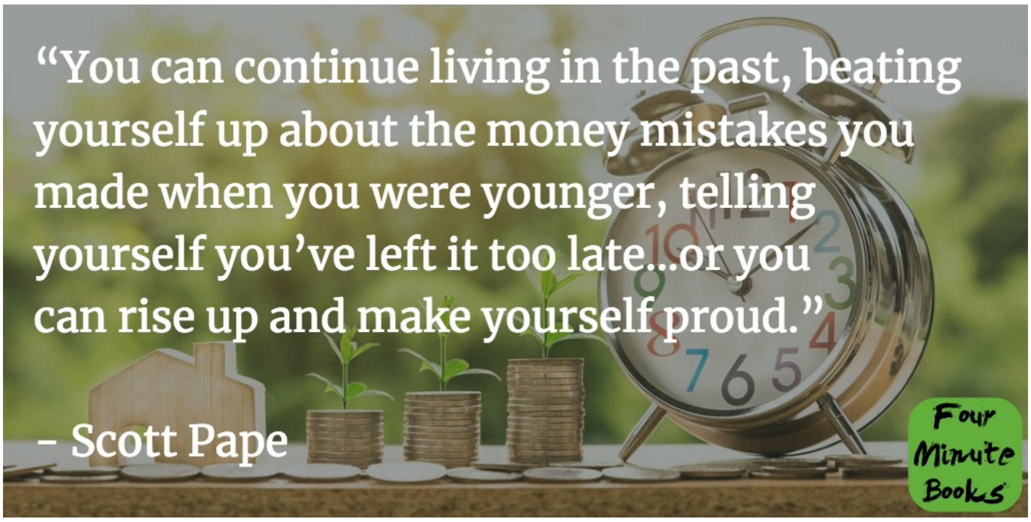
1-Sentence-Summary: *The Barefoot Investor is an Australian farm boy's no-BS guide to taking charge of your personal finances with a simple system focused on eliminating debt, living in the now, and still retiring in peace.*

Read in: 4 minutes

Favorite quote from the author:



Every country has their own version of Dave Ramsey's *Total Money Makeover*. Australia has Scott Pape, also known as The Barefoot Investor. He grew up on a farm, where he learned to love the simple life. In order to keep the freedom he'd always known, he started his career in the stock market, but quickly realized finance was more complicated than making a few good picks. So instead, he took to cleaning up the crooked industry that is personal finance.

Today he's Australia most trusted finance expert, frequently speaks on national TV, has advised the government and world-class sports teams, and, once again, lives on a farm with his wife and kids. *The Barefoot Investor* is his comprehensive guide, which, since publication, has sold over 400,000 copies. In three parts, planting, growing, and harvesting, he shares nine steps you can take towards financial freedom.

Here are the 3 lessons I see as most important:

1. Simplify your money management by using different bank accounts.
2. Shred your credit cards first, then start paying off your debt.
3. Automate some of your retirement planning with index funds.

Let's see what practical steps you can take to improve your finances…today!

Lesson 1: Manage your money with multiple bank accounts.

In most couples, the men love to deal with the family's finances. Moving money around feels powerful, no matter how little you're shoveling from left to right and back. Whether traditional gender roles apply or not, your partner may not love spreadsheets, budgeting and investing as much as you do, or vice versa.

However, one of the first things Scott realized about personal finance is that it's important to have both parents involved. This, in turn, requires a system that is simple enough to understand and explain in a few minutes. That's why Scott came up with the serviette strategy. It's a 3-bucket structure to manage all incoming money and it fits on a single napkin.

The 3 tiers are:

1. **Blow**. This is the bucket for all your everyday expenses, a bit of splurging, and some emergency money.
2. **Mojo**. A place for long-term savings in case of a bigger financial rough patch. Should ideally be 3 months of expenses.
3. **Grow**. Where your retirement and wealth investments go.

You can set up the entire system with five bank accounts:

1. **Daily**. 60% of your income goes here to cover rent, food, mortgage, etc.
2. **Splurge**. 10% is for short-term fun treats, like going to the movies or a new handbag.
3. **Smile**. 10% for long-term rewards, like a vacation.
4. **Fire Extinguisher**. 20% used to stuff burning holes in your pocket, like credit card debt.
5. **Mojo**. An account with a separate bank, where all extra cash goes, for example from overtime hours or a garage sale.

The big trick is directing your money where it's supposed to go before it gets there. With this system, you can manage your finances in less than an hour per month, even if you don't like dealing with it.

Lesson 2: Start eliminating your debt by cutting up your credit cards.

Once you've set up your buckets, Scott has an interesting take on how you can instantly build momentum: Take a pair of scissors and cut all your credit cards into tiny pieces. Paying off your credit card debt first is a common strategy. It's usually small enough to be manageable, but big enough to make you feel you've accomplished something meaningful.

However, by destroying your credit cards *first*, you eliminate the possibility of racking up more debt with them while you're trying to catch up. Once you've burned those bridges, it's time to get cracking.

Call your bank and tell them about an 18-month zero interest offer from [insert competitor bank.] You might not have that, but you don't need to. As long as it gets them to reduce your interest and fees on your *current* credit card debt, that's fine. With the best conditions set, you can start using the money from your fire extinguisher account to slowly pay down your debt and get the ball rolling.

Lesson 3: Use index funds for long-term, automated growth.

Living debt-free is one thing, but actively growing your money is another. And that's the thing. To most people, the 'active' part seems risky and daunting. Hence, Scott recommends dipping your toe into the water with an approach to investing we've discussed on Four Minute Books before: index funds. First commercialized by Jack Bogle in the 70s, **these nifty investment vehicles simply track and trace the biggest, most common stocks in a given industry or geographic region**.

For example, the Vanguard Total World Stock Index Fund models a basket of over 8,000 stocks worldwide, thus echoing annual global stock market returns at just 0.19% in fees. After all, once the stocks are selected for the year, there's not much to update! Since the fund manager doesn't buy and sell stocks all the time, you don't pay them a premium.

Not even Warren Buffett beats the stock market as a whole, so as a first source of long-term, automated growth, index funds are your best choice. And Vanguard offers a whole variety of them. Just pick one and get started.

My personal take-aways

Different people need different books at different times. Maybe you have your own financial system already. Or no debt left. But wherever you are in your journey, reading a new finance book once or twice a year will usually make you rethink your strategy. That in itself has value. And maybe *The Barefoot Investor* will do exactly that for you in 2018.

What else can you learn from the blinks?

- Which two mindset shifts you should make before starting to tackle your finances head on
- What to do with the debt from large, previous purchases
- How to tweak your index fund strategy for exponential gains
- Why this system will reduce stress in various ways
- The biggest mortgage mistake you can avoid

Who would I recommend The Barefoot Investor summary to?

The 26 year old area manager, who just started her professional career, and has no financial system in place, the 37 year old young father, who wants to get out of his debt, and anyone who's scared to start investing.