

CHAPTER 1

How to Think About Money: Budgeting Basics

I think the best advice I've ever received is to plan for the future and to save your money. To plan for the future in a way you can have the same lifestyle after you've finished your job? That takes some planning and saving.

—Danica Patrick¹

The common denominator of so many successful people I interview is an urge to save money and build for the future. Danica Patrick is the most successful woman in U.S. auto racing—a race car driver, fashion model, and marketing maven. The best advice she ever received? How to take the last turn, how to navigate the pit, how to get the most out of the last drop of fuel? No, the best advice she ever received—and gives to others—is simple and classic. Save your money.

It's really not complicated at all. Money saved today and invested properly—amplified by time—means wealth in the future. It's the little black dress of prosperity. It never goes out of style. Among the many gems from legendary investor Warren Buffett, this sums it up best: "Someone is sitting in the shade today because someone planted a tree a long time ago."²

No one is going to plant that tree for you. The key words here are *you* and *time*. Unless you win the lottery (you won't) or have a trust fund (nice, but unlikely) or have the brain of Mark Zuckerberg (don't we all wish?), you will grow wealth only one way: by spending less money than you earn. Investing *your* savings over time grows wealth.

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PROSPERITY FORMULA

$$\text{Earnings} - \text{Spending} = \text{Savings}$$

$$\text{Savings} \times \text{Time} = \text{Wealth}$$

There is a surefire, can't-miss way for millennials, loosely defined as young adults ages 18 to 35, to become millionaires. Call it a get-rich-not-so-quick scheme. Fidelity Investments studied the habits of people who earned less than \$150,000 a year but had retirement account balances topping \$1,000,000.³

What's the secret of these 401(k) millionaires? They started saving young, and they socked away a big part of their paychecks. How big? Fourteen percent of their pay each year—before any company match in a 401(k).

They started young, maxed out their savings, and took the “free money” that is the 401(k) company match—that is, the money your employer offers to contribute to your 401(k) plan. They weren't too conservative in their portfolios. The younger you are, the more stocks you should own. In fact, on average they had 70 percent of their retirement savings in stocks. (Bonds and savings accounts yield very low returns for savers and conservative investors. More on this, and alternative investments if your employer does *not* offer a 401(k), in Chapter 8.)

Bottom line: They started early. And you can, too.

Let's make something clear from the start if we are to spend the upcoming pages together. I don't believe you are a generation of lazy, narcissistic, reckless-spending, entitled tech junkies. (A Google search of the term “millennial” or “gen y” is entertaining.) In fact, I'm incredibly optimistic about the innovation and open-mindedness you're already bringing with you to the workplace. As I have crossed the country speaking with students and graduates and reporting on companies and economics, I have found that, despite the pile of bad luck you were dealt by the financial crisis, you are a generally optimistic and entrepreneurial bunch. You're the most educated generation in U.S. history, and you understand technology in an intuitive way that no other generation can.

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The economy is slowly healing, and you're poised to succeed. I'm more optimistic by the day about your job prospects. Hiring for the class of 2014 jumped a stunning 8.6 percent from 2013.⁴ Whether they're looking for accounting, computer science, engineering, or M.B.A. graduates, more than half of companies surveyed reported they were stepping up their hiring.

We'll discuss the job landscape further in Chapter 4, but for the purposes of how you *think* about money, the subject of this chapter comes against an improving backdrop. The jobs market is healing. The current recovery was among the slowest postrecession jobs recoveries, but finally all the millions of jobs lost in the Great Recession have been recovered.⁵ Technology will provide new opportunities we can't even predict today. And your generation—innovative by nature—will play a central role in that.

Yes, there is a considerable problem of too much student debt and too few jobs for recent graduates. But I don't think that all millennials have been permanently sidelined by their student loans, nor have they been permanently left out of the jobs market. We'll explore managing that debt in Chapter 2 and getting a job in Chapter 5, but in this discussion of how you think about money, it's time to relegate debt and jobs to background noise. Repeat after me: You have something to offer the workforce, and you can manage your student loans.

The typical student loan burden can be manageable. According to a report from the Brookings Institution, just 7 percent of households with student debt have a burden of \$50,000 or higher.⁶ About a third of bachelor's degree graduates have no debt at all, and the average debt of those who do hovers around \$30,000. There is a rule of thumb in college savings and planning: You can afford to borrow for college about as much as you expect to earn in your first year's salary. If you are the typical business major, that means you can afford to borrow around \$50,000. Humanities and social science graduates can afford to borrow less.⁷ The average starting salary for the class of 2014 rose 1.2 percent from the prior year, to \$45,473, according to the National Association of Colleges and Employers (NACE),⁸ with wide variations by discipline (Table 1.1).

If your student loans are getting you down, remember this: A college graduate will earn, on average, a million dollars more over the course of a working career than a high school grad.⁹ Handling student debt diligently

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Table 1.1 Average Salaries by Discipline

Business	\$53,901
Communications	\$43,924
Computer Science	\$61,741
Education	\$40,863
Engineering	\$62,719
Health Sciences	\$51,541
Humanities and Social Sciences	\$38,365
Math and Sciences	\$43,414

Source: National Association of Colleges and Employers

will be a key part in your strategy for building wealth. The vast majority of college borrowers with less than \$50,000 in student loan debt can certainly be moving forward in their financial lives and using their best asset—time—to work for them. Don't let anyone tell you it's impossible to plan for the future while still paying off the past. It can be done. (Chapter 3 will help you organize your approach to managing debt.)

This is not a book for defeatists. It's a book for young people of any means who want to build wealth. Whether you have loan debt, were fortunate enough to graduate debt-free, or are considering college or studying now, it is critical to save early and train yourself in habits to make your money grow.

Most of us didn't grow up reading the *Wall Street Journal*, and many high schools teach rudimentary economics if anything at all. In grade school, children still learn to count change, yet there is little if any real preparation for the dizzying array of college financing schemes, prepaid debit cards, peer-to-peer loans, and countless other accounts millennials get pitched every day. Financial literacy is not something the United States does well, and most families would rather talk about religion or politics than money. There's no shame in getting started now. The old cliché that it is better late than never does not apply here. You are reading these words now, and you have the most valuable ingredient you need: time.

In the workforce and in the headlines you have undoubtedly heard and read those old clichés attached to the newest generation. They don't work as hard. Consumer technology makes them lazy and entitled. They are selfish. However, a seminal study of millennials by the Wall Street research firm UBS found something very different—and very exciting—for any member of this generation looking for success. That study found that millennials have learned the lessons from the financial crises during which they grew up and are now

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primed to save more money and build wisely for the future. Think of your generation as being as powerful as the baby boomer generation—you will have an equally huge impact on the economy once you hit your stride financially.

“Millennials shatter stereotypes, believe in hard work, worry about parents’ financial health, and define success as a combination of money, healthy relationships, and enriching experiences.”¹⁰

—UBS *Investor Watch*

The UBS study found this generation more likely to save, more frugal, and more resilient than prior generations. UBS found that words like *entitled* and *lazy* don’t fit the reality.

UBS ASKED MILLENNIALS TO DEFINE SUCCESS: HOW DO YOU KNOW WHEN YOU HAVE ARRIVED?

Emotional (39%)

- Having a happy family (45%).
- Having a deeply meaningful relationship with my spouse/partner (37%).
- Staying true to the values I believe in (18%).
- Leading a calm, simple life with people who care about me (17%).

Financial (30%)

- Having financial freedom (48%).
- Being able to provide for future generations of my family (15%).
- Being well-compensated for what I do (14%).
- Owning things I aspired to have, such as art, a second home, a boat, and so on (12%).

Experiential (24%)

- Living a full life with a wide variety of experiences (37%).
- Enjoying the work I do (29%).
- Being someone from whom others seek advice/opinions (4%).
- Knowing interesting, creative people (2%).

Achievement (7%)

- Achieving more than my parents or my peers (7%).
- Reaching a very senior job position, such as a C-Suite position (7%).
- Owning my own business (5%).
- Being able to give significantly to charity (3%).

Source: UBS

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In fact, money matters to millennials, UBS found, but they fall short of the “greedy” tag one might apply to their elders. Success to millennials means hard work (69 percent), saving and living frugally (45 percent), and a good education (37 percent). And success is not just about money. This generation’s definition of success is more nuanced, adding emotional and relationship factors to the formula and not just traditional measures of financial health.

Achieving that success takes some simple first steps. And the most critical is the monthly budget.

PAY YOURSELF FIRST

The first key to building wealth is to live below your means. The money you don’t spend you put to work. For many years, it was the American way to spend more than we earned, using credit to pay for the rest. Millions of Americans burned through their money, justified by the false assumption that the price of their home would rise forever. Easy credit made people feel rich. When the recession hit, these spenders took the biggest hit financially. Today, *smart* is the new rich, and being smart begins with a budget. Even the word *budget* makes most of us cringe. It’s a loaded word, full of limitations, that we think is more suitable for older generations. But a budget is the money version of a healthy diet. Once you identify the empty calories in your budget, you’ll feel better and more focused.

A budget is simply a *plan*. And it’s the nonnegotiable habit for growing wealth. Patrick O’Connell, executive vice president of the Ameriprise Advisor Group, works with thousands of financial advisers across the country. “The price of success is paid for in full in advance,” he tells me. Having a budget and saving money every month is paying yourself first.

“We see many millennials interested in building wealth who have to start building the savings plan first. Pay yourself first, and work the expense base off the remainder,” O’Connell says. He likes to start with these three steps:

Three Steps to Building Your Budget

1. Identify how you are spending money now.
2. Evaluate your current spending and then set goals that take into account your long-term financial objectives.
3. Trace your spending and make sure it stays within your guidelines.

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Often, we feel as though we have a general idea of how much money is coming in and going out each month. But you've got to put down on paper every penny.

Financial expert Stephanie Genkin, a Brooklyn-based independent fee-only planner who advises millennials, says it's always possible to become a saver.

"I worked with a young woman who had no debt but liked to treat herself to expensive new clothes and books every month. We talked about what it would be like for her to scale back on her spending in order to put away a little money each month for retirement and a rainy-day fund. I got through to her by telling her what her life might be like 10 to 20 years from now without savings. She now contributes 3 percent to her 401(k) and automates a fixed amount of her paycheck to a savings account."

There are helpful online tools and budget apps like www.mint.com to analyze your habits and craft a budget. Check out your bank or credit union website for tools to use for budgeting, tracking your spending, and automatically paying bills. Websites for money managers Fidelity and Ameriprise Financial have helpful tips for organizing which bills to pay. It's incredibly important to really know how much you are spending each month in every single category. Only then can you spend less than you bring in and grow the difference.

I grew up with a frugal father, who had very simple rules about money that he often boiled down to entertaining little rhymes, one of which is the basis for every budget: "Keep your burn rate less than your earn rate." It means spend less than you earn. The budget helps you figure out how.

To get started, you need to ask yourself a few questions.

- Does your income money last as long as the month?
- Are you spending more than 28 percent of your take-home pay on housing costs?
- If you live at home, are you saving a little each month for a deposit on an apartment?
- Are you carrying a balance on your credit cards?
- If so, how many months will it take to be credit card debt-free?
- If your phone breaks, do you have money to get a new one?

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- Your best friend from childhood just announced a destination wedding. Do you have the money to make it (not to mention the bachelor/bachelorette party)?
- If you have a job, does it offer a 401(k), and are you contributing enough to get the company match?
- Do you have three months' living expenses handy in case of an emergency?

Take note that I didn't even bother asking the age-old financial adviser question: At what age do you want to retire? That's because (1) it's nearly impossible for any young generation to really get their head around this question, since it's the last thing they think about; (2) forced savings plans like 401(k)s and IRAs (more on these in Chapter 8) help address the retirement issue; and (3) there are more pressing financial decisions facing millennials in the near term. Beyond the aforementioned "I have to pay for a new phone" dilemma, there are a host of other costs millennials have to prepare for, notes Ameriprise's O'Connell.

"Buying homes, selling homes, cars, children, weddings—you name it. So think about medium term financial goals and start building momentum. The first \$5,000 or whatever your goal is to accumulate is the hardest," says O'Connell. "After you reach that first goal, it becomes easier. So you want to focus on a strong financial foundation."

HOW MUCH SHOULD YOU SAVE?

We'll more fully explore these questions, how to answer them, and how to get there in the pages ahead. Planning a budget means recognizing how far you are from these goals. You have to know what is coming in and going out before you can slot money for investments, real estate, and retirement goals. Write down every little expense—including the price of your morning bagel, change for doing laundry, the amounts for phone/Internet bills, and what you shell out for entertainment. Track your spending, make realistic goals, and be consistent. Once you're on track—with housing costs in line with what you can afford, high-interest credit card debt paid off, and student loan payments automatically paid each month—the next step is building wealth.

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Throughout human history, civilizations endured because people planned for the future by socking away a little of today's wealth for the next year. They saved some of this year's crop to plant again the next year to guarantee stability (and wealth) for coming years. Eat all your seed corn now, and you'll starve later. It sounds rather *Game of Thrones*, I know, but, really, unless you budget, save, and prepare, you're leaving an awful lot to luck.

That's a bleak way of saying that Americans spend too much and save too little. On average, Americans save about 4 percent of their income each month. The savings rate has slowly improved since the Great Recession ended, but it still is not high enough. A reachable target is 10 percent, and those Fidelity 401(k) millionaires put away 14 percent on average, starting young.

As you prepare your budget, if you can't get to 10 percent right away, start more slowly. Squeeze just 1 percent out the first month, then 2 percent the next month. Ratchet up the savings, and trim the spending bit by bit.

"You've got to save every penny."

—Carmelo Anthony, *New York Knicks*, CNN March 2012

I often hear from readers and viewers that they don't have any money to save, that their finances are out of their control, and that until they get a better job or move to a different city or pay off their student loans, they can't save another penny.

I always circle back to the advice from my friend and frequent *CNNMoney* guest Ryan Mack. He's the president of Optimum Capital Management, and he is a true believer that anyone can make a budget and find money to save in it, no matter their circumstances. His mother raised two sons with scant money, sometimes on public assistance and in public housing. She made it into the middle class, and Mack uses her example in his own business to inspire anyone to build wealth. He says wealth is built slowly and surely through the little daily decisions we make with our money. He says all of us have a responsibility to be "good stewards" of our finances. Mack explains:

The good steward is my own mother who didn't have a lot of money to raise her two children but spent her days shopping at a thrift store, cutting

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coupons, and working her way off subsidized living in a way that allowed her to purchase her first home. The good steward understands that it is never about how much money you make, it is all about what you do with the money you make. It isn't about spending money to make an impression on others. It is all about spending money to make an impression on those personal goals and values that you find to be important to keep on your path to creating a financial legacy for future generations. This steward takes risks, lives within their means, but most importantly when they analyze their online spending statement, more often than not they purchased items that moved their household forward and didn't detract from its value.

Take a look at the online spending record of your credit card bill or check your bank statement for the past few months and try to divine the priorities that statement suggests about you. Is eating out more important than buying new clothes? Do you have an iTunes addiction? Is your Netflix bill off the charts? Love a daily latte? Without a budget, you have no idea how much you are spending each month on these things.

What you find may surprise you. In its report "Young America and Its Vices. Beer. McDonald's. Starbucks," Level Money (which offers a simple budgeting app for people 35 and under) found millennials spending big money in three major categories: coffee, burgers, and booze.¹¹ Turns out cash-strapped millennials still find plenty of money to spend on tastes-good-but-not-so-healthy options. Spending varies widely by region, but Level Money found the highest spending on booze in Massachusetts, Colorado, and New York and the highest spending on coffee solidly in the Northeast (Table 1.2).

Young people in the South spend more than twice what their New England cousins spend on fast food (Table 1.3). Top venues? McDon-

Table 1.2 Caffeine Addicts

State	Average annual spending	% purchasing more than once a week
Maine	\$307	15%
Massachusetts	\$277	12%
New Hampshire	\$263	12%

Source: "Young America and Its Vices," Level Money

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Table 1.3 Fast-Food Fanatics

	Average annual spending	% purchasing more than once a week
1. Oklahoma	\$1,194	40%
2. Kansas	\$1,040	35%
3. Texas	\$978	35%
10. Colorado	\$858	26%
48. New York	\$485	11%
49. Connecticut	\$471	10%
50. Vermont	\$431	6%

Source: "Young America and Its Vices," Level Money

ald's, Chipotle, and Subway. This is proof that there is money in the budget for saving, even by squeezing just a little. For anyone looking to trim discretionary spending, these "vices" are the obvious first place to look.

The Level Money app automatically recommends a savings rate of 7 percent, but before you can get there you need to visualize how much you are spending. Apps and software can help with real-time organizing of expenses and income (beware, you will have to provide passwords for all your accounts so the budget apps can keep track), but often the best way to start is decidedly low-tech. Your grandparents put money into different envelopes labeled, for example, "Food," "Shelter," "Clothing," "Car," "Insurance," and "Extra." Simplistic? Yes. But it's a good way to start before you commit to one of the many digital budget tools available. (The suite of offerings is changing quickly. You can find a *New York Times* analysis of some of the veterans and a few more recent budgeting apps for millennials at this site: http://www.nytimes.com/2014/01/04/your-money/household-budgeting/review-apps-to-track-income-and-expenses.html?_r=0.)

Financial planner Ryan Mack says a good budget makes a good steward of saving.

"The good steward is the guy who was interviewed on CNN who never made over \$13 per hour his entire life but was worth over \$2 million after the age of 70," Mack says.

No matter how much money you make, you can build wealth. First come the smart daily decisions about spending money. Then comes saving what is left over.

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THE RAINY-DAY FUND

No hidden meaning here—we all have to plan for the day when we lose our job or get hit with some other unexpected expense. So how much should you save?

Conservative financial planners recommend keeping six to nine months of your living expenses liquid. Others advise three to six months in normal times. (The term *liquid* means the funds are available for an emergency without too much trouble accessing them.) Either recommendation can sound daunting for people just getting control of their financial plans and not worthwhile for younger investors feeling invincible.

But it is critical that you work the rainy-day fund into your financial strategy.

So where can you stash it? Not in the mattress, of course, but putting it in the bank feels almost like the same thing. This is a terrible time for savings in this country because low interest rates mean you are not getting paid much for the bank to hold and use your money. The proliferation of bank fees and penalties means that, with just a few missteps every month, you are actually paying the bank to hold your money.

The low savings rates make it all the more critical to keep as much of your own money in your account and not spend it on bank fees. If you need cash, make it a habit to walk the extra block or drive the extra half-mile to an ATM machine that is in your network. If you don't, you are paying the bank for the use of your money. This is a relatively painless thing you can do to trim spending today—this minute—with virtually no effort.

Seek out fee-free checking accounts at a credit union or bank. The number of free checking accounts being offered dwindles every year. Banks have been slammed by Congress for some of their most lucrative fee-generating practices, so more banks are now charging for small bank accounts instead. You can quickly check and compare bank deposit interest rates at www.bankrate.com. And www.checkingfinder.com offers free and low-cost checking account deals sorted by zip code.

Credit unions are a superb choice for younger savers who don't have a lot of money to deposit. Federal laws protect savings up to \$250,000, and credit unions often have less onerous fees and fine print. In the years since

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the Great Recession, consumers have been shifting to credit unions in huge numbers.¹² You can research credit unions in your area at www.ncua.gov. They are not-for-profit operations, so they are not beholden, as banks are, to shareholders who want to make money from you. They offer auto financing, mortgages, home-equity loans, and other financial services you will likely use in the years ahead. Starting a long relationship with a credit union—and building your three to six months of liquid savings there—is a good early step in your budget plan.

Another great choice is a community bank. Be very clear about what the fees are, and never link your ATM/debit card to the automatic overdraft protection plan. If you do that, you run the risk of big charges when your account runs dry and you overspend. It's always better to walk away without a purchase than pay a \$40 surcharge.

Once you figure out where to put your savings, you have to identify other places in the budget to squeeze out some savings.

“All of your bills should be listed, which should include a bill to *yourself* that puts monies into savings,” Ryan Mack says. The process of a budget is simple. (I know, I know, budgeting sounds like hard work and scary, but it really is as simple as keeping track of what you eat and how much you exercise. Same concept!) Make a list of what you think you spend every month—housing, cell phone bill, groceries, gas, and tuition or student loan payments. The biggest line item is likely housing, followed by student loans or a car payment. I'm a big believer that young people should live at home after college. Generation X may have regarded living at home as shameful. Not so for millennials. Saving hundreds or thousands of dollars by living at home—especially if you live on the high-cost West Coast or in the Northeast—is the single biggest financial advantage you can give yourself. (More on living at home, renting, and buying a home in Chapter 6.)

Housing costs can be big, but don't overlook the little things: Starbucks, ATM charges, trips to the drugstore, music purchases, and gas and transportation costs. Figure 1.1 shows what a sample budget for millennials should look like.

Certified financial planner Doug Flynn, from Flynn Zito Asset Management, says building wealth and financial success come from having a plan and sticking to it. For 20 years, his clients have used an expense worksheet that

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What's coming in?

From job \$ _____

From parents \$ _____

What's going out?

Debts

Private student loans \$ _____

Federal student loans \$ _____

Extra loan payments \$ _____

Car payment \$ _____

Outstanding credit card debt \$ _____

Family loan \$ _____

Needs

Housing \$ _____

Insurance \$ _____

Groceries \$ _____

Gas or public transportation \$ _____

Health care expenses \$ _____

Phone and Internet (Netflix, etc) \$ _____

Savings/Investments \$ _____

Wants

Gym membership* \$ _____

Coffee/fast food \$ _____

Apparel \$ _____

Bars \$ _____

Recreation (lift tickets, new bike) \$ _____

Travel (weddings, vacation) \$ _____

Entertainment (concerts, movie tickets) \$ _____

Misc 1** \$ _____

Misc 2** \$ _____

*Some money managers suggest gym membership is a need, not a want. If you are healthy you will spend less money on health care. But the average annual gym membership is now more than \$500. A quick way to save cash is to buy a pair of running shoes and bank the rest.

**Add your own recurring monthly expenses here. Online dating service, financial support you are giving to a family member, or a monthly donation to charity or religious institution.

Figure 1.1 Millennials Sample Budget

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helps them track every single penny going out the door. I've simplified it in Figure 1.1 for a more millennial mind-set, with an eye to the fact you are less likely to be a homeowner and more likely to have student loan debt.

Flynn says the goal is to live on 80 percent of what you make, no matter how big or small your income is. The other 20 percent must be allocated for your financial goals—savings and retirement. If you want to give 10 percent to charity, you'll have to live on 70 percent.

Look, it's tough if you are just getting started—and even tougher with student loans on the “liabilities” line of the budget worksheet. You don't go from saving nothing to saving 20 percent overnight.

“You have to begin somewhere. And getting started is the hardest part,” Flynn says.

Without savings, you are at extreme risk for building up credit card debt and further delaying your wealth-building goals. Only 51 percent of Americans have more emergency savings than credit card debt, according to Bankrate.com.¹³ That is a dangerous statistic. Your savings goal is to be comfortably in the 49 percent of Americans on the right track.

ROADBLOCKS TO MONEY SUCCESS

- “Guesstimating” monthly spending.
- Unrealistic goals.
- Huge student loans, but you don't live like a student.
- Procrastination.
- Paying only minimums on credit cards.

THE HOLIDAY RED FLAG

The most obvious red flag for overspending is something that too many Americans do with ease—and few regrets. Are you still paying off last year's holiday gifts on this year's credit card bill?

Gail Cunningham is a spokesperson for the National Foundation for Credit Counseling (NFCC), and she offers some stark math. Consumers spend on average about \$800 on holiday-related expenses—more than a week's wages for a typical worker. “In spite of the fact that the December holidays are an annual event, people routinely neglect planning for them and resort to charging their purchases,” she says.¹⁴

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The consumer experience makes it so easy to charge and forget. “Consider the ramifications of this lack of planning,” Cunningham says. If a consumer spends \$1,000 on a credit card and makes only the minimum monthly payment of 2 percent of the balance with an annual percentage rate of 18 percent, it will take 12 years to pay off the debt.

“The ghost of Christmas past will haunt until 2026,” Cunningham adds.

Even assuming no late fees, that \$1,000 in holiday spending will have cost you \$2,353 by the time you pay it off.

“Buy now, pay later” on high-interest credit cards is a terrible strategy. Whenever you are about to make any purchase, no matter how generous or for which holiday, set your budget, understand what you are spending, and ask yourself with each purchase three simple questions:

1. Do I need this?
2. Will it make me better, smarter, or more prepared?
3. Can I pay this off when my credit card bill comes?

Along those lines, best-selling spiritual guru Deepak Chopra gave me some of the best financial analysis I have ever heard.

“First thing the consumer should learn to do is stop spending money they haven’t earned to buy things they don’t need to impress people they don’t like,” Chopra said. “We are buying stuff that we don’t need with money that we haven’t earned just so we can keep up with the Joneses.”

YOUR MONEY QUIZ

So are you one of Chopra’s overspending consumers? Answer these questions and find out. Assume you land \$10,000 tax-free. What do you do with it?

- Do you put all or some in the bank?
- Do you pay down high-interest credit cards?
- Do you pay down your student loan?
- Do you invest in a traditional or Roth IRA?
- In the past year have you checked your credit report?
- At this very moment, do you know your exact bank balance?

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Add up the yes answers

5–6 Overachiever

3–5 Frugalista

1–2 Bubble consumer

0 Not smart. Not rich.

Chapter 1 Action Plan

First, embrace a saver's mentality and begin to map out your plan. Aim for three to six months of living expenses to cover an emergency. Live at home if it will save you big money. If you have large student loan debts, live like it. Don't pay the bank to use your money. Instead, find a low-fee bank account or use a credit union. Never opt in to overdraft protection. Live below your means. Identify waste in your monthly spending and eliminate it. Be ruthless in identifying needs and wants. Every budget, no matter how small, can be trimmed.

