A GUIDE TO MANAGING YOUR MONEY WISELY

INTRODUCTION:
WHY FIVE PILLARS?

Those who love money will never have enough. How meaningless to think that wealth brings true happiness!
Ecclesiastes 5:10

My Childhood Memories of Money

One of my earliest memories of “working with money” was when I was in the 5th grade. At the end of the day my grandfather would empty the change from his pockets into an ashtray, and he’d let me take all of the quarters. I would then exchange the quarters for dollar bills with my uncle who needed quarters to ride the bus to work. It was far easier for me to carry around dollars when I needed to buy baseball cards.

I also remember as a kid my dad having a 5 gallon empty water jug. He’d fill it with loose change, and when we’d go on vacation, he’d exchange the coins for bills at the bank and split the money between me, my brother, and my sister. It was fun to watch that jug fill up.

I don’t remember much about money being taught in my house as a kid. But my parents had fairly good habits which set a good example for me. I remember my parents working hard. I remember not getting all the cool toys from the Sears catalog at Christmas time or for my birthday like many of my friends seem to get. I heard often from them “we don’t have money for that”, but yet they always made sure we had an annual family vacation. The biggest lesson I recall being taught very intentionally by my dad was, “Son, if you earn $5, spend $3 and save $2. You never know when you’ll need that $2.”

In reality, that statement was far deeper and wiser than I could ever imagine. In fact, that advice from my dad contains what I believe are 3 simple principles that if you follow nothing else, you will have a good shot at financial security.

Spend less money than you make.
Save as much money as you can.
Don’t do anything foolish with your money.

What Is Money?

“What is money?” This seems like a simple question that should be easy to answer, right? As defined by Webster’s, money is “something generally accepted as a medium of exchange, a measure of value, or a means of payment: such as officially coined or stamped metal currency.”

It seems like a revision is in order. There was a day (a generation ago) when we carried coins and bills, and money was tangible. From my early memories, you could touch money, smell it, and in some cases, taste it. In ancient times livestock and spices were used as currency. Today, money is represented largely by electronic digits on a screen.

Money is largely intangible. We get paid via direct deposit. Our mortgages, rent, and other recurring payments are automatically deducted from our bank accounts. We swipe our credit cards. There's paypal, google wallet, apple pay, etc. Amazon has 1 click check-out on its app. It doesn't get much easier than that to buy stuff. Rarely do we carry "traditional" money. And it seems likes there is never enough money. Since it is so easy to buy things without checking your bank balance, we don't realize how quickly the balance dwindles and how much we drive up our debt. Because of the ease in which we shop, we rarely ask "Do we really need this item?"

A Secret About Money

Here's a little secret about money. It doesn't really matter how much you MAKE. I've worked with people who earn $50,000 and those who make $500,000+. Ironically they often suffer from two similar problems: they don't make enough to support their lifestyle, or they are just not fulfilled with what they spend it on. The key to financial security has as much to do with spending less than you make on meaningful things than it does with how much you make.

Simple, right? Often times it's the simple things that are hardest to do. Knowing what needs to be done and actually doing it is HARD. Our discipline, self control, and willpower often give in to the daily onslaught of marketing to which we're exposed. We find ourselves spending our money in ways that we regret, or that leaves us unfulfilled. The ease of shopping without looking at our bank balance, and without asking ourselves whether we really need what we are buying results in overspending.

What is Enough?

John D. Rockefeller, considered the richest person in modern history, worth billions, was asked by a reporter,

"How much money is enough?" He responded, "Just a little bit more."

True or not, the story about Rockefeller captures that sentiment I hear often from people about money. There just never seems to be enough money to do what we want, and all too often not enough to do what we need.

Understanding money and learning to manage it is arguably one of the more important skills a person can develop as money impacts just about every aspect of your life. Unfortunately, you won't find it taught in most high schools, and it most likely won't be required for you to graduate from college. Learning this skill is left to you. And the sooner you grow in your ability to manage your money well, the better. Too often I hear, "I wish I would have known 20 years ago what I know today."

Two Principles Of Managing Your Money More Wisely

I believe there are two principles needed in order to manage your money wisely and make it work for you – stewardship and provision. It takes some work to execute these 2 principles as they are pretty regularly under attack by two very strong human emotions - fear and greed. These two principles allow you to have confidence in your finances and feel empowered because you are creating a stable future for yourself and your loved ones.

Principle #1: Stewardship

Stewardship is the opposite of greed; it's an approach that will help you make decisions with your money that are responsible and respectful of YOUR future and current needs, rather than spending recklessly or saving solely for the sake of having a huge bank account balance.

Here is how I like to think of it: imagine everything you own actually belongs to someone else, someone who you care deeply for and have the highest respect for. This person happily allows you to be the caretaker of everything they have, including their money. All they ask for in return is that you spend it responsibly and check in with them every so often to give them an account of how you have been spending their money.

That thought alone, of having to justify your spending to someone you respect is enough to help guide your financial planning and purchasing choices. This is what stewardship is all about.

For example, let's say that you have the choice of spending a $500 bonus you just received from work on the latest smartphone, or applying the $500 towards your credit card debt. As a good steward, you see the value in putting the money towards your credit card debt, rather than making a decision based on greed to experience immediate gratification of a phone you know you can't afford. Also, you have in the back of your mind that it would be embarrassing to explain the unnecessary upgrade to the person whose money you are caring for when you have credit card debt that you're paying 19.99% interest on.

Principle #2: Provision

Provision is the opposite of fear; it's about preparing and planning your money management decisions to ensure you will be able to provide for your "today and tomorrow" and not making decisions because you are fearful of what the future may hold. I feel the principle of provision comes into play not only regarding your savings accounts, but also in the decisions you make when purchasing insurance and investing your dollars, all of which have an affect on your future.

What is the difference between provision and fear? Really, they are opposites. An example of provision is purchasing life insurance for your family, with the thought in mind that should anything happen to you, your family will still be provided with the same resources available to them today.

There are three types of ways to practice provision and that's through insurance, savings, and investments. All three represent a future for provision, if you get sick, your child breaks an arm, etc., and enables you to have a plan for the future and not leave your loved ones in a helpless financial situation.

Mark Twain said,
"I've lived through some terrible things in my life, some of which actually happened."

His point, as I interpret it, is that we fear and worry about things that are out of control and may likely never happen. In the context of money, it's the "what if's" where I see people's fear manifest itself. What if I lose my job? What if the stock market crashes? What If when I live to 90...will I still have money? Some of those things may happen. Some may not. Careful and wise planning can give you the confidence of knowing you are doing all you can to face the scenarios IF it arises so you energy can be redirected to more meaningful things.

Your Foundation And Starting Point: Your Why

My 5 Pillars of Financial Security are built upon the foundation of stewardship and provision. Your foundation to get your money in order is simply the reason why any of this matters. You've read this far. Why? No financial advisor can tell you why this matters to you. No book or blog post can tell you why you should make better financial decisions. It's your money. It's your future. So why are reading this?

> **Are you wanting to Squash your debt?**
>
> **Are you wanting to improve a specific part of your financial life?**
>
> **Maybe there is a relationship you want to strengthen that has been strained by fights over money?**
>
> **Or do you want to be able to afford sending your kids to the best school?**
>
> **Maybe you want to give more and be more philanthropic.**
>
> **Perhaps you're over 40 and your retirement savings are less than adequate to provide for you when you retire.**

Whatever your reason, write it down. That reason could become the motivating factor for you to work towards, not just changing your finances but, improving your life overall.

It is never too late to improve your finances. You're not too far gone. It is well worth the sacrifice to make a positive change to your finances. Every year that passes is a missed opportunity you cannot get back. There is no rewind button.

5 Pillars of Financial Security

You've taken the first step by reading this far. You hopefully have identified why any of this matters to you. Don't stop now. What follows are what I believe are the 5 most basic pillars to having financial security. Certainly, there is much more to learn about managing money, but start here to lay a solid foundation of principles that can steer the success of your financial life.

These pillars are not necessarily designed to be steps to financial freedom or security. They are not designed to be a program you graduate from and move on to more advanced stuff. These pillars and principles should drive your finances every day, every month, every year. Following these pillars, and following them regularly, will put you on your way towards financial security.

These are not designed with the rich or the poor in mind. These pillars transcend income, demographics, and wealth. These 5 pillars apply to all who want to be good stewards of their money and resources.

Know Where Your Money Is and Where It Is Going

Plan Where You Want Your Money To Go

Squash Debt

Save For Tomorrow

Give To Others

Know Where Your Money Is and Where it is Going

Beware of little expenses. A small leak will sink a great ship.
Benjamin Franklin

Know your sheep by name; carefully attend to your flocks; (Don't take them for granted; possessions don't last forever, you know.) And then, when the crops are in and the harvest is stored in the barns, you can knit sweaters from lambs' wool, and sell your goats for a profit; There will be plenty of milk and meat to last your family through the winter.
Proverbs 27:23-27

In order to know where your money is and where it is going, you first have to understand and become aware of all your assets. That is the property in your life that has value. Your assets are much like the sheep from the ancient wisdom above. If I were to restate that proverb, it would say something like this, "You better know where all your money and valuable property is. Watch over it and manage it well. If you do, it will provide for you today and in the future."

Know Where Your Money Is

Have you ever played hide and seek with a toddler? They're typically terrible hiders. In fact, when my youngest was 2 years old, she'd broadcast her hiding spot before I'd be done counting; and her hiding spots were usually obvious, like in the middle of the room.

The older kids were a different story. I'd often give up looking for them because they'd hide in the most obscure places. It was frustrating when I couldn't find them.

The obvious place where we keep our money is in a checking or savings account. You may also have some sort of retirement account like a 401k. That's where the obvious may end. Many people open multiple accounts for various reasons over the years. Over the years they change jobs and start new 401k plans. Before they know it, they have 6 checking accounts and 4 retirement accounts. This is no exaggeration, I've seen it. There is nothing inherently wrong with this. But it becomes difficult keeping tabs on where all your money is.

A quick hint is to minimize the number of bank and/investment accounts by combining when feasible. It's easier to remember your account balances.

Net Worth Matters

A number you want know is your Net worth. Net worth is a simple calculation of the value of everything you own minus all your debt (liabilities). When you have to many accounts, it gets tough to track this stuff. Net Worth matters because it is a scorecard of sorts, a quick way to know how you're doing financially. Let's take a quick look as to how to use net worth to keep score.

Let's say I have the following assets and debts (Liabilities):

Assets	Liabilities
$200,000 House Value	$190,000 Mortgage
$2,300 Checking Account Balance	$75,000 Student Loan Debt
$12,000 Savings Accounts	$15,000 Credit Card Debt
$275,000 401k Value	$12,000 Car Loan
$15,000 Car Value	$15,000 Owed to a Family Member

$504,300 Total Assets - $307,000 Total Debt = $203,300 Net Worth

If over the year, you're able to pay an additional $3,000 towards your credit card debt, and all other things remain unchanged, your net worth increases by $3,000.

The reason calculating net worth matters is that it forces you to account for all your assets (and debts). That accounting brings an awareness to your finances that is essential to start managing your money wisely. Also, what gets measured gets done. If your goal is to save more or pay down debt, the very act of measuring progress can move you forward.

Investments Are Money

Your investments are an asset that should increase in value, not only because you are adding to them as time goes on, but because of stock market growth. With your investments, it's not only important to know your balances, but to also know how your money is invested. Take time to make sure you invested in a way that is in line with how much risk you can stomach and with the purpose of your investments. More on that in Pillar 4.

Insurance Is Money Too

You may never have thought about it, but all your insurance policies represent money. Think about it. Insurance is you buying a large sum of money with smaller amounts of money called "premiums" for those potentially, financially catastrophic events. If you get into a car accident, you have auto insurance to cover you against a potential lawsuit and to fix any property you damage. Life insurance, disability insurance, health insurance, home and flood insurance, all represent money. If you were to have a covered claim, you get a lump sum of money. In essence, your insurance is protection for your assets and not necessarily an asset in of itself. Understanding your policies and making sure you have appropriate insurance is all part of knowing where your money is. Review your policies regularly with a knowledgeable insurance agent or your financial planner.

Know Where Your Money Is Going

Now that you have accounted for the money you already have, you need to account for the money you are earning. I often hear things like, "I just don't know where all my money goes" or "I make pretty good money, but I feel like I have nothing to show for it".

Electronic money is convenient, but that convenience can erode your finances quickly if you lose track of where your money is going. For most of us, if we're honest, the easiest thing to do with money is to spend it. There is nothing wrong with spending money unless you spend without purpose. By purpose, I mean you've got specific goals and objectives you are working towards (which I will cover in pillar 2).

There are many great tools to help you track your money digitally such as Personal Capital, Mint.com, Emoney and Right Capital (available through some Financial Planners), to name a few. But let's be honest: having one of these accounts does not count as tracking your money. In fact, sometimes these digital aggregators, like Mint.com, can give you a false sense of knowing what's going on with your money. Tracking means actually looking at how much you spend over a period of time in different categories, i.e. groceries, bar tabs, restaurants, entertainment, etc.

A good use for a MINT.com type of account is to keep all your account information in one place where you can see it. By having a full view of your finances, you can get a good understanding of how you are spending money and see patterns. You are able to get a grasp on your spending habits which leads you to areas you can spend less so more of your money can go towards things that are more meaningful and purposeful to you.

Review the immediate past 3 months of your spending. Assign categories to each expense such as mortgage, groceries, eating out, utilities, etc. Become aware of how much you spend monthly in the various categories. You must include every purchase, even small ones as they can add up quick.

The Building Block Of Your Financial Future

Your money is the building block of your financial security. Step one to building a solid future is to become aware of your spending and to know where all your money is going. This can be painful. For some, downright depressing. But, by taking this inventory, you are laying the foundation to create a solid plan for your money, and you will have more confidence as you start to make financial decisions that will help you reach your goals. In order to plan for the future, you need to make wise decisions with your money today.

So, do you know where your money is going?

PILLAR TWO

Plan Where You Want Your Money to Go

"It takes as much energy to wish as it does to plan."
Eleanor Roosevelt, Former First Lady

Careful planning puts you ahead in the long run; hurry and scurry puts you further behind.
Proverbs 21:5

Once you know where your money is going, it's time to plan where you want it to go.

Based on your values and the things you want to accomplish in life, planning where you want your money to go is about aligning what you do with your money with your life objectives. Let's say you're working towards saving for retirement, paying off student loans, saving for a big trip, _______ (Fill in the blank with your own), etc. but find yourself with no money at the end of the month to save. That's a problem.

By having taken the time to know where your money is going, you've probably discovered some places in which you're leaking money into less fruitful areas. Now it's time to redirect those funds towards your objectives. Maybe it's paying down debt or taking a long deserved vacation. That is an example of planning where you want your money to go.

The Worst Financial Curse Word

So, if you haven't figured it out yet, planning where you want your money to go has a lot to do with budgeting. Let's talk a little bit about the dreaded "B" word.

Are you averse to the word "budget"?

For many people, "budget" is the equivalent of a financial curse word. When we hear the word "budget," we hear an echo of "restrictive, anal, meticulous and a waste of time" in our mind. It's time-consuming and limiting. But, if you have any aspirations of reaching certain financial and life goals, creating and following a budget will increase your likelihood of success by more than you think.

Budgeting Step 1

In the end, budgeting is nothing more than you making a plan as to how you want to spend your money before you even have your money. Budgeting is you spending with purpose. It's "planning where you want your money to go."

Start with your income. How much money do you have on a monthly basis to spend?

Than list out all you current fixed expenses. Your fixed expenses are those items that vary little if at all from month to month. For example, fixed expenses can include items such as: rent/mortgage, property taxes, insurance, utilities, debt payments, etc. Don't forget to include savings. You should plan to save regularly.

Once you have your fixed expenses listed out, work on your variable expenses. These are your expenses that can vary greatly from month to month based on several factors. Your variable expenses include: groceries, eating out, gas, entertainment, etc.

Don't forget to include those quarterly or annual expenses in your calculations. Add up all your expenses. If they are less than your income, congratulations! If not, you may have some cutting to do next month.

Making spending decisions before you even earn your money is a step in the direction of you affording the things that are the most important to you and your loved ones.

10 Reasons You DON'T Need A Budget

1. Creating a budget requires time management skills, who has time for that?
2. You strongly believe the unanswered question "Where does all my money go?" deserves to remain unanswered.
3. Living in your parent's spare bedroom is cheap, plus your mom makes the best homemade red beans in all of New Orleans.
4. Budget… isn't that what a credit card is for? To cover the things that you can't afford?
5. You don't want to be restricted in your spending.
6. Living check to check is exhilarating. Will you make it to the end of the month? Who knows!
7. You tried the whole budget thing before, and it just didn't match the amount of money you want to spend.
8. Everyone has SOME debt, right?
9. Financial goals are for old people. You can think about those "goals" in about 15 years.
10. There's nothing you enjoy more than a good argument over money with your significant other.

Okay, okay, those ten reasons were a bit sarcastic. But all joking aside, I understand that budgeting is tough for many. Who really likes to make a budget and more importantly, stick to it? But if you focus on "why" you need a budget, it becomes easier.

10 Reasons Why You Should Create A Budget:

1. To Know where you are spending your money and be able to make changes in your spending as needed
2. To be able to increase your savings
3. To improve your spending habits
4. To pay down those burdensome student loans
5. To reduce your stress
6. To improve your relationships
7. To reach your financial goals
8. To save more for your retirement
9. To ensure you don't spend money that you don't have
10. ________________ I'll leave number 10 for you to fill in

Hopefully you find the reasons to have a budget more compelling than the reasons not to have one.

What Will Your Budget Do For You?

Budgeting for the sake of satisfying some rule in personal finance is silly. Don't do it because that's what "they" say… do it because it will help you reach goals or help you to pursue a particular lifestyle. It will also teach your children a valuable lesson.

A budget brings purpose to your spending. I budget because I want to spend more time with my kids. I want to pay my house off early. I want to travel. I want to increase my level of giving. By making these ongoing conscious decisions on how and where I spend, I can allocate my money to those things that matter to me rather than on things I may regret in the future.

That's why I budget.

What will you budget for?

PILLAR THREE

Squash Debt

"Every time you borrow money, you're robbing your future self. --"
Nathan W. Morris, Economics Expert

The rich rule over the poor, and the borrower is slave to the lender.
Proverbs 22:7

Debt is an obstacle to financial security and must be **SQUASHED**. Overspending, that is, spending more than you make, gets you into debt. You are basically spending money that you have not yet earned. Americans do this at a rather alarming rate. Borrowing is costly. That's why planning where you want your money to go is so important.

Debt Defined

Whenever someone goes into debt, they are using money they have not yet earned. Interest is the fee that person pays to their creditor for using that money. Whenever you borrow, you are exchanging your future earnings, energies, and time for whatever money or possession you receive today.

We are bombarded with banks and credit card companies offering us credit on a daily basis. Why? These companies make a lot of money off us when we owe them. They feed on our consumerist culture.

A Strong Warning About Debt

An ancient proverb says that the borrower becomes the lender's slave! That's a pretty stark warning. Without a strong conviction that going into debt is bad, you will inevitably find the need to borrow and run up your credit card. Debt should be reserved for large, needed purchases (think houses). You should have a compelling reason to go into debt. Going into debt should not be the norm if you ever want to be financially secure.

Debt is an obstacle to financial security.
If you owe someone money, they in a sense have some authority over you.

The Cost Of Debt

Debt is expensive, super expensive. The average household has over $15,000 of credit card debt. If you are average with $15,000 of credit card debt and you are paying 15% interest, that's $2,250 worth of interest per year assuming you pay interest only, that's your fee or cost to "borrow" that money. Could you find a better use of that $2,250?

Picture this: If that $2,250 were invested annually earning an average of 6% per year, you'd have $52,371 at the end of the 15th year. That could go a long way towards your retirement.
Do the math on your debt payments. Wouldn't you rather work towards your financial security instead of working to make someone else financially secure?

The Worst Financial Advice I Was Ever Given

When I graduated from college and was gearing up to start my career in the insurance business, I was advised by several people to go into debt. To buy an expensive car and a big house. That the debt I would get myself into would motivate me to work harder to get out of it. Thankfully, I didn't follow the advice. I look back on that and think how backwards that counsel was.

Have you been given bad advice regarding debt that you regret accepting, or are glad you rejected?

All Debt can't be bad, Right?

Not all debt is created equally. Some debt is more acceptable than others, and some should be avoided at all costs. Debt is a financial tool, and if used properly, is helpful.

Useful Debt

When you borrow money to buy something productive, it's acceptable so long as you are able to service the debt. For example, you take out a mortgage to buy a house. You are already forking out rent, why not put it towards your own house? HOWEVER, don't buy more house than you can afford. Make sure the house is within your affordability range.

Maybe you are a business owner and need to borrow to expand and make an investment in your workforce and/or equipment. Taking a loan makes sense so long as the venture makes sense. Since borrowing costs you money in the form of interest and fees, be judicious and discerning when you use it.

Not So Useful Debt

Simply put, debt used to pay for a lifestyle above your means NEEDS to be avoided at all costs. Don't drive a S-class Mercedes when all you can afford is a Chevy. Don't buy more house than you can afford. If you can't pay off your credit card every month, stop using it. Avoid using credit to buy things you consume and then are gone (vacation, entertainment, food, etc). If you buy those things on a credit card, make sure you pay them off every month. But be careful because spending money on a credit card is easier to do than if you use cash. For example, I love coffee. I used to spend a lot of time in the coffee shops. If I had cash in my wallet, I'd usually order a medium black coffee. I hated parting ways with my cash so I bought the least expensive option. If I was cashless, I'd order a cappuccino and a blueberry muffin and swipe my credit card.

Squashing Debt Step One

Doesn't the sound of being debt free sound good? I mean completely debt free including your house. Squashing debt does wonders for your pocket book and for your psyche.
Does your debt weigh on you? If you could have a do-over, what are some things you would have passed on buying?

The first step to squashing debt is not to run from it. Simply make a list of each debt you owe, the applicable interest rate, and your minimum payment. I'm a fan of paying off the smallest debt first. Than take all the money you were using to pay that smallest account and add it to the minimum payment of the second smallest. Once that one is paid off, take all that money and apply it to the next. And so on. If your debt is bad and out of control, you may need to seek out further help.

What are you waiting for? Get SQUASHING.

PILLAR FOUR

Save For Tomorrow

"The habit of saving is itself an education; it fosters every virtue, teaches self-denial, cultivates the sense of order, trains to forethought, and so broadens the mind."
Thornton Tate Munger, US Forest Service

"Part of all you earn is yours to keep. Learn to live on less than you make and save the balance for yourself."
George Samuel Clason, Author, "The Richest Man in Babylon"

Money gained in the wrong way disappears. But money gathered little by little grows.
Proverbs 13:11

Too much financial advice emphasizes saving for retirement. I am not suggesting that saving for retirement is unimportant. On the contrary, I think it's one of those places you should plan for your money to go. However, if all your savings go only towards retirement, you can leave yourself vulnerable in the event of a financial emergency. Don't just save for retirement, but save for tomorrow.

Saving for tomorrow means funding an emergency fund for short-term needs. It means taking advantage of a retirement account for long term savings. It means setting money aside to start a business, send a kid to college, or to put a down payment on a home.

Saving for tomorrow considers 3 types of accounts to focus your savings dollars:

Short-Term Savings

Mid-Term Savings

Long-Term Savings

Short-Term Account: A Lesson From The Building Of The Golden Gate Bridge

When the Golden Gate Bridge was completed in 1937, it was the longest single span in the world. Costing over $27 million dollars, it stretched over 4,200 feet and its deck over 220 feet above the water.

Half way through its construction, a safety net was installed below its deck to keep the construction workers from plunging to their death in the frigid San Francisco Bay waters. At a cost of $130,000 (a huge number in 1937), the net became a morale booster for the workers. The net gave them confidence, and they were able to work faster without the fear of falling to their death. The knowledge that they were safe even if they should slip and fall, allowed the men to devote their attention to the task at hand, completing the bridge faster than if the net was not installed.

Chances are, your work is not as hazardous, requiring a safety net. But we face a different kind of hazard: running out of money. I am not referring necessarily at this point to running out of retirement dollars, but, for most of you reading this, a more daily concern of running out of money during the month because of some unforeseen and unexpected reason.

It could be:

1. Kids school tuition is due
2. Unable to work due to a sickness
3. Your insurance premiums went up
4. Need to travel for a family emergency
5. Your transmission goes out
6. Your taxes are due
7. _______________ (fill in the blank)

Having money set aside for the unexpected will give you confidence to devote your energy to your work, your family, or any other pursuit you deem worthy, without the stress or fear of what lies ahead. Shedding the stress and fear can lead to increased creativity and more opportunity in your professional life.
Having an emergency fund is your financial "safety net".

My Emergency Account

Your short-term savings account is your emergency fund. Several years back I got a call from my wife about the AC not working. It was one of those hot summer days in New Orleans where the temperature was 1,000,000 degrees. "The AC is not cooling the house!," she said. "O'Man!" I thought. The unit had to be totally replaced, and it cost thousands. Thankfully, we had some money set aside otherwise it could have been very uncomfortable, physically, financially, and probably emotionally.

The reality is air conditioners break during New Orleans' summers. In fact emergencies can come in all shapes and sizes. Car repairs and the unexpected need for medical care seem to be two pretty popular emergencies. How about "Oops, I forgot my kids tuition is due today!" and the "How much do I owe in taxes?…ouch…didn't expect that!"

You've heard it before…it's time tested wisdom, "Plan for a rainy day" (or I guess for me it was "really, really hot day"!). If it hasn't rained for you yet, it will, and everyone should prepare themselves for it financially.

3 Reasons To Fund Your Short Term Savings Account

Setting money aside for that unexpected expense is one foundational principle to managing finances wisely. If you're not convinced yet to fund your short term savings account, here are 3 reasons setting up an emergency fund is a prudent financial move.

Having an emergency fund:

1. **Relieves stress.** More than 1 in every 3 American Households (38%) live paycheck to paycheck (source: Consumer Federation of America 2012). There is very little margin for error for too many families. Knowing you have set money aside to cover something unexpected is comforting. For instance, having a broken AC during a New Orleans summer, would have been more stressful if I couldn't have gotten it fixed. Having that money set aside can also reduce arguments with your family which in turn reduces overall stress.

2. **Prevents you from going into debt.** If you do not have money set aside for an unexpected expense, you may be forced to borrow the money or possibly use your credit card. And borrowing is expensive. According to Creditcard.com, the national average credit card interest rate is 15.01%, and the average American household with at least one credit card has nearly $15,950 in credit-card debt (in 2012). If you're average, you could be paying over $2,000 a year in interest payments alone already. Don't add more!

3. **Avoids potential taxes and penalties.** Too often I speak with people who have withdrawn money from their 401ks or IRAs to cover emergencies. Consider that if you are making an early withdrawal from your retirement account, you may be stuck with a 10% penalty on top of paying taxes. For example, assuming a 20% tax rate, if you take out $5,000 from your 401k pre-maturely, you may walk away with only $3,500 after taxes and penalties. To get $3,500, it cost you $1,500…not so wise. Having money set aside prevents you from needing to access long term money.

The Right Amount In Your Short Term Account

The general rule of thumb in the personal financial industry is to have 3 - 6 times your monthly expenses saved up in your short-term account, however, make sure you have enough to feel secure. The feeling of security varies from person to person, so sometimes it's prudent to seek the advice of a Certified Financial Planner™.

Keep your Short Term savings account separate from your regular checking/operating account. If you're undisciplined with your money and fear you'd spend savings on non-emergencies, keep it at a separate bank and don't connect it electronically to your regular checking account. Make it inconvenient to access. Don't invest your short term savings. This is meant to be "boring" money. If you get a competitive interest rate on your savings, great! But this money is not meant to "work" for you. More on "working" money in the Mid-term savings section.

It's only a matter of time until you are faced with a financial emergency.

Are you prepared for a "Rainy Day"?

Long-Term Account

No, I didn't forget about mid-term savings. Short-term savings and Long-term savings, in my opinion, are the first two accounts to start funding. I'll address mid-term accounts last.

Long-term savings are essentially your retirement accounts. Social Security won't be enough for you in retirement, and very few companies offer pensions anymore. So it'll be up to you to save for the portion of your retirement not covered by Social Security or by an ongoing earned income in retirement.

NOTE:

I am making an assumption that the normal retirement age is when you are eligible to draw your full social security benefits. For the vast majority reading this, that's age 66 or older. I do not believe, though, that retirement should coincide with that age. Maybe you implement all the 5 pillars, have enough in your midterm account (see the next section), and retire early! Or maybe you are one of those lucky people who love their work so much and have no reason to step away. Either way what makes long-term savings long-term is that it's 10 plus years away of you needing the money. You want to take advantage of tax friendly accounts to invest your money. Unlike your boring short-term accounts, you want your long-term accounts to work for you and earn a fair market return. You want to be invested in a portfolio of stocks, bonds, mutual funds, and/or etfs (funds that trade on the stock exchange like a stock) that is consistent with the amount of risk you are willing to stomach.

Risk And Return

Unlike your boring short-term accounts that have very little risk and therefore very little return, your long-term accounts should have more risk, which in turn means the potential for more growth. Since you have a longer- time frame of when you will need this money, you can generally afford to withstand the ups and downs of the stock market for the reward of higher returns. It is always advisable to consult a Certified Financial Planner™ to help you determine what an appropriate level of risk is for your situation.

Tax Benefits Of Long-Term Accounts

Your long-term accounts generally will give you certain tax advantages. But be aware though that certain tax advantages typically come with a caveat. In the case of retirement accounts, that caveat is limited access to your money until some future time.

For example, if you participate in a traditional IRA, 401k, 403b, SIMPLE IRA, or SEP IRA you generally cannot access your money until age 59 ½. But in exchange you get a tax deduction at the time of your contribution as well as tax-deferred growth while the money remains invested. It is well worth taking advantage of these two tax benefits

Roth IRAs and ROTH 401ks don't give you that coveted tax deduction at the time you make the contribution, however, when it's time for you to withdraw your money in retirement, in most cases, you pay no taxes on those funds. For younger folks, say 50 and younger, this is a win. If you're over 50 though, there are good reasons to use a ROTH, we just can't cover it all here.

A Tip For 401k Participants

Since 401ks are the most common retirement account for employees, here is a quick tip that you'd be foolish not to take advantage of. Call HR and find out if there is a match and how much. Let's say the match is 100% of the first 3% of your income. That means for every $10,000 you earn, your company will invest $300 toward your retirement. IF YOU save $300 towards your retirement. (3% of $10,000 equals $300. You put up $300, your employer puts up $300). Free money. The only thing you must be mindful of is that the money is meant for the older, future you. It's meant for retirement. If you earn $50,000 and save the 3%, your company will invest $1,500 in your account. Not a bad deal.

The Long-term Account Myth

Don't be fooled into thinking that you have time to start saving for the long term. "I wish I would have started saving 20 years ago" is a lament I hear from many. Don't let that be you. There is no better time than now to start a long-term investment plan. Start small if you need to, but start. Wealth is built over time, not overnight.

Mid-term Account

The third type of savings account is what I call mid-term account. It isn't short term or long term, it's somewhere in the middle.

This is not a hard and fast rule but generally speaking here are the time frames associated with each type of account:

Short-term accounts are meant for 0-2 years out.
Mid-term account is that 2-10 year period.
Long-term account are meant for 10+ years out.

You have your Short-term emergency fund to cover you for the unexpected events and expenditures that will happen in the next 2 years. This account has a fixed amount you are trying to fund.

You're regularly contributing to your long-term retirement account to provide income for you when you stop working in the future. Sometimes maxing out your retirement account is not the best financial move as retirement could be 20, 30, or even 40 years out! That's a long time to tie up your money, and it may be prudent to keep some of those funds more readily available.

Your mid-term account should be accessible. You should not have any penalties to access the funds. Since you have your short-term account funded, you are able to take more risk with your mid-term account allowing you to earn a fair return on your money as compared to a savings account.

Mid-term Account Purpose

The purpose of the funds in your mid-term account is totally contingent on your goals. Maybe you are saving for a large purchase down the road, and you are willing to have your money invested and growing at rate higher than what a savings account will pay. Think college, a down payment on a house, a new car, money to start a business, etc. Maybe you've maxed out your retirement plan, and you have additional funds to invest. Maybe you had an unexpected large expense that drained your short-term account. Use your mid-term funds to replenish the account, especially if the mid-term account has experienced some gain. Maybe a charity you support is in need of additional funding. Give from your mid-term account.

Your mid-term account is like the swiss army knife of your finances. The money remains accessible like your short-term account, but the funds are invested like your retirement account. Unlike your retirement account, however, your mid-term account generally will be a taxable account. So if your account has gains you potentially would have a tax due. Not necessarily a bad thing, as it probably means your account is growing.

Put Your Money To Work

One of my favorite classes in college was Entrepreneurial Management. The professor was a businessman that taught very practical business lessons. In fact, I have referred to the text book many times since graduating in 2001. When I say textbook, I really mean a 100 paged photocopied collection of well organized notes, stories, and lessons on how to start and run a business.

One of the lessons he taught that has stuck with me was that there are 3 ways to make money.

1. Work for it. This is what most people do. They exchange their time and labor for a paycheck.
2. They have others make money for them. This generally is the business owner that has employees. The business owner makes a profit off the work of others.
3. They have their capital (money or other asset) work for them.

The Mid-term account is that 3rd way to make money. Your money is working for you. It's working by earning interest, dividends, and hopefully experiencing gains as the stock market grows over time.

Start Saving For Tomorrow, Today

Save the same way you pay for all other recurring expenses in your life, automate it. Some payroll providers will allow to split your paycheck into multiple accounts. That's a great way to fund your short-term account. However you save, get started today. The sooner the better. Don't be one of those people that tells me in 20 years "I wish I would have started saving 20 years ago".

PILLAR FIVE

Give To Others

“We make a living by what we get, but we make a LIFE by what we give.”
Winston Churchill, former British Prime Minister

The one who blesses others is abundantly blessed; those who help others are helped.
Proverbs 11:25

Giving is a values-driven endeavor. I’m not trying to project any particular value on you, but I think we can all agree that giving back to others is very important. The problem is that giving is all too often an afterthought.

Too often our spending influences our giving. If you are inclined to help others, then it should be the other way around: ***Your giving should influence your spending.*** You should be intentional and purposeful with your giving. It should one of those things you “Plan where your money is going” we discussed back in pillar 2.

When you are intentional about giving to a charity, mission, or non-profit that you strongly support, it gives added purpose to managing your finances wisely. That purpose serves as motivation and has the ability drive you to make better and more prudent spending decisions. Making better spending decisions frees up funds to support causes you believe in, not to mention freeing up funds to save and SQUASH debt.

Giving may be one of the hardest things you do with your money at first, because it takes funds away from something you wanted to buy for you and redirects it to someone else’s need. However, giving is rewarding, but it does take practice. It is not always easy to part with money knowing there are plenty of things you’d like to do for you. Giving is an expression of the thankfulness that you feel because you have been given much.

6 Reasons Why You Should Give

1. **You make someone’s life better.**
2. **You make the community better.**
3. **Studies show giving makes you happier.**
4. **You may start a trend for others to give.**
5. **You can leave a legacy.**
6. **You can potentially get a tax deduction.**

Give Local

Personally I like to give to local organizations or to individuals I know, to support work that I believe in. This way I can see the impact of my gifts. It is rewarding and motivating to see the impact you can have on others. Also, remember that you can give not only money but your time and talent. When you give locally there are often opportunities to get your "hands dirty" and serve those you support.

A Note On How Much To Give:

I am often asked how much someone should give. Giving is often tied very closely to your individual values and the faith you identify with. I have always appreciated what C.S. Lewis has to say on the matter:

> ***"I do not believe one can settle how much we ought to give. I am afraid the only safe rule is to give more than we can spare. In other words, if our expenditure on comforts, luxuries, amusements, etc., is up to the standard common among those with the same income as our own, we are probably giving away too little. If our charities do not at all pinch or hamper us, I should say they are too small. There ought to be things we should like to do and cannot do because our charitable expenditure excludes them."***

Does your charitable expenditure exclude participation in activities you might choose to do?

Giving As Part Of Your Financial Plan

The truth is, giving makes us better stewards of our money overall. Learning to better manage our money is about changing and learning new behaviors. I find that people are more motivated to change when they realize the impact of their financial decisions on others.

For example, if you know of a great charity that will give 2 pairs of shoes to a child in need for $10, and you are at the grocery store deciding whether you will have rib eye or a filet for dinner, maybe you go with the cheaper option. The money you save, can go to the charity you support. It is rather amazing what you have the power to change with your money.

How has giving to others been part of your financial plan?

Has giving impacted your finances positively?

Afterward

"Wealth is not his that has it, but his that enjoys it."
Benjamin Franklin

Refuse good advice and watch your plans fail; take good counsel and watch them succeed.
Proverbs 15:22

Without good direction, people lose their way; the more wise counsel you follow, the better your chances.
Proverbs 11:14

Don't ignore your money. Money and finances are a constant in your life. There is no better time than now to start reflecting on how you can better your financial life.

Your attitudes and behaviors towards your money are fundamental to becoming a better steward. Your behaviors regarding spending, debt, saving, and giving drive your wealth. The goal is financial security and aligning what you do with your money with your values and life goals.

Start by making small changes that are sustainable. Don't expect dramatic changes overnight. Since money is such a daily thing that touches every aspect of life, having your finances in good order can lead to a more enjoyable life.

Making small changes sounds simple. In reality,it is difficult. Most of us lack the self-discipline it takes to maintain change. Find someone to help you and keep you accountable, especially someone who knows you and is not afraid to call you out. If you deem your finances important enough, hire a financial advisor who is capable of helping you set practical, measurable and attainable goals. We fall short of many of our goals because of a lack of accountability.

Face it, you spend money on a lot of experts in your life. Wouldn't it be wise to work with an expert to help you manage the money you need to meet your financial and life goals?

GARCIA

Plan Wisely. Live Confidently.

Erik Garcia CFP® is a New Orleans-based Financial Advisor offering financial planning and fee based investment advisory services. Since graduating from Tulane University's A.B. Freeman School of Business in 2001, Erik has worked with a wide range of clients from entrepreneurs to individuals and families specializing in helping them make smart financial decisions regarding savings, debt, and insurance as well as helping them make wise investment choices. Erik believes financial success is not only due to successful investing, but more importantly healthy attitudes and behaviors towards money.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice.

Material discussed herewith is meant for general illustration and/or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice.