Justin’s Tips & Tools

• MONEY HABITS FOR THE MODERN DAY •

Tips & Tools

Here's a cheat sheet for your journey to managing your money for a better life! Feel free to mix in things that make sense for you along the way.

• STEP 1: YOUR PERSONAL SNAPSHOT •

Put together your personal snapshot. You'll want to figure out the location and balances of all the following:

- Bank Accounts - Checkings, Savings, and High Yield Savings
- Credit Card Accounts - Bank Issued and Store Issued
- Other Debts - Student loans, personal loans, friends and family loans, etc.
- Investments - Any investments or investment accounts, including inheritance money
- Your Salary (gross income) vs. your Take-Home Pay after taxes and any other deductions (net income)
- For extra credit, if you want to compile a list of your monthly expenses, it'll help you later on! Don't forget subscriptions like Hulu or HBO.

Resources:

- Mint.com - You can safely connect most of your accounts including banking and debts to Mint. This is a great tool to use so you don't have to log into every account separately anytime you want to update your personal snapshot.
- PersonalCapital.com - Similar to Mint, Personal Capital is more geared toward tracking your accounts connected to investment. If you have any retirement or brokerage accounts, you may like this tool a bit better for those types of accounts. Quick disclaimer, Personal Capital financial advisors may try to reach out to you to offer their services. Feel free to ignore their communication, and use the tools for free!

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Can't remember all your open loans or outstanding debt? You can use a free credit reporting web site to see your credit (debt) history by using your social security number and some other info. It'll reflect accounts that are both open and closed. Check out these tools:

- CreditKarma.com or CreditSesame.com - Using these are free but be warned, because it's free they have tons of ads and info about credit cards. Ignore them! In addition, these sites only do what's called a "soft pull" of your credit report, so your credit is never hurt no matter how many times you refresh your data.

- There are 3 major credit reporting bureaus. Equifax, Experian, and Transunion. Credit Karma offers your credit info from Transunion and Equifax. Credit Sesame only pulls from Transunion. It's best to compare data from all 3 to make sure there are no errors on any given report. But for this purpose of this exercise, it's good to note that not every creditor reports to all credit bureaus. So, if you are forgetting something, you need to check all 3!

- How do we fix this? The government requires each bureau to provide you with a free credit report once every 12 months. Just head to AnnualCreditReport.com.

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• STEP 2: BUILDING AN EMERGENCY FUND •

Your emergency fund is like a rainy day account or a security blanket. Use it for emergencies only when truly unexpected and costly expenses arise. It's there to cushion the blow and prevent you from going into debt for emergencies.

Here are some true emergencies:

- Medical event puts you or a family member at the wrong end of a large medical bill.
- A broken down car is preventing you from commuting to work, and you can only commute to work by car.
- A death in the family requires you to book an expensive last minute plane ticket home.

How big does your emergency fund need to be? Follow these parameters:

- $1,000 if you still are in debt other than a mortgage.
- 3-6 months of income (gross or net) or 3-6 months of expenses.
- Building an emergency fund based on income is a more conservative (larger fund).
- Freelancers and small business owners are encouraged to try to save 6-12 months worth of income or expenses.

Where should you put the cash? Here are some rules and resources:

- Always segregate your emergency fund from regular (checking) spending account. You can use another checking account, a savings account, or a high yield savings account.
- Compare bank quality and rates at Bankrate.com. Don't just compare rates, feel free to read the reviews and general information provided by the site. FYI: I use American Express National Bank for my emergency fund.

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• STEP 3: DEALING WITH DEBT •

If you're in debt, you're not alone! It's okay, you're going to be better than average after this class. **First, what kind of person are you?**

- **Spender:** Generally speaking, you spend every paycheck received without saving or with very low savings. This is not because your necessity expenses (shelter, food, clothing) are too high for your income, it's because you enjoy spending your money on anything from entertainment to travel to shopping. Sometimes, this does appear in the form of housing you can't truly afford, but prefer over cheaper options. If you are in debt, and you don't have a budget, start using one. It's a powerful tool to push yourself towards healthier money habits.

- **Saver:** You have no problem putting aside cash from every paycheck. You won't purchase something on a credit card that you couldn't afford to pay for in cash, except for things like education or a mortgage. Using a budget is probably a key to your success.

- There are other types of money personalities and if you are unsure of yours, you can try this quiz.

What's the get out of debt strategy? Here are the two recommended methods:

- **Snowball Method**: Ranking your debts (excluding your mortgage) from smallest balance to largest balance. Paying as much as you can on the smallest debt until it's paid off while only making the minimum payment to the other balances. This method is great for those who need some wins to build up your motivation and momentum.

- **Avalanche Method:** Ranking your debts (excluding your mortgage) from highest interest rate (APR) to lowest interest rate. You then pay as much as you can towards the balance with the highest APR until it's paid off while only making the minimum payment to the other balances. This method is great for those who are a little more math savvy and finance-advanced. This strategy typically saves you a little money if your highest balances are located on your most expensive (highest APR) credit cards.

- Using the avalanche or snowball method is highly recommended as long as you're going to be able to eliminate your debt in two years or less. For those who can't attack debt in that time frame, try investing simultaneously. Academically, not all debt is equal: past due payments, credit cards, personal loans and payday loans are all worthy of being top priority for pay off. Anything with double digit interest is worthy of priority for pay off.

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• STEP 4: SAVING FOR RETIREMENT •

First, let's start with a little bit of motivational rule setting:

1. **Future You vs. Present You:** Both are super important, although it's incredibly difficult to picture Future You. We always are biased towards today over tomorrow. Remember to give Future You a chance.

2. **Keeping Up with the Jones':** It's so easy to compare yourself to others, even if the reality isn't all that it seems. Don't worry about what you peers, neighbors or someone on Instagram is doing. Find your own version of happiness because following the happiness of others is a never-ending cycle.

3. **Delayed Gratification:** Progress can be slow and doesn't provide the milestones you need to succeed with a new behavior or feel like you're making good progress. Sometimes you need to go 0-60mph to really feel that momentum and change your mindset. So if you have debt, delay just a little fun now to get it paid off quickly. Or if you're saving towards retirement, try to increase your savings while still having a good time today – think about Future You.

4. **Avoidance:** Ignorance isn't bliss. The biggest obstacle in most people's path to starting their healthy money journey is fear and avoidance. It's too complicated. The problem is too big. I just don't want to know. Just jump in head first!

As discussed in the lesson, you have a lot of questions to ask yourself. Here are some helpful resources to help you work through those questions:

- Investopedia - Investopedia has an Educational section with a dictionary of financial words, terms, and concepts. They even have an Investing 101 section for those looking to go a little deeper.

- Retirement Accounts Explained - Check out this easy and in-depth primer by Nerd Wallet. You can also search around the site for financial articles. Or out a quicker article with a little less depth at The Balance.

- Use the Compound Interest calculator to see how your money can grow.

- Try the Nerd Wallet calculator or Vanguard calculator to see how much you'll need in retirement.

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Where to Invest – Accounts

- **For DIY-ers -** If you want to pick your own investments outside of an employer 401k or similar, you'll need to open up an account at a brokerage account. Justin recommends a place like Vanguard for passive investing. You can also go with TD Ameritrade, Schwab, or Fidelity.
- **For those who'd like a little help:** There is a new category of investing called Robo-Advising. Long story short, a company invests for you using algorithms, information on your goals, and your risk factors. The one Justin currently favors is Betterment. But if you go this option, Google around, and do your research before deciding where to put your money. Here's a good starter article on Betterment from Nerd Wallet.

Where to Invest – Assets

- This class can't tell you how to invest, but here's a quick and dirty guide to the things you should pay attention to, tailored specifically for beginners.
- **Mutual Funds:** Justin recommends mutual funds that are passively invested and track a diversified index like the U.S. stock market. Passive funds keep the costs down from a tax perspective and a fee perspective.Vanguard is the golden standard for funds like these. However, you can find competitive funds with Charles Schwab as well. It's not about penny-pinching, it's just being aware of the costs to invest. Something below about 0.50% is your target, as most passively invested funds hover around 0.10%.
- **ETFs:** These are the same as mutual funds except they trade on exchanges similar to mutual funds. Mutual funds you must purchase directly from a financial advisor, broker, or the mutual fund company itself. However, ETFs can be purchased on an exchange meaning you have real-time pricing similar to stock. Be careful with ETFs if you have temptations to trade. You need to apply the same methodology as you are with mutual funds - set it and forget, continue to reinvest.
- **Stocks:** Avoid buying stocks. If you do want to play in the stock market a little bit, that's totally fine. I advise you only use 5% of your portfolio for buying and selling stocks. That limits your exposure to non-diversified risk.
- **Stocks vs. Bonds:** When you purchase ETFs or mutual funds, you want to consider the allocation. The place where you open your investing account will probably offer you a questionnaire that'll help you think through your allocation. It'll vary by your risk profile and your age. The younger you are and the more you can handle the fluctuations in your

portfolio, the more you'll probably skew more towards equities. In his mid-30s, Justin has an allocation between 90-95% equity and 5-10% bonds. And within those, you'll diversify further, including exposure to international markets and different sizes of companies.

- **Low Cost + Low Touch:** The key to growing your wealth is consistency and time. You have to contribute as much and as early as you can into your investments. You want to invest in low-cost, passively invested funds. Money you allocate towards retirement should be left there until retirement. Set up automatic deposits and don't look at your account except to rebalance or add. Keep it simple.

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• STEP 5: ACHIEVING YOUR GOALS •

With an emergency fund in place, debt disposed of, and your retirement savings on autopilot, it's finally a great opportunity to start saving toward life goals and experiences to reward yourself. These types of goals can be anything from a down payment on a house, or creating a slush fund for biannual weeklong vacations!

Here's a high level overview of how to approach some common scenarios:

- **For short term goals (1-5 years out),** like saving for a car or a down payment, use a high-yield savings account
- **For long term goals (10-20 years out),** like saving for your children's college, use an investment account or 529 account

Tips to remember:

- Don't put tons of pressure on yourself. How you spend your money is your choice.
- Approach your goals strategically to achieve them faster. Savings goals are no different than retirement goals or figuring out your debt payout. All this stuff is about understanding how much money you need and working backwards!
- We can't have everything we want if we can't afford everything we want. Life is full of hard facts like these.
- You'll always have conflicting goals so it's important to be pragmatic and prioritize what's most important based on timeline (urgency), importance, and happiness.

Whenever you're in doubt, refer back to the steps in this class and know that you have the power to build the future you want!