



Investor's Capital Management, LLC
*Fee-Only Financial Planning, Investments,
and Advice for Everyday Life*

Twelve-Step Financial Plan

Financial Planning can be complex or it can be simple. Simple might be best for some people because simple often gets completed while complex sits on the shelf – waiting...

Complex can be safer and create more net worth than simple – but it's also more work.

Here's a simple financial plan that you could implement yourself:

- Step 1. **Spend less than you make.** It used to be that if you saved 10% of your gross income and invested it well, you could enjoy work life and retire at a reasonable age. Since Social Security and Pensions are becoming less valuable, saving 15% of your gross is more like it.
- Step 2. **Pay off your credit cards each month.** If you can't do this, get rid of your credit cards and pay with cash, a debit card, or an American Express card (which must be paid off each month).
- Step 3. **Set aside 3 to 6 months of spending money emergency reserve in a safe place.** Reasonably safe places with decent returns are savings bonds, credit unions, and ultra-short-term bonds funds. A line-of-credit on your home may also suffice.
- Step 4. **Obtain a will.** If you have children a will is a *must* for setting up guardianship. During the will process you should fill out health care directives and durable powers of attorney. If your estate is more than \$1,000,000 and you are married, consider a living trust (more expensive).
- Step 5. **Fund your 401(k) and a Roth IRA to the maximum each year.** 401(k) contributions reduce your current income taxes. Not everyone can contribute to a Roth each year but if you can, these plans are outstanding savings vehicles. When your children have earned income, fund a Roth IRA each year for them until they become working adults.
- Step 6. **If you have a family that needs protection, get term life insurance.** Get the best price you can by obtaining multiple quotes (at least 3). Quotesmith.com is a good place to start looking. Unless you have special needs, forget about all other types of life insurance.

- Step 7. **Save for college but give retirement priority.** Many families should use 529 College Savings Plans and save lots of taxes.
- Step 8. **Buy a home if that's what you desire and you can afford it.** Use fixed rate mortgages.
- Step 9. **Fund your employee stock purchase plan (ESPP) to the maximum and sell 1/8 of your vested employee stock options each quarter** Always sell your ESPP shares right at the end of the purchase period for a typical 60%+ return and sometimes *much* more. Put the proceeds into a well-diversified portfolio (see Step 12).
- Step 10. **If you are interested in investing, join AAI.** The American Association of Individual Investors is an outstanding, unbiased organization devoted to intelligent education about investing and other financial matters. www.aai.com
- Step 11. **Never ever do any of the following without checking with an unbiased financial professionalⁱ:**
- **Never buy a deferred annuity.** And never *ever* put your IRA into a deferred annuity and if someone suggests this to you, run the other way.
 - **Never pay any attention to anything in or on:**
 - a. CNBC or anything else financial on TV or radio
 - b. Money Magazine or any other financial magazine with ads in it.
 - **Never buy any financial product from a commissioned sales person.**
 - **Never buy a new car.**
 - **Never borrow money for anything that doesn't appreciate.** Corollary: if you can't deduct the interest, don't take out the loan.
 - **Never sell investment real estate** (instead, use a tax-free exchange).
 - **Never believe in get rich quick schemes** (unless you are the scheme *promoter*).
- Step 12. **With all the money left over after the above steps, invest into a well-diversified portfolio.** Mutual funds are wise for portfolios of \$1,000,000 or less. Index funds are smart; get professional assistance for actively managed funds. If you don't know how to design, manage, monitor, and keep records for a well-diversified portfolio, engage an unbiased financial professional to assist you. If you decide to have someone manage your investments, don't pay more than 0.8% for management of mutual funds (it's not that difficult a job).

Rich Chambers, CFP[®], Julie Schatz, CFP[®] and Jennifer Cray, CFP[®]

ⁱ Unbiased financial professionals are Fee-Only and can be found via www.napfa.org and www.garretplanningnetwork.com

Inspiration for the Twelve-Step Financial Plan came from Scott Adams ("Dilbert"). Also see "Twenty Tips for No Nonsense Investing", attached.