IN THIS CHAPTER

» Defining and reaching for financial security

» Tapping opportunities during tough times

Chapter 1
Knowing What Financial Security Means to You

Achieving financial independence and feeling financially secure are admittedly subjective assessments. A nest egg of $200,000 may seem like a lot to some people but not to a high-income earner who is accustomed to spending $100,000+ annually.

Now, for many people the feeling of financial security isn't simply a matter of how much money you have to your name. Numerous other factors may contribute to feeling secure financially, which I help you to understand.

In this chapter, I help you determine what financial security means to you, assess where you are now, and begin to think through how you can manage your money to accomplish your goals. I also discuss how to best position yourself to benefit from the inevitable opportunities that present themselves during tough economic times.

What Is Financial Security, and Why Should You Care?

A good place to begin is by defining what financial security means to you and what is and isn't important to you. Then I help you think through and understand where you are now and consider some fundamental aspects of managing your money that many people find challenging, such as making sense of financial trends, confronting procrastination, and dealing with insurance.

Defining what you value

If saving money is a good habit, the more you save, the better, right? Well, no, not really, unless your sole goal is to amass as much money in various accounts as possible. But what if you're not spending enough to eat a healthy diet? How about some time and money so that you can regularly rest and enjoy some recreation? What about some spending for the special people in your life?

Think about all the big decisions in your life: choosing and finding a job, a place to live, a spouse, and so on. For most people, there's a financial component to all of these. When thinking about personal goals, nearly all of them take money to accomplish. Money is inextricably linked to the rest of your life. Making the best financial decisions starts with the big picture and the rest of your life in mind — in other words, holistically.

Suppose like many people, you are working and earning money. You'd like to save and invest some of that and not have to continue working full-time for the rest of your life. But you probably have some other competing uses for your money. These may include things like saving to buy a home or start a business, expenses for your family, a future vacation, and so on.

Money shares some similarities with food. If you don't have enough, you likely notice the insufficiency of your resources. Having more than enough with some reserves and extras usually provides most people with some peace of mind. Different people, though, have different views of how much extra they may want to have.

The virtue of a capitalistic economy is that within reason, if you're willing to work hard and seek to improve yourself and your work, over time you should be able to see your money grow. The progress and advancement of technology and society generally increase the purchasing power of your money over time.

Some folks lose 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 who have taken more exotic vacations. The bar can continually be set higher and higher in terms of how much money we "need."

The continual improvement of products and services, particularly those that incorporate a lot of technology, leads to more folks taking for granted how "luxurious" some of today's choices are compared with those of the past. Consider what's happened with personal computers and smartphones. Today, consumers buy smartphones that have many of the same functionalities and can access far more information than personal computers could a generation or two ago. And you can buy today's smartphones for less than the cost of personal computers from a generation or two ago. Today's smartphones are like a handheld personal computer, a phone (that can easily travel with you), and a quality camera all rolled into one!

Automobiles have far more features, especially safety features like air bags and anti-lock brakes, compared to those from a generation or two ago. Today's cars are dramatically more fuel efficient, too.

Just walk through most homes and apartments today and you'll find all sorts of devices like microwave ovens, printers, HDTVs, washers and dryers, dishwashers, and so on, which are far better and relatively less costly than in prior generations. And in some cases, these devices didn't exist or weren't widespread not that many generations ago.

So, I urge you to step back and think about what it is that you value and to recognize how "luxurious" are so many of the choices and options that we have in modern American society. With many products and services, we get far more for our money than folks did a generation or two ago.

That said, we can all think of some expense categories like higher education, housing in some higher-demand cities (such as New York City and San Francisco) and portions of the healthcare industry where the rate of price increases (inflation) may exceed increases in typical wages and the general cost of living. These categories are the exception, not the rule, and you can take steps and actions to mitigate and blunt some or even much of the excessive price increases through the strategies I discuss in this book.

REMEMBER

Especially in our consumption-oriented society, some folks may get carried away with working and earning more and amassing more money. Life is short, and you can't take your money with you in the end. So, there's something to be said for balancing work, earning and saving money, and having sufficient time for family, friends, and your activities and hobbies.

Assessing your current personal financial health

What's your current personal financial health? There are numerous ways to measure that. When I've worked with clients as a financial counselor and as an educator, I've found the following exercises to be valuable:

- **Net worth analysis:** Your ability to accomplish important financial goals, such as buying a home and someday retiring from full-time work, depends upon your net worth. To derive your net worth, you total up your financial assets and subtract your financial liabilities. I typically exclude a person's home in this analysis unless they plan to tap some portion of their home's equity, by trading down to a lower-priced property.
- **Spending analysis:** You should know where your money goes in a typical month or year, especially if you'd like to save a greater portion of your employment income. Analyzing your historic spending can tell you just that.
- **Saving analysis:** Over the past year, what portion of your work income were you able to save? Many people don't know the answer to that important question, and if you don't, you can't really know whether you're on track to accomplish your financial and personal goals.

» **Your investment portfolio:** Can your investment portfolio be improved? Do you understand your current investments? How do your current holdings stack up in terms of costs/fees and performance within their respective peer groups? Do your current investment holdings match your risk and return preferences?

» **Your home:** If you currently rent or own a home but are looking to sell and buy another, that takes some advance planning and analysis. Since housing costs can consume a significant portion of your income and budget, you should ensure that a change in your housing situation fits with your financial and personal goals and planning.

» **Insurance review:** You should have insurance to protect you against losses that could be financially catastrophic to you and your loved ones. I know from my counseling work that many folks have gaps in their insurance coverage and are wasting money on overpriced or unnecessary policy features.

» **Employee benefits review:** Plenty of employees don't bother to read and review their employee benefits, which typically include various insurance coverages and possibly a retirement savings plan. Employee benefits can actually be quite valuable and should be coordinated with your overall financial plan.

These elements form a personal financial plan. You can hire a competent and ethical financial planner to assemble such a plan for you, but you should beware that many folks sell products on commission or charge hefty ongoing money management fees. Others aren't interested or experienced enough to help you with nuts-and-bolts issues like analyzing your spending. This book helps you manage your money and get your personal finance house in order.

Grasping financial lingo and trends

Personal financial knowledge and literacy is an enormous obstacle for too many people, including those who have invested tremendous time, energy, and money into their formal educations. Unfortunately, such education rarely includes the essential topic of money management.

Ubiquitous gurus are another common obstacle. Everywhere you look, especially online and in the media, there are plenty of anointed experts predicting what will supposedly happen with the economy, financial markets, and all sorts of other economic variables. Listening to all these supposed experts and their often-conflicting opinions can paralyze you or make you feel that you need to hire them (or others like them) to manage your money since it appears that they know so much more than you do.

In reality, it's important that you develop a personal financial plan of action that suits your goals, needs, and concerns and doesn't involve jumping into and out of investments based upon short-term noise or news events. This is what this book can help you do.

Trying not to avoid money

One big obstacle is that just about everybody avoids dealing with some aspect of money. For some, it's as simple as avoiding looking regularly at their checking account and verifying transactions and the account balance or making decisions about where to invest saved money. Others neglect needed insurance coverage, perhaps out of fear of confronting their own mortality and vulnerabilities. Some people are plagued by broader problems such as feelings of guilt and shame about money or feeling that money seems dirty and evil.

The fact that money-related issues aren't always at the top of your priority list may well be a good sign. Perhaps you spent the past weekend with friends and family or were engrossed in a captivating book or a newly discovered streaming series. But continually avoiding money or some aspect of your finances can result in unnecessary long-term pain.

Some personal finance procrastinators can get away with their ways for a number of years. However, whether it's in the short term or the long term, eventually, problems do occur from avoiding dealing with money and related decisions, and sometimes the damage can be catastrophic.

Some money avoiders don't plan ahead and save toward future goals. Often, the reality hits home when they contact the Social Security Administration (SSA) or get an update from the SSA and discover what monthly retirement benefit amount they'll get at full retirement age (which is around age 66 to 67 for most people). The reality for many people means the realization that they'll have to continue working into their seventies in order to maintain the modest standard of living to which they've become accustomed.

Several issues typically cause a lack of retirement funds. Many money avoiders could save more money, but they typically aren't motivated and organized enough to do so. Generally, they haven't bothered to conduct even basic retirement analysis to understand how much they should be saving to reach their retirement goal (or even think about if and when they want to retire).

Because money avoiders dislike dealing with money, what they're able to save often gets ignored and languishes in low- or no-interest bank accounts. Avoiders also tend to fall prey to the worst salespeople, who push them into mediocre or poor investments with high fees. When avoiders choose their own investments, they often do so based on superficial research and analysis, which can lead to piling money into frothy investments when they're popular. Discomfort causes avoiders to bail out when things look bleak.

WARNING

Money avoiders, more often than not, lack wills and other legal documents that should specify to whom various assets shall pass and who is responsible for what (for example, administering the estate and raising minor children) in the event of their untimely demise. When money is to pass to heirs through an estate, the absence of documents can lead to major legal and family battles.

Dealing with insurance

Because insurance is an admittedly dreadful and unpalatable topic for most people, many folks avoid insurance-related issues. And while well-intentioned and commission-hungry insurance agents get some people to plug insurance gaps, these salespeople may not direct you to a policy best suited to your needs. In fact, brokers may sell you costly insurance (such as cash value life insurance) that provides them with a higher commission and you with less insurance than you need.

Insurance gaps come to light when a disability or a protracted illness occurs. Too often, we believe that these problems only happen to elderly people, but they don't. In fact, statistically, you are far more likely to miss work for an extended period of time due to a disability or lengthy illness than you are to pass away prematurely.

If others are dependent upon you financially, you likely need certain coverages that would provide for them in the event of your untimely passing, as well.

In Chapter 4, I cover the types of insurance you need to protect yourself and your assets.

Making Money Decisions Amid Changing Circumstances

When broader economic and financial crises strike, for sure bad things happen. Some people lose their jobs. Stock prices and home values generally fall. This can create opportunities for those who have cash and courage to step up and buy otherwise good investments at depressed prices.

Having a good-size cash reserve for difficult times makes sense. But how large should that reserve be? If you keep too much in cash, your investment returns will suffer. Keeping too little in cash can cause your reserves to be pinched during tough times and can leave you with little, if anything, to invest when investment prices are down.

Most people with some cash find it hard to step up and make investments while the news is filled with so much gloom. And there's the natural tendency to worry about things getting even worse. In Chapter 9, I offer insight into how you can maintain financial resilience amid changing circumstances.