



Twenty Big Ideas

Discussions on Modern Works of Money and Life

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Introduction

My name is Trent Hamm and I'm the author of the popular online blog The Simple Dollar, found at <http://www.thesimpledollar.com/>.

One of the most popular features of The Simple Dollar is my regular detailed book reviews of personal finance and personal productivity books. In these reviews, I seek to not only comment on the book, but summarize many of the useful points for readers to digest. These reviews have proven quite popular, encouraging people to read the books themselves as well as also encouraging people to dabble in the summaries of books that they might not otherwise read.

As the pile of reviews has built up, readers have often requested a compilation of the best ones, which is what you hold in your hands (or see on your screen) right now. This is a selection of twenty of the best reviews from the site – in fact, they're the twenty best ones as of this writing in early 2008. Each summary review takes up three to five pages in this document, just long enough to read in a quick sitting. My goal with each one is the same: summarize the salient points along with providing my personal take on the book as a whole.

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Enough with the introductions. Let's get started.

Your Money or Your Life

Your Money or Your Life is a bit unusual in terms of personal finance books that you'll typically find at your local bookstore. For starters, **the book has very little concrete information about increasing your wealth.** In a section that typically is loaded with books about becoming a millionaire, this is an unusual approach.

So what does *Your Money or Your Life* offer instead? Rather than focusing on being rich, **the book instead looks deeply at finding the central values in one's life and realigning your life and money to follow these values.** The idea here is that most people's money problems are actually connected to a *lack of fundamental direction* in their life: they work just to earn money, not because it's what they love doing.

The book uses a number of rather unorthodox methods for exposing this truth in your life. Much of the book is spent **defining values and placing them in real financial perspective**, going so far as to often conclude **that you should quit your job.** In terms of a get rich quick scheme, this is anathema, but it is also quite enlightening.

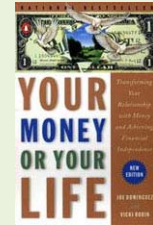
The book's real purpose is to reframe your relationship with money, not to reframe your management with money. If this seems kind of "New Age-y," that's because it is. The book makes no qualms about stating that for many people, working a full workweek is not the best way to live life, and that one should seek the best way to live their own life, not live the life others expect or demand.

The book has lots of anecdotes - but it has a lot of detail, too. This is a fairly long book as personal finance books go, but it provides a lot of food for thought even if you don't buy in to the overall plan. So let's get started and find out where this yellow brick road leads us.

Walking Through *Your Money or Your Life*

The plan starts off with a series of psychological sledgehammers that can really change your perspectives on money. These steps are relatively unorthodox, but often bring to light the actual value of money in your life compared to the value you put on money.

Step 1 Right off the bat, *Your Money or Your Life* goes in an interesting direction. The very first step in their plan focuses on making peace with your past by **estimating every single dollar you've ever brought in.** Yes, going back to your lawnmowing job when you were still wet behind the ears.



Your Money or Your Life
Joe Dominguez and Vicki Robin
400 pages
Published by Penguin Books
ISBN: 0140286780

Once you see this pile of money, then **calculate the complete worth of all of your assets, minus what you still owe on them.** The result can be startling, and it often reveals many truths about your relationship with money.

Step 2 Once you've done this and it's clear how large of a portion of your income that you've wasted (often over 100%... just think about that!), the second step encourages you to **figure out your true hourly wage.** Basically, just take your current hourly wage and use it to figure up how much you make in a given period (a week works well for this). Then, add in the extra hours you burn traveling to work and doing other work-related events, then subtract out the money you spent on these extra elements, including wear and tear on the car, the cost of eating lunch out with others, and the cost of entertaining. The result is often an amazingly *low* true hourly wage; each hour at work, this is all you're really making.

Step 3 The third step is more traditional, at least at first: **record every bit of income you make and every single thing you spend money on.** *Your Money or Your Life* encourages doing this for several months to make it routine, but the first month can often illustrate many truths, mostly because of the additional step. Once you've listed all of your expenses, then figure out, using your "real" hourly wage in step two, exactly how many hours you had to work in order to afford this expense.

I'll use myself as an example. Although I believed I was doing really well, I calculated my own true hourly wage as being about \$7 an hour. I could literally work at the gas station across the street for that wage! When I started comparing this to some of my regular costs, the amount of time I was working to get various material items was kind of scary. My new laptop would require almost 200 hours of work just to cover the cost of owning it, let alone the electricity and internet bill.

Step 4 The fourth step is actually an evaluation of the expenses in your life through a new filter: the actual cost per hour of your life as you defined for yourself in the second step of the program (your hourly wage, with the extra hours spent added in and the extra expenses subtracted out). For each expense in your life, ask yourself:

Do I receive fulfillment and value compared to the life energy spent on this?

Is this use of my life energy in line with my values and goals?

How would this expenditure change if I didn't have to work?

The surprising result is that **most of the expenditures of time and money in your life are simply enablers in an attempt to keep making money.** They don't really reflect what else is important to you.

Step 5 The fifth step is the **creation of a chart that compares your income and your expenses over time.** You can do this with a piece of graph paper or with Excel, but each month all you have to do is record the amount of income you made and the amount of money you spent. Once you do this,

your goal should be to make those lines as far apart as possible in the long term. How do you do this?

Step 6 The sixth step focuses on **minimizing spending and maximizing the value of your time**. Basically, this means living thrifty. This rather lengthy section of the book is a great checklist of simple frugal living suggestions, most of which are pretty simple to add to your life. This chapter is perhaps the most similar to other personal finance books, particularly those focusing on reducing debt and living frugally.

Step 7 The seventh step basically instructs you to **critically re-evaluate your job** and says that **if your job doesn't match up with your values, quit it**. The entire chapter does a very good argument for doing this based on the outcome of the first six chapters, but it's a very scary step for most. The book does encourage you to use your current job as "training wheels" as you get ready to make the leap, but your goal should be to spend your time in a way that's both personally and professionally fulfilling.

Step 8 The eighth step is finding the crossover point, or **that moment in which your investment income can cover your living expenses**. Once you've switched your priorities around and your living expenses are less than your income, you should start investing that money to maximize your investment income and continue living frugally. Once you've reached a point where your income from your investments can cover your living expenses, you're free to basically do whatever you want with your life. This is a point I can scarcely imagine reaching; at this point, I'd love to be a stay-at-home father who did a few community volunteer projects and continued blogging for some minor additional income (covering some or most of my living expenses while my own investments could build on themselves).

Step 9 The final step is where you've reached **the point where your investments are still growing even after you remove your living expenses**. At this point, you can begin to splurge, but do it carefully. The book basically encourages you to split your money into three parts: capital (the amount that you have invested), cushion (six months of living expenses in a savings account), and cache (overflow). The cushion should stay roughly steady, being filled by the income from your capital at the same rate you spend it, and your cache is the overflow from that. Your cache is what you can spend on your dreams: constructing a non-profit organization, building your own business, giving to charities, or reinvesting for even bigger dreams. At this point, your life is your oyster.

Buy or Don't Buy?

Right at the start of the prologue of *Your Money or Your Life*, the authors have a list of questions for you to ask yourself:

- Do you have enough money?
- Are you spending enough time with your family and friends?
- Do you come home from your job full of life?

- Do you have time to participate in things you believe are worthwhile?
- If you were laid off from your job, would you see it as an opportunity?
- Are you satisfied with the contribution you have made to the world?
- Are you at peace with money?
- Does your job reflect your values?
- Do you have enough savings to see you through six months of normal living expenses?
- Is your life whole? Do all the pieces - your job, your expenditures, your relationships, your values - fit together?

If you read through this list and hear a lot of “no” answers in your head, buy this book. Rather than being a guide on what you can do with your money to make more money, this book instead focuses on what you can do with your money to make your life make more sense, and it does a *very* good job with this. I would especially recommend this book to anyone who has a guilt-filled relationship with their money and really want to fix it.

It’s important to note that this book is *not* in any way a guide to investing your money. **If your goals are leading you to seek strong investment advice or methods of maximizing your net worth, don’t buy this book.** There are plenty of books out there for you; this is not one of them.

The book has a lot of New Age-style “get in touch with yourself” sentimentality to it, but the connection to finances gives this perspective a real concrete value that it often doesn’t have in other contexts. This style may drive away a few readers, but it is this very style that makes it feel quite different than other personal finance books on the market.

I thoroughly enjoyed it. In fact, it changed my life. I think you will enjoy it, too.

What Color Is Your Parachute?

I first received this book as a gift for my high school graduation, and it served as a bible during that fateful summer between high school and college. Based on the cover, I expected this book to simply be a guide on how to find a job and when I first opened the cover, I didn't anticipate it to be much more than tips on how to write a resume and such.

By the end of the first chapter, though, I realized that this book was something entirely different: rather than simply being job advice, it was a guide to *figuring out who you are* and, based on that, defining your career goals. Basically, most of the book is a series of activities that you can follow to help you decide on a career, or select a different one if your current career isn't working out for you.

I'll say it right now: if you're secure in your current career or are very sure of your future career, this book isn't particularly helpful - but it isn't written for you. However, if you're unsure of your current career or have no idea what to do with your life, this book has the potential to be quite powerful.

What Color Is Your Parachute? is updated on an annual basis, so in order to write a review of this book for The Simple Dollar, I picked up the latest revision and went through the book again. In some ways it was eye opening, in others it was a walk down memory lane. But the real question is whether or not the book is useful for you.

The Things School Never Taught Us About The Job Hunt

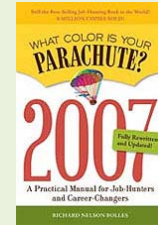
The first section of the book was also the most boring one - it was basically a generic job-hunting guide that didn't really offer anything surprising. The parts of the book that were really effective were the second and third sections - but those will wait until tomorrow.

Chapter 1: The Five Best Ways To Hunt For A Job - And The Five Worst

This chapter basically outlines a wide array of ways to hunt for a job - and then ranks them (approximately) according to their effectiveness. The least effective (unsurprisingly) is the internet, and the most effective? Re-evaluating your career goals and using those results to highly target your job search.

Chapter 2: The Nature of the Job Market

The moral of the story is that the world doesn't owe you a job, but you also aren't your employer's



What Color Is Your Parachute?

Richard Nelson Bolles

382 pages

Published by Ten Speed Press

ISBN: 1580087949

slave, either. In other words, the best job for you is one that has personal value for you, so that you *enjoy* and *want* to work effectively in the job.

Chapter 3: How Much Help Is The Internet?

In a nutshell, it's good for self-evaluation, for research, and for making contacts. Outside of these, the internet is largely rubbish in terms of advancing your career. The Simple Dollar focuses on two of these areas, self-evaluation and research.

Chapter 4: How To Deal With Handicaps

Focus on maximizing what you can do, not what you can't do. The idea of making a list of your skills, starting each one off with an action word, is a very good one for building up your confidence.

Chapter 5: Resumes: How To Get In To See An Employer

This chapter is actually not about resumes - it's more about a variety of ways to get your foot in the door with an employer of your choosing. The idea I found useful was the one of *persistence*: ask everyone you know if they know someone at the company, then ask anyone who does know someone at that company if they would make the contact for you.

Chapter 6: Interviews: The Employer's Fears

This is one of the best single pieces I've read on preparing yourself for an interview. In fact, it may be where I became convinced of the value of personal appearance and of etiquette. The best advice I've ever heard for an interview is to end that interview by directly asking the employer, "Can I have this job?" It exudes the *right kind* of self confidence.

Chapter 7: Salary Negotiation: Getting Paid What You're Worth

This section closes with an overview of the salary negotiation process, which basically boils down to letting the employer state that they want you and also having them state how much they want to pay you. Information is the key, and you should maximize it.

When The Unexpected Happens - How To Deal With Change

The second section of *What Color Is Your Parachute?* is substantially more interesting than the first. It's broken down into three chapters, each one dealing with a major life change that you will likely face at some point in your life.

Chapter 8: How To Pick A New Place To Live

I thought this was a very interesting chapter to include in a job on careers, especially given that this chapter basically states that the best reason for moving is *not* for a job, but to find a place that's safe and potentially surrounded by familiar things and people.

Particularly powerful (for me) is that the chapter gave significant attention and weight to the idea of "going rural," meaning that you're moving to the country to escape the rat race of the city. This would fly completely in the face of a typical career guide, but it goes to show why this one is more worthwhile than most: it looks at a whole life approach of determining where you should go.

Chapter 9: How To Choose A New Career

This chapter is very compressed, but the information that is there is *tight*. It also had one of my favorite exercises in the whole book, which I'll repeat here:

Take a large piece of white paper, with some colored pencils or pens, and draw a picture of your ideal life: where you live, who's with you, what you do, what your dwelling looks like, what your ideal vacation looks like, etc. Don't let *reality* get in the way. Pretend a magic wand has been waved over your life and it gives you everything you think your ideal life would be.

Now, *of course* you can't draw. Okay, then make symbols for things, or create little "doodads" or symbols, with labels - anything so that you can *see* all together on one page, your vision of your ideal life - however haltingly expressed.

Try it - it can be quite powerful and enlightening. I first tried it, intending to spend about ten minutes on it, but I found myself doodling for hours and adding details over days. It made me really figure out what I wanted to be doing with my life - and incidentally, it was writing.

Chapter 10: How To Start Your Own Business

This book is *not* a guide on how to start a small business; if you're hoping for that, look elsewhere. Basically, this chapter is about self-employment - and it's not motivational, either. Much of it deals with reasons why you shouldn't take the leap, in order to convince people that self-employment is fraught with risks. If you want a cheerleading session on being an entrepreneur, look elsewhere. On the other hand, it does have some very realistic and useful advice for leveraging your risk if you do take the leap into self-employment.

Resuming The Search To Find Your Dream

It's this final section that kicks *What Color Is Your Parachute* into high gear and really sets it apart from all of the other career books out there.

Chapter 11: The Three Secrets To Finding That Dream Job of Yours

This single chapter goes on for more than a hundred pages, and it's perhaps the best hundred pages on the true art of finding the right job for yourself that I've ever read. The entire chapter ends up revolving around detailed evaluations of a number of exercises, one of which is perhaps the best thing I've ever seen for honest evaluation of career goals. Here's the exercise in its entirety:

1. Take ten sheets of blank paper. Write, at the top of each one, the words: *Who Am I?*
2. Then write, on each sheet in turn, one answer to that question. And only one.
3. When you're done, go back over all ten sheets and expand upon what you have written at each sheet. Looking at each answer, write below it *why* you said that and *what turns you on* about that answer.

4. When you're finished with all ten sheets, go back over them and arrange them in order of priority. That is, which identity is most important to you? That page goes on top. Then, which is next? That goes immediately after the top one. Continue arranging the rest of the sheets in order until the least important identity is on the bottom of the pile.

5. Finally, go back over the ten sheets in order and look particularly at your answer on each sheet to *What turns me on about this?* See if there are any common denominators or themes among the ten answers you gave. If so, jot them down on a separate piece of paper.

Those things you jotted down in step five are the very core of what you should be doing with your life. I did this very exercise just now, and it revealed to me what I've believed all along: I should be a writer.

The remainder of the chapter is full of similar exercises that are each quite effective at bringing out important aspects of yourself that are vital for correctly determining the career that's right for you. The above exercise, though, starts off the chapter and felt incredibly powerful to me.

Chapter 12: How To Find Your Mission In Life

This final chapter is almost like a coda to the book, with the preceding chapter being the book's climax. Basically, the idea to finish the book is that your career is merely one piece of your life, and that it should be in line with the overall goals of your life, a sentiment I wholeheartedly agree with.

Buy or Don't Buy?

When I sat down to read *What Color Is Your Parachute?* again to review it on this site, I opened the book and recalled reading it more than ten years ago when I was trying to decide what to do with my life. I was a country kid who had basically thought he was going to work in a factory most of his life until, out of the blue, a full scholarship was dropped on me almost unexpectedly. I didn't have any idea of who I was or what I wanted to do.

What Color Is Your Parachute? revealed to me two essential truths about who I was and what I ought to be doing: that I was very strong with logical skills and that I should be a writer. I wound up going off and majoring in mathematics (at first) and I somewhat left the writing idea in the dust.

So, this past week, I went through all of those exercises again, and what did they reveal more than anything else? *I should be a writer.* Time and time again, this book pointed me in that natural direction, even though in some ways I've been fighting against that current for most of my life.

The success of this site has been the first real encouragement (outside of this book) I've ever had in my life towards being a writer. Whenever I've even hinted at the idea in the past, people have encouraged me *not* to do it, that it's a poor man's road unless you're very lucky. Even my high school English teacher, who did more to shape my writing (and especially my quick drafting) skills than anyone else, discouraged me from following it as a career.

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<http://www.thesimpledollar.com/>

Somehow, again, I am at a crossroads, and again this book has pointed its finger in the direction of being a writer. Maybe I'll finally follow that path.

So, do I recommend *What Color Is Your Parachute?* If you aren't completely confident about your career and your goals in life, this book is an incredibly powerful read. It's loaded with various exercises for teasing out what you should really be doing with your life. Even though some of them seem redundant, silly, or archaic, if you just dive into it for a while and really allow yourself to do some self-discovery, this book might be one of the most powerful things you'll ever read in your life.

The Bogleheads' Guide to Investing

As an investor with Vanguard and an occasional visitor to the Vanguard Diehards forum, I've been looking forward to reading The Bogleheads' Guide to Investing for a while now. It's a guide to how to invest your money written based on the principles of Jack Bogle, the founder of Vanguard. Is it a good read for you? Let's find out.

A good subtitle for this book would be "An introduction to how to invest conservatively," because that's exactly what you'll find within the covers of this book. It is a fantastic guide for investing for the long term, minimizing the costs and taxes associated with investing, and most of the basic principles of conservative investment (diversifying your portfolio widely, not betting the whole farm on stocks, and so on).

The book basically moves deliberately from the basics behind investing and what you need to get started, then moves from investment to investment, explaining the ins and outs of each and explaining the fundamentals of an overall investment philosophy. These guys are as low risk as can be for investors in the stock market, which is a welcome change of pace from some of the frenetic individual stock pickers I've read recently.

In fact, that's what makes this book stand out: rather than just distributing a bunch of bromides, it is clear from beginning to end that this book is describing an overall philosophy about what to do with your money. Many other books of this type simply provide a bunch of rules to follow; this one is rooted in the basic idea that you should be an investment conservative: low risk with growth targeting the long haul. It's an interesting approach - and it makes for a very interesting book.

A Tour Of The Bogleheads' Guide to Investing

Chapter 1 - Choose a Sound Financial Lifestyle

Before you even begin thinking about investing, you need to get your financial house in order. The book breaks this down into three main parts: graduate from a paycheck-to-paycheck mentality to a net worth mentality (get started by calculating your net worth), pay off all of your credit cards and high interest debts, and start an emergency fund. These are essential tools a person needs to have before they begin investing.

Chapter 2 - Start Early and Invest Regularly

If you've got the fundamentals in place from the first chapter, it's time to start investing *now*,



The Bogleheads' Guide to Investing

Taylor Larimore, Mel Lindauer,
Michael LeBoeuf, and John C. Bogle
336 pages
Published by Wiley
ISBN: 0470067365

because the earlier you begin to invest for long-term goals, the longer you have for the power of compound interest to work for you. One thing that really impressed me about this chapter is the idea that frugality is a *very good thing* for an investor, as it frees up money you would otherwise waste on trivial things and instead puts it into investments that can really build up your worth.

Chapter 3 - Know What You're Buying - Part One

This chapter is mostly about buying bonds, and a big part of the focus is on securities issued by the United States Treasury Department. As a general rule of thumb, the book recommends that you have a percentage of your portfolio in bonds - a percentage equal to your age. This is pretty conservative by any measure, but it is a good way to soften risk.

Chapter 4 - Know What You're Buying - Part Two

Mutual funds are great! The book lists ten reasons why they're great; I particularly like them because they make stock diversification easy and they're also simple to buy automatically. It also covers ETFs (essentially mutual funds that are traded) and annuities (you give an institution \$X, they give you some percentage of that every year until you and/or your spouse passes on).

Chapter 5 - Preserve Your Buying Power with Inflation-Protected Bonds

This chapter talks about ways to guarantee that the money you put away will beat inflation, via I-bonds (savings bonds that earn about 1.5% plus whatever inflation is) and treasury inflation-protected securities (TIPS; similar to I-bonds - they earn a little more but are less flexible). If you're really conservative and just want to beat inflation over the long term, these are a great way to go.

Chapter 6 - How Much Do You Need To Save?

I really enjoyed this chapter, as it did some very interesting calculations that show exactly what your target amount should be for retirement. For example, I plan to retire in thirty years, I expect an 7% return on my invested money in retirement, and I want \$50,000 a year in income from it. How much do I need? \$2,213,300. That's my target number to retire in thirty years. I'm going to work on a spreadsheet that will do these calculations for me - and maybe post a tutorial.

Chapter 7 - Keep It Simple

The idea here is that basic life principles that work in most situations fail when you invest, so if you try to apply your common sense to it, you'll fail. For example, in life we shouldn't settle for average, but it's hard to find an investment that beats the "average" - that is, that beats the growth of the overall stock market. How can you get around this? Put your cash in diversified index funds, let the market carry you, and don't sweat it.

Chapter 8 - Asset Allocation

This chapter boils down to an extensive guide to how to allocate your assets, but the guide basically boils down to four questions you need to answer:

What is your age?

What are your goals?

What is your risk tolerance?

What is your time frame?

With the risk tolerance question, ask yourself how much of a loss would make you want to start selling immediately. The more loss you can accept, the greater the potential for a huge gain - but there's also way more volatility.

Chapter 9 - Costs Matter

This chapter makes yet another good point why index funds are preferable over managed mutual funds: the average managed fund in the United States charges 3.3% for expenses. Ouch! Basically, the chapter implies that managed funds are a waste of money, as they don't consistently beat the market and charge significantly more than index funds for expenses.

Chapter 10 - Taxes - Part One

Yet another reason to buy index funds - taxes. They have low turnover within the fund, so you're rarely hit with capital gains taxes. If this doesn't work for you, look for a tax-managed account, which is a managed one that picks for the long haul and only rarely sees moves within the fund. If you're still stung, use it as an opportunity to sell of your losing mutual funds to counterbalance the capital gains you'll be hit with.

Chapter 11 - Taxes - Part Two

Sound the horns: tax-protected investments are great, especially when you can get employer matching. If you have a 401(k) available to you, the investments might not be stellar, but the employee matching is so incredible that it blows away other options you may have. The chapter also goes through other investment options, including Roth IRAs, which they laud.

Chapter 12 - Diversification

Basically, the best way to easily diversify your stock investment is to buy a broad-based index fund, like the Vanguard 500 or the Vanguard Total Market fund. Both of these are incredibly diversified and will protect you somewhat from a sector collapse. You should also invest in index funds for other types of investments, like bonds and perhaps precious metals.

Chapter 13 - Performance Chasing and Market Timing Are Hazardous to Your Wealth

Here, the truly conservative nature of the book comes through. This chapter is a lengthy argument against the concepts of cyclical investing, market timing, and chasing specific investments based on recent performance. Instead, you should just invest in the broad market and hold.

Chapter 14 - Seven Ways to Invest for College

There are a lot of different investment opportunities for college, ranging from handling it all yourself for flexibility to various accounts of different varieties. I have a 529 managed by Vanguard which has been returning very nicely, so I'm going to stick with it, I think. The most important lesson here is that you should start investing for your child's future sooner rather than later.

Chapter 15 - How to Manage a Windfall Successfully

I didn't expect it, but one of my favorite pieces of advice appeared in this book: if you get a huge windfall, put it in a short term investment for six months and just think about it and plan carefully what you're going to do with it. This is also a situation where you really should have a professional

help you, as you've just jumped into a completely different investment category and lots of things are available to you.

Chapter 16 - Do You Need an Advisor?

In general, this chapter basically says that you don't need one - you're better off on your own, doing your own research and making your own investments (with the windfall caveat from the last chapter, of course). If you do get an advisor, do your homework extensively and *make sure they have certifications* as anyone can claim to be a financial advisor.

Chapter 17 - Track Your Progress and Rebalance When Necessary

When you invest, even in a "buy and hold" philosophy as advocated by this book, you need to keep tabs on what's going on, and you should make adjustments when necessary. Generally, the Bogleheads seem to believe in rebalancing every 12 to 18 months. How do you rebalance? Basically, it simply comes down to moving your investments so that they match what you've decided your portfolio should be like. For example, let's say you want to have 80% stocks and 20% bonds in your portfolio, so you make it so. Eighteen months later, the value of your portfolio is 83% stocks and 17% bonds, so you move that 3% where it should be. Eighteen months after that, your portfolio is 74% stocks and 26% bonds, so you move that 6%.

Chapter 18 - Tune Out the "Noise"

Most of the people who spout financial advice are full of hot air. Ignore people who come at you with a "killer investment" or a "great tip" and stay focused on fundamentals: a broad, diverse investment that will grow well over the long haul. Hopefully, people who watch shows like Mad Money realize that they're entertainment more than anything. If you take nothing from this review, **do your homework before following anyone's advice, including mine.**

Chapter 19 - Mastering Your Investments Means Mastering Your Emotions

Panic. Fear. Greed. Overconfidence. These things strike everyone. The best ways to overcome them are by focusing on things that are provable and the logic that has worked for you in the past. Don't believe in hype and don't run in fear based on recent history; this is a common mistake called recency bias. Look for the long term and plan for the long term and you'll be fine.

Chapter 20 - Making Your Money Last Longer Than You Do

This chapter basically boils down to one central idea: put plenty of money away, and then make sure you're not spending so much of it that you could ever go broke in retirement. This means figuring on the very high end when calculating what you'll need in retirement and then saving for it starting as soon as you possibly can.

Chapter 21 - Protect Your Asses by Being Well-Insured

This book is all about being a great risk manager, and insurance is all about managing risk, so it's unsurprising that this chapter encourages you to insure yourself thoroughly and well, on everything from strong life insurance to health insurance to long-term disability insurance.

Chapter 22 - Passing It On When You Pass On

Finally, the book gets around to talking about wills, living trusts, power of attorney, and living wills. Basically, it boils down to making sure that the money you've been working so hard to earn throughout your life has a safe long-term home with your descendants and other institutions that you care about.

Chapter 23 - You Can Do It

This final chapter is basically just a review of the concepts throughout the book and some strong encouragement to get started now and build a lifetime of sound financial planning; a solid caper to the book.

Buy or Don't Buy?

The Bogleheads' Guide to Investing is a very detailed "starter manual" for conservative investors. The principles in this book are very fundamentally sound, but are not going to be the foundation for any "get rich quick" scheme.

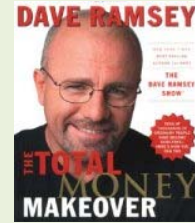
Before you decide whether or not this is a good book for you, you need to ask yourself what your general investment goals really are. **If your goal is to have a shot at getting rich quickly with a lot of risk mixed in, I don't recommend this book.** You're better off reading something like *Jim Cramer's Real Money*, which is an excellent book for people who are willing to take on some significant risk and dabble in individual stock investment (and even that is fairly moderate risk compared to some investments).

On the other hand, if you're planning on investing for the purpose of building a stable, lifelong economic backbone, I couldn't recommend this book more highly. It's a well-conceived explanation, from top to bottom, of an investment philosophy that will create a life full of steady gains and sustainable wealth.

I really commend the writers for putting together a stellar book. I knew going in that there would be a focus on index funds and the like, but this book really spells out a great overall investing philosophy. Most of the personal finance books that I read I usually pass one; this one might just be a keeper.

The Total Money Makeover

This week, The Simple Dollar is conducting a detailed review of radio host Dave Ramsey's *The Total Money Makeover*. This book is basically a distillation of the "Dave Ramsey philosophy" into the form of a self-help book that, in terms of language, has more in common with books like Joel Osteen's *Your Best Life Now* or Steven Covey's *7 Habits of Highly Effective People* than with typical personal finance books. If you're looking for motivation more than for technical personal finance advice, this book will have a lot of appeal; if you're looking for specifics on how certain investments work, you might not like this one.



The Total Money Makeover

Dave Ramsey

224 pages

Published by Thomas Nelson

ISBN: 0785263268

Of course, the Dave Ramsey philosophy has its own quirks, as anyone who has listened to his radio show will know. Dave is a big proponent of the "no debt" perspective, meaning that **you should pay for everything using only cash**. This philosophy is a constant throughout this book, underlining all of the ideas that Dave presents.

In fact, **the plan in a nutshell is to save \$1,000 as an emergency fund, pay off all your debts, build up a six month emergency fund, then start saving to buy things never using a loan**. He's against credit cards in every form and basically eschews credit in every possible form.

Dave has a very, very strong voice (if you've listened to his show, this is pretty obvious) and it continually shines through here, almost to the point of being abrasive. This makes for entertaining reading, but it can almost be distracting from his main points.

So let's dig in.

Hurdles

The first five chapters of *The Total Money Makeover* focus primarily on psychological hurdles that one must overcome in order to be ready to build up their personal finances. Perhaps more than any other part of the book, this first portion is imbued with the "Dave Ramsey philosophy" of no debt, no matter what.

The first hurdle is **denial**. Many people simply deny that there is a problem with their own finances, even as they slip further and further behind. Even people with only a small amount of debt often find themselves in denial if they are spending as much as they are bringing in. What is being denied? The possibility of a disaster, as well as the possibility of great financial success.

The second hurdle is **debt myths**. Dave asserts that there is a great mythology in the Western world about debt, particularly in the sense that debt is normal and healthy and acceptable. The philosophy here is that debt is never a healthy thing to have, particularly when you're not mature enough to quickly reduce and eliminate it.

The third hurdle is **money myths**. Similarly, *The Total Money Makeover* says that there is a mythology about money as well, that it is the key to solving all of our problems, when the truth is that money is nothing more than a tool. *We* set ourselves free if we use money as a tool, otherwise money uses us.

The fourth hurdle is **ignorance**. Most people simply don't have any idea what it takes to get ahead financially; they just imitate what everyone else does and considers that to be right. Once a person sits down, looks at the problems, and considers a solution, they're often already on the right track.

The fifth hurdle is **keeping up with the Joneses**. Hand in hand with the last problem is the need to keep up with the Joneses. Many of us get into debt because we imitate the neighbors so that we "fit in." The truth of the matter is that the neighbor is likely in as poor financial shape as you are: saddled with tons of debt and so forth. Stepping back and not worrying about the Joneses for a while can set you free.

The First Steps

The second portion of *The Total Money Makeover*, which includes chapters six through eight, is the building of a financial foundation upon which you can grow. Dave's a big proponent of the one step at a time concept and proposes a "three step" plan for building a foundation, but upon careful reading it becomes clear that there are actually six steps.

First, **develop a budget**. To many people, this is a scary step, but it's actually quite easy for a first-timer to make a simple budget. The goal is to find areas that you're spending too much on and cap those areas - these tend to be shopping, expensive cars, and other non-essentials.

Second, **get all of your accounts current**. Hopefully, you can skip this step, but if you have any late bills, *pay them off first*. You don't want late bills hanging around that continue to damage your credit.

Third, **build up a \$1,000 emergency fund as fast as possible**. This fund exists to keep you from failing in your plans if a disaster occurs, such as a damaged vehicle or so forth. This is absolutely essential, to the point that Dave encourages people to take out second jobs and sell some of their stuff to create such a fund. He also requires that it be liquid (in a savings account, not in a CD or something you can't easily touch) so that you can get to it in an emergency and not risk sliding back on your progress.

Fourth, **pay off all debts (except the home)**. Dave advocates a "snowball" approach, in which you list all of your debts in order of balance due from smallest to largest, then make minimum payments

on all but the smallest and make a large as payment as possible on that smallest debt. Once that's paid off, apply everything you were paying on that smallest debt to the new smallest debt, and so on. Eventually, when you get to the big debts, you'll be making very large payments on them and paying them off quickly.

Fifth, **build a "real" emergency fund.** Once your debts are gone, you should continue to build up that emergency fund up to the point where it can replace three to six months of salary. You should basically just move the total debt payment you were making in the past straight into saving for this emergency fund.

Sixth, **start saving for real purchases.** Once your emergency fund is built, now is the time to start saving for big items. That debt snowball payment should now be directed into saving for expensive items, such as a house down payment or a new car that can be paid for in cash.

According to *The Total Money Makeover*, once a person has reached this level, they have a firm foundation upon which to build.

Building Wealth

Once you've built a solid foundation by following the steps outlined in the middle portion of *The Total Money Makeover*, Dave offers suggestions on how to build up your wealth.

It is important to note that prior to these concepts, the book instructs the reader to pay off all debts except for the home loan and build up a six month emergency fund before moving on.

First, **start paying for your retirement.** Dave advocates pretty strongly that one should save 15% of their income towards retirement using the basic formula of paying into the work retirement plan until you reach the matching cap, then maximizing a Roth IRA contribution, then putting the rest in the work retirement plan. It's the basic rule of every retirement advisor *because it works*.

Second, **start paying for the kid's college education.** This chapter felt sort of wishy-washy, mostly because Dave strongly hinted that a child learns more if they have to pay for college themselves than if their parents cover it for them. Still, a well-funded 529 savings program is recommended.

Third, **pay off that home mortgage.** Once the first two items are in place, you should be paying off that home mortgage as fast as you can. He advocates getting into a 15 year mortgage and still overpaying each payment if you can, just so you can get the mortgage finished off much faster.

Now it gets fun. If you've trained yourself well enough to reach this point, you should know very well how to manage your money and suddenly you'll have more of it floating around than you can imagine. The rest of the book focuses on this stage in life, which we are all striving for: keep some goals, remember who you are, and keep investing.

Buy or Don't Buy

Before you decide on whether or not to buy this book, I want you to answer yes or no to the following five questions.

1. Have you ever read a general (non-financial) self-help book and enjoyed it?
2. Are you completely lost with your financial situation and want a firm, clear, and simple guiding hand?
3. Have you ever listened to and enjoyed Dave Ramsey's radio show?
4. Are you a practicing Christian?
5. Do you find anecdotal evidence to be more enlightening than detailed instruction?

I recommend that you **buy this book** if you answered "yes" more often than you answered "no," and I also recommend that you **don't buy this book** if you answered "no" more often than you answered "yes." Sound strange? Let's break it down.

First of all, **this whole book is written like a self-help book**. It's not written in the more dry and informative style of many personal finance texts. Dave is up there preaching the truth of personal finance success, and if you're open to it, he'll take you along for the ride.

Second, **the advice is very basic and direct**. The Total Money Makeover plan is about as simple as it is going to get when it comes to personal finance. If you're really lost and most personal finance advice seems over your head, Dave can probably help.

Third, **it comes off like a continuation of Dave's radio show**. If you've heard Dave's show on the radio, what was your gut reaction to it? If you liked it, you'll like this book; if not, then you'll probably find this book less than compelling as well.

Fourth, **there are some Christian overtones**. Dave quotes Bible verses multiple times each chapter. If this makes you uncomfortable, you'll probably have a wave of feeling uncomfortable every fifteen pages or so; if it's fine, this is a non-issue.

Fifth, **the evidence for success relies heavily on anecdotes**. Unlike the conclusions in many personal finance books, which offer raw numbers and walk you through calculations to show you how to do it on your own, Dave's ideas are often supported by anecdotes. Admittedly, most of the ideas are easy enough to grasp that you won't need a calculator, but the flood of personal stories from hundreds of people is almost overwhelming at times.

I enjoyed it, and I would recommend it to many people, but not to everyone. It's a great, simple methodology for getting your money in line, and Dave is an enthusiastic promoter of the message.

Born to Buy

The influence of consumerism on my children has been a concern to me for a long time. From the moment I first held my son, I realized that I had a deep responsibility to raise him with strong values and the ability to reason through information presented to him, and I feel exactly the same way about my daughter. To me, modern consumerism is just a bunch of noise attempting to drown out this message, using any number of ploys to convince my children to *not* make well-reasoned decisions, particularly when it comes to material goods and money.

Born to Buy focuses in on those very issues. It's written by Juliet Schor, who also wrote *The Overspent American*, a book focusing on adults and consumerism that I reviewed a while back and quite enjoyed.

Much like Schor's earlier book, I found *Born to Buy* thoroughly well-researched and insightful, but did it really open my eyes to the relationship between consumer behavior and my children? Let's dig into the book and find out.

Digging Into *Born to Buy*

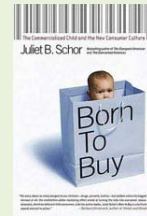
One quick comment: *this book is fact-packed and well researched*. In fact, it's almost overwhelming and I found myself reading it in chunks and on occasion tracking down referenced source materials to find out more. To me, this is a good thing; to others, it may come off like drinking from a fire hose.

Introduction

The book opens with a historical perspective of the history of marketing, going back to the nascent days when children weren't marketed to at all, forward to the period between World War I and World War II where marketing for child-targeted products were pitched at the parents, on to today where most advertising is targeted at children in some way or another.

The Changing World of Children's Consumption

To be honest, I found this chapter depressing. It cites a huge number of studies to show that children are more involved in consumer-oriented decision making than ever before, but that's not led to a good result. Children often tie their own self worth to the material goods around them, to a level far unprecedented compared to previous generations of children. A majority of children in the United States are directly involved in the consumer decisions of the family (things like automobile purchases) and their sense of identity is somewhat based on the outcome of those decisions.



Born to Buy
Juliet Schor
288 pages
Published by Scribner
ISBN: 068487055X

This leads to several things: children today are more likely to have emotional and mental disorders and are much more likely to be out of shape and overweight. The psychology of materialism and materialist values has negative effects on an adult mind, but on the mind of a child who has not yet learned many of the things adults take for granted, the effects of materialism can be tremendous - and feelings of insufficiency that are pervasive in modern marketing lead children to a negative self-image (that, of course, can only be pacified through more consumer goods).

From Tony the Tiger to *Slime Time Live*: The Content of Commercial Messages

Here, Schor focuses on the variety of themes found in commercial messages and, again, as a parent my stomach felt uncomfortable. Children's advertising focuses on a number of basic techniques: representing adults as repressive and "uncool" (something that can be battled with the latest consumer product), using older children as a sign that an item is "cool" (encouraging children to emulate older children rather than their peers), and various other techniques.

Schor goes into particular detail about Nickelodeon, the child-oriented television network, and why it is extremely effective at creating great marketing targeting children. The entire network encourages those themes - children are somehow more intuitive, intelligent, and "cool" than the adults and emulation of trends from older children (often an echoing of the marketing going on on MTV). These themes are pervasive throughout the programming, so when the ads appear espousing these same themes, the products are seen as much more acceptable and desirable - after all, wouldn't the kid in the television show also enjoy this product?

The Virus Unleashed: Ads Infiltrate Everyday Life

This chapter focuses primarily on detailing the marketing strategy behind a toy called P-O-X, which failed to take off in the marketplace in 2001 mostly due to bad timing connected to 9/11. The marketing methods involved with this toy were quite impressive. Perhaps most impressive was the use of "alpha children" to be marketers for the product - Hasbro actually gave the toy to children who were peer-identified as "cool" and paid them to give even more of them away to their friends.

What's the conclusion from this? **Children can no longer trust normal methods of information.** Marketers are quite willing to find every avenue imaginable to reach a child, and the methods that parents and children used to be able to rely on for unbiased information have become clouded. Thus, it's more important than ever to *actually research a product and get multiple opinions on it* than just trust what the "cool kid" says - he may actually be paid to say it.

Captive Audiences: The Commercialization of Public Schools

Marketing also filters heavily into the public school system, from things like Channel One to advertising messages slipped into the classroom content to school administrators directly allowing advertising in schools. School (at least public school) is *not* a safe haven from marketing - in fact, for many, school is a place where they are exposed to *more* marketing.

While I am aware that this goes on (I certainly was exposed to it in the mid 1990s in school), what bothers me more than anything is that the reason for most of these programs is *inadequate government funding for education*. I understand completely why schools have to do things like this -

if you want your school to have revenue so they can afford modern textbooks, you may have to sell ad space, because the government certainly isn't stepping up to the plate.

Dissecting the Child Consumer: The New Intrusive Research

Why is marketing so effective? Here, Schor provides some big clues: there's some amazingly thorough research going on behind marketing. Schor relates the use of brain scans, home monitoring, videotaping and quantitative and qualitative analysis of child responses, and numerous other scientific analyses that are used solely to develop better models for convincing children to want products.

It's no wonder that children are so susceptible to marketing. The marketing models developed by these organizations are incredibly well conceived, detailed, and are targeted towards the specific psychological areas where children are weakest. Ads hone in on areas of insecurity, triggering them in whatever way is needed to evoke a positive response toward the product and encourage more sales.

Habit Formation: Selling Kids on Junk Food, Drugs, and Violence

Even more disturbing, many of these techniques mix thoroughly with elements that are simply not good for children, things like drugs, violence, and junk food. Junk food, tobacco, and alcohol advertisements *directly* target children, no ifs, ands, or buts about it. These ads intend to plant the idea of the product in the minds of the children so they will not only desire the product themselves, but encourage their parents to purchase it.

Even violence is marketed, through games like Grand Theft Auto and violent films. Even though I have no problem with these products existing, I am bothered by the fact that many of them are marketed directly towards children. I have no reason to believe my children will not make sound moral choices in their lives, but that also doesn't mean that an eight year old child should enjoy shooting realistic depictions of people as a pastime.

How Consumer Culture Undermines Children's Well-Being

What does all of this culminate with? Since many forms of media are designed by marketers to have psychological hooks into the minds of children, many children wind up addicted to media, addicted to consumerism, and prone to emulating the behavior that they see. Schor goes through a mountain of data outlining this, and the results aren't pretty.

Exposure to consumer culture is directly related to a greater tendencies to lie, to cheat, to steal, to be overweight, to reject parental authority and guidance, to be violent, and to exhibit signs of greediness. Why? All of these psychological hooks within marketing push children down this avenue. They come to believe that they *need* the products, and they're shown that antisocial behaviors are often the best way to get them.

Empowered or Seduced? The Debate About Advertising and Marketing to Kids

Who's to blame for the pervasiveness of marketing? The obvious answer is to point the finger at the marketers, but that's not exactly the entire picture, either.

In many cases, parents are to blame in that they allow media to become a surrogate parent. When you find it “easier” to plop your child in front of a television for a few hours so you can do something else, it’s not a healthy situation. Similarly, when you can’t (or don’t) rationally discuss consumer purchases with your child, that creates problems as well, and when you exhibit consumer-oriented behavior (lusting after items), you teach your child that such behavior is good.

Society as a whole is somewhat to blame as well. We’ve de-focused from adequate education funding, requiring schools to allow marketers in to be able to afford good educational materials.

Decommercializing Childhood: Beyond Big Bird, Bratz Dools, and the Back Street Boys

So how can one opt out of this trap. Schor offers a lot of guidance in this closing chapter, so I tried to boil it down to several points that can be taken away.

First, **parents need to create rules about television and *stick to them***. Limit the amount of time your child can watch television each day. In fact, at our house, we’re getting very close to abandoning the television altogether, leaving just a DVD player to watch films and programs without commercials and a game console (the sole thing keeping us from this is the difficulty in watching live events).

Second, **parents should walk the walk as well**. If you restrict the television your children watch, you should restrict the amount you watch as well.

Third, **parents should limit their child’s exposure to junk foods**. Learn how to cook at home and avoid the garbage. A piece of candy once in a while is fine, but Mickey D’s every other day is a very bad thing.

Fourth, **parents should discuss these issues with the parents of their child’s friends**. Let them know that you don’t want your children watching a ton of television if you feel strongly about it. Perhaps you can find parents who feel much the same way as you do.

Finally, and this is the most important thing you can possibly do, **spend more time with your kids away from media**. Participate in sports with them. Read with them. Play board games with them. Talk to them. Do projects with them. Anything that you can do with your child in a non-marketed situation is a *good thing* and it will reap great benefits for you and your child.

Buy or Don’t Buy?

If you have children and can tolerate reading that is a bit dry in a few places, *Born to Buy* is a must-read. It demonstrates in a clear, fact-based manner the diversity of ways that advertisements and consumer behavior influences your child in profound ways, for better and for worse, and it provides a lot of great advice for parents concerned about these issues.

The book was quite dense, but it was incredibly thought provoking for me as a parent *and* as a consumer. I’ll admit that since I’ve read this book, I have witnessed many of the things discussed in

Twenty Big Ideas
<http://www.thesimpledollar.com/>

the book - and they deeply bother me. In fact, this book made me inch ever closer to a completely television-free home.

It Pays to Talk

One of the most common questions I get asked from readers is how exactly to talk to others about money. I get emails from angry individuals whose spouses have made terrible financial moves. I get emails from worried parents who don't know how to talk to their children about getting their financial house in order. I get many emails about children worried about their parents' financial state.

Talking about money was very uncomfortable for me once upon a time - this site has forced me to talk about it in a very public fashion and as a result, I've actually become very comfortable talking with money. An interesting side effect is that family members are starting to come out of the woodwork to ask me for advice.

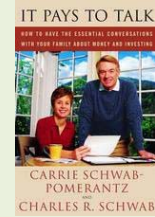
This meant that I had to make the transition from just writing about money to actually being able to converse about it, something that's not just uncomfortable for me, but uncomfortable for a lot of people. *It Pays To Talk* focuses on this uncomfortable aspect of personal finance - this book isn't about pinching pennies, budgeting, and investing (though they play a role), it's about how to talk to the people around you about these issues.

It's an unusual tack for a personal finance book to take, that's for sure, but does it pay off with a book full of useful advice? Let's dig in!

The Big Conversation About *It Pays To Talk*

This book was authored by Charles Schwab and his daughter, Carrie Schwab-Pomerantz (a nice familial connection that brings to light the entire purpose of the book) and it starts off with the key question that underlies the whole thing. From the very first sentence of the prologue: "We have a question for you: Does your family talk about money?" More often than not, the answer is no, and even where the answer isn't no, it's often buried under an avalanche of emotion and defensiveness. The book aims to break through all of that.

One *major* feature that I liked about this book is that each chapter ended with a huge list of potential discussion topics that you can have with your loved ones on these issues. Most of these aren't confrontational at all, just good topics to make all involved parties more comfortable with respect to talking about money. Not all of these will work for everyone - I found that some work well for my wife, while others work well for my parents, and still others worked well with friends that I was worried about - but most of them are quite worthwhile.



It Pays to Talk

Carrie Schwab-Pomerantz and
Charles Schwab

400 pages

Published by Three Rivers

ISBN: 1400049601

1. Starting the Conversation

It Pays To Talk starts off with the astute observation that most of the pressure and angst that we feel about discussing financial issues is emotional in nature, but it goes on to say that this emotional aspect is the very reason why we should talk about our finances. Addressing these emotional issues with others helps us blow off this emotional steam, step back, and see the situation for what it actually is.

This chapter is loaded with good tips, but a four page section in the middle of the chapter really outlines the mechanics of having a financial conversation (pages 23 to 26 in the hardback version that I read). The most useful tip of all is simply setting an actual date to talk about a specific subject. If you want to talk to someone about a financial issue, let them know what that issue is and set up a block of time to talk about it in advance so everyone can be comfortable going in (or at least as comfortable as possible). Another good tip is to start off focusing on the positives: for example, if I were going to talk to my parents, I would mention some of the good money values they instilled in me.

2. The ABCs of Investing

It Pays To Talk isn't really an investment book; this chapter covers very basic investment topics mostly to make people who are really uncomfortable with investing familiar with the basics of how to invest money. While I see the purpose of including it here, if you're familiar with investing at all, this information will seem extremely basic, along the lines of "What is a stock?" and "What is a bond?"

Ordinarily, I would heavily brush off material like this in a personal finance book and try to quickly dig for more interesting points, but the material here is written very clearly and simply and can be a great source of information for starting conversations, which is the entire point of this book.

3. Building Your Family's Wealth

So what do you do with that information from the previous chapter? Basically, take that knowledge, figure out your own financial comfort level, discuss the information with others, and begin constructing a plan to build your family's wealth. The chapter leads off with a questionnaire that can help people figure out their comfort level with investments; the questions are elegantly written and I actually asked my wife the questions from the quiz out loud. The results from the quiz help you to identify an appropriate investment portfolio for you - risky or conservative - and luckily my wife and I wound up with the same portfolio, though she was slightly more conservative than I was.

The remainder of the chapter is the basics of implementing that portfolio. Although the tone continues to be conversational here and it does offer a ton of leaping off points for discussion, I would turn to something like *The Bogleheads' Guide to Investing* for a true guide for investments. This chapter's role is mostly helping you move through the concepts in a conversational fashion; an investment guide is better for real concrete advice.

4. Joining Forces

This chapter focuses on financial conversations associated with marriage and right on the first page

it brings up a very interesting point: every couple should at least *discuss* a prenuptial agreement. It provides a splendid opportunity to really lay down the financial philosophies and expectations of both sides of a marriage, even if both are poor (or relatively so). The chapter gives a nice checklist of things to talk about before marriage even if you decide a formal prenup isn't right for you. The remainder of the chapter focuses on specific financial situations and issues that will arise throughout a marriage.

I actually felt that this chapter is a good complement to *Smart Couples Finish Rich* rather than a replacement. By focusing strictly on issues of conversation and relying on conversation-starting points, it's not as strong of a "what to do" guide as the other book, but it is very good at getting both people on the same page with regards to financial issues.

5. Raising Smart Kids

This was the most surprising chapter in the book for me. I was expecting for some pointers on how to have money conversations with your children, and there is some of that throughout, but the primary focus was on discussing with the other parent how to make appropriate parenting choices. This was actually a useful tack, as it helped my wife and I get on the same page.

The chapter includes extensive advice on how to handle your children's relationship with and understanding of money at various points in their growth and provides many great talking points for conversation with them. It mostly subscribes to the theory of having a very small allowance without requirements, but also allowing them to do household chores for more pay, something I'm not entirely sure I agree with.

6. Investing in Your Children's Future

This book basically assumes that you're going to save for your child's college education (a premise that's [been debated on this site before](#)). Given that, how should you start and when? There are a lot of potential options, and this chapter moves through a lot of them, bringing up discussion points related to each one.

One interesting concept brought up is the idea of building a nest egg for your child after college, perhaps to use as a house down payment. This topic spurred discussion with my wife where we largely decided that this would be a solid use of money for the long term provided our retirement was taken care of, but it's a pretty low priority.

7. Investing for the Second Half

From here, *It Pays To Talk* moves on to retirement issues, where the big key is to focus on making sure your retirement plans are in sync. For example, in our situation, my wife and I are essentially each planning for full salary replacement at age sixty, even without Social Security. It's an impressive goal, but something we're both committed to - we both have pension plans and we both also have 401(k) plans that are receiving contributions well above 10%.

The chapter is loaded with some wonderful simple retirement calculation worksheets, quite useful for spurring on conversation (if you haven't noticed, that's the big theme here - opening up avenues

of conversation about money). In fact, this chapter uses an inflation adjustment factor that assumes inflation at a 3.5% rate, another specific point that got my wife and I talking about the role of inflation in our planning. We're actually assuming higher inflation than that (4%, to be precise), so each year with sub-4% inflation puts us a little ahead of pace.

8. Estate Planning for You and Your Parents

The advice here turns to parental issues, something of deep interest for me as I'm beginning to be concerned about my parent's financial planning. I have been rather uncomfortable with discussing this topic with them, so this chapter became the real home run of the book with me. I literally sat down and made a list of every relevant discussion point from the chapter that could be applied to my parents' situation and used that as the basis for a series of serious money conversations with them.

In a nutshell, if you don't have a \$1 million plus estate, estate planning is pretty easy and can mostly be resolved through some sincere conversations. I know that it didn't take real long to codify my own wishes, those of my spouse, and those of my parents once we actually began to dig into the issues. There are a *lot* of things to discuss, but they're all little things.

9. Expect the Unexpected (and Protect Your Finances)

The final chapter of the book covers insurance, another issue that's loaded with potential discussion topics. I happened to be reading this book at the same time my wife and I were switching auto insurance and buying house insurance, so we literally used the discussion topics from this book to talk through our decision making process.

The end of the chapter deals with windfalls, an issue I've been pondering some lately. Basically, it says to pay all of the taxes, put the money in a safe place, and a financial professional guide you, but that you should carefully talk out any choices you might make. Simple advice, but it's spot on with what seems right in my heart and with what others advise.

Buy or Don't Buy?

Up to this point in my 52 books series, there have only been two books that I have actually asked that my wife read: *Your Money or Your Life* (the best one I've yet read) and *Smart Couples Finish Rich* (because it spoke so directly to our situation). After reading *It Pays To Talk*, I've added a third to that brief list.

This is also one of the few personal finance books that I've been able to directly apply the information found within almost immediately; I was able to start a conversation with my parents about their financial situation, a matter that has been troubling me for some time. In broaching that subject, I basically used most of the ideas from the eighth chapter of this book and I think I've built a framework where we can continue to move forward in the coming year or two.

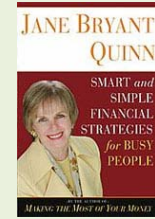
Twenty Big Ideas
<http://www.thesimpledollar.com/>

In short, ***It Pays To Talk*** is an amazing book to read if you are having difficulty communicating with someone in your life about financial issues. It is this difficulty that this book speaks to and speaks to *well*. If communication isn't the problem, then I can largely guarantee you that this book won't help you solve your financial problems

Smart and Simple Financial Strategies for Busy People

After being decidedly unimpressed with Quinn's first book *Making the Most of Your Money* (mostly, I felt like it was bloated and overly detailed, meaning it went out of date quickly), I was somewhat hesitant to review another book by Quinn.

This time around, though, two things attracted me. First, the length - I felt like Quinn's first book could have been quite good if it were a lot shorter, and this one is indeed shorter. Second, the title - how could I *not* be interested in a book entitled *Smart and Simple Financial Strategies for Busy People*?



Smart and Simple Financial Strategies for Busy People

Jane Bryant Quinn

256 pages

Published by Simon and Schuster

ISBN: 0743269942

This time around, does Quinn hit a home run (or at least a double) or does she strike out again? Let's dig into this one and find out.

Looking Into ***Smart and Simple Financial Strategies for Busy People***

1. Getting Started

Getting started is the real key, isn't it? With the huge array of financial options available to people - and all of the consumer goods easily available as well - it's not surprising that people with busy lives often have a hard time getting started with a financial plan.

The good part is that if you get your financial plan set up correctly right off the bat, it's not very hard to have it run automatically so you don't have to worry about it again. For example, my debt repayment plan is basically automatic at this point - I have the online bill payments set up so that my debts steadily go down, and the only time I look at it is when a debt is actually paid off. The same is true for my investments - I only look at them once every few months to make the needed adjustments, though I do look at the balances of everything when evaluating my financial situation.

But what about the choices you need to make to come up with the plan and set it in place? Those choices are simple, too, once you break them down piece by piece.

2. Spending and Saving

Quinn offers a brilliant solution for people who have difficulty sticking to a traditional budget. Just set up things so that each week, some amount is deducted from your primary checking account into your savings account, preferably at a different institution, and maybe also set up a deduction into an investment account. Then just spend however you like from what's left. She refers to this as ***automatic budgeting***, and it's basically what I've found works well for me.

Even more importantly, **start doing this now**, even if you have no idea how you might invest the money or even if you don't know exactly how much you can afford to take out. Set up a lowball amount for withdrawal each week into some other account, then increase it later if you find out you can handle it. It's more important to start doing this now than to do it later, because doing it now gives more time for compound interest to work in your favor, even if it's just the 5% you might earn in an online savings account.

Don't know where you should be putting your money? Quinn gives five *musts* that everyone should do, in this order:

1. For retirement, you *must* put 10 percent or 15 percent away.
2. You *must* reduce, then eliminate, credit card debt.
3. You *must* create a Cushion Fund.
4. If you have kids and expect to help with their college education, college savings come next.
5. Prepaying your mortgage comes last.

3. Wipe Out Your Debt

This chapter is basically a twenty page compression of Dave Ramsey's Total Money Makeover. Basically, it boils down to committing a certain amount of extra cash to debt elimination each month, asking your creditors for lower interest rates, and then set it up so this debt repayment happens automatically through online bill pay services so you don't have to *think* about it.

If you're in a pretty intense debt situation, you might want to just go ahead and read The Total Money Makeover, but this is solid advice for people with a manageable debt load.

4. Your Safety Net

Quinn focuses on insurance here, and the information here is pretty concise and clear. She covers a number of insurance types, giving only a few pages to each one, and she doesn't get bogged down in details. She basically states that generally a term life insurance policy is best for most, that long term disability insurance is useful if you have dependents, and that you really ought to have a will (at the very least).

Given that her earlier attempt at this topic was two hundred pages of muddling, overly detailed, and rapidly outdated material, this was really like a breath of fresh air.

5. Buying a House

This is a chapter I would have enjoyed reading about nine months ago. It's a gentle, but information packed thirty page review of the process of buying a home, with a few brief notes on selling. The information here is pretty basic and can be found online rather easily if you search around - stuff on different kinds of mortgages and some good guidelines on how much you should borrow - but it's collected and laid out very nicely here.

Quinn's advice for home buyers is pretty conservative - don't get anything but a fixed loan and if you can't get one, spend some time getting your bills paid and building up some equity instead of

forcing it. That's good advice for anyone and rather prescient considering it was written before the subprime meltdown.

6. Paying for College

I thought this was the best written chapter in the entire book - if you're considering saving for your child's college education, this is a great read.

How much should you save? Quinn recommends saving 1/3 of the total expected cost of college. Easy enough - find the college you'd like your child to go to, find out how much one year costs, then adjust it for inflation (see how much it's increased for that school over the last several years, then keep increasing it at that same rate until the time your child goes to college). Then figure four years of that cost, then divide it by three. There's your target number.

How should you save it? Quinn makes it easy: use a 529. She explains it in detail, but basically says it's *the* option for almost everyone.

7. Better Investing

Again, some nice and simple advice about how to invest, both in retirement accounts and otherwise. For retirement, Quinn basically says stick it in a Target Retirement fund, keep contributing, and just let it sit. Otherwise, buy a diversity of index funds, keep contributing, and just let them sit.

What's in common? **Make regular contributions and just let it sit.** Quinn pretty strongly discourages investing in individual stocks, instead encouraging people to just buy managed funds and not worry about it. Good advice for busy people.

8. Wrapping Up

The final chapter is a hodgepodge of smaller topics: setting goals, calculating your net worth, filing your papers, and so on. Interesting little bits that almost seem like blog posts.

Buy or Don't Buy?

Quinn's writing is much better suited to this type of book - explaining basic strategies rather than tossing out mountains of detail. *Smart and Simple Financial Strategies for Busy People* is readable and applicable - far, far better than her previous *Making the Most of Your Money*.

The advice is intended to be simple, however. If you're looking for intense investment advice or you're struggling under a very heavy debt load, the advice here isn't going to be a tremendous help.

If you're generally in solid financial shape but don't have the time to really sit down and figure out how to kick your finances into high gear, ***Smart and Simple Financial Strategies for Busy People* is well worth reading.**

The Millionaire Next Door

The general premise of *The Millionaire Next Door* is that the pop culture concept of a millionaire is quite false and that most actual millionaires live a very simple lifestyle. The authors, Stanley and Danko, did extensive profiling of people whose net worth defined them as millionaires along with those whose salaries and age defined them as likely millionaires and, using this data, created a detailed profile of who exactly a typical millionaire is. From there, extensive interviews with these “typical” millionaires created a much more detailed picture of what it actually means to be a millionaire in today’s society.

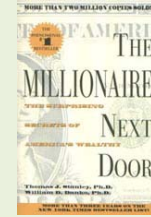
What does this have to do with personal finance? Rather than the image that most of us have of millionaires as people who inherited their money or got famous, most of the people that are actually millionaires got there through strong individual financial planning. They’re frugal people with a head on their shoulders and are often indistinguishable on the street from anyone else.

In the introduction to the book, Stanley and Danko break these traits of millionaires down into seven basic factors (quoted from pages 3 and 4):

1. They live well below their means.
2. They allocate their time, energy, and money efficiently, in ways conducive to building wealth.
3. They believe that financial independence is more important than displaying high social status.
4. Their parents did not provide economic outpatient care.
5. Their adult children are economically self-sufficient.
6. They are proficient in targeting market opportunities.
7. They chose the right occupation.

Most of the rest of the book goes on to outline Stanley and Danko’s findings on each of these factors. A chapter is devoted to each factor, bookended by an opening and a closing chapter.

For me personally, evaluating my life as a snapshot through these factors made it clear how different the old, crazy spending me was different from the newer, financially sound me. The biggest hurdles for me were living well within my means and not worrying about displaying social status; I bought into the psychology that the appearance of affluence was of vital importance, when what really matters is the money in the bank.



The Millionaire Next Door
Thomas Stanley and William
Danko
272 pages
Published by Pocket
ISBN: 0671015206

What's Inside *The Millionaire Next Door*?

On Spending The early chapters of this book really focus on defining this profile of a typical American millionaire, and it turns out that they're actually very thrifty. The early chapters do a solid job of exposing the pop culture concept of a millionaire - that of the wild spender with an extravagant home and material goods - as just that: a construct of popular culture.

This concept is perhaps best explained by a portion of the second chapter which describes **four questions to which the answers determine whether you're living a wealth-building lifestyle or expending your wealth maintaining your lifestyle:**

1. Does your household operate on an annual budget?
2. Do you know how much your family spends each year on food, clothing, and shelter?
3. Do you have a clearly defined set of daily, weekly, monthly, yearly, and long-term goals?
4. Do you spend a lot of time planning your financial future?

Unsurprisingly, the more "yes" answers that people give to the above questions, the more likely they are to have established significant personal wealth. For me, these questions were somewhat comforting, as I am now able to answer these questions with three strong "yes" answers and a "mostly" answer (the budget one is still in process), which compared to the four "no" answers that I would have delivered a month ago indicates that I'm psychologically improving my financial state.

The most powerful point (for me) was **the strong correlation between time spent planning and considering personal finance and the actual presence of wealth.** The extensive surveying that provides the backbone for this book repeatedly shows a direct relationship between attention to financial planning and accumulation of personal wealth. The people described in this book as prodigious accumulators of wealth generally invested the time in assembling highly detailed budgets and mechanisms for tracking their spending, while the underaccumulators did not invest the time.

The first chapters did expose a major flaw in the book, though: ***The Millionaire Next Door** has a strong anti-youth bias.* Early in the book, the authors define a simple rule of thumb for estimating one's net worth: *multiply your age times your realized pretax annual household income from all non-inherited sources and divide by ten.* Go on, do it yourself.

When I did this, I was shocked as to what the formula expected as a net worth for me: over a quarter of a million dollars. I've only been in the workforce for four years and I have a big pile of student loan debts, so I've worked hard to manage to just recently achieve a positive net worth. I'm not alone in this situation - many younger people have had to take on substantial amounts of debt in order to finish school, so only a very lucky or a very exceptional person under the age of thirty five could come anywhere close to matching this rule of thumb. Of course, when you hit your stride in your late forties and fifties, it's a solid rule of thumb, but the formula is simply not realistic for many younger people today.

Another way that the book exposes this anti-youth bias is via another interesting metric: **evaluating your income tax paid as a percentage of your net worth**. Now, for youth with student loans, the percentage is likely going to be quite large, but the book says that one should strive for a number approaching 7% (or even lower, if possible). For me, my income tax paid as a percentage of my net worth is probably going to be over 100% this year, and in years past it was infinite (as my net worth was negative). This is a great metric to define your progress in your forties and fifties, but for younger people, it's a metric that paints an overly critical picture of our financial shape.

In short, the book often ignores the sacrifices youth make early in their life in order to maximize their earning power later. **The reason for this bias is in their sampling: everyone interviewed in the book is already well into middle age.** They focused on the people that have already had many years to either accumulate wealth or put themselves in a position where their income is barely able to cover their lifestyle while largely ignoring the people early on who have to make sacrifices to allow themselves to be able to make such choices at all. For a younger reader such as me, this book often feels like a peek ahead at issues I'll be concerned with in ten years; it's nice for long-term thinking, but not as useful in preparing my finances now for financial accumulation while managing young children and a first home purchase.

On Learning One chapter of the book focuses on that most venerable of status symbols, the automobile. **Millionaires tend to buy late-model used and underdramatic automobiles and use several techniques to obtain optimum value on the car.** It's important to note that "optimum value" doesn't always mean the absolute lowest price, but instead refers to the lowest price that can be found with a reasonable amount of work invested in the hunt. One technique that particularly stood out was the concept of faxing requests for offers on a very specific model to several different dealers, then taking the best one of the lot - a very effective way of effortlessly creating a blind auction.

After this, the book spends two chapters criticizing in great detail the process of giving what the book calls "economic outpatient care" to children. In short, **the book is highly critical of any sort of financial support to adult children.** This philosophy is broken down into four clear points:

- 1. Giving precipitates more consumption than saving and investing.*
- 2. Gift receivers in general are never able to fully distinguish between their wealth and the wealth of their gift-giving parents.*
- 3. Gift receivers are significantly more dependent on credit than nonreceivers.*
- 4. Receivers of gifts invest much less money than do nonreceivers.*

Taken as a whole, these four points clearly indicate the solution to the problem: **people who wish to instill good financial sense in their adult children do not provide them with any significant economic support.** In general, I agree with this philosophy.

Unfortunately, the age bias that I discussed yesterday rears its ugly head again in this section. Virtually all of the advice that deals with how to distribute money to children focuses on adult children; there is little discussion on how the average millionaire instills strong financial values in

their own children. I already intend to cease regular economic support of my child upon the arrival of his eighteenth birthday, but how can I prepare him for this change? The book offers few clues, generally only ones that apply to both adults and to younger children.

There is one interesting phenomenon mentioned here that I've noticed repeatedly in my own life: **parents tend to give more money to children with poor financial skills than to children with strong financial skills.** Even in my own family, this is true; parents often give what little they have to the child who shows the least independence, while the child that works hard and shows the most independence get little assistance. On some levels, this makes sense, but on others, it merely reinforces poor behavior in the financially dependent child and can inspire resentment in the financially independent child. This further reinforces the idea that economic outpatient care is a bad idea.

On Living The final portion of the book focuses on finding one's niche - how can one find a role that will enable them to cultivate a healthy financial garden?

This final portion of the book felt very tacked-on and fell quite flat for me. It is quite brief and the content stands apart from the solid material that fills up the 90% of the book that precedes it.

In a nutshell, *The Millionaire Next Door* recommends that people seriously investigate service industries that cater to millionaires as a way to raise more money. They spend an entire chapter listing possible services that millionaires (as profiled in the book) are interested in or may become interested in in subsequent years.

The book closes by strongly encouraging people to become entrepreneurs. The final chapter is a lengthy pitch for starting your own business, as this is the best way to achieving great financial success. The book mostly paints a rosy picture of entrepreneurship, when in fact most small businesses fail within the first year. I feel that **this again exposes an age bias in the book**; most young people today are already at a level of debt that far exceeds what the baby boomers were experiencing at a similar age. This is due to the rising costs of education and the exploding housing market, both of which have aided the boomers in becoming millionaires themselves (at least the ones profiled here).

Buy or Don't Buy?

***The Millionaire Next Door* has a substantial amount of good content** - more than two hundred pages of non-filler written in a reasonable sized typeface. This is in contrast to many personal finance books which are written in an enormous typeface in order to spread out a small amount of content to the point where it appears to fill a larger book.

The material in the book is cohesive and presents a logical and straightforward worldview, meaning you won't find contradictory statements throughout. The writing is very readable; I'd even go so far as to call it a "quick read," though the book wasn't all that short.

My primary nitpick with the book is the prevalent age bias. There is very little of this book that addresses people under 40 or people who are just getting started with personal finance outside of some general guidelines that can be found in any personal finance book. The meat of this book is written for people who are approaching retirement and are dealing with adult children, a situation that (for me) feels a long way off.

I give the book a “buy” recommendation if you are over the age of forty, if you have substantially greater assets than many people in your age group, or you are interested in long-term financial planning. The book does a great job of outlining what people should be doing in middle age if they want to build substantial wealth (and enable their families to carry on this tradition) for their later years.

On the other hand, **I give the book a “not buy” recommendation** if you are young and without appreciable assets. At this point in your life, the focus should be on building a solid foundation for your financial life and this book does little to address that topic. Your time and attention is almost assuredly better spent somewhere else.

The Overspent American

The vast majority of Americans are trapped in a cycle of “work and spend” and simply don’t know how to escape. We’re surrounded by an enormous abundance of incredible material goods, but these goods don’t really *mean* anything - they leave us with a hole that’s only partially filled by this stuff and we have to work at an incredible pace in order to pay for it. *The Overspent American* argues that the real root of this is a desire for things we don’t actually need.

The author of the book, Juliet Schor, has written other books on similar topics, including *Born to Buy*, a deep look at the effect that consumer culture has on young children that I read shortly after having my own child and found quite interesting and insightful. So far, the only television that my child has watched was a few Baby Einstein videos - we basically don’t turn on the television when he’s around.

I’ll admit to being a little afraid to read this book for several reasons, the biggest of which is that the last time I looked at a more socially-oriented book dealing with personal finance issues, it turned into a complete debacle of preconceived notions and liberal guilt without true understanding. I was concerned that this book would be much the same, turning quickly into a lengthy anti-consumerist rant without looking at the real causes and how to fix them.

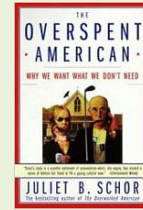
Was this concern founded? Let’s dig in and find out.

Examining *The Overspent American*

This book, interestingly enough, is directly targeted towards middle class and upper middle class Americans, people most susceptible to spending more money than they can afford and thus the people most susceptible to debt in today’s society. I find myself in that group, and I’m also currently in a significant amount of debt, having just purchased a home.

1 - Introduction

The Overspent American starts off with a litany of explanations for why Americans, particularly those in the middle and upper middle class, tend to spend far more than they earn. Some of them are obvious (the competitive desire to keep up with others and not let ourselves or our family “fall behind”) while others are much more interesting (the growing disparity between the income of the top 20% and the bottom 20%). Just combining those two factors alone (not wanting to fall behind when the income gap is widening) paints a pretty clear picture of how the middle class can often run up incredible debts.



The Overspent American

Juliet Schor

272 pages

Published by Harper

ISBN: 0060977582

2 - Communicating With Commodities: How What We Buy Speaks Volumes

Here, Schor establishes the idea that particular items indicate that you're a member of a particular group. People at certain income levels, for example, are often expected to dress a certain way and own certain things - an upper middle class family kitchen may be expected to have granite countertops, for example, or that middle class teenagers should have an iPod. These statements seem ridiculous when I type them out, but when I pause and think about the experience of people in these groups, they suddenly don't seem ridiculous at all. Granite countertops are a way for a middle class family to state that they meet a certain income threshold and thus are of a certain "class." iPods tell other teenagers that this person is not one of the "poor kids."

3 - The Visible Lifestyle: American Symbols of Status

When you carry forth that symbolic nature of consumer goods to the next logical step, it makes sense that people would covet the items that represent a group that they wish to be a part of. Let's say you live on a block where many of the people drive Lexuses and your Ford pickup sticks out like a sore thumb (not that I'm in that situation or anything...). There's a subtle social pressure to purchase a Lexus or an automobile of similar quality so that you fit in with the group on your block. Thus, advertisers often look for people who are trendsetters and get the ball rolling by focusing in on them - if two or three of the most social people in a group suddenly have a particular item, it begins to spread throughout people in that group.

4 - When Spending Becomes You

While that step is still not too bad, it becomes dangerous for all involved when the spending becomes competitive. I live next door to a family that owns a Lexus LS 300. Even though I rationally know that I really have no interest in owning such a car, part of me wants to purchase something better to "one up" them. Why? Although we are in the same social grouping, I would have prestige within that grouping for owning a higher quality item. Rather than merely seeking acceptance, I'm looking for *prestige* - a sense that I'm somehow slightly ahead of the other person simply because of this purchase. All of these ideas are constantly encouraged by marketers, who rightly see such societal pressure as an enormous assistance to their effort.

5 - The Downshifter Next Door

This chapter (with the title parodying *The Millionaire Next Door*) focuses on telling the stories of various individuals who have moved away from this incessant societal pressure to spend - the variety of the stories is compelling, from people who have bought heavily into voluntary simplicity to people who have simply made commitments to stop buying. I actually find myself in this group - although I still do occasionally buy consumer goods (like my recently-purchased Wii), it was a carefully calculated buy based entirely on what *I* wanted to do, not based on anyone else's influence. I'm also very big into frugality and I've been thinking about making a few very large lifestyle changes (such as a complete career shift and also going back to school, funded in part by the income from The Simple Dollar).

6 - Learning Diderot's Lesson: Stopping The Upward Creep of Desire

The final chapter includes nine wonderful points of advice for anyone wishing to escape from this consumerist mentality (without withdrawing from society and becoming a hermit, of course).

These principles really cut to the chase of escaping consumerism, so I thought I'd spell them all out here. This chapter is *excellent* reading for anyone whose stomach was turned by some of the material described above.

Principle 1: Controlling Desire Stay away from malls and other places where you may be tempted to spend. When you go to buy a product, think about the durability of it as well as how much “more” you’ll need to fulfill that purchase (more games for that game console, more decorations for the redone kitchen, etc.).

Principle 2: Creating a New Consumer Symbolism: Making Exclusivity Uncool Whenever you see a symbol of excessive spending (like, for instance, my neighbor’s Lexus), look at it for what it is: successful marketing. If you lust for an item, ask yourself if you actually need it.

Principle 3: Controlling Ourselves: Voluntary Restraints on Competitive Consumption Not only encourage yourself, but encourage your friends and social groups to put caps on spending. Get involved in group decisions and suggest spending caps - you’ll quite often find that others are relieved, too.

Principle 4: Learning to Share: Both a Borrower and a Lender Be Consider sharing expensive purchases (like a lawnmower) with your neighbors. Look at rentals or secondhand shops for sporting equipment and other narrow-use items. *Use your local library, not only for books, but for DVDs and CDs.*

Principle 5: Deconstruct the Commercial System: Becoming an Educated Consumer Deconstruct every ad you see. When you see a product you superficially want, research it and understand it before making the purchase (and that means more than visiting the product’s website).

Principle 6: Avoid “Retail Therapy”: Spending is Addictive If a particular mood or event triggers a desire to shop, do something (anything) else instead.

Principle 7: Decommmercialize the Rituals Don’t view Halloween, Christmas, or other social occasions translate into a reason to shop. Look for non-commercial alternatives to celebrating these societal rituals.

Principle 8: Making Time: Is Work and Spend Working? Look for ways to reduce the time you spend working so you can increase the time doing things more valuable to you. If you choose activities with that extra time that don’t involve spending and consumerism, you’ll still be financially fine.

Principle 9: The Need for a Coordinated Intervention Look for larger societal solutions to this issue. Get involved in organizations that focus on consumer issues and reducing spending.

Buy or Don't Buy?

The Overspent American is a fantastic book that should be read by every middle class American. It addresses rampant consumerism, takes it apart effectively, and provides a bevy of solutions that are applicable to almost anyone in the middle class. It's a tremendous book, well worth reading for anyone, and is among the best books related to personal finance I've ever read.

Having said that, I have a few minor nits, the biggest being that compared to many personal finance books, the writing is simply at a higher level. It's intended for an educated audience and while that doesn't mean that it's not readable by everyone, the writing here is going to be a bit slower to digest than, say, Dave Ramsey. The advice really applies to people with at least some significant earnings potential, though, so many of the people who might have a hard time with the tone and language of the book would be self-excluded from the topic (i.e., children and people with no interest in self-education). If you're reading this review, though, this book won't be a problem at all.

If any of the material in this review really spoke to you, or you find yourself in a situation where buying stuff isn't really filling up a hole you feel inside, this book is an absolute must-read.

The Complete Tightwad Gazette

My first exposure to the Tightwad Gazette was on the sitting table at a friend's house. I actually remember them having several copies of the original newsletter, and I flipped through several issues of it, utterly amazed that there was this much that could be written on how to save money. Some of them seemed massively over the top, some of them seemed like common sense (my family did them), and others seemed like clever ideas, but they were all entertaining. It's very similar to the impression I have of it today, actually.

Promoting thrift as a viable alternative lifestyle is the proud, loud subheading on the cover of the massive *Complete Tightwad Gazette*. Weighing in at a hefty 972 pages, this book is a compendium of the entire six year run of *The Tightwad Gazette* newsletter, a publication written and distributed quarterly between 1991 and 1996. The focus of all of the material is on frugal living in some form or another.

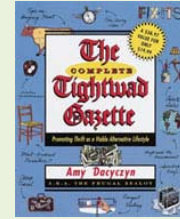
What's inside? Virtually every article ever published in that newsletter, organized in an almost random fashion. The book is actually just a series of articles, almost like blog postings, from a seriously frugal individual. I would roughly estimate that the book contains about 1,200 short articles on specific topics of frugality. While the original newsletters aren't reprinted verbatim, almost all of the vital information from each one is included in this tome.

A Deeper Look At *The Complete Tightwad Gazette*

The Complete Tightwad Gazette is a giant tome of short articles. In some ways, it's reminiscent of a great blog on frugality, merely in printed form.

Instead of attempting to walk through every little bit of this tome, I tried to pull out fifteen ideas from the book that really inspired me to save some money. When I read through this slowly over the last several months, I took lots of notes (with page numbers) and then actually attempted to use many of them in my life - all twenty of these have found some success for me (I actually had about seventy in my notes that I marked with a star as being useful - I just started at the top and somewhat chose at random).

Start a price book (p. 33) Get a three ring binder and a small pile of sheets with three holes punched on them. At the top of each page, write an item you buy regularly (toilet paper, peanut butter, etc.). Then start going to different stores and writing down the prices on the brands that you buy. Spend a month or two trying different stores out and jotting the prices, then start planning shopping trips using that book, focusing on stocking up on the items that are cheapest at a



The Complete Tightwad Gazette

Amy Dacyzyn

976 pages

Published by Villard

ISBN: 0375752250

particular store. Plus you can find out if store flyers are actually saving a lot of money versus the competition.

Buy cars near the end of the month (p. 39) Car dealers often have to fill a monthly sales quota, so go in at the end of the month and drive a very hard bargain. You might cut into their commission, but if it makes them reach their quota, it's probably worth it to them.

Buy fewer Christmas presents for a child (p. 79) I strongly agree with this philosophy. My most memorable Christmases as a child were the ones where I received just one or two amazing gifts, not other years where my parents had more money and got me a pile. For instance, I would rather buy my daughter an iPod than six or seven gifts between \$20 or \$30 - she'll forget those gifts quickly, but that one will be dear to her.

Make potholders out of old blue jeans (p. 121) I actually did this by hand (yes, a guy who enjoys sewing on occasion), stuffing it with some leftovers from one of my wife's projects. Easy as pie, just cut out two pieces out of an old pair of jeans that would otherwise get tossed, sew them together, turn it inside out, stuff it, and sew the opening. Viola - an interesting pot holder for the kitchen and it was basically free. A denim potholder actually has a really nice "homey" feeling to it.

Deconstruct a recipe (p. 212) A delicious seafood casserole recipe appears here, but the real value is in looking carefully at the items and seeing how you can save money on each of them by buying store brands or making it yourself instead.

Make your own popsicles (p. 223) This is one summer treat that my son truly enjoys, and we've been making them out of our own healthy ingredients (applesauce, fruit juices, etc.). This article gave a lot of tips on how to make them. I found, after experimenting, that an ice cube tray with deep wells makes great popsicles.

Make your own salad dressings (p. 230) These recipes became the basis of a lot of food experimentation at home with my wife, and we discovered that even when we made a few disastrous batches, it was still cheaper than buying it in the store.

Make solar iced tea (p. 255) Just get a gallon jug of water (we use a gallon glass jar, actually), put six tea bags in it, and let it sit out in the sun for several hours (the longer it sits, the stronger the tea). My wife and I drink it unsweetened, but you can add sugar or lemon juice to taste after it's done. It's simple and a very cheap beverage.

Buy store brand foods (p. 320) Many store brands are actually just repackages of the name brand stuff. Why pay more for the company's advertising budget? You've got me. This also confirms my suspicion about several items that appeared identical in store brand and name brand from my local grocery store.

Discuss cutting down on Christmas gift exchanges (p. 493) Many families (mine included) spend far too much at Christmastime on unnecessary gifts. A frank discussion about these (and this article provides tips) can often save everyone some serious cash.

Don't change your car oil every 3,000 miles (p. 526) For starters, read your car's manual - it might recommend longer intervals. You might also switch to a synthetic oil that requires less frequent changes.

Introduce frugality to your kids (p. 536) If you've introduced them to money, frugality is easy. If they want gummy fruit treats, show them how much cheaper real fruit is. If they want juice boxes, show them how much cheaper juice is in bulk even if you buy a reusable container to drink it out of. Not only does it teach the child how to think frugally, it can cut down on junk food, too.

Memorize a generic recipe (p. 625) Basically, the idea is that if you memorize the framework of a very basic recipe, you can reuse it with variations forever. The sample here is a casserole recipe that has infinite variations:

"1 cup main ingredient
1 cup second ingredient
1-2 cups starchy ingredient
1 1/2 cups binder
1/4 cup "goodie"
seasoning
topping

Main ingredient: tuna, cubed chicken, turkey, ham, seafood, etc.

Second ingredient: thinly sliced celery, mushrooms, peas, chopped hard-boiled eggs, etc.

Starchy ingredient: thinly sliced potatoes, cooked noodles, cooked rice, etc.

Binder: cream sauce, sour cream, can of soup, etc.

"Goodie": pimiento, olives, almonds, water chestnuts, etc.

Topping: cheese, bread crumbs, etc."

Using this, you can just buy whatever's on sale to fit each slot. I'll say that the chicken + mushrooms + rice + cream of chicken soup + cheese combo (no goodie) is fantastic, for instance.

Take up reading as a hobby (p. 862) Reading is about the cheapest hobby you can have, especially with libraries available to you. It's actually far cheaper than television, even, and can provide both educational and entertainment rewards.

Don't spend money to raise money (p. 868) If you're trying to raise money for an organization, try doing things like having a white elephant auction (people bring stuff to be auctioned off that is just laying around the house) along with donated items from local businesses, a potluck dinner, a group yard sale, and so on. My high school class sold candy bars, which now seems kind of silly.

Buy or Don't Buy?

The Complete Tightwad Gazette is spectacular from start to finish. Even if a few of the ideas are a bit dated or a few are corny, they're always entertaining, and a large number of the ideas are very usable for saving money in your monthly budget. If you find yourself struggling to start cutting down on spending, or are interested in cutting your spending even more, this book is an incredibly worthwhile and entertaining read. Highly recommended, and the single best book on frugality I've read, bar none.

A Random Walk Down Wall Street

This week, I sat down with one of the modern classics on stock investing, Burton Malkiel's *A Random Walk Down Wall Street*. I was already aware of the premise behind the book - the stock market is pretty efficient and most everyone is wasting their time trying to find inefficiencies to exploit - but I was interested in finding out what information inside could really help me as an individual, both as an investor and as a person interested in improving my personal finances. Did the book succeed? I'll let you in on that at the end, but let's walk through the book and see what we can learn from it.

Walking Through *A Random Walk Down Wall Street*



A Random Walk Down Wall Street

Burton Malkiel
480 pages
Published by W. W. Norton
ISBN: 0393062457

This book has a *lot* of information in it. I wrote a paragraph summary of each chapter below so you can get an idea of some of the finer points, but I could go on for weeks analyzing this book. Please note that I'm reviewing the ninth edition of the book, the latest one in hardback; some earlier editions may be missing some chapters and points.

Chapter 1: Firm Foundations and Castles in the Air

The book starts off by defining two basic investment ideologies, the firm foundation theory and the "castle in the air" theory. The firm foundation theory basically says that you should invest based on the actual real value of what you're investing in; for example, if you buy a stock of Coke, it should be based on what the value of the Coca-Cola Corporation is. The "castle in the air" theory basically says that you should invest in response to what the crowds are doing and that you can make more money by riding the waves of people who are either following trends or trying to invest based on a firm foundation. Which one is right? The truth is that they both are, but at different times.

Chapter 2: The Madness of Crowds

This chapter is quite entertaining: it discusses financial "crazes" throughout history, including my personal favorite craze of all, tulipomania. In all three examples (tulipomania, the South Sea bubble, and the Wall Street crash of 1929), a market grew like gangbusters until everything was overvalued, then the values rapidly returned to normal. Graphs of prices in all three examples bear this out; within a year or two of the end of the craze, the prices had returned to roughly the same value as they were before the big run-up.

Chapter 3: Stock Valuation from the Sixties through the Nineties

Even more amusing, Malkiel continues this theme of markets that go crazy and then level off again by using several examples of cross-sections of the stock market where this occurred throughout the

last fifty years. I was aware of the overvaluation of food stocks in the 1980s, for example, but to see that it has just repeated over and over again is an eye-opener. Take the Nifty Fifty from the early 1970s - people were basically speculating in blue chips, and by the end of the decade, the speculation had gone away and the stocks returned to normal blue chip levels.

Chapter 4: The Biggest Bubble of All: Surfing on the Internet

This all of course leads to the dot-com boom of the late 1990s and the bust in the early 2000s. Malkiel basically argues that this huge bubble was the result of a confluence of the same bubbles as before, all working in concert: the IPO mania that fueled the early 1960s stock market, the “smoke and mirrors” businesses of the South Sea bubble, and the chasing of future efficiencies that happened in the 1850s with railroad stocks all happened again with the dot-com businesses. And, again, it peaked and crashed and everything returned to roughly as they were before. Coincidence? **Malkiel’s main point in the whole book is that it’s not a coincidence.** Markets are efficient and time and time again, when inefficiencies occur, it won’t take long for the market to weed them out.

Chapter 5: Technical and Fundamental Analysis

Given this central idea of market efficiency that’s been pounded in with dozens of examples, Malkiel moves on to look at the two most common forms of analysis that occur on Wall Street: technical analysis and fundamental analysis. Technical analysis is the study of the behavior of prices on the market, using past performance to speculate on future performance, often using complex charts and trend lines. On the other hand, fundamental analysis revolves around analyzing the health of a business by carefully dissecting its financial statements, the market the business competes in, and its competitors. This chapter mostly serves as a detailed introduction to both, though it’s already clear that Malkiel has somewhat more respect for fundamental analysis than technical analysis.

Chapter 6: Technical Analysis and the Random-Walk Theory

This chapter is basically a complete decimation of technical analysis; there’s no other way to really put it. Perhaps the most devastating part is when he compares the stock market to the average length of a hemline in women’s fashion and finds a correlation. In other words, technical analysis spends all of its time looking for correlations - but most of these correlations are spurious at best. By spending all of your time looking at charts, you’re essentially cutting yourself off from a broader picture, making the spurious correlations even worse.

Chapter 7: How Good Is Fundamental Analysis?

Malkiel has at least some respect for fundamental analysis because it is based on foundational logic and is open to accepting wide varieties of data. However, he finds fundamental analysis to be deeply flawed as well. There are many reasons why fundamental analysis can be completely off base: random events (like 9/11), dubious financial data from companies (like Enron), human failings (emotional attachments and incompetence), the loss of good analysts to better positions, and so on. Basically, Malkiel concludes that professional analysts may have a slight leg up on individual investors, but this is mostly due to having more ready access to information and other materials and the advantage is minimal.

Chapter 8: A New Walking Shoe: Modern Portfolio Theory

From there, we move on to portfolio theory, which is basically the idea that people should have a diverse selection of investments and that these investments should maximize the rewards while minimizing the risk. Malkiel basically argues that it doesn't matter how much you diversify your stocks (and other assets), you are still exposed to *some* risk. In general, he has some respect for modern portfolio theory, but he goes on in the next chapter to point out why minimizing risk isn't always the best strategy.

Chapter 9: Reaping Reward By Increasing Risk

This was easily the most complicated chapter in the book and left me taking some lengthy breaks in the middle to digest the information. This chapter basically takes the ideas from the previous chapter and introduces a new factor: beta. Basically, beta is a number that expresses how closely an individual stock matches the behavior of the overall stock market in the past. Thus, in theory, stocks with a high beta should jump like crazy during a bull market and then dive like Greg Louganis during a downturn. With a very wide scope, this is true, but in specifics, it rarely turns out to be highly accurate.

Chapter 10: Behavioral Finance

This chapter takes a close look at behavioral finance, which applies human cognitive and emotional biases to their investment choices and thus how these biases affect overall markets. From behavioral finance, Malkiel concludes that the only parts that really work are the ones that are common sense: don't invest long term in what's hot right now, don't overtrade, and only sell stocks that are losers.

Chapter 11: Potshots at the Efficient-Market Theory and Why They Miss

Here, Malkiel walks through a series of criticisms of the overall idea of the book, which is that the market is generally very efficient and always reverts to the mean. He starts off by discarding some poor arguments and gradually moves onto better and better arguments, ending with evaluating Benjamin Graham's idea that one should identify and invest in value stocks for the long term. He easily deconstructs most of them and only has significant trouble with Graham's argument. I felt he slightly missed the boat on what Graham has to say, which is that value stocks will *always* have value. Malkiel points out that over a long period, both growth and value stocks do match up with the overall market, but value stocks do not have the monstrous dips that growth stocks have.

Chapter 12: A Fitness Manual for Random Walkers

This chapter is rather ordinary, as it is a basic chapter on how to build a healthy investment foundation, similar to ones that appear in most investment books. Get an emergency fund, make sure you're well insured, put as much investment as you can into accounts that are tax-sheltered (like Roth IRAs and 401(k)s), and so on - standard personal finance advice. He does strongly encourage home ownership, though. As for the question of what exactly to invest in, the next two chapters handle that.

Chapter 13: Handicapping the Financial Race: A Primer in Understanding and Projecting Returns from Stocks and Bonds

Ever heard the phrase “past performance is no guarantee of future results”? That’s what this chapter is about: you can only use past performance as a very, very broad indicator of the future. In short, Malkiel believes that over a very long period, stocks will beat bonds and inflation, but with any period shorter than a decade, it’s basically random and it’s all about the risk you can stomach.

Chapter 14: A Life-Cycle Guide to Investing

Given that, the next chapter is basically a detailed guide on how to invest for yourself. In short, when your goal is more than a decade off, you should be heavily into stocks for the long haul, but if your goal is in the shorter term, you should be widely diversified, tending towards investments with lower risk (bonds and cash) as the big day approaches. In other words, Malkiel believes that investing in a target retirement fund is a really good idea.

Chapter 15: Three Giant Steps Down Wall Street

The book concludes with some more specific investment tips. In short, if you don’t have the time to micromanage things, invest in an index fund. If you want to chase individual stocks, minimize your trading, only buy stocks that have numbers that are reasonable, and look for ones that have stories upon which people can build the “castles in the sky” mentioned in the first chapter. As for other options, like managed funds? He basically says no, or gives a very hesitant yes with a ton of caveats.

Buy Or Don’t Buy

We know one thing for sure: there’s a ton of information packed away in this book concerning how the stock market - or any market - works. Most of the book focuses on different ways of analyzing the market to find an edge - and concludes that they’re largely junk; the end of the book takes what was learned from this and applies it to investing in general.

This might sound really weighty, but it’s not. This book was very easy to read, much easier than I expected before I opened the cover. There’s a solid sense of humor behind it, nestled in with all the information, and the information itself is presented in a way that’s easily digestible.

If you have any interest in how the stock market works, you should definitely read *A Random Walk Down Wall Street*. It gives a very critical look at what most people are saying about the stock market - and why a lot of it is potentially rubbish. It also clues you in on how to invest if you take that view of the world.

Of course, there are many other perspectives on the market, and the truth is that the stock market *can* be exploited by individuals, *but* that exploitation requires a lot of work, work that is simply not feasible for most people (or even for most investment professionals). **While I recommend buying this book, I also recommend pairing it with a solid book on individual stock investing to get another perspective.** I’ve enjoyed both Phil Town’s *Rule #1* and Jim Cramer’s *Real Money*. Taking both viewpoints together will give you a very good understanding of how Wall Street - and pretty much any market - really works, and how you can either try to beat it or ride with it.

The First National Bank of Dad

One of the most consistent worries I have is about how I will educate my children to not make the same financial mistakes I made. How can I imprint good financial decision making on their minds as they grow up in a rather material world? *The First National Bank of Dad* focuses on this very topic in a very engaging, well written fashion (David Owen, the author, is a staff writer for *The New Yorker*).

Owen speaks about his experience with his own children, where he observed that they tended to be very cavalier with money that wasn't theirs, but much more careful with money that was their own. Purchasing decisions became much more serious if their own allowance money was involved, for example. So Owen took advantage of this basic human nature and set up a "Bank of Dad," where they could safely put their allowance money and earn a very nice return on it. *The First National Bank of Dad* is all about this "Bank of Dad" plan: how it worked and how the children reacted to it.

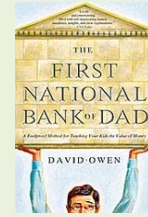
Naturally, I was deeply intrigued by this concept, so I read this book in two sittings. Did the concepts inside make sense, or were they just high on concept and low on execution? Let's take a look.

Visiting *The First National Bank of Dad*

1. Children and Money: An Introduction

In trying to instill financial wisdom in their children, parents often make a few key mistakes. First, they don't entrust their children with large sums of money - they allow them to keep the small amounts (the \$5 bill) but put away the larger amounts (the \$100 check). This teaches kids that money should either be spent immediately or put away in a desk somewhere. Second, we think that getting them a savings account will teach them to save, but it's pretty hard to impress a child with annual returns when a year seems like an eternity to a child.

These lessons, which seem sensible at first, actually teach children some pretty questionable values about money. If they have money, for example, they should just go blow it, and also that they shouldn't be trusted with money. When you teach a child to ride a bike, you start off with a tricycle and then move on to training wheels, then eventually they go on their own - and we coach and help them every step of the way. Under this money philosophy, though, we hand them the tricycle, take the bike, and then never bother to show them how to ride it well.



The First National Bank of Dad

David Owen

208 pages

Published by Simon & Schuster

ISBN: 1416534253

2. The First National Bank of Dad

When I was a kid, the idea of putting money in the bank was incredibly boring. The biggest reason was that the rate of return was slower than molasses - a year seemed like forever to me then and thus waiting a year for \$100 to earn \$2 more was unbearable - why not just spend the money now? **This made me not want to save** - it made me annoyed by it because my parents would make me save anyway. I had a similar feeling about my piggy bank.

So how can you make it so that children want to save? **You have to speed up the compounding to the point where they can see the benefit.** Owen opened up “The First National Bank of Dad” for his children and invited them to deposit their money. He would pay them a rate of return of 5% a month - enough for them to grasp the idea. If they gave him \$20 and let him hold it for a month, it would earn \$1. They could also withdraw at any time. Owen managed all of this in Quicken.

If my parents had offered me that, I would have jumped all over it, and Owen’s kids certainly did. On allowance day, they’d usually hand it right back - depositing it in the Bank of Dad - and he’d give them monthly statements on their money.

3. Responsibility and Control

This “Bank of Dad” system creates a situation where children now feel a sense of responsibility for their money. It also enables parents to have a sense of control over situations where their children have a strong temporary desire for an object in a store, for example. It does require firmness, but the “Bank of Dad” account allows them to manage their own money and make their own choices about what to spend it on.

One interesting point is that Owen suggests that all gift money goes into this account. His argument is that the benefits of having the children learn responsibility over their money is more important than any potential bad moves they may make. I strongly agree with this - when my parents would “put away” money for me, I would just shrug my shoulders and forget about it and then it would magically reappear later. In other words, I didn’t learn much at all from the experience.

4. Allowances

This chapter on allowances was probably the most thought-provoking piece of the whole book. First of all, Owen argues that children should be heavily involved in the process of deciding how much allowance they should receive. For starters, you should ask *them* how much they think they should receive and then, after that, when they want an increase, they ask for it in writing and enumerate the reasons (encouraging them to write in an organized fashion).

He also argues that requiring children to save some portion of their allowance or to give away some portion to charity is meaningless - such saving and giving doesn’t mean anything unless they make the decision themselves, which makes a *lot* of sense. Owen also says after-school jobs is a poor idea (they should focus on studies) and that a child should get a debit card pretty early on - for his children, age *twelve* (it teaches responsibility with plastic in a safe environment). There’s really a lot of interesting discussing in this chapter, well worth reading if you’re a parent and thinking about allowances.

5. Beanie Baby Economics

At some point during childhood, almost everyone collects something. I collected baseball cards and later Magic: the Gathering. My wife collected Breyer horses. We would attribute a value to these collections, but it was a value that used to be hard to extract.

No more. With the advent of the internet, a child can liquidate their collection rather easily, so collecting can often transform into a way for children to experiment in how a free market works. They can actually utilize resources like eBay to easily buy, trade, and sell their collections, which means that the “foolishness” of collecting in our childhood isn’t nearly as foolish now - instead, it can actually be educational.

6. The Dad Stock Exchange

What about teaching children about investing in stocks? In order to teach that, Owen set up a brokerage at the “Bank of Dad.” This brokerage basically exists as a virtual version of a brokerage - the children could buy any individual stock or any common index at any time and then sell them at any time, too.

Doing this encourages kids to take an interest in the stock market. Owen discusses how his own children began poring over the business news and learning more about investments. It provided a relatively safe environment for mistakes, but provided great rewards for good choices, too.

7. True Net Worth

After all this talk about teaching financial values to your children, the book steps back here and focuses on the bigger picture. What’s really important in your life? What are the things that really have value? Money is just a tool to maximize the things that are important - and generally the important things aren’t materialistic at all.

I like the anecdote told here about his daughter as she started to approach college age. She watched her friends get involved in all sorts of resume-padding activities that they didn’t enjoy - they participated at the urging of adults who convinced them that if they didn’t act like some generic “super-student” model, they’d never succeed. She rejected all that and followed her own muse. What happened? *Success*. I found the same thing was true for me, but in a somewhat different way - my parents had no idea how I should apply for college, so I followed my own muse and it led me well. Don’t pressure kids to make the choices you’d make, but instead encourage them to work hard at what they’re naturally passionate about. Everything else will follow.

8. The Best Investment You Can Make For Your Children

What’s the best investment you can make for your children? Read to them. There’s nothing you can do that’s more effective than that for setting your child up for lifelong success. It’s even more important than the “Bank of Dad” stuff talked about earlier (though that’s vital as well).

9. The Ultimate Payoff

The ultimate payoff comes when we grow older, our children grow up, and they are there when we need a helping hand in the twilight of our lives. If we’ve raised our children well, with a sense of

how to manage their money and the maturity and emotional intelligence to hold your hand as you take the final steps of your life. It's an ongoing cycle of life, and the love and care you take in raising your children will pay you back for the rest of your life, in their love and in the love they share with their own children and the others in their lives.

Buy or Don't Buy?

The First National Bank of Dad is filled with a whole pile of compelling concepts on techniques for educating children about how money works. While I am not sure I would be willing to commit entirely to the whole "Bank of Dad" concept with my children, the concepts in here are very much worth exploring.

If you have a child and are interested in raising them with sound ideas about money, **this book is highly worth reading**. Besides the big ideas, there are tons of little ideas, concepts, and pieces that you can apply directly to your own children.

Perhaps best of all, **this book made me seriously reconsider some of my assumptions - and realize that maybe they weren't good assumptions after all**. Books that can do this and are backed by reason and logic are powerful ones, indeed.

The Four Pillars of Investing

I've been excited to review this book for a while. I remember the first time I picked it up, in a bookstore early this year. I read almost the entire book over a three hour period while curled up in a chair at the back of the store, only interrupted by my wife calling wondering where on earth I was at with the groceries that she wanted.

So, yes, *The Four Pillars of Investing* intrigued me quite a bit and got my juices flowing for the first time about investing. It appealed very strongly to my analytical sense, much like *A Random Walk Down Wall Street*, but unlike that other book, this one attempts to identify the underlying ideas behind sound investing. What "pillars of knowledge" support good investing practice? That's what William Bernstein attempts to identify in this book.

What excited me so much about this book, and what sets it apart from other books? Let's walk through the book to find out.

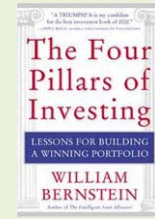
Examining *The Four Pillars of Investing*

Pillar One: The Theory of Investing

Chapter 1 - No Guts, No Glory

The opening chapter of *The Four Pillars of Investing* focuses on risk and reward, and shows through many, many historical examples that risk is heavily tied to reward. For example, if you compare the stock market and the bond market, the stock market has had many, *many* more individual losing years since 1900 - but the overall gains of the stock market blow away that of the bond market. Why? The stock market is incredibly risky in the short term.

However, you can get around that risk very cleverly. Simply hold the stocks for a very long time. Over a long period (say, 30 years), the risk in the stock market is drastically reduced. In fact, the longer you hold stocks, the lower the risk of a loss is and the greater the potential gain. Along those same lines, one shouldn't buy too much into those amazing long term gains that the United States stock market has shown over the last hundred years. More and more people have moved into the stock market, creating the fuel for the rocket ride the market has taken (more and more buyers), but there is an upper limit to the number of buyers and eventually those long-term gains won't be as stratospheric.



The Four Pillars of Investing

William Bernstein

240 pages

Published by McGraw Hill

ISBN: 0071385290

Chapter 2 - Measuring the Beast

In terms of intellectual food for thought for an investor, this is one of the meatiest chapters I've ever read and still been able to finish. It focuses on how one can figure out whether or not something you buy will have long term value. This is not an easy thing to assess, and this chapter shows why.

In a nutshell, Bernstein shows that anything you buy will increase in value in only one of two ways: it pays you for holding it (in the form of dividends), or the demand for it increases. This goes for stocks, but it also goes for any other investment - gold, for example, doesn't pay any dividends, so it's entirely based on demand. In the end, Bernstein says that a smart investor should *not* have more than 80% of their money in stocks right now. Why? Stock prices are at historical highs and they are paying historically low dividends, which means either the stock market will slow down or it will perpetually push into territory not seen since 1929.

Chapter 3 - The Market Is Smarter Than You Are

This is basically a thirty page compression of the material found in *A Random Walk Down Wall Street*, and it comes to much the same conclusion as Malkiel's book. The stock market is too random to effectively manage and time in the short term.

In effect, if you take all of the mutual fund managers out there and average their returns, you get the same return as the broad stock market. Then subtract their pay, and you get an overall return significantly below the broad stock market. So, why not just bypass all of this and invest in the broad stock market as a whole without the managers? That's what it means to invest in an index fund.

Chapter 4 - The Perfect Portfolio

So what can one do with this information? Buy index funds, of course. Here, Bernstein talks about specifically what to buy.

First of all, **every portfolio should have at least 20% of the assets in riskless assets** like bonds and so forth. This is to provide stability from the year to year chaos of stocks. This does *not* hold true, however, if you're not touching the portfolio at all over the long haul.

Second, **the portion that is risky should include foreign stocks and real estate**. Foreign stocks should make up 30% to 40% of your risky portfolio, while real estate should be 10% to 15% of your portfolio.

Given the overall recommendation of indexing, I tried to create a Bernstein-approved portfolio based on Vanguard index funds. This is a four-fund strategy that matches the ideas that Bernstein delivers in the first four chapters of the book.

40% Vanguard Total Stock Market Index
30% Vanguard Total International Stock Index
20% Vanguard Total Bond Market Index
10% Vanguard REIT Index Fund

Pillar Two: The History of Investing

Chapter 5 - Tops: A History of Manias

From there, *The Four Pillars of Investing* gets into some very interesting topics. Here, the book covers several manias throughout history, but it sticks to ones directly related to stocks, leaving out the endlessly entertaining (to me, anyway) tulip obsession of 1637.

What's the point? When a few people make a lot of money, many, *many* people want to jump on board - often to their own detriment. Every time there is a "bubble" - like the recent dot-com bubble and the housing market bubble - it's the result of a small handful of people making good money and *lots* of people trying to follow in the footsteps.

Chapter 6 - Bottoms: The Agony and the Opportunity

On the other hand, there are times when everyone jumps *out* of particular investments, even when the fundamental value of that investment hasn't really changed that much. Think of the 1930s, where most of the large companies in the United States were doing just fine but the stock market was in tatters. Or the dot-com blowup, which caused the whole market to sag, even sectors that had nothing to do with the overinvesting. Over the long haul, appropriate values do return to these areas.

What does that mean for you as an individual investor? It's a lot more profitable for an investor to put money in when the market is low than when it's high. In other words, the best time to buy stocks (in the broad sense of the word) is when everyone else is running away from them.

Pillar Three: The Psychology of Investing

Chapter 7 - Misbehavior

This portion of *The Four Pillars of Investing* focuses on human behavior and the psychological mistakes we tend to make while investing. What it boils down to is that human nature and instinct - things like a tendency to follow the leader, see patterns where there are none, and a need for entertainment - lead us to buy high, sell low, and trade frequently, all of which are dangerous behaviors for investors.

My favorite of the behavioral mistakes described here was the "country club effect," something I've actually witnessed. Basically, people who are susceptible to this are well off and try to make investment moves that compare socially with the people at the country club. In other words, they put their money into unregulated hedge funds so they can brag at the club, while their money would be much better off with Vanguard.

Chapter 8 - Behavioral Therapy

So what can you do to avoid these mistakes? The advice basically boils down to a small number of points.

First, **ignore - and even avoid - what everyone else is doing.** If everyone is buying, ignore it. If everyone is selling, ignore it (and maybe buy).

Second, **don't be overconfident in your skill or knowledge.** You're combating professionals with a lot more assets to use for leverage, a lot more training in the market, and all the time in the world to beat you. Unless you're a genius, you won't win.

Finally, **be boring.** Don't make any moves unless they're planned out carefully. If you need to be entertained, don't make the stock market your jester unless you're actually viewing your investments as pure entertainment.

Pillar Four: The Business of Investing

Chapter 9 - Your Broker Is Not Your Buddy

If you've read The Simple Dollar much, you know that I *never* recommend a stockbroker, instead telling people to do it themselves. Why? A stockbroker basically sells you the stuff you can get directly from the source and takes a nice healthy cut for being the middleman.

If you want to buy stocks, buy them yourself through a low-fee brokerage like Scottrade, where the costs to you are low and clear and very upfront. If you want to buy mutual funds, go straight to the company selling them - I do my business with Vanguard.

In a nutshell, a stockbroker makes money off of people with money to invest and no intelligence or inclination to do it themselves.

Chapter 10 - Neither Is Your Mutual Fund

What about mutual funds? Most funds operate in the same way that stockbrokers do - they offer you a product you can get cheaper elsewhere and keep the difference for themselves. For example, many funds will take 2% off the top of what you put into the fund and uses that for marketing and paying for the person who manages your fund.

Thankfully, some mutual fund companies have adopted indexing strategies, where very simple rules dictate what stocks they buy for their fund. They basically eschew most advertising and much of the administrative cost. Fidelity and Vanguard are tops in this category - look to them directly for places to put your investing dollar.

Chapter 11 - Oliver Stone Meets Wall Street

What these advisors are really selling is a false sense of security in a stock market that seems dizzyingly complex. The truth is that it's not really all that complex, at least not in the terms that an individual investor needs to know about. Bernstein recommends two things that any individual investor should focus on and practice.

First, **educate yourself - but not in the sense of watching CNBC.** Instead, dig into a real investing book like *A Random Walk Down Wall Street* (or this one) and read through it slowly, 15 to 20 pages

at a time, then think about the reading. This is far more educational and useful than watching Jim Cramer scream and throw chairs for half an hour.

Second, **practice discipline**. It takes discipline to invest well and resist the temptation to make behavioral mistakes. Basically, practice keeping your hands *off* your investments and think very carefully about the moves you're making.

Investment Strategy: Assembling the Four Pillars

Chapter 12 - Will You Have Enough?

The final portion of this book seeks to tie together the four pillars and use them as a basis for an investment plan. This chapter offers much of the basic advice on how to invest.

Guess what? Bernstein's biggest advice for investors is **be frugal and curb your material desires**. I agree - frugality is the basis of any sensible personal finance plan. Another key tip: you should accumulate a big enough portfolio so that when it supports you, you only eat about 3.5% of it a year. In other words, take what you want to have annually and multiply it by about 30 - that's what you need to support yourself in later life and in retirement.

Chapter 13 - Defining Your Mix

This chapter gets very specific about the asset allocations discussed in chapter four, reiterating the same general advice and giving some specific portfolios for examples. I actually found this chapter to be overly complex for most people, as the advice given late in chapter four will suffice.

It is worthwhile to note that Bernstein is very conservative with his investing. He basically says that no one should have less than 20% of their investments in bonds, far more conservative than most people who discuss investments. My own portfolio is 10% bonds and that has been criticized by some.

Chapter 14 - Getting Started, Keeping It Going

So how does one get started? Bernstein basically says one should research a portfolio carefully, figure out their plan, then get started as soon as possible. He recommends doing it through value averaging - in other words, buying into each piece slowly over time. This works perfectly for us poorer investors who don't have a lump sum with which to invest - we can buy in slowly naturally through a steady automatic plan.

Once the money's in, you should only rebalance through the use of additional contributions. If you decide to change your allocations, again, do it with new contributions, not by moving money around - that'll just hurt you on taxes.

Buy or Don't Buy?

I really enjoyed this book. If you really want to understand the logic and reasoning behind investing choices, carried from the very foundations of how specific investments work all the way to an investment plan you can follow, this is a book well worth reading.

One big note, though: Bernstein is very conservative in his investment choices, both in terms of what you should invest in and how much you should have when you retire. If you follow his advice, you'll be in *very* good shape when you retire, but it will take some serious work to get there, both in terms of being diligent *and* in terms of frugality. Also, be aware that **this book can be complex and intellectually challenging**, especially in the first part.

Still, if you're serious about investing and want a nuanced explanation of investing, particularly from a fairly conservative perspective, **this book will be an invaluable and educational read.**

The Money Trap

I picked up *The Money Trap* because it offered a distinct and interesting perspective on poor personal finance management. Instead of simply viewing it as a series of simple bad habits or bad moves that can easily be corrected, this book views bad money management as an *addiction*.

Gallen's basic premise is that people who tend to always spend what they earn (or, even more dangerously, spend more than they earn) are addicted to spending and materialism, and that this addiction is just as dangerous as an addiction to a narcotic. Thus, Gallen's approach to solving money problems is much like the ones that would be used to combat any addiction - with a few interesting twists because of the pervasiveness of money in our society.

Let's dig in and see whether there are any revelations inside.

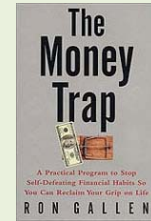
Poking Around *The Money Trap*

The Impossible Dream

The Money Trap opens with some interesting discussion about how, as a society, we've come to believe too much in the power of money to solve all of our problems. Quite often, we attempt to use money to fix things that money can't fix, and that is the most futile endeavor of all: "using an external source to fill internal needs." Gallen really does an excellent job of framing the spending habits of the average American as an addiction (actually, a small handful of different addictions), and his argument is that recovery from this addiction takes on many of the same tenets as recovering from an addiction to a substance.

Money Disorders

Gallen argues here that most money disorders break down into four main categories: overspenders, workaholics, money obsessives, and under earners. He cites overspending as the most obvious and most widespread one - unsurprising, because that's the one most of us likely thought of when we first heard about this book. I found the other three to be actually more interesting, though, because they take the idea of addiction in less obvious directions - books like *The Overspent American* deal with overspending very well already. Gallen also offers up a *ton* of warning signs that you may have some form of money disorder, of which I found "obsessive involvement with investments, savings, and strategies for financial security." Am I guilty of that one just by having this blog? Are you, dear reader, fueling my addiction? This could be a compelling entry all by itself.



The Money Trap

Ron Gallen

224 pages

Published by Harper Resource

ISBN: 0060936320

My Story

Gallen gets autobiographical here and the overtones were similar in many ways to my own road to financial armageddon. Both of us dealt with money issues when we were younger, took away from our youth some really poor concepts of money, and both realized eventually that our relationship with money was poisonous and that we needed some major change.

The Overspenders

As I noted above, the addiction to overspending is a disease very well covered in *The Overspent American*, but Gallen does a strong job here reviewing it, cutting right to the core very quickly.

Overspending, in the end, has nothing to do with money - it has to do with feelings. People who feel that the money they earn can't support them are under constant pressure, and that pressure often exerts itself in a lot of unhealthy ways: panic attacks, stress (and all that comes with it), and inevitably more spending. One common problem: people often spend based on how they think a person with a certain salary should live - unfortunately, often that image is outdated. They spend based on how a person with a certain salary fifteen years ago might have lived, but that's not the reality today.

Workaholism

Workaholics often bury their actual addiction under a mountain of socially acceptable excuses: ambition, competition, a strong work ethic, family responsibility, desire for promotion, and so on. The truth, though, is that people who are constantly chasing such things are often actually addicted to their job - they can't get enough. I have a friend who is like this - he is constantly obsessing over his job for various "reasons" that seem to change all of the time, but he seems to rarely have appropriate time for his family - not even taking a full week off for the recent birth of his child, for example.

Money Obsession

One might argue that this is the disorder that many personal finance bloggers have, as it would be easy to see a money obsession in the words that many bloggers write. The truth is that this is a subtle problem, but a lot of people have it. They daydream about the big payday and they spend a lot of time micromanaging their money to squeeze out a few nickels. I often think of people who practice credit card arbitrage in this category - they play a very obsessive game to earn \$50 from shifting around credit card balances. Am I a money obsessive? I don't think so - most of my personal finance thinking is expressed in this blog in some form or another and I likely wouldn't think about it nearly as much without The Simple Dollar around to encourage it. That doesn't mean it's not a real problem for some.

The Underearners

This is the disorder in the book that's most likely to make people angry. I think, in this chapter, Gallen is actually speaking directly to one of my commenters, Minimum Wage. Gallen argues that people who don't earn much money are often subject to a disorder in their self esteem, where all they see are the flaws in themselves and thus don't believe they can earn more - or even deserve to earn more. Some people convince themselves that this is acceptable because they're not "selling out;" this is often coupled for a general disdain for earning money and capitalism. This is a really

interesting and controversial take, one that is likely to deeply incense a lot of potential readers - and one worth discussing in great detail.

Money and Couples

What if one person in a couple expresses one of these disorders? Or, even worse, both members express a money disorder? Gallen argues here that the real key to dealing with the obvious chafing that occurs when one person in a partnership exhibits an addictive behavior is communication, and lots of it. If you think your partner has one of these disorders, talk about it. Seek out the root causes. I found *It Pays to Talk* to be a brilliant book for opening the door to difficult financial conversations such as these.

Money, Therapy, and Depression

Many people turn to therapy to help solve problems like these, and quite often this therapy ends in frustration. People often hope for a quick fix to their problems, and that's not what therapy provides, especially with money-related disorders that are often buried under mountains of excuses and reasoning that you've made with yourself. Digging through all of that is *not* immediate, so if you need a quick fix, a therapist likely won't be able to help. However, therapy *can* help over the long haul, if you give it time.

Money and the Recovering Addict

Here, Gallen makes the great point that people who are recovering from other addictions (like substance addictions) will often fall into a money addiction, and that a recovering addict should be very careful to avoid this. People often find themselves with a "hole" inside in some way when recovering, and they try to find something "healthy" to fill that hole. Given the consumerist nature of modern society, quite often money addictions end up filling that hole - they become obsessed with counting their money, with their job, or with their inadequacies at being a strong earner. Thankfully, addiction recovery counselors are beginning to recognize this problem and have some techniques for addressing it.

Clarity

This is really the central chapter of the entire book, as it spells out the key to recovery from any sort of money disorder: clarity. Spelling out *exactly* where you are financially and defining a very clear and discrete spending plan is often the key to solving many money disorders, particularly those dealing with overspending. He also offers strong encouragement for people dealing with a money disorder to move exclusively to cash and off of plastic, at least for a while, because plastic offers a level of distortion that is in complete opposition to clarity.

The Spending Plan

Gallen outlines the basics of a spending plan in this chapter - very basic personal finance stuff. While I do agree with Gallen that a spending plan can be really useful for getting someone on the right financial path and causing them to really see where their money is going, I view them much like training wheels on the bicycle of personal finance. The real purpose of a spending plan, in my view, is to train you to deeply understand how your spending affects your overall financial picture - once you really understand it, it becomes much less important. A spending plan can be a powerful

thing to set up and follow for a few months, just to see how your money is *really* flowing and how you can change that flow, but once you've really got a grip on it, it becomes almost automatic.

Dealing with Creditors

The Money Trap suggests that the best way to deal with creditors is with candor. Tell them flat-out that you're trying to get your financial house in order, tell them that you've chopped up your credit cards, and tell them point-blank what you can afford to pay each month. Tell them this in writing, along with the first payment. Then, don't give in to the various emotional and psychological appeals that creditors may use on you - just ignore them, for the most part. If you are in deeply desperate straits, ask for a ninety day moratorium in writing from some of the creditors. Also, don't worry about your credit report too much for now - if you have creditors calling you, it's likely already in trouble.

Working with the Spending Plan

Here, the book discusses keeping track of what you actually spend and using that to evolve your spending plan and also to see where the spending holes are so that you can work on them. Gallen encourages people to use a notebook to record *all* of their spending, then using that to make sure that you're sticking to the spending plan. This is *really* a good idea if you're trying to figure out where all of the money goes, but you have to be vigilant with it - write down *everything*. If you've never done this before, you'll probably be shocked at how much of your money floats away on simple, little things.

The Time Plan

Gallen argues that most people with money troubles also have time troubles, especially workaholics, and he argues on behalf of a time plan. The plan he offers here is basic time management stuff. I've found, though, that if you're having trouble with being a workaholic, a great book to read is Covey's *First Things First*, as it does a great job of helping you define what's really important and how you can allocate appropriate time to it, which is really what Gallen is shooting for here.

Wholeness and Continuity

This chapter takes on the "where do we go from here?" question. Where does a person with a money disorder go once the initial crisis has passed? There is some danger of relapsing, so the real challenge is to set goals that can keep the motivation going and continue to break down that false relationship with money. Much of the talk here sounds a lot like the talk in *Your Money or Your Life*, which is a *good* thing, in my opinion. A normal, healthy relationship with money comes down to setting goals and working to achieve them.

Savings, Retirement, and Well-Being

Here, Gallen offers up a final few nuggets of direct financial advice: start an emergency fund and do some automatic investment for retirement, but don't overdo it. The key is to live life to the fullest, not to move down a different road of money obsession. Just save enough to keep yourself safe, and you'll be fine.

Buy or Don't Buy?

Having read a small mountain of personal finance books in the last two years, I tend to be most interested now in the ones that offer some sort of unique perspective. There are a lot of personal finance books out there that just repeat the same old material - and, frankly, those books bore me to death.

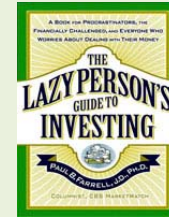
I think that's a big part of why I liked this book. While there were pieces that seemed directly related to other personal finance books, Gallen regularly offered some interesting insights and perspectives. Even though he was often looking at issues that seem pretty mundane, the perspective of treating money problems solely as an addiction or a disorder enabled some fresh looks at the problems - and plenty of food for thought for me for a while. In fact, if you judge a book by how many notes it convinced me to write down, *The Money Trap* was an unquestioned success.

Is it the "ultimate" personal finance book? No. Is it a very good book, particularly if you're getting a sense that there's something deeply wrong with your money and/or your work? Yes, it is. **Pick this one up if any of the problems mentioned in the review really resonate with you.** If not, you'll probably learn more from another personal finance book.

The Lazy Person's Guide to Investing

I'll admit to picking up this book solely because of the title. I'll also admit that I decided to read and review this book solely because I opened it to a random page, read a paragraph, and *laughed* - something I basically never do with a personal finance book.

It shouldn't be too surprising to discover that a book entitled *The Lazy Person's Guide to Investing* has a very healthy dose of humor involved. Basically, the idea of the book is that if you don't know a thing about investing and are lazy - meaning you just want to put your money in an investment and not worry about it a bit - this book will spell out for you exactly what to do with your money.



The Lazy Person's Guide to Investing

Paul Farrell

336 pages

Published by Business Plus

ISBN: 0446693871

Obviously, this leaves me wondering if the investment advice in here is worth its salt. Should you just take the investment advice straight out of a book and apply it without thinking? Is the humor in this book just an added bonus, or sugar to make the bad medicine go down? Let's dig in and investigate.

A Long Look At *The Lazy Person's Guide to Investing*

This book is the product of Paul Farrell's columns at MarketWatch.com, where he talks in a breezy tone about lazy investments - in other words, the types of investments that you make and then sit on until you need them. Eventually, after describing many of these, he held a contest where he had readers select the best lazy portfolios of all, and that provided the nucleus for the book.

Part 1. The Contest Winners

So which investments won that contest? Part 1 reveals the big three winners.

1. The Couch Potato Portfolio Is Microwaveable

The winner is about as easy as can be: 50% Vanguard 500, 50% Vanguard Total Bond Market Index. That's it. Put half your money into one, half your money into the other, and just sit back. You might want to set up some automatic investing into both of them so they grow while you do nothing. Then, once a year, take any extra investing money you have and put it into whichever one has a lower balance. That's it. And it has historically returned over 10% with only very rare down years (even 2001, which was atrocious for stocks, saw this portfolio only down about 2%).

2. The World-Famous Coffeehouse Portfolio

This portfolio is rather more complicated than the first one, as it has seven funds in it (all Vanguard funds), but the same idea still applies: buy these index funds, sit back, and just put money into the lowest one every once in a while. This portfolio was designed intentionally to ride through a down stock market, so if you're feeling queasy about a down market, this is a good one to choose.

3. Dr. Bernstein's No-Brainer Portfolio

This is a slightly more complicated one yet, including nine index funds. This one was actually submitted by William Bernstein, the author of one of my favorite books, *The Four Pillars of Investing*. Again, all nine funds are Vanguard funds, which simplifies things even more as it makes Vanguard the one place to go to invest. This one had the best return of the three winning funds.

4. A Challenger Jumps Into The Ring! Scores On Points

This final chapter basically suggests that as long as you buy at least four different no-load, low cost index funds that are investing in different things, you'll be just fine. Buy one large cap stock fund, one small cap stock fund, one international stock fund, and one bond fund, keep them all in balance (buy equal amounts of each and occasionally dump some extra cash into the smallest one), and you'll be perfectly fine no matter what the stock market does.

Part 2. Recess Fun: Testing The Six Laziest Strategies

This portion of the book focuses on the six principles that make these lazy portfolios work. Actually, following these six principles would likely make *any* investment work, even if it's putting cash in a high-yield savings account.

5. Strategy One: Zero Timing Wins

Never make a choice to buy or sell stocks based on what the stock market is doing. If you can't stand that volatility and feel like you *must* move your money, be willing to accept losses or else realize your weakness and invest elsewhere. Market timing doesn't work because the stock market is too unpredictable on a day-to-day basis for the average investor.

6. Strategy Two: Frugal Saving Wins

This is the one thing I **love** to see in a book about investing. *Frugality* is a major key to a winning investment strategy. Think about it this way. Let's say you have \$100 to invest each month. Then, you start cooking at home and reduce your food bill by \$100. Suddenly, you have \$200 to invest each month. There is no investment strategy on earth that can beat that kind of return. Living frugal and spending less than you earn is *the* way to get ahead with your investments, no matter how you invest.

7. Strategy Three: Compounding Wins

Each year you're invested, your money goes up by a certain percentage. Thus, the more years you're invested, the more cash you have at the end. The earlier you start, the more years you can invest. Thus, start your investing *now*, not later. Of course, you should make sure that you have no high

interest debts and that you have a bit of cash reserves for an emergency first, but the earlier you start investing, the greater your gains will be over the long haul.

8. Strategy Four: Asset Allocation Wins

If you have all of your money in one single investment, it becomes a coin flip - everything you have is riding on whether that investment goes up or goes down. How can you fix that? Put your money in a lot of different investments, so that if one goes down, it doesn't necessarily spell doom for you.

9. Strategy Five: Buy And Hold Wins

Once you start investing, don't keep moving things around, because you'll get eaten alive by fees (and potentially by taxes, too). Instead, invest and just sit on it until you're ready to utilize the investment. Just let it ride and don't waste your gains on fees and short term capital gains taxes.

10. Strategy Six: Do-It-Yourself Wins

Much like with the buy-and-hold strategy, it's a mistake to pay others to execute very simple investments for you. Just do it yourself. It's very easy to do online - get an account with Vanguard and start your investing immediately, cutting out the stockbroker in the middle who does nothing but prey on your gains.

Part 3. Six More Boring, Lazy Portfolios For America

It's largely unnecessary at this point to recite these six portfolios here - suffice it to say that they're basically different selections of index funds. This is a great section for people who like to follow exact recipes and worth reading to get the basic principles reinforced, but it basically boils down to buying a diversity of index funds and keeping them in balance. Again, almost all of these funds stick with Vanguard funds - why? Vanguard's focus is on index funds, which means that the costs of their funds are really, really low.

Part 4. Adventures Outside The (Vanguard) Box

17. The Care And Feeding Of Your 401(k) Plan

The number one thing you can do if you have a 401(k) available to you is **max it out**, especially if there is employee matching available to you. Beyond that, it's basically gravy - the tax benefits and the employee matching already make a 401(k) pretty much the best option you can get. Just select a small number of funds available to you to diversify with, or pick a "target retirement" fund that does the diversifying for you, then just sit back and let it be.

18. Happy Hybrids: One Fund Mini-Portfolios

What about those "target retirement" funds? Are they really worthwhile? If you're truly lazy and want to invest in just one fund, they're fine, but they'll cost you. Many of them are combinations of other funds with an extra management fee tacked on the top, plus they're actively managed so they might make you incur some taxes. In a 401(k) or a Roth IRA, they're fine - otherwise, pass on them.

19. The ETF Zoo: Spiders, Qubes, Diamonds, Webs, Vipers

If you have an account with a stock brokerage and some free trades, these are great ways to invest. However, if you're paying for the trade, you're better off just getting an account with Vanguard or Fidelity and buying the very similar index funds.

20. DRIP-DRIP-DRIPping With No-Load Stocks

DRIPs are a very solid idea provided that you believe in the company you're investing (DRIPs, for those unaware, are dividend reinvestment plans - if you buy one share in a company and then invest a small amount regularly, you can keep buying shares in that company for rather low fees). However, a few DRIP plans have high fees (if it's more than 1%, back away) and by themselves they're not diversified (owning one company's stock sets you up for an Enron-type disaster), so you have to have several DRIPs to be secure.

21. You Wanna Be The Next Super-Mario?

What if you want to day trade or manage your own portfolio in detail? You can do it if you want, but it's not really a good task for the lazy person as it requires a lot of diligence. Plus, it's very easy to be eaten alive by trading fees this way.

22. The Superpowered Zero-Funds Portfolio

Another option for your money is to invest in yourself by either self-improvement or by using that cash to start a business. However, entrepreneurship generally doesn't mix with laziness, so this isn't a good option unless you have a lot of personal initiative.

23. Lazy Portfolios For Not-So-Lazy Kids

The younger your child is, the more effective your financial investment will be. It doesn't really matter what the investment is - start when they're very young and let the power of compound interest work for you. But the best investment you can make for your child is *time* - spend time with your child and foster some character in him or her.

Part 5. When Laziness Fails You And You're Itchin' For Some Action

24. Sizzle.. Fuzz... That's Your Brain Frying On A Hot Stock

If you get a hot stock tip, **don't** follow up on it, period. Do whatever it takes to *not* think about it. Taking a chunk of your portfolio and dumping it into some random stock tip will usually do little more than leave you holding the bag with some big losses.

25. Plan B: Investors Learn To Live With Two Brains And A Split Personality

If you absolutely *must* invest in individual stocks, make a sandbox for them. Allot a certain percentage of your overall portfolio for individual stock investments. That way, if you incur some losses (and you inevitably will hit some *big* ones with individual investing), it doesn't destroy all of your diligent investing.

Buy or Don't Buy?

If you're the type of person who is basically uninterested or simply too lazy to learn about investing, this is probably the best choice for an investment book for you. The ideas and investments suggested inside are very, very simple to follow and they're all of the "sit back and don't worry about it" variety. Better yet, they make a lot of sense - the book is actually passing along pretty good advice. It's also written in a breezy tone and with a good sense of humor. If this all appeals to you, pick up this book and read it, especially the first part.

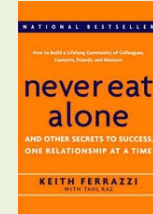
However, if you actually want to really understand your investments and why you're investing in them, there are many other investment books out there that can help you learn about investments in much more detail; I recommend starting with *The Bogleheads' Guide To Investing*, which I found quite impressive.

If you have money you want to invest, but investing bores you and you want a no-hassle recipe to follow, this book will provide a few good ones for you. It's also written in a pretty fun tone and is easy to put down and pick back up whenever you want. If that sounds appealing, definitely **buy this book**.

Never Eat Alone

The word networking has a very negative perception for most people; they imagine some guy shaking their hand, smiling, and marking them down in a Rolodex somewhere as merely another asset to tap someday. While there are people out there that match this mold, the truth is that actual relationships with people are a big key to success, and it's also true that most people simply aren't very good at quickly building mutually beneficial relationships with others. They either don't have the social skills, see it as being vampiric and cold, or simply don't see the larger benefit.

Never Eat Alone is a guide to networking in a socially healthy and mutually beneficial way, although it avoids the word "networking" on the cover (instead using the subtitle "And Other Secrets to Success, One Relationship at a Time"). The approach here isn't shaking everyone's hand in the room, grabbing business cards, and jamming them into an overstuffed Rolodex; instead, it's a much more humane approach, one that actually appealed to me even though that picture of the shifty networker above really turns me off.



Never Eat Alone
Keith Ferrazzi and Tahl Raz
320 pages
Published by Currency
ISBN: 0385512058

Never Eat Alone: A Walkthrough

The book is broken up into four sections, which themselves are broken up into a number of short chapters. Interspersed throughout are short one-page profiles of people who are particularly good at building relationships quickly (like Bill Clinton and Benjamin Franklin). While the profiles were interesting, it was the rest of the book that really contained usable advice and action points. Let's take a stroll through it and see what we find, shall we?

Section One: The Mind-Set

The first section of *Never Eat Alone* is rather introductory, as it mostly lays out the basic idea and explains some of the things that you *shouldn't* do.

Chapter 1 - Becoming a Member of the Club

This chapter is really an introduction to the rest of the book, laying out the basic premise that *real networking is about finding ways to make other people more successful*. In other words, jamming business cards in your Rolodex like that somewhat disturbing example above doesn't cut the mustard. Why is that? If you do something to make someone else more successful, they're more likely to value your relationship with them, and the more relationships you have with value in them, the more valuable you become, not only to yourself, but to the world: your employers, your clients, and so on.

Chapter 2 - Don't Keep Score

The most fundamental lesson of all in this book is that you shouldn't keep score when it comes to networking. If someone calls you up and asks for a favor that you can easily accomplish, make it so and don't look back. Relationships are not finite things that are a straight-up exchange of one thing for another - they are living, breathing things. If you are going to take the time to connect with somebody, you should be willing to try to make that person successful. If they succeed, you succeed - it's that simple.

Chapter 3 - What's Your Mission?

Networking is largely useless unless you have goals, which the book eloquently defines as a "dream with a deadline." Ferrazzi offers a three-step plan for setting goals. First, find your passion: what do you truly love to do? What would you enjoy doing for the rest of your life? Next, put those goals down on paper and flesh them out; his fleshing-out process is much like my plan for setting and reaching long-term personal finance goals in that you should write them down, then try to break them down into smaller goals that you can really wrap your arms around. Finally, build a "personal board of directors" by finding ways to establish a connection with people in that field already. How do you do that? Much of the rest of the book explains the process.

Chapter 4 - Build It Before You Need It

The main idea here is that you should begin reaching out to others and building your network of contacts before you need anything from them. If you start networking just as your job is about to die, it's too late. Ferrazzi offers several ideas on how to get started with this: join community groups that interest you, take leadership positions in hobby groups that interest you, enroll in a local community college class on the topic of interest, or try to become involved with an approved work project that enables you to come into contact with more people. Then, as you're exposed to more people, gravitate towards the ones who are involved with things that you want to be doing (i.e., your goals from the last chapter).

Chapter 5 - The Genius of Audacity

Many people have a very hard time being audacious when building a new connection: they want to appear humble and want to make a "good" impression right off the bat. The author suggests a different strategy: if you want something, be up front about it. It takes courage and a bit of talent, but Ferrazzi offers some guidance about how to find those things: find a role model, learn to speak, get involved, and simply giving it a shot. The worst thing that can happen is that they say no, which is the same answer you already effectively have, so what do you really have to lose?

Chapter 6 - The Networking Jerk

I loved this chapter, because it basically says "Don't do anything like what you imagine a 'networker' to be like." In other words, be the opposite of the Rolodex-stuffing scumbag. Instead, he offers six rules that ensure that even as you try to build connections, you never become that kind of jerk. First, don't schmooze: have something to say, say it with meaning, and focus on establishing a few good connections than spending your time surfing the room. Second, don't rely on gossip because it paints a picture of untrustworthiness. Third, be willing to give something away - he uses the example of bloggers who give away content to their readers. Fourth, don't treat those under you

poorly, ever (I believe in this one *strongly*). Fifth, be transparent - if you want to meet someone and are happy to meet them, say so. Last, don't be too efficient - make genuine, individual connections. If you're going to take the time to touch base with a contact, write to that person individually, don't just include them on a big ol' email to hundreds of people at once that starts off with "Dear friend!"

Section Two: The Skill Set

Now *Never Eat Alone* starts getting down to the meat and potatoes of this ethical and healthy breed of networking.

Chapter 7 - Do Your Homework

Once you've defined someone you wish to meet, the first step is to do your homework. Know who the person is (roughly), what their interests are, what they do, and especially what things you might have in common with them. The author even goes so far as to suggest making up short bios for each person you really want to meet at a particular meeting. This way, you'll have something to break the ice and also potentially flatter someone as well by knowing who they are.

Chapter 8 - Take Names

Once you have a connection with someone, it's important to get their contact information. The author recommends starting with everyone in your current network, then building from there by adding people that you *want* to meet that match your goals. Then, when you have the opportunity to meet them, fill in that hole. Keith recommends doing things like cutting out lists of people assembled by the media, because these people are usually reasonably well-connected - for example, he mentions lists of movers and shakers from trade magazines.

Chapter 9 - Warming the Cold Call

If you've ever had to call someone for business purposes without a prior connection to them, you know how terrible it can be, but sometimes you have to do it. Ferrazzi makes a couple of recommendations for how to make this go a lot smoother. First, try as best you can to find a connection to the person you're calling - someone you both might know. Second, make it clear to them right off the bat why this call is valuable by taking the homework you should have done on the person and connecting it with whatever the purpose of your call is. Be efficient with your words and try to pique their interest - don't ever drone on and on. If the purpose is to get an appointment to talk to that person face to face, close with a suggestion that even if the topic isn't of interest, you'd like to meet anyway because of the mutual connection's admiration. I really don't like cold calling, so this chapter left me feeling rather ... well, cold.

Chapter 10 - Managing the Gatekeeper - Artfully

The entire point of this chapter is simple: work as hard as you can to stay on the good side of administrative assistants. I honestly believe this is one of the best lessons in the entire book - never *ever* overlook an administrative assistant, blow one off, or make their life unnecessarily difficult. I often spend time just kibbitzing with the administrative assistants, not only where I work, but also in the offices of some of my associates, and there have been times that it has really paid off and some key administrative task has simply *happened*.

Chapter 11 - Never Eat Alone

The idea here is that a meal is a spectacular time to connect with someone, so if you're eating alone, you're missing out on an opportunity to connect with someone. I agree with this sentiment, and it's one of the reasons that I have to be careful balancing my brown-bag frugal style with the need to eat with certain people. In fact, the author suggests mixing and matching by inviting multiple people to eat with you from different parts of your social network, which can help build new connections and bring hidden ones to the forefront.

Chapter 12 - Share Your Passions

If you want to build a stronger relationship with someone, invite them to share in something that you're passionate about, whether it be the theatre or a baseball game or whatever. For me, this often means inviting them over for a meal, as I am passionate about cooking (homemade fettuccine Bolognese, a glass of great red wine, and a homemade chocolate raspberry trifle for dessert tends to make friends, trust me). Whatever it is that gets your fire going, share it with those that you want to build a relationship with.

Chapter 13 - Follow Up or Fail

Ferrazzi seems to treat this as the most important point in the book, so I'll put it in bold: **when you make a connection, follow it up**. Whether with a note or an email, you need to follow up on any connection you make that you feel is important. Ferrazzi also strongly hints that a handwritten thank-you note may be the best way to go to really stand out from the crowd.

Chapter 14 - Be a Conference Commando

This chapter offers extensive detail about how to maximize a conference in terms of meeting people, but what it really boils down to is discarding the preconceived notions of how a conference works. Generally, you should go intending to reach a wide audience by speaking and/or establish a good relationship with a small handful of people. Most important, though, is that you don't sit there and do nothing and that you don't turn into the schmoozing networker, either.

Chapter 15 - Connecting with Connectors

Here, Ferrazzi borrows heavily from the concepts in *The Tipping Point* and brings up "connectors" - those people who have an incredibly large and strong personal network. These people are obviously great to have a connection to, but how can you find them? Ferrazzi suggests several groups to look at: restauranteurs, headhunters, anyone remotely close to politics, public relations people, and journalists, for starters.

Chapter 16 - Expanding Your Circle

The biggest way to expand your circle of contacts, according to this chapter, is to merge your contacts with someone else. Offer to exchange invites to events with someone whose circle you don't know well - and who doesn't know your circle well. This can provide a great opportunity for both of you to seriously expand your circle. You can also agree to swap dinner parties with someone: each of you are responsible for half the guest list to two separate dinner parties, one hosted by each of you. This enables a lot of connections to be made, because when people you're connected to form more connections, everyone wins.

Chapter 17 - The Art of Small Talk

This chapter is full of the “typical” stuff people think of when they imagine what a course in interpersonal relations is like: Smile At Others, Unfold Your Arms, Relax, Lean In, Shake Hands, and so on. This is basically a one-chapter compression of the book *How to Win Friends and Influence People*, which I hope to review and give proper respect to at a later date.

Section Three: Turning Connections Into Compatriots

This part of *Never Eat Alone* is all about building upon those connections made in the previous section and turning them into people that you can rely on for a lifetime. It starts, appropriately enough, with freewill giving of yourself.

Chapter 18 - Health, Wealth, and Children

The best thing you can do to help another person is to directly impact one of the three things in the title of this chapter. Personal and financial health and the benefit of children are often direct keys to a person’s heart. If you are capable of doing something that helps a person in one of these areas, you’re often able to endear yourself to that person and establish a really fantastic and deep connection that will last for a very long time.

Chapter 19 - Social Arbitrage

The idea here is that you should strive to build connections in as many different areas as possible. Have connections in tons of different professions, social circles, and so on, and then make connections when needed between people who exist in completely different social universes. This makes you seem indispensable to both people that you’re connecting, as you’ve benefitted both of them in a way that neither one was capable of independent of you.

Chapter 20 - Pinging - All The Time

I have a habit of making lots of quick contacts with my friends on a very regular basis just so the connection between us stays alive, strong, and healthy. I do this by occasionally whirring through my list and touching base with anyone I haven’t talked to lately. This works for me because I’m highly comfortable with most of them. In this chapter, Ferrazzi highly recommends doing that exact same thing with your entire contact list - just contact them every once in a while to keep that connection alive, because without some maintenance, even the best connection can wither on the vine. The chapter particularly recommends using birthdays as an opportunity to deliver a sharp ping, with a handwritten birthday note.

Chapter 21 - Find Anchor Tenants and Feed Them

This chapter is basically a guide to hosting a successful dinner party, which is a great way to build up established relationships and help the people you invite to establish new relationships of their own. Most of the advice is pretty straightforward here, but I found several of the suggestions to be quite interesting: hire some entertainment, invite some additional people to stop by for dessert only (usually close friends who won’t mind the lack of a dinner invite) and provide fresh blood for the party, and avoid seating couples together as that will get people interacting more and blood flowing.

Section Four: Trading Up and Giving Back

The final section of *Never Eat Alone* is mostly about specific techniques for strengthening your overall circle, mostly by making yourself more valuable to them.

Chapter 22 - Be Interesting

No one wants to spend time around a boring person, so make yourself interesting. Beyond the obvious of keeping up with current events and having a point of view on the issues of the day, Ferrazzi offers several interesting ways to do this: ask seemingly stupid questions, always be open to learning something new and trying new things, take time out for vacations and spiritual growth, and never get discouraged if things don't go well.

Chapter 23 - Build Your Brand

Here, Ferrazzi goes beyond merely making yourself interesting into figuring out exactly what value you have for others. What do you bring to the table that others don't? What do you want people to think of when they hear your name? Figure that out and cultivate it when you can by focusing and behaving in ways that will cultivate that image that you want.

Chapter 24 - Broadcast Your Brand

This is a primer on basic public relations - in other words, spreading the word around about the image you want to cultivate. For me, this blog is, in a way, a method of broadcasting my brand. I'd like it if people saw the name Trent Hamm and thought about interesting and applicable ideas for my life and food for future thought written in straightforward language, and hopefully The Simple Dollar is helping to build that up.

Chapter 25 - The Write Stuff

Very brief here, but to the point: write, write, and write some more. The written word is an incredibly powerful communication tool, and the more you practice writing, the better.

Chapter 26 - Getting Close to Power

Many people want to know how to get close to those who have decision-making power, but often the generic straightforward methods end with no returned email or returned call. Ferrazzi suggests a different route: try being involved with political fundraisers, attending conferences, joining nonprofit boards, and playing some golf. For me at least, golf has been spectacular at opening up opportunities - I've met many different people on the golf course and have established some lifelong relationships with people that I've met in a foursome.

Chapter 27 - Build It and They Will Come

This is all about clubs and other social organizations. Basically, joining these is a great way to meet new people from areas that you may have nothing at all to do with, which makes it possible for you to expand your social network in completely new and unexpected ways. I found that being involved in the very local political scene has much the same effect - I now know people who run landscaping businesses, two local organic farmers, and lots of other interesting folks simply because I got involved in a group.

Chapter 28 - Never Give in to Hubris

This is a vital life lesson: if you ever begin to think that you've got it made, stop right now. It takes only one mistake to knock over the whole house of cards. The author gives a great story about getting caught up in the moment and making a complete jerk of himself by overselling what he had because of ego. Instead, be humble and realize that the connections you've already made are the really valuable ones, not the big one you're hoping to make.

Chapter 29 - Find Mentors, Find Mentees, Repeat

Ferrazzi makes the astute point here that you should always be looking for people to mentor and help you, but you should also be looking for people who you can help and mentor. This means that not only should you seek out help from others, but you should also be willing to step forward and lead others when the time comes - and consistently do both.

Chapter 30 - Balance is B.S.

As the book begins to close out here, this chapter makes a key point that people shouldn't have to compartmentalize their personal and professional lives and keep them in balance. In fact, Ferrazzi largely encourages the opposite: mix and match the two in whatever way makes you feel happiest about your life. In fact, he argues that the more people you interact with regularly, the more interesting and happy your life will become because of the diversity and variety.

Chapter 31 - Welcome to the Connected Age

Never Eat Alone closes here with a paean to the age of the internet which affords many ways to make connections easier and also affords a lot of ways to make yourself stand out from the crowd. Ferrazzi does go beyond the basic "sign up for social networking programs!" idea that many people seem to claim with regards to the internet, though, and moves on to some of the bigger changes that the internet is bringing about: major shifts in grassroots politics, the rebirth of guilds and old-style labor unions, and so forth. An interesting look at the future from the perspective of someone who is skilled at connecting with people.

Buy or Don't Buy?

I confess right off the bat that I'm not particularly skilled in the art of networking. Most of my endeavors find me either doing intense, focused research or find me writing in a solitary environment. Aside from a two year stretch in my life, I've never attended conferences or had any real need to network with peers or others. I also think the traditional view of networking, the one I expressed at the very start of this review, is pretty much a low form of life. So why read a book on networking?

First, **I recognize that my connections to others need a lot of work.** I know a lot of people, but many of the connections to these people are fuzzy and weak at best, and I often have no clue what to do about it. Maintaining connections simply doesn't come natural to me.

Second, **while the art of “networking” as it is properly seen turns me off, I do see the value of connecting with others.** I enjoy helping people, and having a network of people is a great way to continue to help others. Plus, if I had been spending time building an actual circle of people to connect to, I might be able to have my foot in the door in the publishing industry.

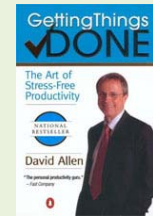
Third, **my life seems to be moving in a direction where connections will have more value.** A future in writing looks more and more possible with each passing day, and as I said above, it is likely that a key connection or two will help make it happen when the time comes.

In short, I see it as a skill that I really need to work on. If you see it similarly, ***Never Eat Alone* gets a strong “buy” recommendation from me.** However, if you’re in the situation I was a year or two ago, networking might not be a particularly valuable skill to develop - and the entire concept might make your stomach turn. If you don’t have a fundamental interest in the topic and have no interest in learning how to network in a socially healthy and ethical way, then this book will do very little for you.

Getting Things Done

From my perspective, David Allen's *Getting Things Done* is the book on modern personal productivity. It really has changed my life significantly, as I've written about in the past and alluded to a few times, but I've never really reviewed the book itself in detail.

To alleviate that, I pulled out my well-worn and repeatedly hand-annotated copy of *Getting Things Done* and read through it again, trying to see it again through the eyes of someone who is unfamiliar with the philosophy. What follows are my notes on this walkthrough, which hopefully will provide more than enough detail to get the general ideas in the book and also make up your mind whether or not it's something that's right for you.



Getting Things Done

David Allen

267 pages

Published by Penguin

ISBN: 0142000280

What's The Basic Premise?

In a nutshell, *Getting Things Done* really centers around one key idea: you will be more productive if you take the set of things you need to do out of your head and put them down on paper (or some other written form). After that's done, you can then focus on the tasks at hand and not worry about forgetting stuff, enabling you to focus better, get individual tasks done faster, and then move right on to another task without skipping a beat. It seems incredibly simple, but I can attest to the fact that this core idea works like a charm.

A Stroll Through *Getting Things Done*

As I leaf through the book, the first thing that I notice is that the outer margin of the book is loaded with quotations from various people and bullet points straight from the text. I think this speaks to the fact that this book is **highly browsable** - it's designed to be easily leafed through and browsed during spare moments as well as read in meatier sessions, which is fitting because of how modular the underlying philosophy is.

Chapter 1 - A New Practice for a New Reality

The first chapter outlines in great detail how the information age has really changed how our lives work. We're now consistently interrupted by deluges of email, cell phone calls, and so on, and quite often because of these technologies the line between our personal and professional lives begins to blur. Even more, we're changing jobs and careers quite often, which means that the productivity tricks that might apply specifically to one job will likely not apply nearly as well to other jobs. What's the end result of this? You wind up with a lot on your mind all the time, and quite often these things are half-formed ideas that you haven't been able to flesh out yet because of the deluge

of things to do. The key to success is to get all of those half-formed ideas out of your head - all of them - and then start going through them and focusing only on that task, confident in the fact that you don't need to be thinking about the other ones at the moment, because you'll get to them soon enough.

Allen suggests a "test the water" exercise that's worth repeating here. Take two minutes to actually try it and see if it results in at least some sort of positive outcome for you. In a very simple way, this exercise is the whole Getting Things Done philosophy in a nutshell.

I suggest that you *write down the project or situation that is most on your mind at this moment*. What most "bugs" you, distracts you, or interests you, or in some other way consumes a large part of your conscious attention? ... Now describe in a single written sentence your intended successful outcome for this project or situation. In other words, what would need to happen for you to write this project off as "done"? ... Now write down the *very next physical action required to move the situation forward*. If you had nothing else to do in your life but get closure on this, where would you go right now and what visible action would you take?

Chapter 2 - Getting Control of Your Life: The Five Stages of Mastering Workflow

From that exercise, Allen moves on to defining the five basic stages of the philosophy:

Collect Start writing down *everything* you need to do and put it in an "inbox." This inbox can be physical - literally make a note of every task you must accomplish or piece of information you must study or review and put it in a physical inbox - or electronic. Every single idea in your head, every email that needs a specific action, every piece of mail that needs a response - collect all of them and toss them in your inbox. You can have several inboxes if you'd like, just make sure that every plan, task, or idea in your head gets recorded and put into an inbox.

Process When you're ready to start accomplishing, process your inbox. Decide if the things in there can be done immediately (in less than two minutes) and do the immediate things. Otherwise, *do something with it*: either put it in a pile of specific, clear tasks that you need to get done, give the item to someone else to deal with, or put it aside to deal with later. This is the first thing you should do when you have time set aside to get work done.

Organize Now, deal with the stuff that you've put aside. If it's not something that requires action from you, throw it away, put it in an ideas folder (a "tickler" folder, as Allen describes it), or file it away for reference. Otherwise, it's either something you need to do in the future (put it in your calendar) or something highly complicated (a project). For each project, spend a moment determining the next specific action item that needs to be done and add that item to your pile of specific tasks to do, then put the project away in a place where you can regularly review it. Speaking of which...

Review Basically, this means that you should go through your projects and your idea folder and determine what specific items you need to do, then toss them onto your pile of specific tasks. You

can do this once a week or so. I actually put a “review items” into my inbox about once a week and process it as a specific task to do.

Do Amazingly, those other steps don’t take very long at all - I can charge through a quite-full inbox in about five minutes and then I’ve got a pile of specific tasks to do. Then I just start going through them one at a time and I’m confident that everything I need to get done is in that pile. You might need to order the pile a bit, but often I don’t order it at all unless something is crucial and needs to be done *now* - I just focus on getting stuff done. It works like a charm, I tell you.

Chapter 3 - Getting Projects Creatively Underway: The Five Phases of Project Planning

Here, Allen focuses on the challenge of transforming a large project into specific actionable tasks. It basically breaks down to five pieces: figuring out the purpose of the project, determining what you want the outcome of the project to be, brainstorming how to get there, organizing the material from the brainstorming into some sort of plan, then pulling out specific action items from that plan.

Let me give you an example. My wife and I want to buy a house because we need more room for our growing family (purpose). We decided the kind of house we wanted (outcome) and then started tossing out all of the stuff we needed to do to make it happen (brainstorming). After that, we took our ideas and folded them together into a general plan (planning) and since then we’ve been pulling action items out of it and getting them done, knowing we have an overall plan in place.

Chapter 4 - Getting Started: Setting Up the Time, Space, and Tools

This chapter focuses on setting up a physical implementation of GTD, which basically at its core requires a couple paper trays, some folders, some paper, some Post-Its, and some writing utensils. Given the philosophy, it’s not too hard to see how this comes together, though this chapter is loaded with specific tips on the topic.

For me, I basically keep my GTD in my backpack (basically an inbox in motion, along with a notebook for an action items list) and an even simpler form of it in my pocket in the form of a Hipster PDA. This is really all I need to keep mine going.

Chapter 5 - Collection: Corraling Your “Stuff”

If you’re going to give the system a shot, be warned that this first step of collection is going to be a major task. Basically, what you need to do is go through every aspect of your life where you have things that need accomplishing and put them all in a gigantic pile in your inbox. I often find that if I don’t have a physical item associated with a thing to do, I just take a piece of paper and write the item really big on the top - this works well for appointments and other tasks.

The first time is the trickiest - set aside an afternoon, seriously. What you’ll wind up with is a gigantic pile of stuff of all kinds that needs to be dealt with. When I first did this, my pile was about fifteen inches high - and there were no books in it, either, all paperwork and single sheets. Once this initial collection is done, ongoing collection becomes easy: when something comes up, toss it in your inbox, then start off every period of time you have to focus on getting stuff done with a processing of your inbox.

Chapter 6 - Processing: Getting “In” to Empty

Basically, processing your inbox means looking at every item in your inbox and doing one of five things with it: trashing it, completing it (if it's less than two minutes), delegating it, putting it into your own organization system (dealt with in the next chapter), or identifying it as a project that needs to be specially dealt with. Processing an individual item shouldn't take more than a few seconds unless it's one of those items that you can do in two minutes or less, so going through even a mountain of stuff shouldn't take too long.

Here's an example of my own inbox processing I did just now. There were three items in my inbox: a cellular phone bill, an issue of The New Yorker, and a sheet of paper that had a list of small household chores. Paying the cell phone bill would take a bit, so I put it aside into my “actionable items” pile; I then quickly processed my New Yorker issue by pulling out the drop cards and marking with a Post-It note the three articles that looked interesting, then I put that in my “readings” pile (I maintain a pile of stuff to be read). Since most of the items on the list of household chores take two minutes or less, I just went through that list immediately. Now, I start going through my actionable items...

Chapter 7 - Organizing: Setting Up the Right Buckets

This chapter focuses on the most self-defined part of the process: how will you organize all of your stuff? The chapter gives a ton of food for thought on various criteria for deciding what sorts of groupings to have and reading through it a time or two will really help clarify what groupings are really important to you.

As for me, aside from my calendar I have five “piles” that I put the stuff that I process into:

- *Actionable items* are straightforward tasks that I can just simply do and not worry about too much.
- *Readings* are items that I want to read. This is usually a pile of magazines and printed-out articles.
- *Storage* are items that I need to somehow store, either electronically or somewhere else.
- *Projects* are simply folders that describe large, ongoing projects. I keep all of the paper for these projects right inside and I go through them once a week to make sure there isn't anything I specifically need to be doing.
- *Ideas* are things to think about or to research. These are usually ideas for writing or things that might be far in the future.

These five piles pretty much take care of what I need to do in my life. Most of my time is spent going through the “actionable items” pile - I'm usually really happy when that pile is empty, because that means some pure free time.

Chapter 8 - Reviewing: Keeping Your System Functional

Naturally, like any system, if you don't do some occasional review, it starts to fall apart. The premise here is that at least once a week you should be reviewing all of your organization piles and figuring out what to do with everything in them, something I wholeheartedly agree with and which often defines my Sunday afternoons while my son is napping.

My normal review process, as I alluded to above, is to go through my “actionable items” pile whenever I have free time. When that’s done, then I usually move through the others as desired. Once a week, though, I spend an hour or so going through the other piles to make sure nothing has slipped through the cracks, especially the projects folders, which usually ends up with a bunch more “actionable items.”

Chapter 9 - Doing: Making the Best Action Choices

This is another area where you can “plug in” your own philosophy: how do you decide which of your “action items” to do first? Allen introduces three different philosophies for organizing these actions, but what it really comes down to here is what works best for you in terms of deciding which of the specific actions really need to come first and which ones can wait.

For me, it’s pretty easy: I put the “must do” ones on top, then I just deal with the rest as they fall. I might occasionally skip ahead if something seems pretty unimportant, but this is actually pretty rare for me.

Chapter 10 - Getting Projects Under Control

This brief chapter just reiterates the importance of being diligent on ongoing projects, particularly in terms of figuring out what comes next. If you’re stuck, just spend some time and go back through the brainstorming process and see what happens - the point is to never let a project start to collect cobwebs unless it truly is a low priority for you; instead, focus solely on the project and try to break the logjam.

Chapter 11 - The Power of the Collection Habit

The final three chapters, of which this is the first, are mostly just full of examples of how the process helps your overall life, often in subtle ways that you don’t expect. For example, the collection habit ensures that things stop falling through the cracks and often results in people trusting you more implicitly than before. Even better, it washes away a lot of negative feelings - almost everyone has felt terrible because they’ve forgotten something important. The idea of collection ensures that such forgetfulness need not happen.

Chapter 12 - The Power of the Next-Action Decision

Similar to the previous chapter, this chapter reveals some of the hidden benefits of determining what the next specific action is for a project - and doing it over and over again. For starters, you begin to truly appear like a leader to others because you seem to have a grasp on the project. You also inherently become more productive because you’re continually moving forward on a project rather than letting it sit there and stew.

Chapter 13 - The Power of Outcome Focusing

The final chapter looks at a part of project review that I briefly mentioned above: outcome focusing. In the past, I derided *The Secret* for selling outcome focusing as a magical solution, but the truth is that it has a role within a larger structure of accomplishing things: it’s the carrot that can lead you to accomplish tasks and really see where these tasks lead. For me, outcome focusing is key when I consider things like spending time with my son. I like to imagine that my son will turn out to be a

wonderful, level-headed child; by visualizing that, it's quite easy for me to comprehend why I want to do things with him that will develop his mind and body and soul, like reading a book with him or taking him to the park or holding him close to me as he drifts off to sleep.

Buy or Don't Buy?

This may be a first in the history of The Simple Dollar, but I have to say that *Getting Things Done* gets a **buy recommendation for everyone**. It is simply the best personal productivity book I've ever read, and there's material in this book that can apply to *anyone's* life, whether you're a manager or a writer or a professional or a stay-at-home parent. You can get it for less than nine bucks - for me, it was perhaps the best nine dollars I've ever spent. At first, it seems like a whirlwind, but most of the stuff describes above takes seconds to do and then you can get down to doing stuff with a very clear mind and you'll suddenly find yourself getting an incredible amount of stuff done.

First Things First

Several weeks ago, I reviewed in detail Stephen Covey's classic personal development book *The 7 Habits of Highly Effective People*. I found it to be an interesting read and was quite open to reading more books from Covey, and the blurb on the back of this one attracted me.

It spelled out quite clearly that **this is a book about the philosophy of setting priorities**. It focuses on making the distinction between what's "pressing" and what's actually important, and looks at techniques for quickly and regularly identifying those which are important. In Covey's view, we all strive to do the things that are important to us, but we're often distracted by things that are "pressing" - things that have to be done *right now* that aren't necessarily a part of the central values of our life.

How do we strike a balance between the urgent things and the important things. That's what this book is all about.

Looking At *First Things First*

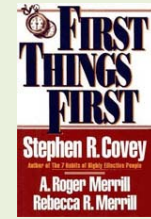
Right off the bat, you'll notice that **this book is dense**. It's roughly 350 pages long and each page has a lot of meat on it. I tried reading through it all at once and it simply didn't work - I had to slow down and read it a bit at a time. The book is split into four sections, but these are more general divisions - the book actually flows well from start to finish.

Section One - The Clock And The Compass

Immediately, *First Things First* argues that even if you discover an incredibly powerful method of personal productivity that enables you to get stuff done at a much faster rate, it doesn't always solve the problem of having lots of things to do. The real key is knowing how to seek out things that are really important to you and focusing on those, allowing the other things to simply fill in the remaining gaps in your life.

1. How Many People On Their Deathbed Wish They'd Spent More Time At The Office?

First Things First opens with a review of time management philosophies, pointing out the weaknesses in each one. Mostly, these weaknesses boil down to the fact that almost all time management philosophies are centered on the clock - focused on maximizing the use of the moment and making sure you make it to meetings on time - and fail to deliver on the compass, or the greater central values in one's life.



First Things First

Stephen Covey

384 pages

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This was actually explained using a rather brilliant analogy, that of the parent who discovers suddenly that his/her child is on drugs. Obviously, this isn't a desired outcome for most parents, and a parent can quickly see that quality time spent with a child could have prevented this from happening, but their time management philosophy was too focused on filling the schedule and getting things done and failed to actually focus on what was important to the parent, spending time with the child.

I will say that at this point in the book, I looked at my own philosophy of managing time and noted that it worked because I devoted blocks to the things important to me, like spending time with my family and cooking a supper at home. There's nothing in the world valuable enough to interfere with these times - if my job started to interfere regularly, my job would go and I would find something else to do.

2. The Urgency Addiction

I found this chapter to be extremely interesting. Covey argues that most people are in fact addicted to urgency and gives some self-evaluation questions to prove the point - I found that I was somewhat addicted, but I believe that at other points in my life I was very addicted to urgency.

From there, Covey lays out a time management matrix, made up of four quadrants:

Quadrant I - *Important and Urgent* - crises, deadline-driven projects, and pressing problems

Quadrant II - *Important and Not Urgent* - preparation, planning, and relationship building

Quadrant III - *Not Important and Urgent* - interruptions, most phone calls and mail and reports

Quadrant IV - *Not Important and Not Urgent* - trivia, busywork, time wasters, and escape activities

If you sit and think about it for a bit, you'll realize that most of what you spend time doing is in quadrants I and III, but most of the really valuable things in life are in quadrant II. I know that it's often difficult to brush aside things in quadrant I and III (writing articles, specific work and household tasks) to do things in quadrant II (quality family time, serious planning).

3. To Live, To Love, To Learn, To Leave A Legacy

This chapter was extremely philosophical in nature. It primarily focuses on introspection and finding the basic guidelines with which we make choices in our lives. Covey breaks this introspective trek down into three main pieces:

The fulfillment of the four human needs and capacities Our basic human needs are physical, emotional, mental, and spiritual, and truly profound experiences come from the point where all of these meet. Those are moments that we should strive for above all, because they deeply fulfill us. When I actually try to visualize moments when these all meet, I imagine playing with my son in the yard.

The reality of "true north" principles These are the basic rules by which we govern our life, and we find ourselves feeling as though we've failed somehow when we violate them, even if on many levels we succeed. Covey uses the example of cramming for tests when in college; it might get us through and get us a degree, but we didn't really learn much and we missed out on the opportunity

to really expand our mind. Cramming in college is something I often regret - and I also regret how much time I wasted on stuff that really didn't matter in the end.

The potentiality of the four human endowments Covey states that four things separate humans from other species: self-awareness, conscience, independent will, and creative imagination. Whenever we spend time working with these traits, we benefit ourselves. Covey recommends several specific activities that really bring out these traits and show how they can be used to help our own lives, and one of them (interestingly) is keeping a personal journal, something I do almost to excess, but that I find incredibly powerful from time to time.

Section Two - The Main Thing Is To Keep The Main Thing The Main Thing

This second section is really the meat of the book, as it focuses on how to organize your life in such a fashion that your choices truly reflect importance instead of urgency. I felt that there were a lot of little pieces from this section that could be applied to anyone's life, no matter how they choose to organize their time.

4. Quadrant II Organizing: The Process Of Putting First Things First

First Things First recommends that instead of focusing on planning out individual days, you should look at a week at a time. From there, much of this chapter reads a lot like the third habit from *The 7 Habits of Highly Effective People*.

The central idea is that before you plan out a week, you should identify what your roles are in life (for me, that would be parent, writer, worker, husband, and volunteer) and then identify a goal or two you really want to focus on this week for that role. For example, as a parent, I would want to take my son for a long walk in the park and read him five books. Then *pencil in these central goals above everything else*. Let the other tasks in your life fit around these central ones. Give this a shot - it's really powerful.

5. The Passion Of Vision

This is all about the long term. Take the roles from the previous chapter and then imagine your eightieth birthday party. What would you like for people to say about how you acted within each of those roles? Be serious - what would make you feel like you really accomplished good things with your life? Those are the central goals of your life, and your choices should always move you towards these central goals.

By putting in those "quadrant ii" tasks from the previous chapter before you put anything else on your weekly schedule, you are giving yourself room to really build up these important things. Select goals each week for each of your roles that really match these lifelong goals that you imagine when you think about your eightieth birthday.

6. The Balance Of Roles

Many people feel as though their roles in life are very isolated from one another. Take my own: parent, writer, worker, husband, and volunteer. Where is the overlap there? Most of the time, it

feels like there isn't any, and thus it often feels like there isn't enough time to really fill all of the roles.

The key is to find things that fulfill multiple roles. For example, let's say that my wife and I take our son to the park and we spend our time there walking around picking up trash and cleaning the park, and also talking to each other and playing a bit. That one activity fills the roles of father, husband, and volunteer. Let's say, also, that my wife and I are having a serious discussion on a particular finance issue, so I get out my laptop and start taking notes that express both of our perspectives, and later am able to convert this into an article or two. I'm being a husband and a writer there, so it's worthwhile for me personally to occasionally plan for such talks with my wife, where we plan out where our money is going.

One useful way to do this is to **look at who you're responsible to in each role**. For example, as a parent I'm primarily responsible to my son and daughter, while as a husband, I'm primarily responsible to my wife. When I have opportunities to spend quality time with my children and with my wife, I fulfill both roles. As a volunteer, I'm responsible to the group I volunteer for, but as a writer, I'm responsible to my audience. Thus, when I find ways to translate volunteer work into material for an article (I'm betting that if you look around The Simple Dollar much, you can probably figure out a few), I'm being responsible to both roles.

7. The Power Of Goals

I often talk about setting goals on The Simple Dollar, even going so far as to have a "goals week" a while back, so I found this chapter to be quite interesting. Covey brings up the interesting point that quite often our goals aren't very synergistic. For example, I might have goals that are focused entirely on my role as a writer, but they don't touch at all on other roles in my life.

The solution? Invest some serious time in setting goals. This means not only coming up with them and planning them, but evaluating their real worth in the overall context of your life. For each long-term goal that you are thinking of setting for yourself, ask yourself what precisely the goal is, why you want to achieve it, and how you're going to get there.

Covey also advocates setting week-long goals by going through each role you've identified and asking yourself *What are the one or two most important things I could do in this role this week that would have the greatest positive impact?* Although I haven't formally adopted the entire philosophy behind this book, I find it really worthwhile to ask myself this question at the start of each week and jot down a goal or two for each area. Keeping them in mind makes me feel substantially more productive during the week and I usually feel as though I've really accomplished something when I meet all or most of the goals.

8. The Perspective Of The Week

Another challenge is the gap between the close up view of life (urgent things, immediate needs and tasks) and the long term view (fundamental needs, long term direction). This chapter offers a multitude of ways to ensure that the close up view never overshadows the long term view of life with the key being that you look at things in the intermediate term (again, a week at a time).

The best way to do that is to actually spend some time thinking about how you're spending your life. Covey strongly encourages spending a portion of time each week focusing on the goals of the coming week and making sure that they're in line with your long-term goals. He even advocates spending an entire day each week for renewal, reflection, and recommitment - perhaps a bit much, but it is worthwhile to set aside some time each week for this.

9. Integrity In The Moment Of Choice

A lot of choices are made in the heat of the moment, and we often make gut responses to them that might not necessarily be in line with our big picture. I know that many of my split-second choices are made without really thinking about it (a la *Blink*).

Covey's philosophy is that the more time you spend in a relaxed reflection mode, carefully considering your goals without pressure, the better you become at making quick choices that are really in line with your overall goals and values. This is very true - I tend to make better choices when I have more time to focus on those things that are really important to me, because I find that it triggers change in what I like to call my "short term values."

10. Learning From Living

This final chapter of the second section focuses on how to review a week that has passed as you begin to prepare for the coming week. It's a nice collection of suggestions on how to turn your reflections on events passed into the foundation for planning the week to come.

One particularly powerful part of the chapter for me was a lengthy list of questions to ask yourself about the week just past. Covey encourages answering these questions in the form of a journal entry about the week. This seemed like a bit "much" to me, but I gave it a try and I actually found it to be quite useful - it spelled out for me the things I did well and the things I could work on in the future, and it really did provide a foundation for the coming week.

Section Three - The Synergy Of Interdependence

This section moves from the meat and potatoes of the previous section and moves into looking at how this philosophy affects your interaction with others.

11. The Interdependent Reality

Anything worth creating is a collaboration between *people*, not things. That's the premise of this chapter, which goes on to basically argue that the real power is in the collaboration itself and that the product produced is merely an expected result of a good collaboration. For some, this is a hard thing to swallow (I know it was for me), but if you view the human process as the important part and look at how to improve the human part of the equation, almost everything you do will have a better result.

12. First Things First Together

This is basically an application of the individual patterns from the previous section to a group

environment. In effect, it condenses the material and merely points out how it can be used effectively in a team.

Basically, teams should have weekly meetings that are focused around the philosophies spelled out earlier, that of carefully defining goals and actually working towards long term ideals rather than just focusing on the immediate. If people disagree, focus on having everyone understand both sides clearly and then look for solutions that incorporate the logic behind both arguments.

13. Empowerment From The Inside Out

Obviously, many organizations can't deal well with such a philosophy. This chapter focuses on the traits of an organization capable of handling this type of workflow: trustworthiness (and trust), accountability, self-direction, and willingness to look for the best solution.

I know from personal experience that many environments are lacking some of these pieces, and Covey offers a ton of specific advice on how to handle environments where pieces are missing - and how to find them. This is a great chapter for a manager and not quite as applicable to others.

Section Four - The Power And Peace Of Principle-Centered Living

The book concludes with some examples of how applying this overall philosophy can really change one's life. There's not much meat on the bones in this ending portion, merely a lot of examples for people who work well seeing examples.

Buy or Don't Buy?

I actually found *First Things First* to be much more profound and also more applicable to my life than *The 7 Habits of Highly Effective People* (and that's probably why this review went on so long). This book is really stuffed with a lot of good ideas to think about that are much closer to day-to-day life than the material in *7 Habits*.

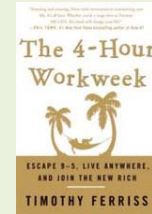
I would recommend this book to anyone who regularly feels like they're just running in place doing little tasks that really don't add up to much of anything. There have been points in my life where I strongly feel that way (luckily, I think I've moved away from that point) and this book really, really speaks to that frame of mind.

This is a book where it's worthwhile to read a chapter, spend a day or two thinking about it, then read the next one. That's actually how I read it - there was so much content stuffed into each chapter that I had to take some breaks to process it. It's one of the most compacted personal development books I've ever read - there's a lot of meat on every single page.

In short, I definitely found it to be one of the better books I've read on personal development and substantially better than *The 7 Habits of Highly Effective People* (which I liked as well). This one is worth picking up.

The Four Hour Workweek

Almost always, when I see a book with a title like *The 4-Hour Workweek*, I cringe, pick it up, leaf through it to a random page, see something with very little basis in the reality of most middle class people, close the cover, and promptly forget about it forever. When I saw this book in the bookstore about a week ago, I fully expected to do the same: I cringed at the title, picked it up, and began to leaf through it. But instead of cringing, I actually found myself seeing how some pieces of it could be applied to my life, and so I decided to give it a whirl.



The Four Hour Workweek

Timothy Ferriss

320 pages

Published by Crown

ISBN: 0307353133

What *The 4-Hour Workweek* Is About

First of all, I think the title of this book is a bit of a misnomer and is useful for grabbing attention. What this book actually is is the complete embodiment of the 80/20 principle into an individual's professional life. The 80/20 principle is the idea that 80% of your productivity comes from 20% of your time, and the other 20% of your productivity eats up 80% of your time.

Ferriss argues that by eliminating that 20% of productivity that eats up most of your time, you can live in a much more efficient fashion, and the entire book revolves around that concept in various ways, hence the title *The 4-Hour Workweek*. In some ways, the book itself reads like a blog, as it's broken down into lots of little pieces: some of them step-by-step advice, some of them anecdotal, and some of them philosophical.

At the bottom, I'll give my nutshell thoughts on whether this book is worthwhile, but let's walk through it piece by piece and see what's worthwhile.

Walking Through *The 4-Hour Workweek*

First and Foremost

Right off the bat, the book makes it clear that you should **pick and choose from the material presented within**, and that's a vital caveat for any personal productivity book - but especially this one. A personal productivity philosophy created by someone else is designed around their own lives and the lives of the people they associate with, but not necessarily your own. Thus, when you read a book like this one, you need to be able to pull out the pieces that work for you.

Why is that idea more true for this book than for others? Here, **the different pieces of the book apply differently to different people**. This is not like *Getting Things Done*, where the pieces can be applied in any life; many of these tips assume that you're already wholly into the information age

and that your methods of earning money are, too (or at least are comfortable enough with technology to easily move to that sort of approach).

As we keep going, you'll see why this is really important.

Step I: D is for Definition

Most of this section is devoted to divorcing yourself from the idea of working yourself to death for a gold watch and a pat on the back. Instead, you should abandon a few concepts such as retirement as a holy grail and that absolute income is the most important thing (relative income - i.e., the amount you earn per hour of work - is the most important thing in this book). These are assumptions that actually have a lot in common with books like *Your Money or Your Life* and the voluntary simplicity movement.

Here's one key exercise from this section that really shows what he's talking about. **Spend about five minutes and define your dream.** If it wasn't for the things you *had* to do, what would you be doing with your life right now? For me, at least, I would be a stay at home dad, writing during my spare time (like the evenings and so forth).

Now, **spend another five minutes and define your nightmare in as much detail as possible.** **What is the absolute worst thing that could happen if you followed that dream?** For me, it's mostly a fear of not being able to support our children due to inadequate income.

If you take the dream and compare it to the nightmare, is that possible nightmare really bad enough to abandon your dream? For me, it's not, and that's why I continually inch closer to becoming a full time writer - in fact, I would probably make that leap if a significant portion of our home was paid for right now.

From there, the book goes into a very detailed process of breaking down that dream into tangibles and seeing how close you really are to that dream - and sets up the remainder of the book, which identifies things you can do to reach that dream.

Step II: E is for Elimination

In terms of techniques that you can really use to improve your day to day life, this section has the best advice. It focuses on some very straightforward techniques for eliminating most of the regular mundane activities that fill our professional lives. Here are seven examples that I particularly liked:

Make your to-do list for tomorrow before you finish today. When you add an item to this list, ask yourself if you would view a day as productive if that's the only thing on the list that you got done. Then, when you start in the morning, just attack that list with vigor knowing that all of the stuff is worthwhile.

Stop all multitasking immediately. This means when you're trying to write, close your email program and your instant messenger program and your web browser and just focus on writing,

nothing else. This allows you to churn out the task way faster. For me, this was a huge step forward in my life.

Force yourself to end your day at 4 PM or end your week on Thursday. Even if you have to come in on Friday, do nothing (or, even better, focus on something to develop yourself). The goal here is to learn to compress your productive time.

Go on a one week media fast. Basically, avoid television (other than one hour a day for enjoyment/relaxation) and nonfiction reading of any kind (including news, newspapers, magazines, the web, etc.). By the end of it, you'll discover that the media and information overload was giving you a mild attention deficit.

Check email only twice a day. I actually do this with The Simple Dollar, especially as the email volume has ramped up, and I've found it to be incredibly effective at reducing the time sucked down by dealing with mundane emails. Combining this with the "no multitasking" principle enables email to only eat up a sliver of my time when it used to seemingly bog down everything.

Never, ever have a meeting without a clear agenda. If someone suggests a meeting, request the specific agenda of the meeting. If there isn't one, ask why you're meeting at all. Often, meetings will become more productive or, if they were really time wasters to begin with, they'll vanish into thin air.

Don't be afraid to hang up a "do not disturb" sign. This was something that seemed very natural to me, but for many people it's not. If you're being interrupted regularly by people popping in, you're effectively multitasking and multitasking is a time waster, so if you have a task that requires your focus, literally hang up a "do not disturb" sign. People will get the message.

The section has a lot more tips along these lines, but the idea here is to compress, compress, compress so that the unnecessary is squeezed out and you're left with much more dense and effective use of your time.

Step III: A is for Automation

This section is, to me, the least valuable part of the book, because it is in essence a lengthy description of how to become a little or no-value-added entrepreneur - in other words, a middleman. The idea is that if you set up being a middleman appropriately, you can create a stream of passive income that permits you to make money with very little effort.

While this is interesting to some people, the truth is that it's not quite as easy as the author makes it out to be. It relies heavily on salesmanship (the ability to convince people you have a product that they want) and luck (stumbling into a market). If you have both (and the examples he uses have both), you can do quite well, but such things are never a guarantee.

My approach is instead to figure out what I was good at (writing) and what I was passionate about (personal finance) and what I had knowledge of (the web) and combine the three. To me, that's

what makes a great entrepreneur, not the program defined in this section as it is far too specific for many people to succeed at. I have no doubt it worked well for Tim and for others, it's just not something that everyone can do and be successful at.

Step IV: L is for Liberation

The final section ties the pieces of the puzzle together into an overall picture. In essence, it takes the dreams defined in the first part, the enhanced productivity of the second part, and the passive income of the third part and creates that titular four hour workweek.

The first step is to **change your job so that you can work remotely**. You can do this by getting efficient (as described in the second step), then demonstrating your efficiency during sick or vacation leave, then requesting some time away from the office as part of your routine, then gradually shifting to an all-remote life. This way, you can tackle the work from anywhere on your own terms. Of course, this may also lead you to quit your job if you are able to build up new opportunities (like those from the third section).

What do you do with the free time? That's the entire point of this book, that time is the really valuable asset we have in our lives, not money. Time allows you to follow your dreams, and this entire book's purpose (at least steps two and three) has been about moving more and more time into your own personal life so you can do these things.

I found the entire discussion to be inspirational, but also risky. I worked with an individual that did this over time, and after about two months of working at home, even though she was productive, she was basically deemed to no longer be part of the team and was removed from her job. I basically think this is a great way to make a healthy life transition, but unless you're the head of the business, it won't work over the long run unless you provide something remotely that no one else could possibly provide in-house.

Buy or Don't Buy?

Giving a straightforward buy or don't buy recommendation for *The 4-Hour Workweek* is difficult, because it has a lot of good core ideas surrounded by a whole truckload of marketing hype. We get the memo, Tim: you're a big fan of marketing and salesmanship.

If you are capable of taking a book and pulling individual ideas out of it while leaving other ideas completely alone, this book is worth reading. However, if you pick up a book and expect it to be your bible, you're going to be in deep trouble with this one, because while there are a lot of interesting pieces in the box, it takes a very specific kind of person with a lot of individual skills already in place to put them together.

That being said, I enjoyed *The 4-Hour Workweek* a lot. It was a fun read and there were some very good personal productivity ideas sprinkled throughout the book. If the title seems appealing to you, give it a shot - just be sure to look past all of the self-marketing that Tim does throughout the book.

The Path of Least Resistance

The premise of this book is quite intriguing to me, a person who spends much of his time engaged in creative work. *The Path of Least Resistance* argues that creativity functions best when you put as little resistance against it as you can. In other words, if you take away obstacles and open as many creative channels as you can, you'll maximize your creative potential.

I understand this premise deeply - it's why I often write in the middle of the night with nothing on but some light instrumental music while my children and my wife are in bed. I'm not worried about work or any deadlines and I can just open the floodgates - that's when the ideas happen. I think it also explains why many people come up with great ideas in the shower - the opportunity to use a shower to slow down, enjoy the warm water and cleanliness, and let some stress pass out of us opens up the creative channels.

Robert Fritz's idea is certainly intriguing, but how is it useful? *The Path of Least Resistance* is basically a guide for creative people on how to minimize creative obstacles and open creative channels in our everyday life, which is invaluable if you buy into the central idea that this is a big key for creative thought (which I do). Admittedly, there is a bit of what I like to describe as "New Age language" in this book - words that don't relate to concrete action - but there's also a lot of compelling thought and action within these covers.

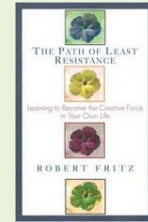
Digging Into *The Path of Least Resistance*

Chapter 1: The Path of Least Resistance

Fritz opens the book by identifying the three basic underlying principles of the book. First, *you go through life taking the path of least resistance*. In other words, we spend our lives trying to find the path to our goals that involves the smallest number of obstacles. Second, *the underlying structure of your life determines the path of least resistance*. This includes your predispositions, ethics, and thought patterns, as well as external pieces like your job, your personal life, and so on. Third, *you can change the underlying structures of your life*. You can change jobs. You can seek out therapy. You can rearrange your living room. The trick is to find the structures in your life that can create a path with less resistance than the one you're following right now. I think that's a pretty sensible philosophy for life, actually.

Chapter 2: The Reactive-Responsive Orientation

Most people go through life merely going with the flow of the events around them, reacting



The Path of Least Resistance

Robert Fritz

320 pages

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(negatively) or responding (positively) to these events. Rather than looking for things that can be changed, their path of least resistance involves just floating along until an external event forces them to change paths. They either react by fighting it or they respond by trying to solve the problem, and when it's fixed, they go back to drifting. Some people execute preemptive strikes against potential problems they see coming, but it's still just a way to get back to the act of drifting. The problem is that it's hard to be truly creative when you're constantly having to leap out of your flow to react or respond to things - think about sitting at your desk and trying to think about something when the phone rings. Usually, your creative flow is shot while you deal with the phone call - and that's a bad thing for people who work creatively.

Chapter 3: Creating Is No Problem - Problem Solving Is Not Creating

Here, Fritz distinguishes between problem solving and creating, a distinction I hadn't really thought about. Problem solving is merely an extension of the reactive-responsive orientation in the last chapter - a problem comes along, you bring your mind to bear on solving it, and the problem is reduced or goes away. Creating, on the other hand, is the process of bringing something new into the world. I like to think of it in terms of writing - the core germ of the idea just seems to appear out of nowhere, but once I've captured it, the art of honing it is sometimes much like problem solving. Yet the two processes are so completely different as to be like night and day.

Chapter 4: Creating

The creative process itself is very hard to write about in tangible terms, and most written accounts usually come off as sounding nonsensical. Fritz tries very hard here to avoid falling into that trap and only partially succeeds. He tries to break it down into pieces, which works on some levels but doesn't work on others. I think he's right, though, on some key aspects: practice the fundamental skills needed, know what other people are doing, throw things against the wall to see what works, develop the themes that do work, and use the more finished pieces to seed other creative pieces. That's basically how I work in developing ideas and concepts - I read a lot of personal finance material and what other bloggers are writing, I write a lot to keep the skills flowing, and when I have an idea, I gradually flesh it out and it often bears seeds for other, later ideas.

Chapter 5: The Orientation of the Creative

Fritz argues that the creative process is results-oriented, in contrast to the reactive-responsive orientation which is problem-oriented. Although a creative person may be interested in the process itself and seek to refine it by working on their skills and so on, the real crux of the creative orientation is in the results you achieve. What do you want to make? Once you've defined that as clearly as you can, you can follow your own process to that result, either your own self-defined process or processes borrowed from others and modified a bit to fit you. Things like practicing your notes or your painting or your writing merely seek to strengthen the process that goes from nothing to the result you desire. Also, in this orientation (as compared to reactive-responsive), you can define your desired result at any time instead of waiting for a problem to come along. It's very much self-driven.

Chapter 6: Tension Seeks Resolution

This chapter discusses a pretty important point in a lot of words. First of all, whenever we're tense,

it's because there's some sort of unresolved issue in our life. Obviously, the best solution is to resolve it so that the tension goes away, but often we don't. Why? There's often some tension in the solution as well, something completely different. Here's an example: say there's someone in your workplace that harasses you, creating tension. Your solution to that problem would probably involve confronting the person or talking to a supervisor, but the thought of both of those solutions is also tense. So you're being effectively pulled in two directions at once - the tension of the situation, plus the tension of thinking about talking to a supervisor. Now, you might be able to overcome this by just getting up the courage to talk to a supervisor, but what if the supervisor is the harasser? You're stuck.

Chapter 7: Compensating Strategies

Fritz makes the argument here that most of the solutions for compensating for this tension really don't work. Positive thinking just stretches out the problem. Most self-help groups, particularly those for shaking addictions, end in relapse. That's because these solutions often don't deal with the problem directly - instead, they deal with avoiding the problem. So, the obvious question becomes "how do I deal with this problem?" The best solution is to change the underlying structure. If you have a drinking problem, find friends that don't drink and engage in a daily routine that doesn't take you near the bar. If you're stressed out about work, find a new job or request a significant change in your workplace. **In other words, take action that changes the playing field - don't just think about it.** That's awesome advice.

Chapter 8: Structural Tension

Our lives are full of tension. For some people, this is nothing but a raw negative - it makes them tense and brings them down with stress. For others, it can be a positive - they use that tension to push themselves towards better solutions. The creative process, for example, is just using that tension to create something new. The book offers up two pieces to that puzzle.

Chapter 9: Vision

The first piece is *vision*, or an idea of what you want to create or accomplish. A true vision is something tangible that can clearly be accomplished, even if the path to get there isn't clear. It is *not* a mission statement-type thing: if you're talking about "creating something great," that's not tangible nor useful. If I wrote "I want to create a great blog," that has no real meaning because I don't know what "great" is - I need to work more on the idea until it's tangible. **What I really like about this book is that it effectively criticizes "empty" solutions, like the power of positive thinking and empty mission statements.**

Chapter 10: Current Reality

Most people don't face reality as it really exists. They're often loaded down with excuses and false reasons for why things are the way they are - it's a basic defense mechanism that we spend our whole lives building up. We learn it as children when we find it's easier to lie about something we did wrong (and avoid punishment) than to tell the truth (and get punished for a bad deed). *That perspective argues for a pretty significant difference in parenting style, doesn't it?* It carries on through adulthood in various ways, disguising the reality of our actions and our lives. Fritz merely argues that the more honest we are about our lives, the clearer a better path in life becomes.

Instead of convincing ourselves that our job is good or bad, we look at it for what it really is and make a choice based on that - and so on. Eventually, it becomes much easier to see the real obstacles to creativity - and to understand what needs to be done to change them.

Chapter 11: The Creative Cycle

At this point, the book shifts a bit into a deeper study of the actual process of creating something. Fritz argues that the creation of anything breaks down into three pieces: germination (the initial spark of the idea), assimilation (where you stew on the idea and allow it to develop), and completion (where you actually finish up the idea, creating something new). It's pretty easy to see these three steps at work when I write: I get the basic idea for a post (germination), let it sit in my mind for a while to grow (assimilation), and then I draft and polish it a bit (completion).

Chapter 12: Germination and Choice

The Path of Least Resistance argues here that the biggest part of germination of an idea is *choice*. We make choices about what to create, discarding ideas that don't work in an effort to find one that does. Ideally, this process leads us to the best idea, the one that's worth assimilation and, eventually, completion. The biggest challenge, though, is that we sometimes use faulty criteria to make that choice - we'll discard great ideas because they're too hard and they may stress us too much. I'm guilty of this, too - I've come up with great ideas for The Simple Dollar, but discarded them because I could quickly tell that proper execution of the idea would be a *ton* of work.

I found that revelation to be one of the best parts of the book, the piece that really ties everything together. These criteria that one uses to discard great ideas and instead select merely good ones are the obstacles in your life that really stymie the creative process. For me, the biggest one is *time* - and I know that. Thus, I need to seek ways to find more time to develop the truly great ideas. There are other obstacles, too - I've discarded great ideas because I knew they would be emotionally demanding or they might reveal more about myself or about others than I feel comfortable talking about on The Simple Dollar. These all have solutions - facing my fears - and they all would result in some changes in my life and the way I think about things.

Chapter 13: Primary, Secondary, and Fundamental Choice

Fritz carries on that idea here, arguing that most choices in life are either primary, secondary, or fundamental. The best way to show the difference is in an example. A person who desires to stop smoking may make a primary choice to try a particular package to help stop smoking, and may make a secondary choice not to light up. However, their fundamental choice is to choose to *be a nonsmoker*. If they've not made that choice, the primary and secondary choices won't help. Now, once that fundamental choice is made, there are obviously some primary choices that are easier than others - a nicotine gum, for example, might be easier than cold turkey, but that choice really doesn't matter if you've not made the choice to stop smoking. The same idea applies to anything in one's life - you might choose to write a great novel, but if you haven't made the fundamental choice to *be a writer* - and take on the commitments that the choice involves - you will *never* be a great writer.

Chapter 14: Assimilation

Here, *The Path of Least Resistance* argues that assimilation - or the carrying of an idea inside of you and letting it grow and develop - is a major key to the process. It can involve thinking about the idea, practicing fundamental skills, or just letting it rest in the subconscious. It is that assimilation that creates something distinct and unique - the combination of an idea along with the internal struggles and conflicts and desires within you. In other words, keeping an idea inside for a while often creates something truly great.

Chapter 15: Momentum

Fritz describes something I've felt and seen over and over again. As an idea grows within you, it starts to build momentum - there's really no other way to describe it. The pieces start to fall into place and it begins to grow into something truly compelling in your mind - and eventually, it wants out. It *demands* to be made. This can take a *lot* of different forms. Maybe you start executing a bit at a time, and each step is successful, pushing you along to more success. Maybe you just store it up and keep tinkering with it until it's right - and then you create in a giant rush. Often, what I do is create a basic structure in my mind, set that basic structure down, then start creating and filling in pieces.

Chapter 16: Strategic Moments

At various points along the way, it can seem like you're not making any real progress. Perhaps you've made the fundamental choice to become a healthy person by preparing your own healthy food, but after a week you're not seeing much difference in the mirror. The best solution to this is to really look carefully at the reality of the situation. You simply *are* putting healthy stuff into your body, and sometimes it takes a while for natural processes to occur. Small milestones really help during this process - if you can get through a single day of eating healthy, then get through another one, then another one, eventually you will begin seeing larger effects, like a healthier body.

Chapter 17: Completion

When a project is completed, it can create a rush of emotions: exhilaration, sadness, a strong sense of accomplishment, and a desire for recognition. The most important piece, though, is discovering what you learned from the project as a whole - and seeing that the seeds of germination for future projects are found and put into place. Ideally, this is what a project's "post mortem" should be about, but quite often it dissolves into slaps on the back and self-congratulation.

Chapter 18: Signs of the Future, Signs of the Times

The Path of Least Resistance begins to wind down the book here with a chapter that would seem to almost fit perfectly into *Atlas Shrugged*. Fritz basically argues that as long as creative people exist, the world will be in good shape, and calls for society to recognize the value of people who are strong creators - those who create strong ideas and those who can build those ideas into something useful for all.

Chapter 19: The Power of Transcendence

The book ends with a few notes on transcendence, the idea that making fundamental choices in your life can literally transform you as a person and carry you past what you believed were your

limitations before. This is usually the result of a number of fundamental choices along with recognizing what the obstacles in your life are and working to change them. For example, if I were to make the fundamental choice to be a healthy person and also seek more uninterrupted time to develop my creative writing ideas, I'd likely experience some transcendence in my own life.

Buy or Don't Buy?

The Path of Least Resistance, quite simply, was one of the best books I've read in a long while. It made me think deeply about the creative process I use for The Simple Dollar, as well as the other creative endeavors in my life. It also made me think a lot about how I handle problems and challenges in my own life. I've consistently failed at committing to a healthier life, and I didn't really realize why until I read this book. I made the primary choice to eat healthier or to exercise, but I didn't make that fundamental choice because some part of me did not want to really commit to it - it was not a fundamental choice I really wanted to make. I didn't really want to give up the giant cheeseburgers, in essence. This book, more than anything else I've ever read, teased out these thoughts.

One caveat: there are pieces of this book that are somewhat weighted down with jargon, but unlike a lot of books that have this problem, there is a valuable message underneath the language if you try to piece it out (which I did in this review). I think that Fritz could actually rewrite some pieces and make them less jargon-oriented in a future edition and it would make the book a bit more accessible to readers.

Having said that, **anyone that is involved in a creative process in their life should read this book**. Just stop by the library, check it out, give it a slow read-through, and *think about it*. There are some really worthwhile revelations in this one.

In fact, I'll give it the highest recommendation I can give a book: it's found a coveted place on my personal bookshelf. Why? Because I intend to read it again - and perhaps multiple times. It is rare that a book leaves me feeling that way.