

# The Top 10 Things I Learned in Personal Finance

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## #1 Establish a clear Point of Choice.

A **point of choice** is the point in your life when you are living off of the interest you make on your assets. At this point you have the financial security to choose what you want to do for the rest of your life, because you are able to live entirely off of interest forever. Successful point of choice planning will allow you to pursue your life's ambitions without the worry of financial limitations. Here are my life's ambitions upon retiring.

### *The 3 Things I want to do after Retirement*

1. *Serve Senior Missions*
2. *Be a Mentor*
- 3.

To plan a point of choice:

1. Decide how much money you need annually when retired.
2. Use **Time Value of Money** calculations to see how much money you will need (and at what interest rate) in order to make that kind of interest. This grand total is your **retirement number**, the dollar amount you are aiming for.
3. Decide the age you want to retire at.
4. Use Time Value of Money to determine how you will need to invest in order to reach that goal.

You can use a reasonable interest rate of somewhere between 8-12% for your calculations. Investing early and consistently is the best way to let continuously compounding interest work for you.

Time value of money calculations are best done in excel, or on an online TVM calculator. You can also practice these calculations through online examples.

The **rule of 72** can also be used to make quick estimations on how money will grow.

$$\text{The rule of 72: } (\% \text{ interest})(\# \text{ of years to double}) = 72$$

## #2 Save 10% of Every Dollar I Touch

I will never touch a dollar from now on that won't have 10% going to my 401(k) or some other investment. I can raise this percentage later in life when I feel comfortable doing so. If I adopt this lifestyle now (when things are tight), then it will be easy to continue it.

The Millionaire Next Door says that millionaires save 15 – 20% of their income. I cannot build wealth without adopting this principle.

Brother Marsh taught that more important than having the very highest interest rate is having continually adding money to savings/investments, no matter what the market looks like.

## #3 Practice Wise Consumer Choices

There are several wise consumer choices we discussed that will benefit me throughout my life. Following are a few that I feel are most important.

Credit Unions Rather Than banks

Use Credit Cards rather than Debit Cards

Do not purchase warranties (except for on a car or maybe a cell phone)

Avoid rent-to-own agreements

Avoid entering contests

Regularly give blood

Do not own recreational vehicles

Avoid fast cash methods (payday loans, tax anticipation loans, etc)

Avoid home equity loans & debt consolidation loans

ALWAYS have health insurance

Plan meals

When making large purchases:

- 1) Sleep on it for at least one night
- 2) Ask a professional (or mentor) who doesn't sell what you are buying.

*Bargain: "Are there any coupons, or savings opportunities that would save me money on this? Anything I would find on newspapers or online? Are there any special sales coming up? (I've been around long enough to know that you have a pile of coupons under that counter.)" –Brother Marsh*

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Many other choices are not included, but can be found in my class notes and saved Power Points. I should always research to find more choices I can make that will benefit me.

## #4 Use Home and Car buying Principles

Owning your car and home as quickly as possible will benefit you financially. The best indicator of wealth is what you live in, compared to what you earn. **Prodigious Accumulators of Wealth** live an inconspicuous lifestyle, and do not show their wealth in their home or car. See [The Millionaire Next Door](#) for more information, and review it when considering these purchases.

### When buying a home:

Choose carefully. Where you live affects your mortgage, how you compare yourself to your neighbors, what you feel you should drive, what expectations your children have, etc.

“Buy a modest home” (President Hinckley), and fix it up. A home is an asset that will appreciate in value (over long periods of time).

Use the home buying formula to see what kind of payments you can afford.

$$(Primary\ Income - Financial\ Obligations) \times 0.35 = Monthly\ Payment$$

Never purchase a home without having it inspected. This will reduce the amount you pay for the home.

### When selling a home:

Get the home inspected yourself and show the report to the people. (This way you can say that you priced the home to accommodate for repairs)

Avoid real estate flipping, as it is very risky.

### When buying a car:

Buy quality used cars, and use them for 10 years. Edmunds.com is a great, informational, automobile website.

Always take a used car to a mechanic for a used car analysis (most mechanics will do it for free, if you are a regular customer of theirs. If not, then it is less than \$50.)

Always get a Carfax report. They are free at many dealerships. Even if you pay upfront, the cost is as good as insurance.

## #5 401(k)

A **401(k)** is the best retirement investment plan because:

- It is behaviorally successful (you do not see the money, somebody else contributes it for you, and there are penalties for early withdrawal)
- Money grows tax free

When using your 401(k), you will maximize your profits through these principles:

1. Tax Match: Invest the taxes you saved (because a 401(k) is tax deductible) when you get your tax return.
2. Company Match: Work for a company that matches contributions to your 401(k).
3. Salary Index Match: Choose to have your employer take a percent of your income for your 401(k) instead of a fixed amount. (This will benefit you as your salary increases over the years)
4. Maximize your contributions to your 401(k)

## #6 HSA

A **Health Savings Account** (HSA) is a health insurance option which requires a high deductible health plan and provides savings and tax benefits to the user.

By accepting a high deductible you are charged a small premium, and the difference between this and the normal premium amount goes into an investment account. In this account, you can choose any vehicle to invest in, and contributions are tax free both when depositing and withdrawing. The only exception is if this money is spent on a non-qualified medical expense but even in this case, the money avoids FICA (Social Security Tax).

HSA's are offered by the employers at 85% of Fortune 500 companies.

There are 13 key advantages to a Health Savings Account

1. Save taxes. HSA contributions are tax deductible. Qualified medical expenses are never taxed, and Social Security tax is never taken.
2. Medical Provider discounts (debit cards) simplify the payment process. Doctors love them.
3. There is an option to have it taken out of your paycheck before you see it, making it more behaviorally successful.
4. Younger people benefit more because medical costs on average are less for them.
5. Portable insurance for life! You can take it with you when you leave a company, unlike other options.
6. Individual premiums are often less than group premiums.

7. It pays for preventative health care.
8. Doctors prefer a Fee-for-service plan.
9. There are more policy options.
10. Bankruptcy of employer doesn't affect employee health plan.
11. Personal medical info is private. Your company doesn't know that you are the health risk because your HSA is independent from the company.
12. Non-traditional expenses can be paid from the HSA. (ex. acupuncture, weight loss programs, pregnancy test, artificial teeth, etc)
13. Program encourages people to care about their health, and the cost of health services.

An HSA embraces a principle called the **Wealth of Great Health**, which shows that investing in your health is both a physical and financial investment. With an HSA, improving your health (and thus reducing medical expenses) offers a financial incentive.

Harvard's Medical School performed a study which explained that 75% of all medical costs could be eliminated if people follow three simple steps. Following these steps will improve your health and increase the value of a HSA.

1. Get a medical examination regularly (once a year).
2. Establish your risk profile (It tells you of health problems you may be at risk for).
3. Take reasonable steps to minimize your health risk.

(See [www.hsacenter.com](http://www.hsacenter.com) for more information.)

## #7 Find a Mentor

A Mentor or "Life Coach" is very strongly encouraged in The Millionaire Next Door. A mentor should:

- Be an example of success
- Be a person to go to for advice, opinions, and reporting.
- Gain no commission or profit from advice.

Good mentors are close friends who manage money well. They could also be a tax advisor or a CPA (Certified Public Advisor). Many successful people (including President Mann) use a CPA for financial advice.

While it is no easy task to find and build a relationship with such a mentor, it is a critical difference between those who are prosperous and those who aren't.

## #8 Million Dollar Choices

**Million Dollar Choices** are decisions to save money through various methods. This principle is best described by the acronym RESIRV.

**R** – Recurring

**E** – Expenses

**S** – Saved and

**I** – Invested in the

**R** – Right

**V** – Vehicle

Through investing small savings regularly, dollars are transformed into millions over a lifetime. It is difficult to see how powerful this is until you run the numbers using time value of money.

The example below shows a million dollar choice where one dollar is saved at different frequencies and invested in a variety of vehicles (see #5 - 401(k) for info on the various matches). Assuming the person begins investing at 20 yrs old and ends at 65 yrs, approximate yields are given for each situation. We assume the investment compounds annually once in the 401(k).

	Invested where?	In Piggy Bank	In 401(k) (≈12% interest)	In 401(k) + 50% Tax Match	In 401(k) + 100% Employer Match	In 401(k) + Salary Index Match
How often?						
One Time		\$1	\$163	\$246	\$492	\$861
Annually		\$45	\$1,520	\$2,280	\$4,560	\$7990
Quarterly		\$180	\$7,000	\$10,480	\$20,960	\$36,680
Monthly		\$540	\$21,670	\$32,500	\$65,000	\$113,800
Weekly		\$2,340	\$95,500	\$143,200	\$286,000	\$501,000
Daily		\$16,425	\$670,500	\$1,005,000	\$2,010,000	\$3,520,000

A million dollar choice should induce an acceptable lifestyle change and requires powerful future vision.

Some examples of recurring expenses that make great million dollar choices include [telephone bills](#), [eating out](#), [energy bills](#), [gasoline](#), medication, [music](#), [gifts](#), [scholarships](#), [groceries](#), [snacks](#), [insurance](#), etc. More information and examples can be found on [www.scottmarsh.com](http://www.scottmarsh.com).

## #9 Avoid Economic Outpatient Care

**Economic Outpatient Care** is the act of giving money to adult children, and it is detrimental to all involved.

**It harms the giver** because it is the largest single threat to retirement assets. If these gifts become regular then relationships can be damaged when they are halted. The giver also suffers from anxiety because he/she perceives it as an obligation they cannot escape.

**It harms the receiver** because it prevents them from becoming independent, and harms their personal growth in all aspects of their lives. The money is often spent frivolously and earmarked for consumption before it is even obtained. This leads to serious financial problems if it is halted. Research in The Millionaire Next Door explains that adult children who receive such gifts from parents are less successful professionally and actually earn less annually (despite receiving such gifts) than their independent counterparts.

Instead of sharing resources with my children, I must instead find out how to share opportunities for resourcefulness.

## #10 Constant Learning

Continual financial success only comes with continual learning. There are countless financial resources available that, if used, will broaden and deepen my financial perspective and understanding. A few of the most important are listed below.

### Booklist

I should always keep a running booklist of books I want to read. Following are financial books recommended in this class.

#### Marsh's Recommendations

Beating the Street  
One up on Wall Street  
~~The Millionaire Next Door~~  
The Millionaire Mind  
The only investment guide you'll ever need  
The Two Income Trap  
Roadmap to Success  
The College Grad Job Hunter

#### Marsh also mentioned:

Gross National Happiness  
The Way to Wealth (Ben Franklin)  
The Middle Class Millionaire  
The Influencer  
Future Wealth

#### Marsh's Not Recommended

Rich Dad, Poor Dad  
The 9 Steps to Financial Freedom  
Free Stocks (Wade Cook)  
Missed Fortune 101  
More Wealth without Risk

## Websites

The internet is a vast resource that contains hundreds of incredible websites and tools to help you learn, and manage finances. Brother Marsh has put special emphasis on finding **surprisingly Insightful, Objective, and User friendly websites** (SIOU's).

Links to these sites are constantly updated in various places on [www.scottmarsh.com](http://www.scottmarsh.com).

This site contains a surprising wealth of information, linking to sites that will save you money, teach financial principles, give objective advice, give creative ideas for self employment, provide financial tools and calculators, and offer things for free. Some other SIOU's I have seen include:

- [www.edmunds.com](http://www.edmunds.com) - Great information on buying and selling cars.
- [www.privacyrights.org](http://www.privacyrights.org) - Information on personal security.
- [www.bankrate.com](http://www.bankrate.com) - Objectively compares rates across banks.
- [www.voyj.com](http://www.voyj.com) - The least expensive vacation packages possible.
- [www.mint.com](http://www.mint.com) - Online budgeting software
- [www.creditkarma.com](http://www.creditkarma.com) - Free credit score
- [www.annualcreditreport.com](http://www.annualcreditreport.com) - Offers a free credit report from each bureau yearly.

Other promising sites include:

- [www.finance.cch.com](http://www.finance.cch.com) - A financial planning toolkit.
- [www.billshrink.com](http://www.billshrink.com) - Tells how to reduce bills.
- [www.alternativeto.com](http://www.alternativeto.com) - Finds free alternatives to costly services.
- [www.recipematcher.com](http://www.recipematcher.com) - It makes a recipe out of the food you have.
- [www.freeshipping.org](http://www.freeshipping.org) - Coupons for free shipping from Amazon, Target, etc.

Hundreds of other similar sites can be found on [scottmarsh.com](http://scottmarsh.com) by browsing through the million dollar choices he and other students have researched.