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# Getting Real, Not Real Obsessed, About Your Money

*"Being rich is having money; being wealthy is having time."*
—Margaret Bonnano

*"Some folks seem to get the idea that they're worth a lot of money just because they have it."*
—Seth Parker

*"The trouble with the rat race is that even if you win you're still a rat."*
—Lily Tomlin

The implicit message from most money books is that more is better. Quite simply, it's not. I know this from direct experience with many clients and readers over the years, and this is supported by a wealth of cross-cultural research. It's all about *balance* and making the most of what money does pass through our hands. Harmony comes from striking balances and avoiding extreme behaviors.

I don't know if there's life in outer space, but I've tried to imagine what an alien who landed here would think of our most "advanced" civilizations. If such a being could understand our society and publications, it might deduce that money has a high level of importance given how much time and effort so many of us put into acquiring, spending, and managing it. And, for goodness sakes, we have standings that rank who has amassed the most. More amazing is that some people actually care if Gates, Buffett, or someone new is in the lead!

Our culture not only worships those with a large net worth but also those who adhere to workaholic schedules to earn their wealth. America prides itself on its strong work ethic. Our popular history is rooted in ideas of economic self-reliance and the ability of every person to pull up himself or herself by the bootstraps to carve out a better life.

Burning the midnight oil is revered in our culture, and the path to success is paved with 50-, 60-, and 70-hour work weeks. And we still love the rags to riches stories that give us hope for having a better life. Magazine covers, from *Fortune* to *People*, along with television shows of all stripes, are filled with the beaming faces of those who came from humble backgrounds to achieve great "success" and wealth—that is, of the financial variety.

Famous and wealthy execs then may write a book that publishers flog as supposedly being able to teach the masses how they too can amass their own billion-dollar nest eggs in the business world. Donald Trump has numerous books out, as well as a television series purporting to teach you his secrets of amassing wealth. Michael Bloomberg, self-made billionaire media mogul, offered these career management insights in his

biography, *Bloomberg on Bloomberg*: "The rewards almost always go to those who outwork the others. You've got to come in early, stay late, lunch at your desk, and take projects home nights and weekends." Personally, I have a hard time identifying with a man who describes his "perfect day" as "…one where I'm hopelessly overscheduled…to work by 7:00 A.M.; a series of rushed meetings; phone call after phone call; 50 or more voice messages and the same number of e-mails demanding a reply; a hurried business lunch between myriad stand-up conferences to solve firm personnel, financial, and policy problems…" that culminates when he "…falls into bed, exhausted but satisfied with the day's accomplishments. That's the best weekday one could ever have!"

One magazine appropriately called Bloomberg's biography "Confessions of a Workaholic." Behind nearly every super successful workaholic man (or woman) like Bloomberg lies a personal and family life in tatters—or no family life at all. (For insight into "successful" CEOs' lives outside of the office, read Christopher Byron's *Testosterone Inc.: Tales of CEOs Gone Wild* and *Martha Inc.: The Incredible Story of Martha Stewart Living Omnimedia.*)

For sure, some people have to work long hours to put food on the table and keep a decent roof over their family. However, in my work as a financial counselor, I have observed far too many people—the vast majority of whom have not and will not achieve overwhelming success in their careers—who sacrifice their personal lives, family relationships, and friendships for the sake of working more than is necessary or healthy.

With competitive workplace pressures and the high cost of housing in desired areas, increasing numbers of people are working longer hours than they'd like. Many employers exacerbate this problem with the culture they foster, encouraging and rewarding workaholics.

Like bartenders and bar owners who profit from big drinkers, corporate (and even non-profit) managers often implicitly and explicitly support and encourage overworking. Unfortunately, many corporations view squeezing more hours from employees as cost effective—employees on salary are a fixed cost, so the more hours you can wring out of your people, theoretically, the more work gets accomplished. Joe Robinson, director of the Work to Live campaign, comments, "We're the most vacation-starved country in the world. … In total hours, we now work two months longer every year than Germans; two weeks longer than the Japanese."

## The Surprising Wealth-Happiness Connection

Many of us feel fortunate to live in a country where we have the freedom and ability to work hard at something of our own choosing to accomplish our goals and dreams. I know that I do.

That said, too many people are working too many hours due to explicit and implicit pressure from their bosses and the desire to move ahead and make more money. Given the choice, most people prefer having more money to less money. Of course, if you don't have enough money to put food on the table, keep a roof over your head, or pay for needed transportation, lack of sufficient funds for basic (subsistence) necessities certainly can contribute to unhappiness even among the most optimistic of people.

Quite a lot of research has been conducted not only in the U.S., but worldwide, examining the link, or lack thereof, between affluence and happiness. Psychology professors Richard Ryan and Timothy Kasser interviewed and studied people in 13 countries. Through questionnaires, researchers are able to measure how important (extrinsic) materialistic values such as image, status, and financial success are to various people and then measure these folks' psychological happiness. Ryan and Kasser found that having more money, in and of itself, did *not* increase people's happiness or cause problems.

> *"Money brings some happiness. But, after a certain point, it just brings more money."*
>
> *—Neil Simon*

The pursuit of wealth and adoption of money as one's primary motivator, however, led to psychological unhappiness, severe depression, anxiety, and other problems, including a far higher incidence of alcohol, drug, and tobacco abuse. Kasser, the author of *The High Price of Materialism* (MIT Press), has himself conducted extensive research into this topic and compiled others' studies. Kasser states, "The results consistently pointed towards the conclusion that materialistic people were less happy and satisfied with life, and that they also reported more distress. Thus, the more people buy into the messages of consumer society, the lower their levels of personal well-being and the higher their levels of distress."

You've probably heard the expression, "Money is the root of all evil." Actually, this is misquoted—the real phrase, which comes from the Bible, is "The love of money is the root of all evil."

Robert Lane, author of *The Loss of Happiness in Market Democracies* and Yale University professor, has deeply researched money and life satisfaction and has found that the primary sources of long-term happiness are friends and family. "Amidst the satisfaction people feel with material progress, there is a spirit of unhappiness and depression haunting advanced market democracies throughout the world…Once you get past the poverty level, there's no correlation between increased wealth and greater happiness. If anything, it's quite the reverse."

Social psychologist Dr. David Myers has studied happiness for decades. He has found that wealth, gender, age, education, and occupation do *not* determine happiness. What he has found leads people to be happy are optimism, self-esteem, a sense of personal control, and extroversion. People also derive happiness from investing in friendships and family ties, being with people with whom they can openly share.

"Having food, shelter, and safety is basic to our well being. But once able to afford life's necessities, increasing levels of affluence matter surprisingly little. Wealth is like health: Although its absence can breed misery, having it is no guarantee of happiness," writes Myers, who is the author of *The Pursuit of Happiness*.

> *"Money buys everything except love, personality, freedom, immortality, silence and peace."*
> *—Carl Sandburg, Poet and Author*

In my experience working with and observing people, it's clear to me that many Americans have lost sight of the differences between "necessities" and luxuries, especially in affluent and upper-middle class communities and circles. We can always find people with bigger homes and more expensive cars and who have taken more exotic vacations. The bar continually is set higher and higher in terms of how much money we "need."

A business professional I know, who I'll refer to as Mark, presents what I think is an absurd extreme in this regard. He puts in long work hours and is a multi-millionaire. Based on conversations that I've had with

him, his net worth is at least $5 million and probably as much as $10+ million. Mark grew up in a middle class family that often struggled to make ends meet. Mark is an extremely competent businessman but a workaholic who doesn't feel the least bit financially secure. For years, he even balked at buying a modest home, which his wife really wanted to do so their family with young children could settle down.

If he wanted to, Mark could retire and shift careers to spend more time with his wife and kids and on his hobbies. But he doesn't and didn't. Mark doesn't feel the least bit financially secure. He truly believes that he needs at least $20 million to be financially comfortable. $20 million! Mark was surprised, but I was not, when his wife filed for divorce. What surprised me was that it didn't happen sooner.

Which bring me back to my favorite quote from Dr. David Myers, which is apropos to Mark and his pursuit of grand levels of financial health while he neglected the emotional health of his family:

"Satisfaction isn't so much getting what you want but wanting what you have. There are two ways to be rich: one is to have great wealth, the other is to have few wants."

> *"It is not the man who has little, but he who desires more, that is poor."*
>
> *—Seneca, A.D. 40*

## Buying the Good Life

Consumption expectations play a significant role in why some people work the hours that they do and why career is the focus of their lives. I've seen this problem with single people, couples, and families with children. Some childless couples and single people have even greater temptations to get caught up in working harder to finance a higher lifestyle.

Over the years, I've seen surprising numbers of people with modest incomes make the decision to fit work into their lives rather than continuing to try to fit their lives into their work. So often, though, people twist and contort their lives and priorities to meet the perceived expectations

and demands of their bosses and employers. Fitting work into the rest of your life often involves choosing employers and even careers that enable you the flexibility and ability to accomplish your personal and family goals.

Early in my career, I was working at a leading management consulting firm where the managers and partners logged many hours and were constantly on the road, away from their families. At the firm's holiday party one year, I was standing around the shrimp bowl, always a popular spot, and overheard a large group of spouses complaining about how their mates were rarely around. I heard a lot of anger, disappointment, and resentment. These comments provided me with a new perspective on everyday events around the office. And my observations of the senior people at this consulting firm convinced me that I had no interest in staying there long-term, especially since I hoped to raise children and be an active, involved dad.

Our culture, though, too often focuses on getting ahead, promotions, and pay raises. But if you're going to make time for the important things in life, you must resist the temptation to be envious of those with loftier titles and bigger salaries at your place of business and in your field. You can begin that process by realizing that there are no free lunches. Although some people are blessed with extraordinary talent and luck, you'll often find that the super-successful people in this world, with their mugs on the cover of every magazine, are workaholics. Don't emulate these workaholics to get "ahead." Perhaps the news media should cover the realities of the personal lives and emotional well being of these career superstars as thoroughly as they tally their business and financial success. Then, we'd have a realistic perspective of the rewards and consequences of chasing after capitalism's spoils.

## Choosing Your Role Models

I met Dr. Laird Stuart during my years living in California. He does an outstanding job of combining religious instruction with practical, real-world issues that people struggle with. One morning, he was especially on his game when he said, "We all lose our bearings sometimes." He continued with the story of baseball player Matt Williams, who at the time, was playing for the San Francisco Giants. Matt Williams worked to get traded, and agreed to less money, to be in Phoenix where his family and kids are. "Anyone who will take less money to be with his children has got his bearings," said Dr. Stuart.

Unlike Matt Williams, basketball legend Michael Jordan didn't put his family first, even though he clearly could afford to do so. Comments and quotes from Jordan when he "retired" from basketball cited his supposed desire to spend more time with his family. But, after retiring from his playing career and despite being worth hundreds of millions of dollars, Jordan signed on with the Washington Wizards basketball team in Washington, D.C., far away from his family and home in the Chicago area. Not only did he take on a demanding management role and an ownership interest in the team, but he also eventually returned to playing full-time. With children who were 9, 11, and 13 years old at the time, Jordan and his wife filed for divorce. When interviewed by Reuters, Jordan said, "I come out, do my job, and focus on what's enjoyable for me, which is playing the game of basketball." A young man on a Yahoo message board said in response to this comment, "Which is his game, not his kids or marriage. Nice priorities Michael. I once actually admired you."

While there's far, far less excuse for wealthy people not to cut back on workaholic schedules, few do it. In fact, it's so unusual that, when it happens, it actually makes news. Tom Bloch resigned as CEO of H&R Block to become a teacher in a Missouri middle school. He had recognized that his hectic CEO schedule interfered with his top priority, which he said was his wife and two sons. He added that he didn't want to look back on his life and say, "Gee, you had an opportunity to play a bigger role in your children's lives and didn't take it."

Well said, Tom Bloch!

> *"That man is admired above all men who is not influenced by money."*
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> *—Cicero, 60 B.C.*
>
> *"Money never made a man happy yet, nor will it. There is nothing in its nature to produce happiness."*
>
> *—Benjamin Franklin*

## The Power of Money Knowledge

The knowledge of how to manage the money that comes into our hands and that we spend and that we save is vital. This knowledge will enable you to work smarter with your money, not harder for it. Unfortunately, too many adults graduate from their childhoods without a mastery of personal finance, investing, and so on.

Imagine for a moment that you were blindfolded and helicoptered into a remote location for a fabulous hiking adventure up a reasonably safe mountain, but where accidents sometimes have been known to happen. If you had never been mountain climbing before, trepidation if not outright fear might be your emotions du jour. Even with prior mountain climbing experience, this new challenge could strike both excitement and concern in you. You would likely wonder how high the mountain is and what tools and resources you would need and actually have at your disposal for the adventure.

Understanding and managing your personal finances has much in common with this mysterious mountain climbing expedition. Your IQ, formal education, and work experience do not matter—*no one* is born knowing how to competently direct their money matters. Even the nation's best high schools, colleges, and graduate programs don't teach a course called "Personal Finance 101."

## Personal Finance Quiz I—The Basics

I've excerpted and adapted the following personal finance quiz from the non-profit JumpStart Coalition for Personal Financial Literacy. Please take this quiz, which has been administered to our nation's high school seniors, without using any resources or references and without doing any further preparation:

**1.** If you have caused an accident, which type of automobile insurance would cover damage to your own car?

**a**) Term

**b**) Collision

**c**) Comprehensive

**d**) Liability

2. Matt and Eric are young men. Each has a good credit history. They work at the same company and make approximately the same salary. Matt has borrowed $6,000 to take a foreign vacation. Eric has borrowed $6,000 to buy a car. Who is likely to pay the lowest finance charge?
   - **a)** Matt will pay less because people who travel overseas are better risks.
   - **b)** They will both pay the same because they have almost identical financial backgrounds.
   - **c)** Eric will pay less because the car is collateral for the loan.
   - **d)** They will both pay the same because the rate is set by law.
3. Many savings programs are protected by the federal government against loss. Which of the following is not?
   - **a)** A bond issued by one of the 50 states
   - **b)** A U.S. Treasury Bond
   - **c)** A U.S. Savings Bond
   - **d)** A certificate of deposit at the bank
4. If each of the following persons had the same amount of take-home pay, who would need the greatest amount of life insurance?
   - **a)** A young single woman with two young children
   - **b)** A young single woman without children
   - **c)** An elderly retired man, with a wife who is also retired
   - **d)** A young married man without children
5. Which of the following credit card users is likely to pay the GREATEST dollar amount in finance charges per year, if they all charge the same amount per year on their cards?
   - **a)** Vera, who always pays off her credit card bill in full shortly after she receives it.
   - **b)** Jessica, who only pays the minimum amount each month.
   - **c)** Megan, who pays at least the minimum amount each month, and more when she has the money.
   - **d)** Erin, who generally pays off her credit card in full but, occasionally, will pay the minimum when she is short of cash.
6. If you had a savings account at a bank, which of the following would be correct concerning the interest that you would earn on this account?

a) Sales tax may be charged on the interest that you earn.

b) You cannot earn interest until you pass your 18th birthday.

c) Earnings from savings account interest may not be taxed.

d) Income tax may be charged on the interest if your income is high enough.

**7.** Inflation can cause difficulty in many ways. Which group would have the greatest problem during periods of high inflation that last several years?

a) Young couples with no children who both work

b) Young working couples with children

c) Older, working couples saving for retirement

d) Older people living on fixed retirement income

**8.** Lindsay has saved $12,000 for her college expenses by working part-time. Her plan is to start college next year, and she needs all of the money she saved. Which of the following is the best place for her college money?

a) Corporate bonds

b) A bank savings account

c) A money market fund

d) Stocks

**9.** Which of the following types of investment would best protect the purchasing power of a family's savings in the event of a sudden increase in inflation?

a) A 25-year corporate bond

b) A house financed with a fixed-rate mortgage

c) A 10-year bond issued by a corporation

d) A certificate of deposit at a bank

**10.** Which of the following statements best describes your right to check your credit history for accuracy?

a) All credit records are the property of the U.S. Government, and access is only available to the FBI and lenders.

b) You can only check your record for free if you are turned down for credit based on a credit report.

c) Your credit record can be checked once a year for free.

d) You cannot see your credit record.

**11.** Your take-home pay from your job is less than the total amount you earn. Which of the following best describes what is taken out of your total pay?

**a)** Federal income tax, Social Security, and Medicare contributions

**b)** Federal income tax, state sales tax, and Social Security contribution

**c)** Social Security and Medicare contributions

**d)** Federal income tax, property tax, and Social Security contributions

**12.** Retirement income paid by a company is called:

**a)** Rents and profits

**b)** Social Security

**c)** 401(k)

**d)** Pension

**13.** Many people put aside money to take care of unexpected expenses. If John and Jenny have money put aside for emergencies, in which of the following forms would it be of LEAST benefit to them if they needed it right away?

**a)** Stocks

**b)** Savings account

**c)** Invested in a down payment on the house

**d)** Checking account

**14.** Kelly and Pete just had a baby. They received money as baby gifts and want to put it away for the baby's education. Which of the following tends to have the highest growth over periods of time as long as 18 years?

**a)** A U.S. Government savings bond

**b)** A savings account

**c)** Corporate bonds

**d)** Stocks

**15.** Karen has just applied for a credit card. She is an 18-year-old high school graduate with few valuable possessions and no credit history. If Karen is granted a credit card, which of the following is the most likely way that the credit card company will reduce its risk?

**a)** It will charge Karen twice the finance charge rate it charges older cardholders.

**b)** It will start Karen out with a small line of credit to see how she handles the account.

**c)** It will make Karen's parents pledge their home to repay Karen's credit card debt.

**d)** It will require Karen to have both parents co-sign for the card.

Source: Excerpted and adapted from JumpStart Coalition for Personal Financial Literacy.

## *Answers to Personal Finance Quiz I*

1. **b)** Collision is the portion of your policy that pays for damage to your car.
2. **c)** Eric will pay less because his lender can go after his car as collateral for the loan, whereas Matt's lender has nothing to recover once Matt spends the borrowed money on the vacation.
3. **a)** A bond issued by one of the 50 states. That's not to say that state bonds are unsafe, but they do lack federal government backing. CDs from a bank (choice "d") are backed by the federal government through the FDIC insurance program.
4. **a)** The young single parent with two young children would need the most life insurance. (It's possible that the young married man without children would need some life insurance if his spouse is dependent upon his income and would want his income replaced in the event of his passing.)
5. **b)** The person who is only paying the minimum amount on her credit card bill each month will be carrying the most debt month-to-month and therefore incurring the greatest interest charges.
6. **d)** Interest on a bank savings account is taxable (for income tax purposes).
7. **d)** If your income is fixed, continued large increases in the cost of living erode the purchasing power of your money.
8. **c)** Money market funds, which are offered by mutual fund companies, and not banks, typically offer higher rates than bank savings accounts and a high level of safety. Bonds and stocks, while offering higher potential, are too risky for such a short period as they can fall in value.

9. **b**) Housing values generally keep up with increases in the cost of living. Bonds and CDs have fixed interest rates and would not protect purchasing power due to sudden inflation.
10. **c**) You are entitled to receive a free copy of your credit record once annually from each of the credit reporting agencies.
11. **a**) Federal income taxes and Social Security and Medicare contributions are deducted from paychecks. (If your state has an income tax, that may be deducted too.)
12. **d**) Pension income is paid by a company to its employees who are retired and have worked enough years to earn a pension benefit.
13. **c**) Down payment money would be the slowest to access (unless you had a home equity line of credit already established and could simply tap into it when needed). Although stocks can be sold any day the financial markets are open, they would not be a good place to keep emergency money because the price might be down when you needed to sell.
14. **d**) Stocks have the best long-term returns, by far, easily beating bonds and savings accounts (by about double[d]10 percent versus about 5 percent or less).
15. **b**) It's easy to get a credit card. Karen will be granted a relatively small line of credit until the credit card company can see that she won't default on repaying any borrowings on the card.

## *Scoring and Evaluating Your Quiz Results*

The average score for high school seniors on the preceding quiz was just 52 percent, which isn't too hot when you consider this is a multiple choice quiz and simply through random selection of answers, you should get at least 25 percent correct! These questions are testing pretty basic personal finance concepts and you should, as an adult, be getting 100 percent correct. If not, don't despair—this book (and other recommended resources) can help you close the gaps in your knowledge. The lower your score, the more room you've got for improvement.

## Personal Finance Quiz II—Key Concepts

I developed the following quiz to test some personal finance concepts that are key to successfully managing your money. As with the prior quiz, choose the best answer from among those offered:

**16.** Marie and John have suffered through some tough times in recent years due to John's being out of work for an extended period of time. Prior to his job loss, they were planning on buying new living room furniture to replace the horrible-looking pieces they've owned for too long. Now that John is back at work, albeit at a lower-paying job than before, they feel that the time has finally come for them to buy that long-put-off furniture. Should they:

**a)** Borrow on Marie's credit card since she has had a more stable job.

**b)** Put off the purchase until they have enough cash saved to buy what they want.

**c)** Take out a line of credit from Ethan Allen since that is large national chain of furniture stores and their interest rate should be pretty good.

**d)** Finance the purchase through taking out a second mortgage on their home (the interest on which will be tax deductible).

**17.** Karl is in his 20s, working at his first job, and readily admits he doesn't know much about dealing with money. He has some student loan debt from college and is currently renting an apartment. He feels that he has no free time between his job, commuting, preparing most meals, keeping up with laundry and cleaning, and some recreation with friends and dating. Regarding his personal finances, Karl should:

**a)** Not stress out. He is young, has many years ahead, and should enjoy life as a young single adult.

**b)** Ask his parents for advice since they have handled all of his money issues through college and getting his first apartment set up. He should wait a few years so that he won't feel so stupid and dependent as he does now.

**c)** Make learning how to manage his money a top priority now. He should begin saving and developing a plan for his financial priorities and tasks.

**d)** In a year when he's eligible for all of his employer's benefits, hire the financial planner who recently came to his company's offices and is with a large insurer whose ads he sees all the time on television.

**18.** The Longstreets' family has grown in recent years, and now they have four children, so their home suddenly seems way too small. After hiring an architect, plans were drawn up for a major addition to the house. They've also finally hired a decorator since neither mom nor dad seems to have the aptitude or time. Thanks to the strong real estate market since they originally bought their home, they have quite a bit of equity and can just barely totally finance their projects by refinancing their mortgage and taking cash out. Should they:

**a)** Take out an adjustable rate mortgage to keep their rate (and payment) as low as possible.

**b)** Lock in a fixed rate so they know exactly how much they'll owe every month.

**c)** Consider an interest-only loan so that their payments will stay very low in the early years.

**d)** Reevaluate and scale back on their projects.

**19.** Proud parents of a one- and two-year-old child, Amy and Walter have been looking at housing for a long time. This past weekend, some people they know who live near a preschool that they really like and anticipate sending their children to are planning to put their two-bedroom home up for sale and are willing to sell it to Amy and Walter at a 5-percent discount—the savings realized from not having to pay real estate agents. They love the home and the neighborhood (although the lot is small) and will be able to walk to the preschool! This will be a huge benefit to them as they anticipate having at least two more children once Walter's income increases with an expected promotion in the next few years. Should they:

**a)** Find a good real estate attorney to help with a real estate contract.

**b)** Tour area homes to be sure they are paying a fair price for the home.

**c)** Not buy the home, continue renting, and stay on the sidelines.

**d)** Check with the preschool to be sure it plans on not moving for the foreseeable future.

**20.** Jason got his first full-time job at the age of 21, fresh out of college. He saved money from every paycheck in a 401(k) plan into a money fund. Seven years have passed quickly, and now he is changing jobs because a terrific opportunity came up that is more in his true field of interest. The only downside is that he can expect long hours, especially in his first year or two. His new employer does not offer a retirement savings plan, so he's deciding what to do with his money in his previous employer's plan, which he has had invested in a money market fund. He had started with that and never changed because he felt that he lacked the expertise and time to evaluate his investment options. Should he:

**a)** Use some of his vacation time to figure out how and where to invest his money on his own.

**b)** Given his lack of time, keep his money in the money market fund in his previous employer's plan, if they allow that.

**c)** Withdraw his money and use it to buy a house rather than continuing to rent.

**d)** Wait until his new employer opens a retirement plan and then transfer the money into that plan.

**21.** A year into his new job, Jason gets a phone call from a very smart college classmate of his, Ken, who went on to get his MBA at Harvard Business School. Ken has been working for several years at a new medical device company whose main product is one that promises to revolutionize the way that diabetic patients are treated. Ken tells Jason that his company is about to go public and that Jason should use some of his spare cash in his retirement account to buy shares in the initial public offering (IPO), which is happening in one week. According to Ken, the stock price will skyrocket once the shares are issued, so he should not wait. Jason should:

**a)** Buy shares in the IPO since he has spare cash and Ken is a smart, successful professional and investor.

**b)** Withdraw the retirement money and use it instead to buy a home since he is still renting.

**c)** Conduct some research on the company and the stock valuation and then make a decision.

**d)** Buy the stock and then do research as time allows.

**22.** Richard is unhappy with the amount of money he is spending on all of his insurance policies. He needs life insurance because he has a mortgage, is the sole breadwinner (he makes $50,000 annually) in his family, and has a wife and three dependent children (ages 6, 4, and 1). He is quite happy with his universal life policy, which provides $200,000 of coverage and is growing an investment balance that he could draw from to pay for his kid's future expenses, such as college. In taking an inventory of all of their other insurance policies, they have health insurance, auto insurance, and homeowners' insurance for their home in Chicago. He should:

**a)** Speak with the insurance agent who sold him the life insurance policy about what he should do with his other policies to keep his insurance expenditures under control.

**b)** Shop around for his auto insurance policies since that coverage can be quite expensive in urban areas.

**c)** Suck it up and realize that with a family, a house, and cars, insurance costs add up fast.

**d)** Buy more insurance: a different, less costly life insurance policy for himself that provides more coverage and disability insurance.

**23.** Two years ago, Marva, age 35, invested about 10 percent of her money earmarked for the stock market overseas—specifically into two foreign stock mutual funds. She had heard that she should be diversified and lacked any foreign stocks. Since that time, while her U.S. stocks have appreciated 50 percent, her international stocks have badly lagged—rising just 15 percent. On CNBC, a commentator who hosts his own television show on investments said that investors should dump all foreign stocks for at least the next year due to a strengthening dollar. Marva should:

**a)** Sell her foreign stocks and find a better investment in the U.S.

**b)** Invest more overseas.

**c)** Dump her foreign funds and buy individual foreign company stocks.

**d)** Keep things the way they are.

## *Answers to Personal Finance Quiz II*

When I worked as an hourly-based, personal financial counselor, I had new clients complete a detailed questionnaire, which I then discussed with them in our first meeting. Completing the form required accessing many financial documents as well as reflecting on short- and long-term financial goals and concerns as well as financial decisions and issues that caused discomfort and displeasure. The point of going through all of this was so that I could develop a specific action plan for them to improve their overall financial situation. (I will walk you through a similar exercise in later chapters.)

Every client that I ever worked with had made mistakes. Whether it's training airline pilots or paramedics, learning from and avoiding the mistakes of those who have come before you goes a long, long way toward doing your best at the endeavor at hand. Managing your money is no different. The preceding quiz, which I developed, unearths the more common mistakes, so don't feel surprised or bad if a number of the questions tripped you up:

**16.** **b**) They should put off the purchase until they can afford to pay cash. (Ideally, they should have some emergency reserve money put aside as well.) Buying consumer goods (which would include furniture, vacations, cars, dinners out, etc.) with credit cards and auto loans will cost you far more in the long run than you can imagine. Besides getting you into the habit of spending money that you don't have, consumer credit usually comes with relatively high interest rates. (Using credit cards for a transaction and then paying your bill in full when it comes due is fine.) Another common and related mistake to buying consumer goods on credit is leasing cars. Many auto leasers fail to understand lease contracts, costs, and related issues. Extracting yourself from a lease takes enormous persistence and resolve, so it's better to avoid these expensive long-term car rentals in the first place.

**17.** **c**) Karl needs to make his personal financial education a priority now. He's earning money and on his own and is therefore responsible for all things financial in his life now. Feeling pressed for time is a common excuse for procrastinating. Some people continue to procrastinate and avoid thinking about and planning for their financial futures. One of the more common failures is not taking advantage of retirement plans offered by

employers, including those offering free matching money. Self-employed small business owners may fall behind on their taxes for similar reasons. Although this error is more common among self-employed people, plenty of other folks fail to file their tax returns and pay the taxes they owe.

**18.** **d**) Spending excessively on home and home improvements can be a problem. You've likely heard that home purchases (especially and including new construction) and home improvement projects inevitably take longer and cost more than you expected up front. (The same can hold true for habitual furniture buyers and those in love with endlessly making over their home decorating.) If your financial situation doesn't have much wiggle room and margin for error, sloppy planning can lead to unfinished projects and even personal bankruptcy.

**19.** **c**) The proximity to the preschool is nice, but the importance and value of that will be short lived. Buying and then selling property entails relatively enormous transaction costs. Buying this small home, which they will probably want out of once more kids arrive, is likely to be a mistake. Impatient and time-pressed buyers sometimes just want to "get it over with and get back to their lives." These buyers often make poor purchase decisions and soon find out that they either have to sell the house due to financial considerations or want to sell it based on other factors that could've been more thoroughly researched.

**20.** **a**) Jason has got to get on the stick and figure out how to invest his money. Keeping retirement money languishing in a money market fund for seven years is unacceptable and costly to his financial future. Although I am an advocate of taking your time when investing significant sums of money, a fair number of folks who need decent returns to accomplish their goals sit on cash for years due to fear of losing money, lack of education, and not researching good investments. Take, for example, one successful executive who confided to me that he kept all of his spare funds in low-interest bank accounts because his father had lost everything during the great stock market crash of 1929.

**21.** **c**) Jason needs to do his homework and more digging before making an investing decision. Some people too quickly toss their money into inappropriate or poorly researched investments. I see this happen quite often with people picking individual stocks, rolling over retirement money, and choosing a new

investment to replace maturing CDs. A related problem to this one is taking investment advice from poor or biased sources. Friends top the suppliers-of-bad-investing-ideas list, followed closely by the news media and columnists. Too often, insecure people rationalize acting on others' picks by thinking that others are far more in the know. Without a doubt, one of the biggest complaints I heard over the years was from clients concerned about investments they bought from brokers. Their dissatisfaction often stemmed from the fact that they bought these products without understanding the high fees and commissions associated with the broker-sold vehicles. Other common broker-related regrets are buying through friends and selling otherwise good investments solely on a broker's advice.

22. **d**) Richard may be unhappy with insurance spending but he is actually underinsured. (He should shop around for all of his existing coverages in order to be sure he's getting good value for his insurance dollars.) He doesn't have near enough life insurance given his income, and he is completely lacking disability coverage, which kicks in and replaces his employment income if he suffers a long-term disability. Every day, people without disability insurance end up with long-term disabilities, and people lacking life insurance pass away and leave their loved ones financially strapped. In addition to the danger of exposing yourself and dependents to catastrophic losses, if you fail to get necessary insurance, you may develop a medical problem (known by insurers as a pre-existing condition) that prevents you from getting future coverage. Richard is wasting money on his current life insurance. Over the years, I had many clients complain about misleading sales pitches and projections from life insurance brokers. In the worst cases, people funnel money into costly and low-return cash value plans that offer no up-front tax breaks instead of taking advantage of excellent retirement savings options through work.

23. **b**) Marva has too little invested overseas, and the fact that foreign stocks are underperforming allows her to invest more at what may be a quite favorable price. Looking to bail when the going gets tough is a natural human tendency. This mistake reminds me of the time my family was headed to a summer beach vacation. Along the way, we drove by an old van along the highway. Outside of the van, about half a dozen members of a

band stood and watched as their vehicle went up in flames. Clearly, these folks responded intelligently to the early signs of danger and got out while they still could. Thus, it makes sense that when an investment goes down in value, we want to hit the eject button before it completely vanishes before our eyes. However, even the best investments have their down periods, and your short-term pessimism could cause you to sell right before prices surge. Investors who dumped stocks, in general, after the 1987 crash and the early 2000s bear market missed out on enormous future gains.

People make mistakes with their money because of gaps in their knowledge. If you take the money lessons from this quiz and throughout this book to heart and commit to avoiding these same errors, you can sidestep a tremendous amount of misery and lost money—perhaps totaling into the hundreds of thousands and maybe even millions of dollars.