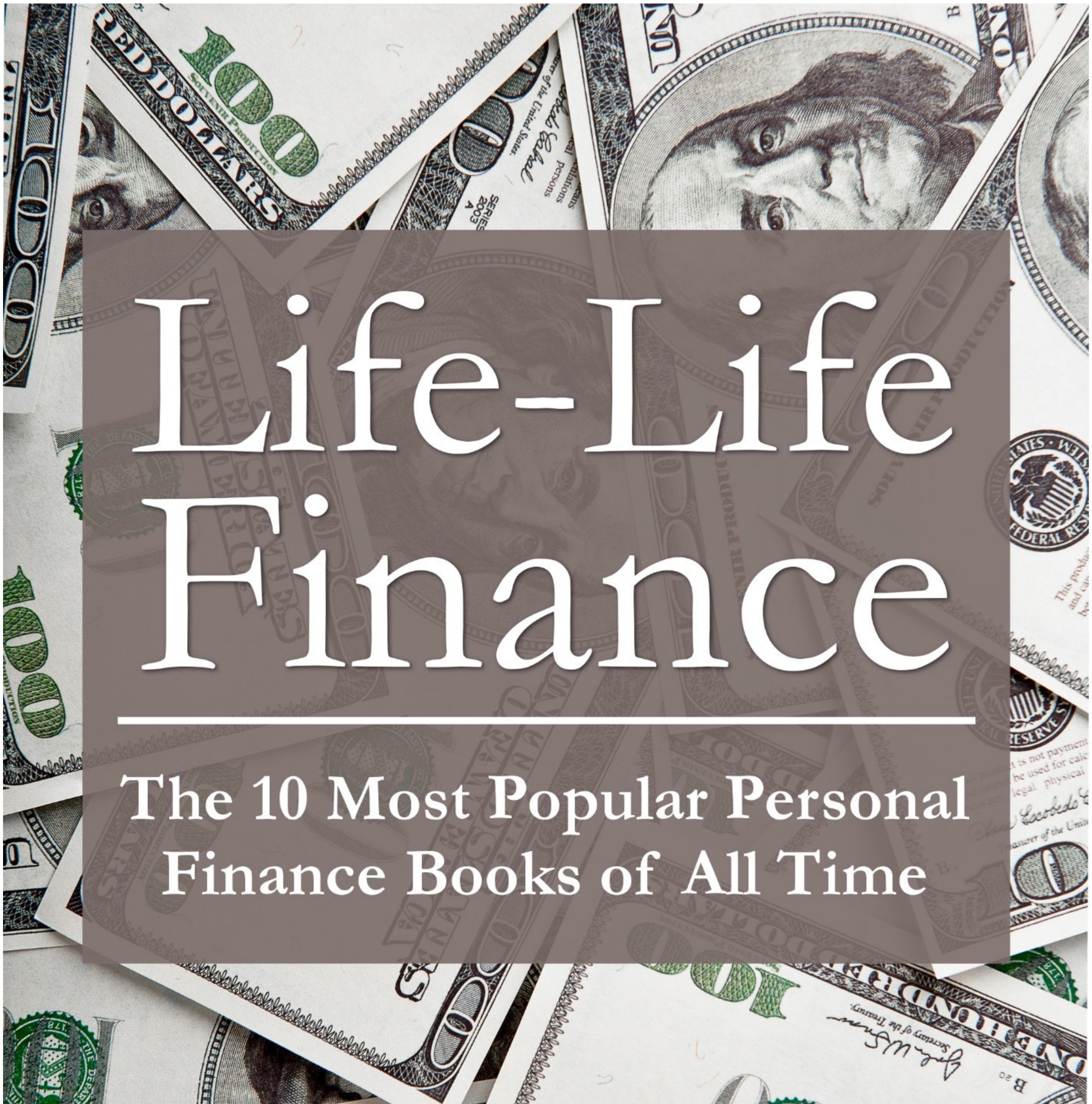

Life-Life Finance

The 10 Most Popular Personal Finance Books of All Time

Christopher Samiullah
and Maureen McGuinness

Life-Life Finance:

The 10 Most Popular Personal Finance Books of All Time

By Christopher Samiullah and Maureen McGuinness

Contents

Introduction

Money is important. That's why we wrote this book. We're not talking about 'making it rain' in the clubs, or showing off with sports cars. Rather, intelligent financial management and wealth building gives you profound freedom. Freedom to try new things, to pursue your interests. Freedom to do nothing. The ability to see the world in snippets longer than 14 days. Relief from many of life's basic worries. The power to help others. Freedom to refuse, to forgive, to move on, to commit, to not commit. Freedom to quit or carry on. In short, money is a tool which, when employed intelligently, allows you to make the most of the human experience.

And yet, for all these huge benefits, we are not taught a great deal about money in school or university. Nor do many parents impart great wisdom in this area. Instead, we piece together an approach based on media sound bites and "common sense". This approach is ineffective, and more importantly, a lot of people are ignorant about how ineffective it is. In the United States, the wealthiest civilization in human history, more than 40% of households live paycheck to paycheck.

We've put together these book summaries as a 'crash course' to bring you up to speed on personal finance in a relatively short period of time, and to help you select books for further reading. This is an area of life where a small amount of study, reflection and effort can lead to colossal long-term benefits, particularly if you start early.

The summaries can be read in any order. At the end we have included a "cheatsheet" with our thoughts on which book is most suitable for different situations.

CAVEAT

We are not licensed financial advisors. The content of this book does not constitute financial advice.

Book Selection Rationale

If you Google "best personal finance books" or something similar, you will not find an authoritative answer. Sure, plenty of publications and blogs have their lists, but these are highly subjective. So how did we go about choosing the 10 "most popular" books we have summarized?

There are roughly 50 books that are regularly reviewed or referred to in the personal finance blogging world. Each of these books attempts to provide the fundamentals of sound money management, but the variation in advice means there is still no single book that covers the full spectrum of money management. We started to look for the "top ten" by looking at the following sources, each of which has published a list of top personal finance books:

Wall Street Journal: Online coverage of breaking news and current headlines from the US and around the world.

Amazon.com (2014 and 2015): In all book categories (including Kindle paid and free books), there is a number, the Bestseller's rank, calculated hourly according to Amazon and linked to the recent number of sales of the product relative to the other products in that category. Contrary to popular belief, these rankings change significantly from one year to the next, meaning that taken on its own, the bestseller rank is not authoritative.

Lifehacker: Tips, tricks and downloads for getting things done.

Inc.com: Inc magazine, founded in 1979, is a monthly publication which focuses on growing companies. The magazine publishes the "Inc 500" annual list of the 500 fastest-growing companies.

Forbes: A leading source for reliable business news and financial information.

Under 30 CEO: Leading media site covering news, advice, trends and events for the young entrepreneur.

Investopedia: A premiere resource for investing, education, personal finance, market analysis and free trading simulators.

Ebay: E-commerce company providing consumer to consumer & business to consumer sales services via Internet.

Business Insider: American business and technology news website

We picked the 10 personal finance books that featured most frequently across these sources. They are summarized in this book in alphabetical order.

Summary One:

A Random Walk Down Wall Street
by Burton G. Malkiel

Book Evaluation

Burton G. Malkiel makes a compelling case that buying and holding index funds is the most successful way to invest. With a detailed examination of investor behavior, booms and busts, as well as the lack of stock-pickers who can consistently beat the market, Malkiel provides convincing evidence against using any other strategy for investing. Malkiel's simple explanations of techniques that individuals use to exploit the market are helpful in showing that the market can be exploited, but not without a great amount of work and effort. While using technical analysis (making stock buy/sell decisions based on the behavior of others) or fundamental analysis (making stock buy/sell decisions based on stock's financials, e.g. its price to earnings ratio) to pick stocks can be lucrative initially, once taxes and brokerage fees have been deducted, there is little, if any, profit leftover for the average investor. Malkiel humorously slams technical analysis when he compares the stock market to the average length of a hemline in women's fashion and finds a correlation. In contrast, Malkiel recognizes and respects the logic used in fundamental analysis, which looks at a wider range of data than technical analysis. Ultimately, he finds that even when individual investors have made a profit by using fundamental analysis, their inability to repeat their success demonstrates that the technique is not a long-term strategy for investing.

One aspect that remains debatable is Malkiel's stance on selling losing stocks. When there's a downturn in the market then stocks or indexes will go down in value. This could be seen as a great opportunity to buy whilst everything is 'on sale'. I think Malkiel is trying to encourage investors to act when their stocks go down in value but suggesting that the investor automatically sell a 'loser' is too simplistic for every situation.

The book is suitable for both beginners and seasoned investors as it's packed full of information on how the stock market works and cleverly imparts one simple message about investing: "No one person or institution consistently knows more than the market."

Book Summary

Chapters 1 - 2: Firm Foundations and Castles in the Air and The Madness of Crowds

There are two basic investment ideologies:

- Firm foundations theory: you should invest based on the real value of what you're investing in
- Castles in the air: you should invest based on what crowds are doing.

An investment is worth a certain price to a buyer because she expects to sell it to someone else at a higher price. The new buyer in turn anticipates that future buyers will assign a still higher value. This is the Greater Fool theory where a thing is worth only what someone else will pay for it and perpetuates market crazes.

The problem with following any irrational obsessions in the market is that such fads eventually succumb to the financial law of gravitation i.e. overvalued goods which continue to go up in value eventually fall, often rapidly. Famous examples include the tulip bulb craze and South Sea company bubble. Consistent losers in the stock market are those who are unable to resist being swept up in some kind of popular investing trend.

Chapter 3: Speculative Bubbles from the Sixties into the Nineties

Malkiel expands on more examples from the last 50 years when markets have gone crazy and stocks have become overvalued, only to return to normal prices a few months later. A couple of examples include:

- New-issue craze: investors pay increasingly higher prices even when the company has no assets or earnings and showed no ability to pay dividends but since the stock is new to the market, it must be valuable
- Conglomerate (when two or more separate companies combine) boom: investors believed that if two separate companies combined then their joint value was not just the sum of their separate earning power e.g. two separate companies with an earning power of $2 million each might produce combined earnings of $5 million if consolidated. Mergers helped to produce growth in earnings per share even though there was no reason why this was suddenly possible.
- In the 1990s and 2000s conglomerates began to sell their previously acquired businesses to boost their earnings i.e. deconglomeration (when previously combined companies separate) became more fashionable

> “Styles and fashions in investors’ evaluations of securities can and often do play a critical role in the pricing of securities. Be wary of purchasing today’s hot ‘new issue’...because most initial public offerings underperform the stock market as a whole.”

Chapter 4: The Explosive Bubbles of the Early 2000s

Malkiel discusses the infamous Internet bubble of the early 2000s. This bubble was exciting because it involved new technology *and* new business opportunities. During this time, buying internet company shares was thought of as an "easy road to riches". The tech bubble started to get out of control: simply adding 'tronics' to the name of a company helped to increase the share price by around 125%, even when the core business had nothing to do with the Internet.

The US housing bubble and crash of the 2000s triggered a recession (people stop spending which leads to lower economic activity and then redundancies) because homes often represent the largest asset in the portfolios of most ordinary investors. How did this happen?

- People used no equity down mortgages to purchase their home or a bigger home (that they often could not afford) because they assumed that house prices would continue to rise.
- People then realized that their house was worth less than their outstanding mortgage
- Homebuyers defaulted and returned the keys to their lender

Home prices fell by two thirds wiping out real estate of millions of Americans and bankrupting some of the largest financial institutions.

Chapters 5 - 7: Technical and Fundamental Analysis

Malkiel examines two techniques (technical and fundamental) used to analyze the stock market and decide on which stocks to invest in.

Technical analysis: All information about earnings, dividends, and future performance of a company is automatically reflected in company's past market prices. Technical analysts are referred to as chartists because they look for correlations in data. They believe that prices tend to move in trends. A stock that is rising tends to keep on rising, or a stock at rest tends to remain at rest.

Arguments for chartists:

- Crowd instinct makes trends perpetuate themselves
- Unequal access to fundamental information about a company (information that will impact on a company's share price e.g. a merger with another company, an acquisition or purchase of another company)
- Investors often react slowly to new information allowing chartists to make the stock purchase earlier

Arguments against chartists:

- Chartists buy only after price trends have been established and sell only after they have been broken. They miss the boat by buying when the uptrend has already started.
- Technique becomes self-defeating. As more and more people use it, the value of any technique depreciates.

Chapter 9: Reaping reward by increasing risk

Malkiel examines various techniques used to control risk and concludes that a perfect risk measure does not exist. Therefore predicting future returns with any certainty isn't possible.

Chapter 10: Behavioral Finance

Behavioral finance looks at the psychology of humans to help explain why people make irrational financial decisions. Unfortunately, as stock-market investors are far from fully rational, market prices are highly imprecise. What hinders our performance as investors?

- Overconfidence. We tend to attribute any good outcome from a stock purchase to be an example of our ability to invest. In contrast, when something bad happens, we attribute it to some external event beyond our control.
- Biased judgments. We think the market *can* go higher and fail to remember past events when high prices return to normal.
- Herding. We're too easily influenced by groups of investors making forecasts and follow the direction of the crowd.
- Pride and regret. It’s hard to admit when we’ve made a bad stock-market decision.

Behavioral Finance and Savings

When employees become accustomed to a certain level of income, asking them to contribute $1 to their pension will be viewed as a loss of current spending availability. “When this loss aversion is compiled with the difficulty of exhibiting self-control, the ease of procrastinating, and making no changes, it becomes perfectly understandable why people tend to save too little.”

How to overcome the reluctance to save:

- Frame the choice better: make it automatic so that you have to opt out rather than opt in
- Save More Tomorrow: commit part of your paycheck to your pension at next pay rise.

Tips taken from Behavioral Finance

- Avoid herd behavior: induces investors to take greater risks during periods of euphoria
- Avoid overtrading: you’ll incur more transaction costs and pay more in taxes
- If you trade, sell losers not winners
- Be wary of new issues, stay cool to hot tips

Chapter 11: Potshots at the Efficient-Market Theory and Why They Miss

Malkiel argues here that markets aren't as efficient (when prices reflect whatever public knowledge there is about each company) as we'd like to think. He refers to Benjamin Graham's idea that you should identify and invest in value stocks for the long term.

Malkiel highlights that growth stocks and value stocks match up with the market over a long period.

> “The theory of valuation depends on the projection of a long-term stream of dividends whose growth rate is extraordinarily difficult to estimate.”

Chapter 12: A Fitness Manual for Random Walkers

Malkiel offers general advice to investors including those insistent on picking stocks. “To get rich, you will have to do it slowly, and you have to start now."

- Keep a cash reserve for unexpected expenses

- Insurance: protect yourself against the unpredictable

Make sure you use the right vehicle depending on how quickly you'll need the money (i.e. how liquid an investment needs to be).

Short-term investments to include in your portfolio:

- Money-Market Mutual Funds
- Bank Certificates of Deposit (CDs) - maturity should match date when you need money
- Internet Banks
- Treasury Bills or T-bills issued by the U.S. government

Save as much as you can through tax-efficient vehicles:

- Individual Retirement Accounts (IRA) - invest a maximum of $5,000 per year tax-free
- Roth IRAs - no tax-free deduction upfront, but withdrawals are tax-free

Make the most of pension plans especially those offered by your employer: 401(k) or 403(b) - pension profit-sharing plan offered by many corporate employers (for the former) and by most educational institutions (for the latter). If you're self-employed, you can still set up a pension through the Keogh plan that allows you to save up to $49,000 annually.

Use a 529 plan to save up for your kids' tuition from the day that they're born. You can contribute $65,000 to a 529 plan without gift taxes. Couples can contribute $130,000.

Understand your investment objectives:

- What degree of risk are you willing to assume?
- What kinds of investments are most suitable to your tax bracket?

Begin your walk at your own home

If you can afford to make a down payment, then purchase your home. “As long as the world’s population continues to grow, the demand for real estate will be among the most dependable inflation hedges available...long-run returns on residential real estate have been quite generous.”

Real estate or property does well when inflation is accelerating, but less well during periods of disinflation. There are other advantages to buying over renting in the US:

- Interest payments on mortgage and property taxes are deductible from income taxes
- Realized gains in the value of your house up to substantial amounts are tax-exempt

You can also invest in property through Real Estate Investment Trusts (REITs). REITs provide diversification as they have a low correlation with other assets, but it’s difficult to pick the one that will give you adequate diversification (enough exposure to a range of assets) in itself.

Bonds

Bonds have a low or negative correlation with common stocks. Recommended bonds:

- Zero coupon bonds
- No-load bond mutual funds
- Tax-exempt bonds and bond funds
- U.S. Treasury inflation-protection securities (TIPS)

Tiptoe through other types of investments including gold and collectibles.

Rule: Remember that commission costs are not random; some are lower than others. Conclusion: shop around for the most competitive rates on your investments.

Chapter 13: Handicapping the financial race: A primer in understanding and projecting returns from stocks and bonds

Malkiel argues that even though you cannot judge short-term movements in securities markets but you can semi-predict the range of long-run rates of investments.

Malkiel's long-term (more than 10 years) return predictions are as follows:

- Good-quality corporate bonds = 5-6% if held to maturity
- Long-term zero-coupon Treasury bonds = 4% if held to maturity
- Long-term TIPS = 2%
- S&P 500 = 7.5% - 8% per year

There will always be risk associated with holding any type of security. If you don't plan to invest for less than a decade, you'll find it hard to predict your returns. Any profits you make will be random.

Chapter 14: A Life-Cycle Guide to Investing

Malkiel offers advice to those wishing to invest for themselves and not through a fund manager. He advises sticking to the following principles when allocating assets (balancing risk with reward by adjusting the percentage that you invest in different assets):

1. History shows that risk and return are related.
2. The risk of investing in common stocks and bonds depends on the length of time the investments are held. The longer an investor's holding period, the lower the likely variation in the asset's return.
3. Dollar-cost averaging (buying a fixed dollar amount of an investment regularly, regardless of the share price, so that you purchase more shares when the prices are low and fewer shares when the prices are high) can be a useful technique to reduce the risk of stock and bond investment.
4. Rebalancing can reduce the risk, and in some circumstances, increase investment returns. Before you start investing, you decide on the percentage (5%) of your portfolio that you want to hold in a specific asset e.g. bonds. Over time, the movement of the market will mean that when your bonds are doing well, they may start to make up more of your portfolio than the original 5%. To return to this 5%, you need to sell some of your bonds.
5. You must distinguish between your attitude toward and your capacity for risk. The risks you can afford to take depend on your total financial situation, including the types and sources of your income exclusive of investment income.

Summary Two:

I Will Teach You to be Rich
by Ramit Sethi

Book Evaluation

In *I Will Teach You to Be Rich,* popular personal finance blogger Ramit Sethi offers his amusing take on money management. This was the first personal finance book that made me very rapidly take action to correct some personal finance errors I was making. This is one of the best aspects of the book: it really makes you want to improve your financial situation.

There is very little mumbo-jumbo, and the tone doesn't feel overly patronizing, which is rare in this genre. Details of why particular approaches to money management are superior are carefully explained. Furthermore, the style is engaging, with Sethi humanizing the content by acknowledging that few people want to spend a large amount of time managing their finances, and that budgeting isn't sexy. The promise Sethi makes is that he can provide a system to "just want to get it handled".

Sethi's approach is also refreshing in that it is not a joyless overhaul of all spending. The much smarter and more sustainable approach offered is to figure out which things really matter to you, and then ruthlessly cut spending on things which are not in this group. The heart of the book's philosophy is:

- Optimize your personal finances so that you spend your money on what matters to you
- Automate crucial financial security steps to ensure you get rich (e.g. automatic investment every month).

The debt cutting and investment steps themselves are the usual suspects: ruthlessly focusing on debt repayment, particularly where high interest credit is involved, and then investing in lifestyle and tracker funds in the stock market with steady payments every month (and not touching the investments apart from absolutely unavoidable emergencies).

What really stands out is the urgency Sethi brings: In many ways your twenties are the most important investment years because they allow you to make the most of compound interest. This is something I wish

I had realized earlier in my twenties, and which Sethi explains very clearly. The book deviates from the norm when discussing some financial commitments which fewer personal finance books emphasize, namely saving for your wedding. The average cost for a wedding is over $20,000, and the average age for getting married is 32 for men and 30 for women. Whilst you may not be "average", you have to bear in mind that everyone says that. Seth brutally points out that this is something you need to be saving for, otherwise you risk huge financial distress.

Where the book shines is in describing the tactics you can employ, particularly when dealing with service companies, to save yourself money in the long term. **The core principle is: make the effort and see what you can get**. So many people just accept the first interest rate or payment plan or overdraft charge which they are offered. Sethi instead advocates picking up the phone and negotiating. There are very useful descriptions of how to do this effectively, which involve approaches like stating your value (how long you have been a customer), comparing with the competition, and threatening to leave. Not shying away from these brief uncomfortable moments can save you thousands of dollars.

Similar to the above, the final section on how to negotiate a higher salary alone is worth the book price. As Sethi brilliantly puts it:

> "Yet nobody ever does [prepare for salary negotiations] because it feels 'weird'. I guess it also feels 'weird' to have an extra $10,000 in your pocket, jackass."

Sethi details the importance of actually practicing your answers to salary negotiation questions with a friend, and calculating how you will work the different total compensation "levers" (insurance, annual leave, training, free lunches etc.) to negotiate a deal with which you are happy. This is an extremely useful section that I found myself referring back to frequently.

I Will Teach You to Be Rich is an excellent personal finance book, probably one of the best out there. It is targeted at those in their twenties and thirties, but will provide useful advice for people of all ages. My main criticism of the book is that it is aimed at the average Joe. It will not teach you to be exceptional with your finances. Sethi offers the following breakdown of spending habits:

- Fixed Costs (rent, food, "car payments", internet, phone, etc.): 50-60%
- Investments (savings): 10%
- Savings for additional special spending (vacations, wedding, downpayment on house): 5-10%
- Guilt-free spending on the things you love: 20-35%

This will definitely get you into the top 10% of the population, but not into the top 1%. Investing just 10% of your earnings is a relatively easy target. Increasing this number will facilitate an earlier and more affluent retirement. If you do not believe in your own ability to really sacrifice on your spending, then the book is ideal. If you feel you have what it takes to exert greater discipline on your spending, then the book's recommendations may be too moderate.

Book Summary

Mentality

Understand what "being rich" means to you, so that you are able to continue to spend on things that are genuinely important to you, whilst ruthlessly cutting back on things which do not *really* matter to you.

Long Term Approach

Establishing good credit is the first step in building an infrastructure to get rich: It is important to have two credit cards - which you must always pay off in full on time. In this way, you ensure your credit score is high and you can get more favorable interest rates on mortgages, car loans and other major purchases.

Common Pitfalls

Banks and credit card companies will attempt to sucker you with fees, high interest rates and overdrafts. Always shop around, and if you are one of the few who picks up the phone to assertively push for the waiving of late fees or more favorable rates, then you can save yourself huge amounts of money in the long-term.

Budgeting and Frugality

The key activity is to actively decide what is important to you, what you are willing to spend money on. Once you have decided on these things, stop wasting money other things:

> “Frugality is not about simply cutting your spending on various things. It’s about making your own decisions about what’s important enough to spend a lot on, and what’s not, rather than blindly spending on *everything.”*

Fixed costs are the amounts you must pay, like your rent/mortgage, utilities, mobile phone, and student loans. A good rule of thumb is that fixed costs should be 50-60 percent of your take-home pay. Before you can do anything else, you’ve got to figure out how much these add up to. Always have a goal in mind for your savings (e.g. down payment on a house, money for a vacation, retirement). Use the envelope system.

Investing and pensions

Young people tend not to grasp the importance of investing early. The worst thing to do is to do nothing, as you will miss out on the power of compounding returns.

> "Most [people] will say, ‘I don’t know how to pick stocks,’ which is ironic because INVESTING ISN’T ABOUT PICKING STOCKS. Although it’s true that some of them might participate in a pension, through work or privately, that’s probably the extent of their investments. And yet these are the most important investing years of our lives”.

Buying individual stocks is risky; buying index funds or similar "tracker" products is not **if** you invest for the long term. The average return on such low-cost funds is 8% per year, but in some years the return will be negative. Do not panic and sell in these years. “Investing is the single most effective way to get rich”. When you are young, you can afford to have a riskier investment allocation. As you get older, move more of your assets into bonds (which are safer).

> “If we’re in our twenties and thirties, we can afford to be aggressive about investing in stocks and stock funds —even if they drop temporarily — because time is on our side.”

You absolutely do not need a professional adviser: “The ‘experts’ are often wrong and fail to beat the market”. One possible model to copy for your asset allocation is The Swensen Model of Asset Allocation:

- 30 percent - Domestic equities
- 15 percent - developed-world international equities
- 5 percent - emerging-market equities
- 20 percent - Real estate funds

- 15 percent - Government bonds
- 15 percent - Index-linked gilts

Invest as much as possible in tax efficient accounts (like your pension and ISA), but don't let concerns about tax get in your way – tax means that you are *making money.*

> "Bottom line: Invest in retirement accounts and hold your investments for the long term. Until your portfolio swells to roughly $100,000 that's about all you need to know."

Saving for retirement is crucial. Whenever your employer will match pension contributions, maximize this benefit.

Automation

You should set up automatic bank transfers for your investments and pension (first), then automatic transfers for your bills and credit cards.

1st day of the month:

- Part of your salary goes into your company pension
- The rest of your salary is transferred into your current account

5th of the month

- Automatic transfer from current to savings account
- Automatic transfer from current account to personal pension or ISA

7th of the month

- Automatic payment of bills from current account via direct debit or standing order
- Automatic transfer from current account to pay off credit card bill

Student Loans

Regarding student loans you have three choices:

- Pay the minimum monthly payment on your student loans and invest the rest
- Pay as much as possible toward your student loans and then, once they are paid off, start investing
- Do a hybrid 50/50 approach

> "Technically, your decision comes down to interest rates [...] If we're talking about your loan with Student Loan Company (rather than a bank overdraft) then you'd want to pursue option one."

Maximizing Income

The best time to earn more money is when negotiating salary for a new job. People don't practice negotiating salary and selling themselves before job interviews because it seems 'weird'. This will cost you thousands of dollars. Do mock interviews with your smartest friends.

> "Most people don't believe they should negotiate. They're afraid of being 'rude' […] If you negotiate, you explicitly communicate that you value yourself more highly than the average employee. Are you average? If not, why would you settle for an average salary?"

When negotiating:

- Always frame your negotiation requests in a way that shows how the company will benefit
- Come prepared - find out salary range for the job
- Have another job offer - and use it to negotiate a better deal with your existing employer
- Literally bring a strategic plan of what you want to do in the position and hand it to your hiring manager
- Have a repertoire of your accomplishments and aptitudes at your fingertips that you can include in your responses to commonly asked questions
- Negotiate for more than money, such as bonus, stock options, flexible commuting or further education
- Don’t tell them your current salary

Giving Back

Give back to your community once you have some financial security. This doesn’t have to be big, for example Ramit Sethi created a $1000 scholarship fund when he was relatively young.

> “You don’t have to be rich to be a philanthropist, just as you don’t have to be rich to invest. The point is that now you’ve got a personal-finance system that few others have. This allows you to elevate your goals beyond making it through the daily grind.”

Marriage

Marriage is a huge and predictable expense which people usually fail to plan for. Don’t fall into this trap.

“If you think about it, we actually have all the information we need. The average age at marriage is about thirty-two for men and thirty for women. We know that the average amount of a wedding is about £20,000.”

Summary Three:

The Intelligent Investor
by Benjamin Graham

Book Evaluation

The Intelligent Investor is a weighty tome (about 500 pages), so it's no surprise that our blog post summary of it brings in a lot of traffic. It is famously described as "the best book about investing ever written" by Warren Buffett (probably the most respected investor of recent times). Why all the praise?

The text is an impressively comprehensive guide to investment. It's old, dating back to 1949, and some of the examples are no longer relevant, but the principles upon which it is based remain fundamental. Rest assured that the book is not just full of inspiring quotes and sage advice about being in control of your emotions – there are details, benchmarks and highly specific steps on how to execute an investment strategy. Having said that, if you are looking for a book-length guide to picking stocks, then you should check out Graham's other classic: *Security Analysis.*

At the heart of Graham's approach are: loss minimization; developing an objective view of the intrinsic value of your stocks (as opposed to focusing on market noise); sensible portfolio allocation, and self-discipline. With the varying approaches for "defensive" or "enterprising" investors, the book appeals to a wide audience. However, if you want to be a day-trader, this book will make for sober reading.

Graham's prose is occasionally heavy, but all things considered the book is highly accessible and, despite its length, not verbose. I found some of the tables hard-work, and wasn't always sure they clarified the relevant point, but these are minor quibbles. I think even someone who is completely new to investment could tackle the text (it would be a stretch, but certainly not rocket science – and Google is your friend).

If you read the copy with the commentary by Zweig, his comments can be helpful in recapping the key points of the chapter (usually in more layman's terms), adding examples of modern companies (many of those mentioned by Graham no longer exist), mentioning new investment vehicles, and providing useful web references. However, I do note that at times he seems to contradict Graham, as one reviewer on Amazon pointed out, Zweig states on p.243 that "In the financial markets, luck is more important than skill" which is basically the opposite of what Graham is saying. He also has an annoying habit of implying "what Graham would do" which I thought was presumptuous. Regardless of which version you buy, treat any commentary with caution.

So should you buy it? It depends on what sort of investor you are. Nowadays, with readily accessible, reliable index funds, you don't need to look at individual stocks or build your own diversified portfolio, as the book teaches you. If you want a rapid investment plan, *The Intelligent Investor* might not be for you. However, if you're ready to devote some time to understanding the stock market, and building your fundamental investing understanding, then it is worth the read.

Book Summary

Inflation

You must understand inflation. Measure your investing success not just by what you make, but by how much you keep after inflation.

Mentality

Manage your own expectations, "Aspiring to 'adequate', not extraordinary, performance."

The Market

The market ("Mr. Market" in Graham's parlance) is often irrational in the shorter run for many days, weeks, months or even years in a row, but ultimately reverts to fundamentals. It is a common mistake to forecast the future (specifically stock prices) exclusively by extrapolating the past. The reasons why people fall into making this mistake are:

- Buying into the hype of strong Bull markets.
- Trusting so-called experts too much (and not doing their own homework).
- Not staying humble about forecasting powers.

> "The value of any investment is, and always must be, a function of the price you pay for it."

Investment Approaches

Graham suggests two possible investment approaches:

- Defensive: "[an investor] interested chiefly in safety plus freedom from bother"
- Enterprising*:* You put a lot of time and effort into your investment operations.

The enterprising approach is physically and intellectually taxing, while the defensive approach is emotionally demanding (since it requires detachment from market panic). The decision about how defensive/enterprising your approach is should be based **not** on your appetite for risk, but rather on your willingness to put time and effort into your portfolio.

Investment Principles

- Keep a minimum of 25% of your portfolio in bonds to give you the courage to keep money in stocks even when stocks sink in value.
    - Document *every* trade, dividend, fee and transaction meticulously – this is crucial.
    - Don't invest in only one stock, or a small number. Your portfolio should be diversified.
- IPOs are frequently overpriced ("It's Probably Overpriced")

> "A great company is not a great investment if you pay too much for the stock: The bigger firms get, the slower they grow. When price/earnings ratios go above 25-30, then the risk is too high."

Evaluating Stocks

When you do invest in a stock, you must be value-oriented. Look for: Earnings stability (some earnings every year last 10 years); Earnings growth (1/3 increase in per share EPS past 10 years; Moderate price to earnings ratio (P/E < 15x average last 3 years EPS).

Guidelines for the Enterprising Investor (similar to those for the Defensive Investor, but slightly more leeway):

- Financial condition (a) Current assets at least 1.5 times current liabilities, and (b) debt not more than 110% of net current assets (for industrial companies)
- Earnings stability: No deficit in the last five years
- Dividend record: Some current dividend.
- Earnings growth: Last year's earnings more than those of 1966 [i.e. previous year]
- Price: Less than 120% net tangible assets.

On Speculation

Do not fall into the trap of being a speculator.

> "The speculator's primary interest lies in anticipating and profiting from market fluctuations. The investor's primary interest lies in acquiring suitable securities at suitable prices."

Once your portfolio is setup you should aim to leave it alone ("autopilot"). If you find yourself trading more than twice per year then that should be cause for concern.

Advisers

Be wary of managed funds and financial advisers (particularly their fees). **Index funds are a smarter investment**. In terms of selecting an adviser, the types of things you want to know about them are:

- What is your investing philosophy?
- Do you focus solely on asset management, or do you also advise on taxes, estate and retirement planning, budgeting and debt management, and insurance?
- Do you use stocks or mutual funds?
- How will you track and report my progress? Do you provide a checklist I can use to monitor the implementation of any financial plan we develop?
- Do you use technical analysis?
- Do you use market timing?

A 'yes' to either of the last two questions is a 'no' signal to you. Other red flags include advisers who have fees that will consume more than 1% of your assets annually, investors who promise an annual return higher than 10% and advisers who will not show you their Form ADV (this is a professional requirement).

Margin of Safety

"Margin of Safety" is the central concept of value investing. If you think a stock is worth $10, don't buy it until it hits, say, $7 or $8. This way, even if you are wrong, you can still make a good investment.

Graham's concept of the margin of safety is built on arithmetic reasoning from statistical data – i.e. understanding the intrinsic value of investments using the techniques from earlier chapters. The intelligent investor must focus on getting their analysis right, but also on understanding and taking precautions against the inevitable event of making errors.

> "In the ordinary common stock, bought for investment under normal conditions, the margin of safety lies in an expected earning power considerably above the going rate for bonds."
>
> "The margin-of-safety idea becomes much more evident when we apply it to the field of undervalued or bargain securities. We have here, by definition, a favorable difference between price on the one hand and indicated or appraised value on the other. That difference is the safety margin."

Summary Four:

The Millionaire Next Door by Thomas J. Stanley and William D. Danko

Book Evaluation

Originally released in 1996, *The Millionaire Next Door: The Surprising Secrets of America's Wealthy* by Thomas J. Stanley and William D. Danko remains one of the most mentioned and best-selling books on personal finance. If you're new to personal finance management, then this book should be high up on your reading list and will transform your perception of the wealthy. If you've already been following personal finance blogs for a while, there will be few surprises in the book because it covers the basics of sound money management: spend less than you earn, don't try and keep up with the Jones'. Most of the content will be a helpful reminder of these basics and principles of becoming wealthy. Where the book falls down is the unhealthy focus on cars and car-purchasing habits of those who are high income earners, but aren't wealthy. This section feels like an attempt to pad out the content of the book, but it's worth considering that this book was first released in the mid-90s, so this focus may reflect a time when cars were more of an important status symbol. To the modern reader, it's a section worth skipping.

Overall, the book is still worth reading for its helpful insight into raising children to appreciate money when they come from a wealthy family (don't tell them that they're from a wealthy family until they've proven that they are capable of making and saving money themselves) and for understanding why high income earners who work for others may struggle to save any money.

Book Summary

What is wealth?

Wealth is not the same as income. If you make a good income each year and spend it all, you are not getting wealthier. You are just living high. Wealth is what you accumulate, not what you earn or spend.

How do you become wealthy?

Not through luck, inheritance or advanced degrees. From the survey sample of more than 11,000 high net-worth* or high income respondents, Danko concludes that millionaires are financially independent. More than 80% are ordinary people who accumulated their wealth in one generation.

**Net worth = assets - liabilities, or the difference between what you own (property, cash savings, stocks) and what you owe (mortgage debt, credit card debt, bank loans)*

Millionaires and the 7 factors that made them who they are:

1. Live well below means
2. Allocate time, energy and money efficiently and in a way that is conducive to building wealth
3. Financial independence is more important than displaying high social status
4. Their parents did not provide them with 'economic outpatient care' (they did not receive any financial support from their parents after they left home)
5. Their children are economically self-sufficient
6. Proficient in targeting market opportunities
7. Chose the right occupation

Chapter 1: Meet the Millionaire Next Door

Most people think millionaires live extravagantly and own expensive clothes, watches and other status items.

The real portrait of an American millionaire:

- More than 66% are self-employed
- Live on less than 7% of their wealth
- 97% are homeowners. 50% have lived in the same house for more than 20 years
- 80% are first-generation affluent i.e. they didn't inherit their wealth
- Only a minority drive the current-model-year car and few ever lease a car
- Accumulated enough wealth to live without working for 10 or more years
- 1 in 5 is not a college graduate
- Invest nearly 20% of pretax income. Most invest at least 15%.
- Live well below their means

High consumption individuals vs. wealthy individuals

Most who display a high-consumption lifestyle have few or no investments, appreciating assets, income-producing assets or private businesses. Wealthy people own substantial amounts of appreciating assets and do not display a high-consumption lifestyle.

Calculate your net worth...with caution

Stanley and Danko share their formula for calculating what your net worth should be based on your income and age: Your age multiplied by your pretax income from all sources except inheritances divided by 10

Whilst the authors claim that they developed this formula based on surveying various high-income/high-net worth people. For those who didn't go to college, this formula will probably work fine. The problem with doing this as a young person who went to college is that there's a good chance you have student debt which means your net worth will be unlikely to be anything to shout about.

PAWs versus UAWs

Based on how wealthy you are, you can divide the general population into two groups: prodigious accumulators of wealth (PAWs) and under accumulators of wealth (UAWs):

PAWs	UAWs
build wealth	tend to live above means
best at building net worth compared to others in their income/age category	emphasize consumption
have a minimum of 4x wealth accumulated by UAWs	tend to de-emphasize many of the key factors that underlie wealth building

Most people who become millionaires have confidence in their own abilities. **They do not believe that you must be born wealthy.** People of modest backgrounds who believe that only the wealthy produce millionaires are pre-determined to remain non-affluent. More than half of millionaires never received as much as $1 in inheritance.

Chapter 2: Frugal frugal frugal

PAWs live frugally:

- Most people judge others by their choice in foods, suits, watches, cars and houses
- Easier to purchase 'superior' things than be superior in economic achievement
- Frugal behavior is characterized by economy in the use of resources

In contrast, UAWs:

- Spend their increases in income to feed their need for immediate gratification.
- Believe in spending tomorrow's cash today and therefore debt-prone
- Earn-and-consume treadmill

Unfortunately few can sustain profligate spending habits and simultaneously build wealth. The affluent play a great defense by being frugal. The foundation stone of wealth accumulation is defense, and this defense should be anchored by budgeting and planning.

You're playing a great defense, if you:

- Operate on an annual budget
- Know how much your family spends each year on food, clothing and shelter
- Have a clearly defined set of daily, weekly, monthly, annual and lifetime goals
- Spend a lot of time planning your financial future

Operating a household without a budget is akin to operating a business without a plan, without goals, and without direction.

Financially independent people are happier than those in their same income/age cohort who are not financially secure.

Profile of UAW

Lifestyle is initially appealing but a UAW…

- Is possessed by possessions
- Works for things
- Focuses on the symbols of economic success
- Constantly needs to convince others of success
- Works, earns and sacrifices to impress others

Your parents have an impact on whether you're a UAW or PAW. UAWs are bombarded by messages that: you earn to spend. When you need to spend more, you must earn more.

Build wealth by minimizing your realized (taxable) income and by maximizing your unrealized income. Choose not to draw from your assets and spend it as you will be taxed.

Tips for property:

- Never purchase a home that requires a mortgage that is more than twice your household's total annual realized income
- Live in less costly areas so that you can invest more of your income

Chapter 3: Time, Energy, and Money

Efficiency is one of the most important components of wealth accumulation. People who become wealthy allocate their time, energy and money in ways consistent with enhancing their net worth.

There is a strong positive correlation between investment planning and wealth accumulation: PAWs allocate nearly twice the number of hours per month to planning their financial investments as UAWs do.

Your spouse's orientation toward thrift, consumption, and investing is a significant factor in understanding your household's position on the wealth scale.

PAW couples:

- Both generate high income and both are frugal
- Communicate with one another about resource allocations
- Their planning, budgeting and consuming are coordinated events
- Spare time is spent enhancing wealth e.g. managing current investments

If you can't control your spending or know what you're spending, you will struggle to accumulate any wealth.

Having a budget will help you set aside at least 15% of your pretax income to invest.

There is an inverse relationship between the time spent purchasing luxury items such as cars and clothes and the time spent planning one's financial future.

UAWs:

- Spend a great deal of their incomes on expensive automobiles and clothing. It takes time to shop and to care for expensive high-status artifacts.
- Work hard to maintain and enhance their high standard of living.
- Many aggressively shop for bargains.

- Bolster high-consumption behavior by arguing that what they buy is purchased near cost, at cost or below cost
- Spend hours studying the market, but not the stock market

Most millionaires interviewed never in their lifetimes spent $65,000 for a car. More than half never paid more than $30,000. Less than 25% of America's millionaires are driving the current year's model of car.

UAWs and PAWs share common financial goals:

- To become wealthy by the time they retire
- To increase their wealth
- To become wealthy through capital appreciation
- To build their capital while conserving the value of their assets

PAWs	UAWs
spend time planning financial future (8.4 hrs per month)	use shock tactics to reduce spending and do not plan like PAWs
feel they have sufficient time to plan	don't feel as if they have enough time
hold money in assets that appreciate in value but do not necessarily produce realized income (taxable) e.g. businesses, real estate, pension plans	hold money in cash and treasury bills
42% made no trades in stock market in year prior to this survey	don't tend to trade in the stock market

Self-employed spend more time planning their investment strategies than those who work for others.

Self-employed	Employee
Never take economic position for granted	Dependent on employer for income
Rely on themselves for current and future financial situations	Find it hard to become self-reliant with other aspects of life
Manage own pensions	Less likely to enrol in company pension

Chapter 4: You Aren't What You Drive

If your goal is to become financially secure, you'll likely attain it. But if your motive is to make money to spend money on the good life, your chances of success are far smaller.

UAWs work to spend, not to achieve or become financially independent. UAWs make expensive purchases in anticipation of becoming wealthy.

Products change people. If you acquire one status product, you will likely have to purchase others to fill up the socially conspicuous puzzle. Money should never change your values. Making money is only a report card. It's a way to tell how you're doing.

Millionaires are more commonly being produced by entrepreneurial ventures and successful entrepreneurs **judge each expenditure heavily in terms of productivity**. They will often ask themselves the impact heavy spending for motor vehicles will have upon their business's bottom line and ultimately their wealth.

Being frugal is a major reason people become wealthy because it provides them with savings.

Chapter 5 & 6: Economic Outpatient Care (EOC) and Affirmative Action, Family Style

Stanley coins the term 'economic outpatient care' (EOC) to describe parents that continue to provide financial support for their adult children and their families long after their kids have left home. Parents who provide certain' forms of EOC have significantly less wealth than parents within the same age, income, and occupational cohorts whose adult children are economically independent.

Adults on EOC	Self-sufficient adults
accumulate more material items	accumulate more dollars
high-consumption lifestyle of status products e.g. homes in upscale suburbs and imported luxury cars	often have parents who accumulated wealth themselves
earmark cash gifts for consumption	don't wait around for gifts of money
not very productive	invest their income in appreciating assets
low net worth	higher net worth
never distinguish between their own wealth and their parents’ wealth	knows their own wealth
feel their parents’ wealth is their income to be spent	do not take any money from their parents
significantly more dependent on credit	are less dependent on credit
invest less money	invest the dollars they accumulate by spending less than they earn

Continuing to finance your children after they've left home precipitates more consumption than saving and investing. Teach your children how to manage money. Whatever your income, always live below your means and teach your children to do the same.

Discipline and initiative can’t be purchased. Without the help of anyone else, adults have the courage to undertake entrepreneurial opportunities associated with considerable risk.

Never tell children that their parents are wealthy. No matter how wealthy you are, teach your children discipline and frugality.

Assure that your children won’t realize you’re affluent until after they have established a mature, disciplined, and adult lifestyle and profession.

- Minimize discussions about inheritance.
- Never give cash or significant gifts to your adult children as part of a negotiation strategy.
- Stay out of your adult children’s family matters.
- Don’t try to compete with your children.
- Always remember that your children are individuals.
- Emphasize your children’s achievements, no matter how small, not their or your material symbols of success.
- Tell your children that there are a lot of things more valuable than money.

Chapter 7: Find Your Niche

There are certain businesses you can own and professions that are likely to benefit from the affluent:

- Attorneys who specialize
- Medical and dental care specialists
- Asset liquidators, facilitators and appraisers
- Private school teachers
- Accountants
- Home building contractors
- Mortgage lenders
- Remodeling contractors

Chapter 8: Jobs: Millionaires versus Heirs

Most of the affluent are business owners including self-employed professionals. Self-employed people are 4 times more likely to be millionaires than those who work for others. You can’t predict if someone is a millionaire by the type of business they are in.

What is risk? Having one source of income. Employees are at risk: They have a single source of income. Entrepreneurs have a source of income from each of their customers.

Summary Five:

The Money Book for the Young, Fabulous & Broke by Suze Orman

Book Evaluation

Aimed at "Generation Broke" or millennials, Suze Orman tackles the financial obstacles facing young people today and anticipates future issues by providing realistic solutions. 'Young' is roughly defined in the book (but it should be said that the advice is not restricted to this group) as those aged between 18 and 35 and more specifically geared towards recent college graduates. Putting aside the overly-enthusiastic and conversational tone (and the horrendous attempt that she makes to sound 'hip') that permeates Orman's money book, *The Money Book for the Young, Fabulous & Broke* makes a good attempt at tackling the biggest financial challenges facing millennials: student loan debt, buying a house, and getting married.

Orman offers unconventional advice like using a credit card to help cover necessities up to a certain amount so you can focus on building a career, instead of just taking a job to pay the bills. While it's good to encourage anyone to focus on getting a job that they love, even if it means less money, it feel incredibly irresponsible to suggest that anyone take on debt to finance the gap between their essential expenses and their income. Orman doesn't suggest supplementing your income through a side business, part-time work, selling some of your possessions, or even negotiating your starting salary and benefits. This is a missed opportunity to encourage young people to create multiple streams of income, so that from early on they understand the importance of not becoming reliant on their employer and one stream of income.

Her advice on how to become a model employee, so that you can negotiate a good raise after some time is helpful, but only applicable to those who want to remain employees. On the flipside, she includes no advice for young people who want to pursue their own start-up. The most helpful part of the book is Orman's overview of FICO (credit) scores and how this impacts on any future financial decision. She provides clear steps on how to boost your FICO score and how to avoid common issues when you are financially linked with your parents or your partner (you may not even be aware that you are). The detail she provides here is extensive and worth reviewing if you've been rejected for credit.

She concludes with love and money, which is an important subject neglected by many popular personal finance books. The most useful wisdom imparted in this chapter is on how to split the costs of cohabiting when one person in the relationship earns more than the other. When most would split the cost evenly, Orman suggests working out your joint living costs (plus a 10% buffer) and dividing this by your combined take home pay to provide you each with the percentage of the expenses that you should pay. It won't work for everyone, but is an alternative method worth considering.

The layout of the book stands out from other conventional personal finance books but this acts as more of a distraction. It makes it easy to flip back through the book and re-read certain parts but it makes the content feel more patronizing than it really is because of the block colors and cheesy section names e.g. the lowdown.

Book Summary

Chapter 1: Know the score

Orman starts with outlining what you need to know about your FICO score. "Nearly every financial decision you make is being watched, with the goal of determining your financial profile."

Your FICO score will determine your ability to buy anything on credit e.g. car, house, bank loan

FICO score

- Fair Isaac Corporation (firm that created the formula for determining your credit-worthiness)
- Three-digit number which determines interest rate you'll pay on any type of credit
- High score: 720 - 850 > you will get the most competitive rates
- Low score: 500 - 559 > you will pay higher interest rates on loans and credit cards
- Based on your spending, bill-paying habits, and overall debt load

Record of paying your bills on time	35
Total balance on your credit cards and other loans compared to your total credit limit	30
Length of credit history	15
New accounts and recent applications for credit	10
Mix of credit cards and loans	10

Interest rate you might pay on a **30-year fixed-rate mortgage** based on your FICO score in 2004

720 - 850	700 - 719	675 - 699	620 - 674	560 - 619	500 - 559
6.0%	6.1%	6.7%	7.8%	8.9%	9.5%

Download your free credit report from: Equifax, Experian and Transunion. Check your credit report for any errors e.g. cards that you never applied for, links with your parents or your partner. Creditors use one of the reports from the above companies, so it's best to download all three and ensure there are no mistakes. Downloading your credit score will not affect it.

YF&B Website: download tips for cleaning up accounts

How to boost your FICO score

- Pay on time: pay your bill at least 5 days before it is due to ensure the payment reaches the creditor on time. Set up an automatic payment online. Pay at least the minimum.
- Manage your debt-to-credit-limit ratio: add up all of the outstanding balances on your credit cards and loans (not what is in your checking or savings account). Calculate the credit limit on each card or loan i.e. the maximum amount that the lender will allow you to spend on the card or loan. The lower the ratio, the better. There is no cutoff on what counts as a good ratio. Just keep it as low as possible.
- Protect your credit history: the longer your history, the better. If you decide to cancel any cards (and space out when you cancel/apply for credit), cancel the card that you've had for the least amount of time. If you're worried about using any old card, don't cancel it, just cut it up.
- Create the right credit mix: don't apply for a lot of new credit cards or loans at once. Having a mortgage, retail card, credit card and installment loans that you pay off every month will help agencies measure your credit-ability.

Chapter 2: Career moves

Orman's advice in this chapter is more easily applied to being an employee by working for someone else. That said, some of her advice can be applied to entrepreneurship.

- Invest in yourself
- Take credit: get a role that you're interested in and if it doesn't pay enough to cover the necessities every month, then use a low-interest credit card to fill in the gaps
- Money should not be your focus
- Gaining responsibility and exceeding expectations are your goals when you're young

Goal in the workplace: work so hard and be so productive that your boss and your colleagues become totally dependent on you.

How to negotiate a raise:

If you don't value your work, then how can you expect someone else to value it?

1) Raise the issue: keep your raise rationale confined to your job performance
2) State your case: submit a written record of your responsibilities and achievements over the past year a week before your meeting. State responsibility, task/project and then your evaluation of how well you performed.
3) Don't ask. State the following: *Given how much I have achieved and the fact that I fulfilled my responsibilities and took on additional work, I believe I deserve an increase.*

If you're refused, ask for an explanation. If it's because your company is struggling, ask when you can expect your situation to be revisited. Get the commitment in writing. If you choose to stay, think of creative alternatives to a pay raise.

Bow out gracefully. Don't sulk on the job. Start hunting for your next job with a positive attitude.

Don't rush your career

- Think of yourself as a growth company
- Map out a business plan to grow your business over the next few years

- Research different careers every week if you hate your current job
- Talk to others, sign up for a night class
- Create a cash cushion to help you through any transition
- Don't be tempted to go back to school as it's often a form of procrastination

> "Aim for the best opportunity, not the best salary."
>
> "Going back to school makes sense only if it is a necessary step in a well-conceived career change. Otherwise, it's just a bad excuse to get out of a situation that isn't working for you."

Chapter 3: Give yourself credit

Orman provides the case for using credit cards to live out your career dreams.

The single most important move you can make right now is to choose a career over a job. A career is work that you are truly interested in, that you will want to do for decades. A job is what you settle for today because the job market is lousy and you've got bills to pay.

> "Focus on the long view and build a career."
>
> "The opportunity to gain experience and traction in your career comes before your income."

How to use your credit card responsibly

You are not entitled to blowout vacations, a closetful of expensive clothes and going out four times a week when you're using a credit card.

The more money a person makes, the more they will spend. So don't use the credit card to spend beyond what you need to make the shortfall on your salary and your basic living expenses.

- Charge less than 1% of your annual gross income to a credit card e.g. if you make $30,000, do not use your card for more than $300 in monthly living expenses
- Build up debt for just a few years. Once your career and pay picks up, pay off the entire balance and do not accumulate any more debt

Good use of credit: buying groceries

Bad use of credit: paying a $40 bill for a quick bite with your friends after work

No "I deserve a splurge" rationalizations

- Take out credit card
- Ask: good use or bad use?

Don't completely cut out all spending on 'nicer' things like eating out at a nice restaurant. Just minimize them so that you only do them occasionally.

Use the right cards. Aim to build your credit score by paying off in full every month. Then you should qualify for a card of 0% interest when you pay the minimum balance every month and then pay off the entire balance at the end of the 0% interest period. Diarise when the grace period comes to an end. Give yourself at least one week's notice.

- Look out for mistakes on your bill.

- Cut the annual fees. Don't get a card with an annual fee.
- Don't use retail or store cards. They have the highest interest rates.

Chapter 4: Making the grade on student debt

Orman explains the different options for repaying student loan debt.

Most popular loans that you may have are:

- Federal Stafford
- Perkins
- PLUS (taken out by your parents)

Interest rates charged on federal student loans are reset each year on July 1. If you default at all on your student loans, you will damage your credit report and your FICO score.

Even if you claim personal bankruptcy, you will still need to pay back your student loans.

Chapter 5: Save up

Orman suggests saving up for anything you plan to buy within five years. Anything you want to purchase within this time frame should not be invested in stocks.

How can you create a gap between your income and your expenses?

- Stop getting a tax refund. You're losing out on interest. Contact your HR rep and ask for the paperwork to adjust the exemptions that you claim on your W-4 form. The more exemptions you claim, the less money will be withheld from each paycheck.
- Don't buy life insurance. If you're single with no dependents you don't need life insurance.
- Raise your insurance deductible.
- Cancel your home landline and just use your cell.
- Look at your bank statements. Keep an eye out for mistakes. Check for any ATM fees you've paid in the last month. Multiply by 12. This is what you're throwing away every year.
- Balance your checkbook. Sign up for online banking. Once a month check that every deposit you made has been credited to your account, and that the only withdrawals are for checks you wrote or cash you withdrew. This should take no more than 30 minutes.

Must do list:

- Invest in your company 401(k) (your pension) to get the maximum company match. Don't turn down the free money.
- Build an emergency fund to cover at least six months of your living costs. Build this up over time by making a monthly contribution to a savings account.
- Never invest in stocks if you'll need your money in less than ten years.

Chapter 6: Retirement rules

Ormans breaks the news about retirement for young people: there will be no social security (money provided by the government) to support retirees. You need to save for your own retirement from now. Her central message: rely on yourself.

You're in the best position to start saving for retirement because being young means you have the most time to build up your retirement fund and benefit from compounding. Your best friend is time.

Invest with a tax break:

- A 401(k) that offers a company matching contribution
- A Roth IRA

401(k)

You can invest a maximum of $15,000 per annum into your 401(k) at the time of writing. In 2015, the limit is $17,500.

Contributions are made out of your pretax pay. Many companies then match what you put in up to a certain amount.

> "Any retirement plan where your boss kicks in a matching contribution belongs at the top of your retirement investing to-do list. I do not care if you have a mountain of credit card debt, or if you want to save up for a home or car."

The catch: most employers who provide a match don't allow you to 'own' the money that they've contributed as a match until you've been at the company for a few years. The money is yours but it is 'vested' until you've been there long enough. All contributions you make from day one are yours.

Roth IRA

- No tax break when you invest, but withdrawals at retirement are not taxed
- If you earn less than $95,000 as an individual you can make the full Roth contribution of $4,000 p.a.

Why invest now? Compounding: small investments made today have time to grow into large investments by the time you retire.

Chapter 7: Investing made easy

What if want to save for something that you won't need to purchase for more than five or ten years? Orman provides an introduction to investing. Money can do more for you than just buy things. Orman argues, "You will never truly be powerful in life until you are powerful with your money."

When investing, it's important that you understand diversification. Putting your money into one stock is not diversifying. Hold stocks from a bunch of companies instead. How can you do this? Use a mutual fund which allows you to own shares in dozens of companies. Aim for funds with an expense ratio of less than 1 percent and never pay a front-end or back-end load for any investment.

Should you invest a lump sum or make periodic contributions? Orman recommends periodic contributions for long-term success because you will be able to benefit from dollar cost averaging. In contrast to investing a lump sum in one go where you pay whatever the price happens to be at that time, you pay a different price for the same amount of stocks every month. When prices are high, you will buy fewer shares and when prices are low, you will buy more.

Low-cost index funds often outperform actively managed funds and have lower expense ratios.

Chapter 8: Big-ticket purchase: car

Never see your car as an investment. It's a depreciating asset that loses value as soon as you drive a new one away from the dealership.

Rules for getting a car:

- Buy a car you can afford, not a status symbol that puts you in the poorhouse.
- Never lease: don't believe the spiel about 'how affordable' leasing a luxurious car is
- Take a loan to buy a car: improve your FICO score before taking out financing to get a better interest rate or 0%
- Use your car for longer than 3 - 5 years.
- Buy a 'new' used car: one that's been used for a year or two
- Spend $100 or so for an independent mechanic to inspect the car
- Ask for the car's inspection history
- Run the car's vehicle identification number through a national database to check for any record of accidents
- Read the warranty carefully
- Get a less 'hot' car that's less popular with thieves. The 'hotter' your car, the higher your insurance premium will be.

Chapter 9: Big-ticket purchase: home

Orman compares the debt you take out with debt you take out for college education. Mortgage debt is like student debt: it's not necessarily bad debt.

> "A home is flat-out the best big-ticket purchase you will ever make."

Rules for buying a house:

- Sort out your FICO score *before* you start looking for houses
- Make a down payment of at least 20% of the house's price. If you put down less than 20%, you will be required to pay for private mortgage insurance (PMI) which you should avoid. Account for closing costs: 2-3% of cost of your mortgage. Average = $3,700. Do not raid your 401(k) for the down payment or closing costs
- Decide on the most suitable term: 15-, 20- and 30-year terms available. If you expect to live at your home for a long time, it makes sense to pay off your loan faster. After 15 years of making payments on a thirty-year loan, you will have paid off just 30 percent or so of the principal (i.e. the original amount that you borrowed)

Different types of mortgage:

- fixed: interest rate when deal is closed will never change, so your monthly payments will never change

- adjustable-rate (ARM): interest rate changes depending on the economy

- hybrid: initial rate is fixed for 3/5/7/10 years and then the loan converts to an ARM

- You plan to move in five years: 3/5 year hybrid
- You plan to move in seven to ten years: 7/10 year hybrid

- You have found the home of your dreams and don't ever plan to move: 15-year/30-year fixed-rate mortgage

Talk to a mortgage broker if you want some help. Ask friends for referrals. If you're confident, you can use online lender services such as www.lendingtree.com or www.eloan.com.

To get a guaranteed rate for your mortgage you need to get a 'lock-in' rate which is good for only sixty days. If you don't buy a home within that period, you lose your rate guarantee. Your broker will look at your FICO score and your debt-income ratio: how much your monthly mortgage payments will be, compared to your pretax income. The mortgage you are hoping to get should not equal more than 28 percent of your gross monthly income.

Beware: Real-estate agents are working mostly for the seller because they take a percentage of the total sale. The more you spend, the more they make.

Chapter 10: Love & Money

Orman recognizes that a big part of staying together is having an appreciation and mission for making the right financial moves together. Financial intimacy is when you understand that you have different financial personalities and you work to come up with a shared approach to spending, saving, and investing.

If you live with your partner or are about to, split the costs of co-habiting by working out your equal share rather than splitting the dollar amount in two:

1) Calculate your combined monthly living costs and add 10% as a buffer
2) Add up your combined monthly take-home pay (make sure you're both contributing to your 401(k) plan if there is a company match)
3) Divide your expenses by your take-home pay to figure out the percentage of those expenses that each of you are to pay

Before you say 'I do':

- Don't charge the wedding to credit cards. Go for a more low-key affair that you can afford.
- When you marry you don't take on any of the debt that your spouse amassed before you wed, but if they run up debt after you're married you may be chased for the money even if the account is not in your name
- Make a vow to check your FICO scores twice a year

If you have any dependents (which may include your partner), you need life insurance. Buy term life insurance.

Summary Six:

The Richest Man in Babylon by George Clason

Book Evaluation

George Samuel Clason's *The Richest Man in Babylon* is written as a series of parables set in ancient Babylon. These parables are connected through recurring principles for success in acquiring wealth. Different parables tend to focus on different areas, such as escaping debt, investing wisely, and adjusting one's mindset in order to grow wealthy. A few parables offer relatively clear cut steps and advice, such as "Seven Cures for a lean purse" and the "Laws of Gold", while others weave their message into the narrative.

There is no doubt that much of the advice offered is timeless, particularly around the importance of adjusting your mindset to actively pursue wealth, budgeting to ensure a portion of your earnings are saved, rapidly paying off debt, and making use of compound interest (though it is never referred to in this way, rather as "making thy gold multiply"). Having said that, I would not recommend this as the first book on personal finance you should read. To be clear, Clason never wavers from the pseudo-biblical prose-style he adopts. Whilst this does create an entertaining series of tales, it hugely limits the amount of practical advice that the book can offer. It may be true that "Wealth, like a tree, grows from a tiny seed", but there is no specific "so invest your money in a respected index fund which tracks the S&P500" follow-up. That would rather disrupt the Babylonian vibe.

The Richest Man in Babylon certainly offers useful core principles, but the specifics of even these principles are somewhat suspect. Certainly, you could take the view that the saving allocations given should be viewed as suggestive, but that is not particularly helpful if you are trying to create a budget. There is no discussion about different financial scenarios a person might find themselves in, and hence how you should modify your saving/debt repayment habits. This is one constraint of the narrative approach, as the reader must "convert" being a camel merchant in ancient Bablyon into, say, being a middle manager at Walmart.

For the above-mentioned reasons, I have to say that *The Richest Man in Babylon* is overrated. Most of the other books summarized in this collection would serve you better as personal finance management guides, offering more concrete and specific advice. As a supplement to other personal finance books, *The Richest Man in Babylon* is an interesting read, with an engaging and evocative style. If this was the only book on personal finance you ever read, however, there would still be some large gaps in your knowledge.

Book Summary

The key advice from *The Richest Man in Babylon* can be grouped as follows:

Mentality

Two main aspects of mentality are recurring themes: The first is discovering and acting upon the desire to change your circumstances. Wealth does not come to those who wait, it must be actively sought:

> "We are weary of being without gold in the midst of plenty. We wish to become men of means […] Thou makes me to realize the reason why we have never found any measure of wealth. We never sought it."
>
> "Wealth grows wherever men exert energy […] Where the determination is, the way can be found"

This shift in thinking involves moving away from a victim mentality and taking full responsibility for your own success:

> "We found the trail to Babylon because the soul of a free man looks at life as a series of problems to be solved and solves them, while the soul of a slave whines, 'What can I do who am but a slave?' "

The second key aspect of mentality is the commitment to hard work and learning. This theme is also linked to the next point about seeking advice and mentorship:

> "Cultivate thy own powers, to study and become wiser, to become more skillful, to so act as to respect thyself […] time and study [is] required."

Seeking Advice

Many passages from the book convey the wisdom of seeking advice from those who themselves are successful. It is acknowledged that this may at first be a humbling experience, but the benefits are repeatedly stressed:

> "It costs nothing to ask advice from a good [financially successful] friend […] Never mind though our purses be as empty as the falcon's nest of a year ago. Let that not detain us."
>
> "As for study, did not our wise teacher teach us that learning was of two kinds: the one kind being the things we learned and knew, and the other being the training that taught us how to find out what we did not know?"

What Money Offers (including downsides)

The book at times explores the nature of money and wealth, in particular focusing on the 'possibilities' and 'freedom' that money offers.

> "Wealth is a power. With wealth many things are possible. One may ornament the home with the richest of furnishings. One may sail the distant seas. One may feast on the delicacies of far lands […] One may do all these things and many others in which there is delight for the senses and gratification for the soul."

There are a number of parables recounting the downsides to wealth, particularly how you are constantly being asked to lend or give money to relatives, friends and even strangers. The repeated moral is that investments should be made only where the person who is being lent to has sufficient understanding and means to use the money effectively, and repay the lender in a reasonable time. In particular, caution is advised when lending to those who are seeking to start an enterprise about which they know little, or those who are making requests born of strong emotions like jealousy.

> "If you desire to help thy friend, do so in a way that will not bring thy friend's burdens upon thyself"
>
> "Be not swayed by foolish sentiments of obligation to trust thy treasure to any person. If thou wouldst help thy family or thy friends, find other ways than risking the loss of thy treasure. Forget not that gold slight away in unexpected ways from those unskilled in guarding it."
>
> "Humans in the throes of great emotions are not safe risks for the gold lender"

Saving and Budgeting

Perhaps the concept which recurs most frequently in all the tales from *The Richest Man in Babylon* is that of saving a portion of your earnings. This is alluded to as "a part of all you earn is yours to keep". Many passages deal with the challenges of adhering to this seemingly simple maxim, namely budgeting effectively and managing desires for instant gratification:

> " 'But all I earn is mine to keep, is it not?' I demanded. 'Far from it,' he replied. 'Do you not pay the garment-maker? Do you not pay the sandal-maker? Do you not pay for the things you eat? Can you live in Babylon without spending? What have you to show for your earnings of the past month? What for the past year? Fool! You pay to everyone but yourself.' "

The minimum percentage of your earnings to save advised throughout the book is 10%:

> "A part of all you earn is yours to keep. It should be not less than a tenth no matter how little you earn. It can be as much more you can afford. Pay yourself first. Do not buy from the clothes-maker and the sandal-maker more than you can pay out of the rest and still have enough for food and charity and penance to the gods"

Also mentioned is how getting into the habit of "paying yourself first" will prove to be sustainable, despite concerns you may have about expenses. "That what each of us calls "necessary expenses" will always grow to equal our incomes unless we protest to the contrary".

> "Now I will tell a strange truth, the reason for which I know not. When I ceased to pay out more than nine-tenths of my earnings, I managed to get along just as well. I was not shorter than before."

The benefits of beginning this habit earlier are also stressed:

> "Wealth, like a tree, grows from a tiny seed. The first copper you save is the seed from which your tree of wealth shall grow. The sooner you plant that seed the sooner shall the tree grow. And the more faithfully you nourish and water that tree with consistent savings, the sooner may you bask in contentment beneath its shade."

Debt

The importance of paying off debts quickly is another cornerstone of *The Richest Man in Babylon.* Many of the characters depicted find themselves driven to financial ruin and even sold into slavery because of their failure to manage debt intelligently.

> "He must pay his debts with all the promptness within his power, not purchasing that for which he is unable to pay."

The debt repayment strategy advised is to allocate two-tenths of all earnings towards debt repayment:

> "Each time the moon is full, two-tenths of all I have earned shall be divided honorably and fairly among those who have trusted me and to whom I am indebted. Thus in due time will all my indebtedness be surely paid."

The parables depict the dangers of gambling, with numerous tales involving gambling debts resulting in misfortune.

> "When a man plait the games, the situation is reversed for the chances of profit are always against him and always in favor of the game keeper."

Investing

A number of tales are recounted where life savings are lost due to foolish investments. The moral repeatedly emphasized is that one should only invest in enterprises which have the necessary expertise to succeed.

> "Every fool must learn [...] Try again. And next time if you would have advice about jewels, go to the jewel merchant. If you would know the truth about sheep, go to the herdsman. Advice is one thing that is freely given away, but watch that you take only what is worth having. He who takes advice about his savings from one who is inexperienced in such matters, shall pay with his savings for proving the falsity of their opinions."

Similar to the above, ensuring the safety of principal on any investments is given as a key criterion before proceeding with an investment.

Apart from putting aside a portion of one's earnings, the second most common advice given throughout the book is that of ensuring you invest your earnings in such a way that the money earns (i.e. through interest, dividends, rent etc.).

> "You do eat the children of your savings. Then how do you expect them to work for you? And how can they have children that will also work for you? First get thee an army of golden slaves and then many a rich banquet may you enjoy without regret."

Another investment point which is raised in *The Richest Man in Babylon* is that of ensuring one's property is a profitable investment:

> "Thus come many blessings to the man who owneth his own house. And greatly will it reduce his cost of living, making available more of his earnings for pleasures and the gratification of his desires. Thus, then, is the fifth cure for a lean purse: Own thy own home."

The final point mentioned in this theme relates to retirement. Ensuring that money is set aside for one's old age is given as a priority. "Provide in advance for the needs of thy growing age and the protection of thy family".

The parable "Seven Cures for a lean purse" effectively summarizes the core messages from many of the other tales in the book:

I. The First Cure: Start thy purse to fattening
II. The Second Cure: Control Thy Expenditure
III. The Third Cure: Make thy gold multiply
IV. The Fourth Cure: Guard thy treasures from loss
V. The Fifth Cure: Make of thy dwelling a profitable investment
VI. The Sixth Cure: Insure a Future Income
VII. The Seventh Cure: Increase thy ability to earn

Summary Seven:

Rich Dad, Poor Dad
by Robert Kiyosaki

Book Evaluation

When I first read the book, I found the premise and ideas inspiring. I immediately felt like I now had the power and mindset to become wealthy. It's therefore unsurprising that the book and its ideas remain popular. Kiyosaki imparts his advice as lessons that were taught to him by his 'rich' dad (actually the father of his friend) and compares this with the advice from his own 'poor' dad. Each lesson is simple to digest: teach yourself about money (don't rely on high school to teach you about it), recognize that having just one source of income is risky (because your job is not secure) and that rich people don't look rich because they tend to be frugal.

Kiyosaki has a controversial stance on assets and liabilities which states that your home (when mortgaged) is not an asset because it does not produce cashflow. Although a helpful idea in encouraging the collection of cash-producing vehicles, it remains debatable and possibly too simplistic. Viewing your house as a liability can be motivation, though, to recognize that what you see as your biggest 'asset' really isn't one until it's producing income i.e. by renting it out at a rate that covers your mortgage and then some.

What I found most frustrating whilst reading the book is how Kiyosaki contradicts himself. Whilst initially describing the frugality of his ‘rich’ dad who doesn't live in a mansion or have an expensive car but has plenty of income producing assets to afford to do so, he goes on to describe how to buy a luxurious car by claiming it as a business expense. It's problematic as the purchase of a sports car (a depreciating asset) goes very much against the frugal lifestyles of many millionaires. More worryingly, Kiyosaki's claims of closing hot real estate deals, "on the steps of the courthouse" sound exaggerated, and regardless, are hardly the type of stress-fraught investments which a sensible person should consider. Another area where the reader may feel mislead is the section on overcoming psychological barriers to building wealth. Kiyosaki misses an opportunity to use behavioral finance to explain why we can act irrationally with our finances. Instead, he reels off clichés and vague advice that offers little depth.

Take Kiyosaki's advice with a pinch of salt and use his lessons for motivation, but don't expect the book to provide you with techniques for building wealth that you can apply immediately. Most of the other books summarized in this collection will provide you with more useful advice.

Book Summary

Chapter 1

Kiyosaki grew up with two dads. Well, in truth, he had one dad who was well educated but never became rich (his poor dad). He then had a 'rich dad' who was the father of one of his friend's who never finished 8th grade but went on to become the richest man in Hawaii.

His 'rich dad' played by a different set of rules to others and did not think that children should be taught to become employees.

Here's how their core beliefs about money differed:

Poor Dad (PD)	Rich Dad (RD)
The love of money is the root of all evil.	The lack of money is the root of all evil.
I can't afford it.	How can I afford it.
Rich should pay more in taxes to take care of those less fortunate	Taxes punish those who produce and reward those who don't produce
Study hard so you can find a good company to work for	Study hard so you can find a good company to buy
The reason I'm not rich is because I have you kids	The reason I must be rich is because I have you kids
Forbids the subject of money at the dinner table	Encouraged talking about money and business at the dinner table
When it comes to money, play it safe, don't take risks	When it comes to money, learn to manage risk
Our home is our largest investment and our greatest asset	My house is a liability, and if your house is your largest investment, you're in trouble
Paid bills first	Paid bills last
Company/government will take care of your needs	Emphatic about financial competence
Concerned about pay raises, retirement plans, medical benefits, sick leave, vacation days	Concerned about growing assets
I've worked hard for the government, and I'm entitled to these benefits	Strongly against 'entitlement' mentality and argues how it creates weak and financially needy people
Struggled to save a few dollars	Created investments
Taught how to write an impressive resume	Taught how to write strong business and financial plans to create jobs for others
I'll never be rich	I'm a rich man, and rich people don't do this.
I'm not interested in money	Money is power
Money doesn't matter	Money works for me

The difference in the two is a 'lazy mindset' versus an 'active mindset'. RD: "My brain gets stronger every day because I exercise it. The stronger it gets, the more money I make."

Proper physical exercise increases your chances for health, and proper mental exercise increases your chances for wealth. Laziness decreases both health and wealth.

> "There is a difference between being poor and being broke. Broke is temporary, and poor is eternal."

Money is one form of power. What is more powerful is financial education.

Chapter 2: Lesson One: The Rich Don't Work for Money

9-year-old Kiyosaki asks his friend Mike about going into business to 'make money' together. After a brief spell of counterfeiting coins, Kiyosaki asks Mike's dad to teach him about money (aka Rich Dad). Mike's dad gives him a part-time job dusting cans in one of his shops every Saturday for three hours for just 10 cents an hour. After a few weeks, Kiyosaki demands that his Rich Dad hold up his end of the bargain and teach him about money. Rich Dad points out that he *is* teaching him about money by using a real-life experience instead of some lecture like Kiyosaki expects because that's the way you 'learn' at school.

Rich people work to learn things, and the things they learn can easily be applied to continue to make money over the long term. The cycle that most follow is that of earn and spend, rather than earn and invest. Invest in educating yourself about money, so that you don't get stuck on the treadmill of earning and spending.

> "It's easier to learn to work for money, especially if fear is your primary emotion when the subject of money is discussed."
>
> "The pattern of get up, go to work, pay bills, get up, go to work, pay bills...Their lives are run forever by fear and greed. Offer them more money, and they continue the cycle by also increasing their spending. This is what I call the Rat Race."

This chapter also highlights that rich dad may have a lot of money but is very frugal. Being rich means never having to worry about paying your bills.

Chapter 3: Lesson Two: Why Teach Financial Literacy?

> "Money without financial intelligence is money soon gone."

Many fail to realize that it's not how much money you make in life that counts, it's how much you keep.

Rule One: Know the difference between an asset and a liability.

Asset = something that generates income or forms of passive income that you control

Liability = anything that has costs

Rich people collect assets. Wealth comes from having enough assets that generate enough income so that you can cover all of your expenses and you still have enough to buy more income-generating assets.

Controversially, Kiyosaki argues that your home is not an asset and is actually a liability because it produces no income while you pay off your mortgage.

Chapter 4: Lesson Three: Mind Your Own Business

Most people use their profession to earn income whereas the rich use their assets to provide income. Instead of using your income from your job to pay for a luxurious holiday, try creating an asset that produces enough income to pay for a luxurious holiday every year.

Too many go out and purchase the luxurious holiday on credit by convincing themselves that, even though they cannot afford it, they deserve it. A true luxury is a reward for investing in and developing a real asset.

Chapter 5: Lesson Four: The History of and the Power of Corporation

Kiyosaki outlines that rich people spend and pay taxes differently to most people. Since rich people own corporations they can spend their money differently and expense items to their corporation meaning they only pay tax after those expenses are taken into account:

The Rich People with Corporations	The People Who Work for Corporations
Earn	Earn
Spend	Pay taxes
Pay taxes	Spend

Kiyosaki recommends using tax breaks to claim expenses through the wrapper of a personal corporation.

Chapter 6: Lesson Five: The Rich Invent Money

Kiyosaki claims to have made $40,000 in five hours from a 'great' real-estate deal. (Given the shift in how property purchases work today it's unlikely that you'd be able to repeat Kiyosaki's real-estate deal which is why it's not completely relevant for today)

The lesson is that you can invent money if you let go of old ideas and stay open to new ones. Life provides you with options every day: you decide what you do with those options.

Today the most applicable way to capitalize on your options is to create intellectual property through the internet: sell your music on Youtube, create crafts and distribute them through etsy. There will be more hours required than your 9-5 hours at the office as an employee, but in the long run this career path will provide you with more income streams.

Chapter 7: Lesson Six: Work to Learn - Don't Work for Money

This chapter goes hand-in-hand with chapter 2 on how the rich focus on learning about money and how to increase their assets. Kiyosaki recommends that young people search for work where they will learn a lot rather than earn a lot and taking a long view of your life. Take a second job that will teach you a second skill.

Main management skills you need to make money work for you:

- The management of cashflow
- The management of systems (including yourself and time with family)
- The management of people

Chapter 8: Overcoming Obstacles

Kiyosaki argues that there are four psychological barriers to becoming wealthy.

1) Fear of losing money. If you hate losing, play it safe with balanced investments.
2) Cynicism. Most people are poor because they believe that only the worst can happen with their investments.
3) Laziness. Busy people are often the most lazy. Make time to build and look after your wealth.
4) Bad habits. Don't pay your bills first, pay yourself first. The pressure to pay all the other bills and taxes will then give you the motivation to find alternative sources of income.

Chapter 9 and 10: Getting Started and Still Want More?

Kiyosaki focuses on life advice to aid you as you build wealth:

1) Have a strong reason for becoming wealthy.
2) Choose daily to use each dollar that comes into your life and how to manage your time.
3) Invest first in education. Educate yourself about money.
4) Look for new ideas.
5) Pay yourself first. Don't pay your bills when you get any income. Pay money into a savings account for you and then pay your bills. If you *have* to pay your bills, then you will find a way to pay for them.
6) Take a break and assess what is working for you right now and what isn't.
7) Look for new ideas: educate yourself and never stop learning. Books, books, books.
8) Find a mentor.
9) Take classes to help you learn more about money and for general learning.
10) Action always beats inaction.

Summary Eight:

Think and Grow Rich
by Napoleon Hill

Book Evaluation

Napolean Hill's *Think and Grow Rich* is one of the original personal finance books, published in the wake of the Great Depression. With help from his mentor, Andrew Carnegie, Hill was able to interview hundreds of highly successful businessmen over a 25-year period. The book is the summation of the insights gleaned from these interviews, answering the question: What are the necessary attitudes, abilities and actions for successfully building wealth? The book's central message remains true today: Given the necessary determination and focus, you have the power within you to change your thoughts and ideas into reality, it is the mastery of your own mind which is key.

To be clear, the book is about the mental approach to acquiring wealth. Readers looking for specific budgeting or investment techniques will be disappointed. Some readers will find the book dated (particularly women as the author tends to assume male readership), with the majority of examples of success coming from men who died a long time ago. But that's a minor quibble, as very few of the lessons and ideas are time-specific.

Stylistically, the book is deeply tedious and patronizing. Perhaps the most all-caps I've ever seen in one place. It is often ridiculously self-congratulatory, with numerous generalizations about "human nature" and "99 out of 100 men". There is a lack of doubt or balanced analysis with regard to any of the proposed steps. There seems to be no room for nuance. It has all the hallmarks of a cult…

…but the advice is still solid, which is galling. I didn't enjoy reading it, and part of me wants to slate it, but despite the poor style, the book contains wisdom. It's a bit like bad-tasting medicine, it makes you pull a face, but does you good.

Hill has extreme advice about autosuggestion, like telling yourself to repeat certain litanies about your impending success every day (again, see the cult comment earlier), but I think the message to be taken from it is that the stories you tell yourself matter. If you see yourself as inadequate, as a failure, you are not going to succeed.

Chapter 7 on planning your future is particularly strong. It contains specific goal setting advice and structure, and a push towards real introspection. Questions one must ask oneself such as "How much time have I devoted to unprofitable effort which I might have used to better advantage?" and "Has my conduct toward my associates been such that it has induced them to respect me?" are exactly the sort which, done regularly, will accelerate your progress.

The concept of the "Master Mind" group is hugely important. Hill posits that anyone serious about pursuing wealth should seek out and regularly meet with groups of people able to offer wise counsel. The adage that "You are the sum of the five people with whom you spend the most time" comes to mind. Deliberately seeking out and organizing regular meetings with other motivated, intelligent people will accelerate your progress. Today, with websites like meetup.com, this is easier than before.

The chapter on "The Mystery of Sex Transmutation" is actually, I think, quite ahead of its time. It's basically asserting that if you can take the energy you usually expend thinking/pursuing the physical act of sex, and instead channel this energy into your work and dreams, it will make you powerful. The method for doing this is to "find the right woman". Hill goes so far as to say that "No man is happy or complete without the modifying influence of the right woman". It is possible that this is true. But what is key, and what is not discussed much at all, is that it must be the right woman (or man, of course). Far more people are held back from achieving their goals by sexual partners who do not share their ambition, drive or discipline than are held back by not having such a person. The risk of settling for someone who has different life goals and expectations is more significant, and is not really discussed in the book.

The chapters towards the end of the book, which discuss the importance of the subconscious [*sic*], the brain, and the "sixth sense", have aged worse than other sections. The author's pseudo-scientific talk of the "Infinite Intelligence" and "spiritual vibrations" starts to sound like a Scientology commercial. Having said that, these are areas which we remain in ignorance of today, and there is no doubt that the unconscious mind is a powerful force for problem solving and creativity. Furthermore, as the stoics taught thousands of years ago, taking control of your own thoughts is a key step towards a healthy life.

For all its flaws and stylistic awkwardness, *Think and Grow Rich* deserves its place in the top 10 books on personal finance. Grit your teeth and persevere with it and you will walk away with renewed focus and a deeper understanding of yourself.

Book Summary

As Hill puts it: "Life is a checkerboard, and the player opposite you is TIME." *Think and Grow Rich* is designed to help you meet this challenge. The book is divided into a series of steps to allow you to be financially successful in life. Here they are:

Step 1: Desire

The first step to achievement is actively deciding that you want to be successful (whatever that may mean to you). This is not necessarily the specific planning (that comes later), it is the initial spark.

> "All achievement, no matter what may be its nature, or its purpose, must begin with an intense BURNING DESIRE for something definite."

Step 2: Faith

To be clear, this principle is not about having religious faith. It refers to faith in yourself. Faith in your ability to succeed, and in your ideas and purpose.

> "Faith is a state of mind which you may develop at will, after you have mastered the thirteen principles [of the book], because it is a state of mind which develops voluntarily, through application and use of these principles."
>
> "This is an appropriate place at which to suggest again that you may benefit, by passing on to your subconscious mind, any DESIRE which you wish translated into its physical, or monetary equivalent, in a state of expectancy or BELIEF that the transmutation will actually take place."

Step 3: Auto-Suggestion

This step is linked to previous step (faith), and is a technique by which faith can be strengthened. By actively seeking to influence your own thought-processes, you can change the way you think over time. This is a crucial tool.

> "AUTOSUGGESTION is the agency of control through which an individual may voluntarily feed his subconscious mind on thoughts of a creative nature, or, by neglect, permit thoughts of a destructive nature to find their way into this rich garden of the mind."

Step 4: Specialized Knowledge

Hill asserts that specialized knowledge is more valuable than general knowledge in the context of accumulating money. He also places emphasis on the importance of focusing on developing specific knowledge related to your chosen purpose:

> "Successful men, in all callings, never stop acquiring specialized knowledge related to their major purpose, business, or profession. Those who are not successful usually make the mistake of believing that the knowledge acquiring period ends when one finishes school. The truth is that schooling does but little more than to put one in the way of learning how to acquire practical knowledge."

Step 5: Imagination

To make your vision a reality, you need to apply your imagination to the challenges ahead of you.

> "Transformation of the intangible impulse, of DESIRE, into the tangible reality, of MONEY, call for the use of a plan, or plans. These plans must be formed with the aid of the imagination, and mainly, with the synthetic faculty."

Step 6: Organized Planning

A lengthy section which advocates having regular goals to keep you focused, and conducting frequent "self-introspection" to ensure that you hold yourself accountable.

> "The most intelligent man living cannot succeed in accumulating money – nor in any other undertaking—without plans which are practical and workable. Just keep this fact in mind, and remember when your plans fail, that temporary defeat is not permanent failure. It may only mean that your plans have not been sound. Build other plans. Start all over again."

Step 7: Decision

Hill asserts that the ability to make decisions rapidly is a crucial skill to develop:

> "Those who reach DECISIONS promptly and definitely, know what they want, and generally get it. The leaders in every walk of life DECIDE quickly, and firmly […] Ninety-eight out of every hundred people working for wages today are in the positions they hold because they lacked the DEFINITENESS OF DECISION to PLAN A DEFINITE POSITION, and the knowledge of how to choose an employer."

Step 8: Persistence

The path to success is fraught with frustration, setbacks and failure. Persistence is required to navigate the course:

> "Persistence is an essential factor in the procedure of transmuting DESIRE into its monetary equivalent […] The basis of persistence is the POWER OF WILL"

Step 9: Power of the Master Mind

Surround yourself with intelligent people who will offer you wise counsel. Meet with them regularly.

> "Economic advantages may be created by any person who surrounds himself with the advice, counsel, and personal cooperation of a group of men who are willing to lend him wholehearted aid, in a spirit of PERFECT HARMONY."
>
> "POWER may be defined as 'organized and intelligently directed KNOWLEDGE […] ORGANIZED effort is produced through the coordination of effort of two or more people, who work toward a DEFINITE end, in a spirit of harmony."

Step 10: The Mystery of Sex Transmutation

Do what you can to redirect the energies devoted to the pursuit of the physical act of sex instead towards your purpose:

> "Sex transmutation is simple and easily explained. It means the switching of the mind from thoughts of physical expression, to thoughts of some other nature."
>
> "When harnessed, and redirected along other lines, this motivating force maintains all of its attributes of keenness of imagination, courage, etc., which may be used as powerful creative forces in literature, art, or in any other profession or calling, including, of course, the accumulation of riches."

Step 11: The Subconscious Mind

The way you think and plan will have an impact on your subconscious mind. Therefore, you will improve your chances of success by focusing more on positive emotions than on negative emotions.

> "You may VOLUNTARILY plant in your subconscious mind any plan, thought, or purpose which you desire to translate into its physical or monetary equivalent […] Positive and negative emotions cannot occupy the mind at the same time."

Step 12: The Brain

Discusses the importance of focusing the mind on problems, particularly during "Master Mind" sessions:

> "The procedure is simple. We sit down at a conference table, clearly state the nature of the problem we have under consideration, then begin discussing it. Each contributes whatever thoughts that may occur. The strange thing about this method of mind stimulation is that it places each participant in communication with unknown sources of knowledge definitely outside his own experience."

Step 13: The Sixth Sense

> "The sixth sense is not something one can take off and put on at will. Ability to use this great power comes slowly, through application of the other principles outlined in this book. Seldom does any individual come into workable knowledge of the sixth sense before the age of forty."

Summary Nine:

The Total Money Makeover by Dave Ramsey

Book Evaluation

The Total Money Makeover advocates a specific process (divided into 7 steps) as a means to becoming financially secure. Despite the book's snake-oil-sounding title, the steps are excellent. Furthermore, the reasoning for each step's inclusion and order in the process is explained clearly.

On the steps themselves (which are summarized below), I have only a couple of minor quibbles: First, whilst I appreciate that there is a "motivational boost" to paying off smaller debts first, if a larger debt has a much higher rate of interest, it would be a lot smarter to focus on that debt first. Secondly, whilst I generally agree with Ramsey's highly focused approach, I'm not convinced about paying off all student debt before beginning to save for retirement/a home. If your student debt is high with low interest (as it is for many in the UK), then this approach would cause you to miss out on years of crucial compound interest growth during your twenties.

The book is rammed with tales from people (usually couples and families) who have followed the advice of Ramsey with positive results. I'm not exaggerating, I'd estimate there were more than 50 such stories. For a certain kind of reader, this probably makes the book more heart-warming and inspirational. I'd argue that it was a way to pad out what could have been a 30 page ebook. Despite that harsh critique, I still think the book is worth the money, and would recommend it.

Ramsey makes good points about the difficulty people can have in identifying a lack of sound personal finance management, and the danger this presents. Your friends and family will participate in your fantasy/denial, which makes you believe you are doing just fine. He also spends significant time relating how society (particularly in the West) tends to glorify and/or encourage certain types of unwise financial behavior, particularly the use of credit.

Specific technical advice is given, notably about how to negotiate better mortgages, which types of savings/investment instruments to use, and the reasons why certain money myths still exist. This stuff is very useful.

One of the most valuable sections is on relationships and debt. Ramsey rightly asserts that whenever money is loaned to a relative or friend, a master-slave relationship dynamic is created. If you want to help a friend or relative, give them money as a gift. Similarly, never cosign on a loan with someone you care about (whenever the lender requires a cosigner it is because there is a high statistical chance that that the applicant won't pay). So many relationships are ruined by money, it behoves you to take this advice seriously.

Ramsey's philosophical approach to money is also well-reasoned and agreeable. He makes the point that money is a great enabler for helping others and improving the world.

> "No one would remember the good Samaritan if he'd only had good intentions; he had money as well [...] Money gives power to good intentions. That's why I'm unashamedly in favor of building wealth."

The tone is tolerable, just. As seems to be the wont of every personal finance author these days, Ramsey incessantly mentions his own personal experience, success and wealth, whilst attempting (generally unsuccessfully) to temper his boasting with recollections of the time when "back in our late twenties, my wife, Sharon, and I went broke."

Book Summary

Preparatory advice

Before beginning the program, Ramsey asserts the need to "re-educate" yourself on a range of typical misconceptions in the arena of personal finance. He stresses the fact that improving one's financial situation is 80% psychological and about forming new habits and thinking patterns. He gives the following rules for those wishing to make a change:

- Do not buy a new car, or lease a car.
- Don't use debt consolidation, it doesn't get at the root of the problem.
- Preplanning the details of your funeral is wise, but prepaying is unwise. You could invest the money for a much better return.
- Avoid declaring bankruptcy if at all possible ("Don't take bankruptcy advice from debt-management companies; you likely aren't bankrupt.")
- If you are going to leave a marriage, make sure that all debts are refinanced out of your name or force the sale of the item [...] So sell the house or refinance it as part of the divorce, period.

> “Divorce decrees do not have the power to take your name off credit cards and mortgages, so if your spouse doesn't pay, be ready to. You still owe the debt. [...] A lender who doesn't get paid can correctly sue the parties to the loan, including you.”

- Use the envelope system for budgeting.
- You need insurance for the following items (depending on your situation and the health benefits you receive in your country): Auto and homeowner insurance, life insurance, long-term disability, health insurance (The number one cause of bankruptcy today is medical bills), long-term care insurance.

- You are going to die, so make a will. It ensures your money goes where you would want it to go.
- Every year, take a little time to educate yourself on personal finance.

> "Wealth doesn't just happen. You will spend some time and effort on getting rid of ignorance. Again, you do not need to become a financial geek; you just need to spend more time on your 401(k) options and your budget than you do picking out this year's vacation [...] You don't need to apply to Harvard to get an MBA with a specialization in finance; you don't have to watch the financial channel instead of a great movie. You **do** need to read something about money at least once a year."

- Get rid of your credit cards. There is a myth that debit cards are less secure in the event of theft or fraud. This is not true. There is also a myth that in order to "build your credit", you need credit cards.

> "Either you save up for a 100 percent-down plan, or if this is not feasible: find a mortgage company that does actual underwriting. Some mortgage companies call this a No Credit Score or Non Traditional Credit process. That means they are professional enough to process the details of your life instead of using only a FICO score (lending for dummies). It's getting harder to find a lender who will go to the trouble of actually getting to know you, but they're out there."

Specific Notes on the Approach

The power of the process centers on focus. If you try and do everything at once, progress will be slow. This will make you feel you aren't accomplishing anything, which may lead you to give up. Hence follow the steps in order, and don't try and do more than advised for the step you are on.

Step 1: Begin the emergency fund

This step is necessary to stop you getting derailed in subsequent steps when unexpected expenses occur. If your household income is greater than $20,000, aim for a $1,000 emergency fund. If your household income is less than $20,000, aim for a $500 emergency fund.

> "Start with a little fund to catch the little things before beginning to dump the debt. It is like drinking a light protein shake to fortify your body so you can work out, which enables you to lose weight [...] Twist and wring out the budget, work extra hours, sell something, or have a garage sale, but quickly get your $1000."

Step 2: Start the debt snowball

This step is Mathematically illogical, but we're dealing with human psychology here, so that's not the point. List **all** your debts (apart from your home loan) in order from smallest to largest. Then with intense focus (what Ramsey refers to as "gazelle focus") pay off the debts focusing on the smallest first. Do not attempt to pay off more than one debt at a time.

> "The only time to pay off a larger debt sooner than a smaller one is some kind of big-time emergency such as owing the IRS and having them come after you, or in situations where there will be a foreclosure if you don't pay it off. [...] The reason we list smallest to largest is to have some quick wins."

In the event that you are unable to begin tackling your debt (your budget is 'stopped-up' then you will need to do something radical: selling possessions, working overtime, taking a second job.

> "You will arrive at the beginning of Baby Step Three in around eighteen to twenty months. When you reach this step, you have $1000 cash and no debt except your home mortgage."

Step Three: Finish the Emergency Fund

A full emergency fund covers three to six months of expenses. To determine whether or not you should err towards three or six months, consider your situation. If you are in a riskier position (e.g. self-employed, earning straight commission), then err on the side of caution. The emergency fund is applicable to everyone, even those with a guaranteed income - you cannot predict out-of-budget emergencies.

The emergency fund is **not** for investing. It must be liquid (i.e. you can easily and rapidly access it).

The only exception to the order of the steps thusfar is if you have an impending major expense - such as a layoff or birth of a child. In this case, you would be wise to focus on step 3 before step 2. Saving for a downpayment or cash purchase of a home should occur only after steps 2 and 3 are complete.

> "I love real estate, but do not buy a home until you finish this step. A home is a blessing, but if you move into home ownership with debt and no emergency fund, Murphy will set up residence in the spare bedroom."

Step 3(b): Save for a down payment on a property

This is optional: "You should save for the home if you have the itch before moving on to the next step."

> "You are now debt-free except for the home mortgage, and you have three to six months of expenses saved. Getting to the end of this step if you are gazelle-intense takes the typical family twenty-four to thirty months."

Step 4: Invest 15 Percent of Your Income in Retirement

Before this step, you have ceased or have never started investing, and now you have to really pour on the coals. Invest 15 percent of before-tax income annually towards retirement. 15% is optimal because it allows you to complete the next two steps effectively. Furthermore, starting to invest for retirement earlier in the plan allows you to reap the rewards of compound interest.

> "When calculating your 15 percent, don't include company matches in your plan. Invest 15 percent of your gross income. If your company matches some or part of your contribution, you can consider it gravy."
>
> "The Roth IRA will allow you to invest up to $5000 per year, per person. There are some limitations as to income and situation, but most people can invest in a Roth IRA. The Roth grows tax-free. If you invest $3000 per year from age thirty-five to age sixty-five, and your mutual funds average 12 percent, you will have $873000 tax-free at age sixty-five."

Step 5: Save for College

Ramsey stresses that the pedigree of the university should not be your key concern. If you can afford the extra money, then go for it. If it would require you to go into debt, then do not pursue that path:

> "In some areas of study and in a very few careers, where you graduate from will matter, but in most it won't [...] How can you justify going into debt $75,000 for a degree when you could have gone to a state school and paid for it out of your pocket debt-free? You can't. If you have

> the $75,000 extra cash or a free-ride scholarship and want to go to that private school debt-free, by all means, do it. Otherwise, reconsider."

Aggressively apply for scholarships. The lists of these [small to medium] scholarships can be bought online, and there are even a few software programs you can purchase to help with your applications. If you are not sending hundreds of applications, you are probably doing something wrong.

Step 6: Pay Off Your Home Mortgage

> "Every dollar in your budget that you can find above living, retirement, and college should be used to make extra payments on your home."

Myth: It is wise to keep my home mortgage to get the tax deduction.

Reality: The tax deductions are no bargain.

Myth: It is wise to borrow all I can on my home because of the great interest rates; then I can invest the money.

Reality: You really don't make anything when the smoke clears

Why? Because the returns do not account for tax and risk in the housing market. Sophisticated investors always factor in risk.

DO NOT take out a 30 year mortgage and 'promise yourself' to pay it back in 15 years. You won't. No one ever does. This will end up costing you hundreds of thousands of dollars. A good rule is that the payment on the mortgage should never be more than 25% of your take-home pay.

Myth: It is wise to use the lower rates offered by an ARM (Adjustable Rate Mortgage) mortgage or balloon mortgage if you know you'll "be moving in a few years anyway."

Reality: You will be moving when they foreclose

> “By reaching the last step of your Total Money Makeover, you have entered the top 2 percent of Americans. You are totally debt-free - no house payment, no car payment. You are not Mastered by a Card [...] you have no student loans, and you are free.

Step 7: Build Wealth

> "Money is good for FUN. Money is good to INVEST. And money is good to GIVE.”
>
> "When your money makes more than you do, you are officially wealthy. When you can comfortably live on your investment income, you are financially secure [...] You have reached the Pinnacle Point when you can live off 8 percent of your nest egg."

Summary Ten:

Your Money or Your Life
by Vicki Robin and Joe Dominguez

Book Evaluation

At Life Life Balance, we read and review a lot of personal finance books. Your Money or Your Life is one of the most powerful books we've read. It succinctly brings together money (and time spent earning money) and your life - fulfilment, purpose, satisfaction. Creating this connection is both powerful and rare. The exercises outlined are confronting - forcing you to go back through statements and choices, add up what you've earned over your lifetime so far, and acknowledge what you have to show for it now.

This book should be one of the first that you read on personal finance. If *Your Money or Your Life* were compulsory reading at school, and everybody acted on its principles, the world would be a very different place. We'd have smaller homes, fewer material items, more money in savings and work a lot less than 40+ hours per week.

Many who read this book won't finish it and others won't get past the first few chapters. Even those who finish the book may not do every exercise. Why? It's confronting and uncomfortable. Money is not just about the physical coins and notes or your bank balance. How you use money is a message to the world. On the surface conspicuous consumption or buying the trappings of a financially successful life i.e. sports car, big house with more space than you need, tells society how 'you've made it'. In reality it's a way of asserting your status and power within society. You may argue that if you've made a lot of money why shouldn't you spend it on big-ticket items that you want? I'd challenge you to ask: why is it that we feel the need to express our success through external, material things? Why do we 'celebrate' our success by spending money? When did that become normal and accepted?

One of the positives of this book is that you don't need to complete every exercise to gain value. As a minimum I'd recommend steps 1 - 4: calculate how much you've earned since your first paycheck and your assets (what you have to show for all that money earned), calculate your real hourly wage based on how much your jobs costs in you in time and money, work out what you spend your money on and question what value you gain from those purchases. I've chosen these four steps as they're the most challenging to complete. If you've decided you don't feel like doing all of the steps in the book then commit to the first four. They'll take you out of your comfort zone and show you how much potential you have to turn your life around.

Whilst *Your Money or Your Life* provides a solid foundation for how you relate to money and how it ties into your life as a whole, there is very little on investing for short or long term. Robyn suggests using the following equation to calculate how long your savings will last you if you only withdraw the interest:

Multiply your capital (your savings) by the long-term interest rate and divide this by 12 = monthly income.

Robyn's calculation is an attempt at showing you how to plan your exit from paid employment. The issue with Robyn's approach is that it's too simplistic. What about investments that don't pay you monthly? What about investments that have varied interest payments e.g. dividend payments from stocks. The first edition of the book was written when interest rates on standard bank accounts were more generous than they are now. Gone are the days of a steady 6% interest rate. Similarly, Robin's criteria for investing is too stringent given it's unlikely your investments will produce interest equal to 5% of your investment every year, if you do not take any risk. It'd be better to accept that you won't be able to match all criteria for investing and that some risk will have to be taken. How much risk depends on your own tolerance.

Your Money or Your Life would benefit from either removing the chapter on investment and concluding the book at chapter 8, or including a more rigorous assessment of how to achieve a consistent return in today's investment climate. If you decide to the read the book in its entirety, I'd recommend saving time by only reading until the end of chapter 8 at most. Use the extra time to carry out a more rigorous assessment of how to invest your money wisely for the short and long term.

Use *Your Money or Your Life* to get to the heart of your relationship with money and recognize that you could be doing so much more than just earning a paycheck (e.g. start your own business, go part-time, go travelling) and you will find it will weave its way into your life for many years to come.

Book Summary

Chapter 1: The Money Trap: The Old Road Map for Money

Robyn defines our jobs as not living: "We aren't making a living, we are making a dying".

What we do to earn money dominates how we spend our time and energy and we accommodate our other priorities around the time we spend at work. The problem is that very few of us can admit that what we do makes us happy. Why do we continue to dedicate so much time and energy to jobs that don't make us happy? We've bought into the myth that we need to continue because 'more is better'. With more money we can buy a bigger home. With a bigger home we can buy more stuff and show our friends how well off we are. Is buying into 'more is good' really making you content?

Step 1: making peace with the past encourages you to assess the history of your money so that you can wipe the slate clean. Divided into two parts:

A) Find out how much money you have earned in your lifetime - the sum total of your gross income from the first penny you ever earned to your most recent paycheck.

How? Find your payslips/checks, look at your bank statements (online banking makes this step much easier) or calculate your best estimate.

B) Find out your net worth by working out the difference between your assets (cash, properties, stocks and shares etc.) and your liabilities (credit card debt, student debt, car loan etc., mortgage).

How? List everything you own and make a good estimate or research the current value of that asset. Note down your outstanding balances on any debt.

Chapter 2: Money Ain't What It Used to Be - and Never Was

We've looked at why 'more is better' may be a myth we've believed for a while, but what other money myths do we believe?

Money as power: having money can give you the power to make decisions about where you go and how you spend your time i.e. money gives you the power of freedom. This isn't the only route to influencing others though. As an example, if you look at the top 100 influential people in Time magazine, you'll see a handful of rich business people, but you'll also see political activists, religious people, sports people and scientists.

Money as social acceptance: conspicuous consumption. The urge to 'keep up with the Joneses' makes us want more money to buy things that help us to fit in. No one likes to feel excluded.

The problem with these beliefs is that they impact on our choices.

One truth is that we work to earn money. By going to work, we not only exchange time to earn money, we also exchange our energy to earn money. We exchange our time and energy to spend our money. We exchange our time and energy to save our money. We exchange our time and energy to invest our money. In summary: "Money is something we choose to trade our life energy for."

Step 2: Being in the Present - Tracking Your Life Energy helps you recognize how you're really being paid.

A) Establish the actual costs in time and money (think: transport costs, office clothes, after work drinks to wind down from stress of job) required to maintain your job, and work out your real hourly wage. Every hour that you give to your job earns you this real hourly wage.
B) Keep track of every cent that comes into or goes out of your life.

Chapter 3: Where is it all going?

If you work out how much you truly earn (and it's not as simple as your salary) by taking into account other costs associated with your job you'll find the next step painful.

Step 3: Monthly tabulation (use Excel to make Step 5 easier)

- Add up all your expenses and income for one month
- Divide up your expenses into categories
- Look at how many dollars you've spent and divide this by your real hourly wage from step 2
- This is how many hours you've exchanged for your purchases

Chapter 4: How Much is Enough? The Nature of Fulfillment

We lose sight of our dreams as we 'grow up'. We often give up our dreams to take on more 'practical' jobs that help us meet day-to-day needs and problems. It's only when we're faced with extremes such as terminal illness that we actually start doing what we want to, but there's no reason not to take the same approach today.

Consider:

- If you knew you were going to die within a year, how would you spend that year?
- What brings you the most fulfillment - and how is that related to money?
- If you didn't have to work for a living, what would you do with your time?

Step 4: Three Questions That Will Transform Your Life

Looking at your expenses from last month, ask yourself:

1) Did I receive fulfillment, satisfaction and value in proportion to how much life energy I exchanged?
2) Was the exchange of life energy for these expenses in line with my values and life purpose?
3) How might this expenditure change if I didn't have to work for a living?

> "Asking yourself, month in, month out, whether you actually got fulfillment in proportion to life energy spent awakes that natural sense of knowing when enough is enough."

Chapter 5: Seeing progress

Robyn creates a 'filler' chapter here where she essentially encourages you to create a physical wall chart that you display at home to track the data you've collected from chapters 3 and 4.

Arguing that the wall chart serves as a constant reminder of your commitment to transform money and a feedback loop, this is a step that you can combine with steps 3 and 4 by creating graphs in Excel.

Chapters 6-7: The American Dream on a Shoestring and Valuing your life energy - work and income

Robyn explores ways to decrease your spending and increase your income in line with your values.

Knowing that you exchange your life energy for money, spending money can be done in a more thoughtful way:

- Live within your means
- Take care of what you own including your health
- Anticipate your needs and plan your purchases
- Meet your needs differently - don't accept retail therapy and spend time with loved ones instead

> "Now that you know that money is your life energy, it seems foolish to consider wasting it on stuff you don't enjoy and never use."

We too often seek the following from our jobs:

- Sense of security
- Enjoyment
- Power
- Socializing
- Personal growth
- Success
- Creativity
- Fulfillment

Value your life energy:

- Get the maximum amount of compensation in line with your health and integrity
- Look for contentment outside of your paid job

Chapter 8 - 9: The Pot of Gold at the End of the Wall Chart and Now That You've Got It, What Are You Going to Do with It?

Again, chapter 8 is an add-on to the chapters 3, 4 and 6. Robyn introduces the idea of passive income (income from your savings and investments) and provides a calculation to show you how much longer you have to wait until you don't 'need' your job:

Multiply your capital (your savings) by the long-term interest rate and divided this by 12 = monthly income.

Add this to your wall chart.

Chapter 9 is a very basic introduction to investing your money for the long term.

Invest your capital using the following criteria

- produces income
- absolutely safe
- totally liquid
- income must not fluctuate

Cheatsheet

Personal Finance Book	Rank: for those who only intend to read one personal finance book ever	Rank: for those wanting to develop a deeper understanding of personal finance and investment	Rank: for those in debt/crisis
The Intelligent Investor	8	1	7
The Total Money Makeover	3	4	1
Think and Grow Rich	9	8	9
I Will Teach You to be Rich	1	7	4
The Richest Man in Babylon	10	9	6
The Millionaire Next Door	4	5	5
The Money Book for the Young, Fabulous & Broke	5	6	3
Rich Dad, Poor Dad	6	10	10
Your Money or Your Life	2	3	2
A Random Walk Down Wall Street	7	2	8

About Us

Chris Samiullah is the editor of the Life-Life Balance blog.

Maureen McGuinness is a writer for the Life-Life Balance blog.

If you enjoyed our book and want to read more about personal finance, entrepreneurship and character, subscribe to our blog: http://thelifelifebalance.com