Money

All the money advice that fits on 10 pages.

Topics:
Retirement saving
Buying a home
Budgeting
Compounding
Stock Investing
Debt
Rich /Poor

1. Money's Value Falls 90% every 30 years. (inflation)

2. **The only way to build wealth:** Spend less than you earn.

Don't ask 'Can I afford It? Instead ask 'Should I afford It?'. (spending control)

Think of surplus money as something to invest, not spend.

3. Control and prioritize your spending

An average smoker spends $11,760 a year on cigarettes (smoking 10 cigarette sticks/day). Add to that the health cost.

Retirement saving

4. Experts say we need 70-80% of our pre-retirement salary levels to live comfortable after we retire. (retirement saving)

5. A 25-year-old should be saving at least 10% of his or her salary, this means that a 45-year-old will need to save nearly half of his or her salary. (saving)
- Ramit Sethi

A dollar invested in your twenties provides a dollar of annual income in your sixties.
- Anon

6. **The 10-20 rule:** Each year, save 10% of your income toward retirement. Some experts say we should save 20 times our gross annual income.

7. How much we need to save each year for a million-dollar retirement:
Based on 7% return/year.

40 years: $5,009 per year
30 years: $10,586 per year
20 years: $24,393 per year
10 years: $72,378 per year

(Source: Reno-Gazette Journal)

Buying a home

8. Our *maximum mortgage payment* should not exceed 30% of our annual income.

9. **20% rule:** Put at least 20% down when buying a home (lowers your monthly installments, and increases our chances of being approved for a loan.)

10. **Three years rule**: Don't buy a house that costs more than three years' worth of your gross annual income.

Buying a vehicle

11. **20/4/10 rule**: Put down at least 20 %. Finance the car for four years maximum, and don't spend more than 10% of your gross income on transportation costs.

12. **10-Year rule**: To maximize your car's value, buy a used car, or buy new and drive that car for 10 years.

Buying Insurance

13. We should purchase a life insurance policy 5 to 7 times our present income.

Student loans

14. **First-Year salary rule:** Don't take out more in student loans than you expect to make your first year on the job.

Budgeting

15. **50/30/20 Rule:** 50% of your income toward necessities (housing, bills etc). 20% should go toward financial goals (paying off debt, saving for retirement).

Finally, 30% of your income can be allocated to your wants (fine dining, status symbol items etc). Just be good at differentiating between your needs and wants.

A Sample Monthly Budget Statement:

Monthly Expenditure
Auto Loan Payment
Auto Maintenance
Child Care
Clothing
Contributions
Credit Card Payments

Dues
Entertainment
Food
Household Maintenance
Income Tax
Insurance
Personal Care
Property Taxes
Rent or House Loan Payment
Retirement Plan Investments
Saving/Investing
Transportation (fuel, fares)
Utilities
Other
Total Monthly Expenditure

Monthly Receipts
Wages or Salary
Dividends
(Mutual funds, stocks, etc.)
Interest (FDs, Savings Account, etc.)
Rental or Royalty
Others
Total Monthly Receipts

Net Cash Flow
Total Monthly expenses
Total Monthly Expenditures
Monthly Net Cash Flow

Saving

16. 62% of Americans Have Under $1,000 in Savings.
Source: Google Consumer Survey

17. 6-Months emergency fund rule: You must have six months' worth of savings on hand in case of an emergency.

Compounding

(Compound interest = Interest on interest)

18. **The power of compound interest**

At 4% compound interest, money will double itself in a little less than eighteen years.
At 5% compound interest, money will double itself in approximately fourteen years.
At 6% compound interest, money will double itself in approximately twelve years.
At 8% compound interest, money will double itself in about Nine years.

Compound interest and taxes: If you're going to buy something which compounds for 30 years at 15% per annum and you pay one 35% tax at the very end, the way that works out is that after taxes, you keep 13.3% per annum.

In contrast, if you bought the same investment, but had to pay taxes every year of 35% out of the 15% that you earned, then your return would be 15% minus 35% of 15%—or only 9.75% per year compounded. So the difference there is over 3.5%. And what 3.5% does to the numbers over long holding periods like 30 years is truly eye-opening.

If you sit back for long, long stretches in great companies, you can get a huge edge from nothing but the way that income taxes work.

Even with a 10% per annum investment, paying a 35% tax at the end gives you 8.3% after taxes as an annual compounded result after 30 years. In contrast, if you pay the 35% each year instead of at the end, your annual result goes down to 6.5%. So you add nearly 2% of after-tax return per annum if you only achieve an average return by historical standards from common stock investments in companies with tiny dividend payout ratios.

(Source: Charlie Munger)

19. **The rule of 72: Tells you how long it takes to double your money.**
72/[return rate you're getting] = # of years to double your money. For example, if you're getting a 10% interest rate from an index fund, it would take you approximately 7 years (72/10) to double your money. In other words, if you invested $5,000 today, let it sit there, and earned a 10% return, you'd have $10,000 in about 7 years.

Stock Investing

20. Since 1926, stocks have returned an annual average of 10.5%, long-term government bonds returned 5.1%, and cash, measured by Treasury bills and other short-term investments, has returned just 3.1%.

21. Textbook defntion of 'investment': 'The deferral of current consumption for future consumption'.

22. **120 – Your age rule**: Subtract your age from 120. That's the % of your portfolio that you should put in stocks. The idea behind this is that the older you get, the less you should invest in stocks, which are considered more risky than bonds.

23. **Stock investing & Compounding**: How long will it take us to make a million if we save $20 daily?

- 26 years: If we put $20 daily in an index fund. The stock market gives 10-11% returns on an annual basis. If we follow smart investors like Warren Buffet, the million pay day may be sooner than 26 years.

- 43 years: If we invest daily in 'safe' treasury bonds that give 4.74% returns.

-135 years: If we save all that money in a shoe box.

24. **Comparing stock market investment:** What would $10000 be worth? (stock investing)

How much would $10000 appreciate if we invested it in different investment opportunities, at different time frames.

$10,000 invested in the S&P 500 (SNP: ^GSPC) 10 years ago would be worth $7,774 today.
$10,000 invested in the S&P 500 at its 2000 high would be worth $6,974 today.
$10,000 invested in the S&P 500 at its 2002 low would be worth $13,724 today.
$10,000 invested in the S&P 500 at its 2007 peak would be worth $6,805 today.
$10,000 invested in the S&P 500 at its 2009 low would be worth $15,754 today.

(Source: Simon Maierhofer, 2010)

25. **Asset allocation rules**
Low risk: 14% stocks, 6% int'l stocks, 80% bonds
Medium low risk: 28% stocks, 12% int'l stocks, 60% bonds
Medium high risk: 42% stocks, 18% int'l stocks, 40% bonds
High risk: 56% stocks, 24% int'l stocks, 20% bonds

(Source: 'The Smartest Investment Book You'll Ever Read' by Daniel Smith)

26. **Buy what you know.**
- Peter Lynch

27. **If someone says, 'buy now,' don't buy at all.**
- Anon

28. *The Stock Market is designed to transfer money from the Active to the Patient.*
- Warren Buffet

29. *It is Futile to Predict the Economy, Interest Rates and the Stock Market* (So Don't Waste Time Trying) - 'If You Spend 13 minutes per year trying to predict the economy, you have wasted 10 minutes' Focus on the 'facts' now at hand rather than predictions about the future
- Peter Lynch

Debt

Experts say debt can be good if you can use that debt to earn more money than the interest you pay on that debt.

30. **Credit card:** The system wants you to use credit cards all the time (post-1980 world), and get used to a lifestyle built around debt.

So, have a zero-balance (where you have no outstanding balance during the chargeable period) credit card, use it to pay for all the budgeted items for the month (i.e. utilities, TV, Internet, etc). And then before the interest kicks in, pay it off using your salary account.

This way, you have been building a decent 'payment history', and also earning any cashbacks or any incentives businesses/card company come up up with. The only other thing you may be paying for is the annual fee.

Tip #2: Keep that credit card limit handy for a rainy day.

31. **Credit score:** Your payment history makes up 35% of your FICO score. Your total debt owed makes up to 30% of your final FICO score. The final 15%, 10% and 10% of your FICO score are the length of your credit history, any new credit that you have taken on, and the type of credit you have used.

Sources of making money

32. Sources of 'Big time' money

- Government subsidies.
- Big fat inheritances.
- Little equity, lots of debt.
- Non-financial leverage. The superstars in television, movies, music law firms and sports.
- 'Next big thing': Invent something.
- Small slices of very big pies. E.g. investment banks, private-equity managers, mortgage

lenders, CEOs, commercial banks and fast-food franchises
- Cartels and monopolies. Easy money when they have control over price and supply – especially in fields like oil, cable TV, utilities and steel.
- Sell the sizzle, not the steak. E.g. Quick-buck deals from Nigerian con men, financial newsletters promising hot tips, vitamins that prevent aging, secret cancer cures and, oh yes, how-to-get-rich-quick books.
- Feed the addict's habit. Selling $3.60 lattes that cost 60 cents to make (Starbucks)
- Supply picks and shovels.
- Get paid with 'other people's money': E.g. Consultants.

(Source: Gary Shilling)

33. Multiple streams of income

Type of Businesses
- information
- product
- service

Growth sectors
- health care
- investment advice
- technology
- specialty retailing
- entertainment

(Source: Faith Popcorn)

Residual Income Sources
- songwriters
- authors
- insurance agents
- securities agents
- network marketers
- actors
- entrepreneurs
- franchisors
- investors
- visual artists
- software creators
- game designers
- inventors

- partners
- mailing list owners
- real estate owners (this is where most people try to make money)
- retired persons
- celebrity endorsers
- marketing consultants

(Source: '*Multiple Streams of Income: How to Generate a Lifetime of Unlimited Wealth*' by Robert G. Allen)

Rich /Poor

34. Difference between Rich people and Poor people

Rich people believe 'I create my life'. Poor people believe /life happens to me'.
Rich people play the money game to win. Poor people play the money game to not lose.
Rich people are committed to being rich. Poor people want to be rich.
Rich people think big. Poor people think small.
Rich people focus on opportunities. Poor people focus on obstacles.
Rich people admire other rich and successful people. Poor people resent rich and successful people.
Rich people associate with positive successful people. Poor people associate with negative or unsuccessful people.
Rich people are willing to promote themselves and their value. Poor people think negatively about selling and promotion.
Rich people are bigger than their problems. Poor people are smaller than their problems.
Rich people are excellent receivers. Poor people are poor receivers.
Rich people choose to get paid based on results. Poor people choose to get paid based on time.
Rich people think 'both'. Poor people think 'either/or'.
Rich people focus on their net worth. Poor people focus on their working income.
Rich people manage their money well. Poor people mismanage their money well.
Rich people have their money work hard for them. Poor people work hard for their money.
Rich people act in spite of fear. Poor people let fear stop them.
Rich people constantly learn and grow. Poor people think they already know.

(Source: '*The Secrets of The Millionaire Mind*' by T. Harv Eker)

The poor let the big machinery (corporations) manipulate them whereas the rich know how to use big machinery.
This means that the rich possess the knowledge and *savoir faire* to use the power of the

corporation to protect and enhance their assets.

The advantage of a corporation versus that of the individual lies in how corporations pay taxes - individuals earn money, pay taxes on that money, and live with what's left. The corporation, on the other hand, earns money, spends everything it can, and is taxed on anything that's left.

Individuals may not be aware of how much they're being manipulated; they work from January to mid-May to enrich the government by paying taxes on their income. In the meantime, the rich are hardly taxed.

The rich invent money: People never get ahead financially even if they have plenty of money because they have opportunities that they fail to tap. Most of them just sit around waiting for opportunity to happen. People create luck; they should not wait around for it. It's the same with money. It has to be created.

(Source: '*Rich dad, Poor Dad*' by Robert Kiyosaki)

The millionaires live below their means
- Most have never paid more than $400 for a suit or $27,000 for a car
- Millionaires operate on an annual budget, have clearly defined goals, and plan for the future.

(Source: '*The Millionaire Next Door*' by Thomas J. Stanley and William Danko)

Financial Advice

35. **The financial services industry wants to make you poor and stupid:** You can do away with most mutual funds, and all financial advisers. Leave the financial advisers and hedge funds alone. Let them con/do tricks for the 1%.

Start by saving 15% of your salary, from age 25 till age into a 401 (k) plan, an IRA, or a taxable account or all three. Put equal amounts of that 15% into just three different mutual funds:

- A U.S. total stock market index fund
- An international total stock market index fund
- A U.S. total bond market index fund

(Source: '*If You Can*' by William J. Bernstein)

36. **Most of helpful financial is simple and common sensical**

The best financial tips fit on an index card
- Strive to save 10%-20% of your income.
- Pay your credit cards off every month (and minimize other debt).
- Maximize your 401(k) and other tax-advantaged savings accounts.
- Never buy or sell individual stocks.
- Buy inexpensive well-diversified indexed mutual funds and exchange-traded funds.
- Hire a fee-based fiduciary (avoid commission-based financial salespeople).
- Wait to buy only as much home as you can afford (remember homes are usually highly-leveraged investments with high maintenance costs).
- Buy term life insurance, auto-insurance (especially liability), home insurance or renter's insurance, and disability insurance.
- Support the social safety net (government programs, such as Social Security, Medicare, Medicaid, and student loans, because 96% of American depend on such programs for financial assistance, even though 40% deny obtaining help from the government.)
- Keep doing the first 9.

(Source: Helaine Olen)

The Success Manual

200+ Important Skills Every Modern Professional Should Know

- Discover 40+ ways of making a living (online/offline).
- Know all the things you need to succeed at freelancing.
- Start a successful business: Validate your idea, create a business plan and more.
- Run a successful business: Team, taxes, strategy, and 25 other important business topics.
- Make something what people want, and create a tech startup.
- Learn how to win at job search (online/offline), create a great resume, handle job interviews with ease, find a career path you love, deal with office politics and 100+ things for surviving and succeeding.
- Discover 25+ best productivity methods, time management techniques, and more productivity-related skills.
- Find the 25 all-time best ways to increase your communication skills, the basics of social skills, public speaking, presentations and 40 other useful communication skills.
- Improve your business writing, persuasive writing, online writing, self-publishing and more.
- Think better by learning about lateral thinking, problem solving, decision making, thinking like a genius and more.
- Know more about leadership skills, business management skills, marketing skills, persuasion skills, negotiation skills and other useful business skills.
- Take care of yourself by dealing with stress, burnout, anxiety, worry habit and others, and also learn the basics about meditation, mindfulness, coping strategies, relaxation techniques, confidence, self-esteem, anxiety management and more.
- Adapt a growth mindset by having the right attitude, grit, resilience, goals, good habits and other important self-management skills.