31 DAYS

to fix your finances

A detailed guide to figuring out what you really want out of life - and how to transform your relationship with money so that you can achieve those dreams

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Introduction

31 Days To Fix Your Finances is a month-long series of activities that enables you to improve their financial status by centering your financial life around your own core values. Instead of supplying a bunch of budgeting sheets and asking you to commit yourself to a program, this program is about figuring out what you want out of life and reorganizing your finances so that you can have that dream.

Each activity in this series is designed to take roughly an hour, so you can do one activity each day and fill an entire month with the activities. Of course, you can tackle as many of these steps as you would like in a single day, but it's often worthwhile to allow a day to pass between activities so you have time to reflect on what they taught you – and what they mean to you.

This plan was written in January 2007 and was originally posted at The Simple Dollar (http://www.thesimpledollar.com). If you want personal finance advice on any topic, The Simple Dollar is a great place to get started.

This plan is broken down into five main sections, or stages:

Stage 1: Figuring Out Your Goals And Values

The underlying challenge that most people have with their finances is that they see money as distinctly separate from the rest of their life. Money is an antagonist, an enemy that keeps you from doing what you want to be doing. The truth is that money is merely a tool, and when you find yourself feeling as though money is an antagonist, it is no different than a person attempting to learn how to use a heavy sword; it's unwieldy and dangerous.

The first step for learning how to integrate money into your life and use it successfully as a tool is to figure out what exactly you wish to build with that tool. Without underlying values, goals, and plans, money is no different than swinging a hammer around without building something. Thus, this first stage is crucial: what exactly is most important to you, and what will it take to adequately support those values?

Stage 2: Evaluating Your Situation

Once you've figured out what is central in your life, it's time to take a serious look at what you have to work with. How much do you make, and how much time do you spend making it? This seems like an easy question, but it's not. How much of your income do you spend maintaining your job, via transportation, career development, clothing, and so forth? And how much time do you spend doing things devoted to your job, such as going to work, coming home from work, attending work-related functions, and so on?

When you calculate these new numbers, you might be shocked both at how much time you actually spend working in an average week, as well as how little you actually earn. You can drive this point home especially clearly by calculating a number that we'll use throughout the month, your true hourly wage. How much do you really make for each hour that you spend devoted to your job? It's not nearly what you might think, and that alone might shock you into considering some different avenues.

Stage 3: Building Your Own Life Budget, Not Following Someone Else's Prescription

Once you've taken a hard look at what you actually earn, you can begin to set up the basic framework of how to spend that money that is in line with your personal goals. This isn't about printing out worksheets and trying to jam your life into the pigeonholes that someone else has created for you; instead, this is about defining how you spend money and working from there.

It's almost unfair to refer to this as "budgeting," because budgeting carries with it some very bad connotations, much like putting on an uncomfortable suit. This process is much more like going to a tailor, who uses you as the basis to construct a custom suit that fits you. This process will create a custom budget that fits your life with your values and goals as a basis. We're not talking about restricting you to spending $20 a month on "dining expenses," but instead creating a structure where you can decide what's appropriate because you can see how it relates directly to your dreams.

Stage 4: Looking At Your Life, Piece By Piece

Once you've got a basic budget in place, it's well worth spending some time carefully evaluating those numbers that represent you and see if there are any places where there is excess fat - and simply trimming it away. Is your electricity bill pretty high? Maybe there are a few simple ways to reduce it. Getting tired of paying that life insurance bill? Maybe you don't need it at all - or can utilize something less expensive. Getting dinged over and over again with bank charges? Look at what they're charging and do something about it. Credit card finance charges eating you alive? There are some easy ways to reduce them.

We're looking for ways to trim away fat (things that make you uncomfortable when you look at them) so that the meat (your goals, dreams, and values) have room to thrive. You don't have to eliminate that daily latte if it brings you joy - just look for the many things you can do without or that you can reduce without significant pain and you'll have the money to chase your dreams.

Stage 5: Setting The Stage For Lifelong Success

Now that the complete package is coming together, there are some basic methods for keeping the momentum going. What do you do with the fat you've trimmed away? How do you keep track of all of your financial information so that it's not chaotic and incomprehensible? How do you ensure that you're not ensnared in loan debt over and over again? How do you keep this good thing going?

If you follow this plan and keep these principles in mind, you can easily live your dream. It's all up to you, and it takes just an hour a day for a month to get things going.

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I'm turning my financial life around, but I need more support. Help!

If you've read this document and are seeking more answers as you turn your finances around, please visit http://www.thesimpledollar.com/. That site is loaded with personal finance advice on countless topics and is updated several times daily. Feel free to poke around, search for topics that you need advice on, and ask questions.

If you prefer offline reading with a book in your hand, my highest recommendation goes to a book entitled "Your Money or Your Life" by Joe Dominguez and Vicki Robin. It was one of the most powerful books I have ever read and it singlehandedly inspired me and helped me to fix my personal finances.

Enough with the introductions. Let's get started.

Day 1: Your Five Main Values

You might have expected that we would start out fixing your finances with a pencil and a calculator. In fact, it will be a few days before we have any need for either of these. Why? Before we can define a plan that works for you, we need to sit down and figure out what really matters in your life.

All of us work hard for a reason. We go into work and come out of work because we want money, right? Money buys us things and allows us to live in this modern world. But what do we mean by “live”? What exactly is this “living” that we are focused on?

The real truth is that we live according to a set of values. We continually perform actions based on values: our values mixed with the values of others. For example, my top value is my family. I want a good, fulfilling life for my wife and my son so that they can easily define and follow their own values.

Every person has a set of between four and six primary values that underline their life (we may have other values, but those values are secondary to the primary ones). Financial problems occur through distortions of those values: we come to believe that some things are vital to these values when they really don’t matter. Generally, this is what advertising seeks to do: it tries to express a core value that some people have and make their product seem essential to achieving that value.

So, **our first step is to define *exactly* what our values are.** We are not defining goals here! Goals are specific actions, like “retiring at age fifty five” or “paying for my son’s graduate school.” What we are looking for are values. Friends. Love. Freedom. Truth. What are the fundamental items that make you tick? At the end of this post is a list of thirty potential values that one might list; you can look at these if you’re an example-oriented person.

At first, this seems pretty difficult, so here’s a procedure that will help you get in the right mindset.

First, **get calm and relaxed.** For me, this usually comes after a nice meal with a glass of wine or a great craft beer. I can clear my mind and think about my life. Do whatever gets you relaxed: have a massage, lay down in bed, or anything that increases your calmness.

Second, **be honest.** No one has to see this list, so write down what really comes from inside of you. You might write down things like “power” or “excitement” that you might not want to show other people, or you might be tempted to write down “family” because your significant other would expect it - but it’s not really important to you.

Third, **close your eyes and ask yourself what is really important in your life.** If nothing comes immediately, don't worry about it. Think about the moments where you feel most whole and fulfilled and that feeling stays with you, not a temporary, passing feeling.

As you discover values, write them down. Just make a list on a sheet of paper. It doesn't have to be ranked in any way. Once you've discovered a value that's important to you, just add it at the bottom of the list. You'll know when you are done; don't worry too much about how many you've written down.

If you have more than six values, ask yourself if any of them are actually the same value. Quite often, if you get above six values on our list, you'll realize that two of the values are actually the same thing. If they are, just combine them, or cross off one of them.

If you have fewer than four values, think about them some more. Most people have at least four central values in their lives, so spend some more time to make sure you're not missing anything.

Once you have this list, save it. We'll not only refer to it in later steps, but it will probably be valuable to you. See you tomorrow!

If you need some help getting started, here is a list of thirty values that you might have in your life. Note that this isn't a list of all possible values, just a selection of some values to help you get started.

Adventure
Balance
Beauty
Cleanliness
Confidence
Control
Creativity (music, film, food, etc.)
Education
Excitement
Family
Friends
Freedom
Fulfillment
Fun
Growth
Happiness
Health
Independence
Leadership
Love
Making a difference
Marriage
Peace of mind
Power
Security
Service
Sharing
Spirituality
The environment
Truth

Day 2: Defining Your Goals From Your Values

Yesterday, we defined five main values that define our life. These values are what we *live* for; they drive us to work and generally guide us in how we spend our lives.

Yet so often we find ourselves betraying these values (*everyone* does this at some point), and it is when we choose to betray these values that we find ourselves in financial trouble instead of in financial stability. We either spend money on things that don't match or even oppose our values, or we spend money on our values but in a misguided fashion.

Why do we do this? **The biggest reason that we spend money out of accord with our values is that we don't sit down and define our goals.** Goals are merely the specific embodiment of our values - tangible milestones that are clear indications of lives lived in tune with our values.

You're probably thinking to yourself, "I have values and goals already - this is a waste of my time." Before you log off, I want to ask you one simple question: first, **do your goals actually match the values in your life?** Let me give you an example. One of my major short term goals is buying a house, something many of you can identify with. This is a goal related to one of my primary values, my family. Thus, I'm buying a house *for* my family. Understanding this connection lets me clearly define what type of house I'm looking for (it doesn't need to be shiny and new, but it does need to have space for my son and my future children - a large kitchen, a family room, and four bedrooms are what I seek). Thus, every time I think about the home purchase, I realize that I'm working *for* my family.

If you can honestly match ever single goal in your life with one of your central values, you're more well-adjusted than almost everyone in the world. The truth is that we all have central values without any associated goals, goals without any associated values, and goal-value pairings that are really unclear and muddled. People that are financially successful find ways to minimize all of these.

How do they do this? **They define all of their goals based directly on their personal values, and they live their lives to meet these goals above everything else.** If they go to spend money, they ask themselves whether that money directly leads them to one of their goals. If the answer is no, they don't spend the money. Thus, when they actually spend money, *it doesn't fill them with guilt*. They can immediately see how that money is going to realize their goals, which are fundamentally connected to the values that define their life.

How do we get there? Let's take an hour, sit down, and define ten goals in our life. If you went through yesterday's exercise, you will already have a list of the five values that are central to your life. Now, we take these values and use them to define ten concrete goals.

First, **forget what you believe your goals are right now.** You might end up coming back to these goals during this process or you might not. The intent is to define your goals in direct harmony with your core values.

For each value on your list, **ask yourself where you want to be in terms of that value in twenty five years.** I mentioned that one of my main values is my family (specifically my children), so in twenty five years, I would like to have two college-educated children starting stable lives on their own, and perhaps a third in college.

Now, **turn that dream into a goal**. For my children to be able to start out their own lives on their own, I want to minimize their college debts and set a good example for their lives. So, my goal is to *be able to pay for at least part of their education*.

You might be tempted to start writing a plan for that goal right now, but don't. We'll get to that later. Right now, we just want to make a list of long-term goals that match your values.

For those curious, here are my goals for twenty five years down the road:
+ I want to be able to pay for a significant part of my child's college education
+ I want to have a fully paid for house big enough for my grandchildren to visit and feel comfortable
+ I want to be able to travel the world with my wife
+ I want to have three books in print
+ I want to be able to live off the interest of my non-retirement investments

Once you've made the long term goals, **go through your values again and ask yourself where you want to be in terms of that value in one year.** Just like before, figure out where you would like to be in relation to that value in one year and don't worry about defining a plan for that goal.

Again, here are my one year goals:
+ I want to double the value of my son's 529 college savings plan
+ I want to buy and move into a house
+ I want to select and begin learning a foreign language
+ I want to quadruple the readership of The Simple Dollar
+ I want to reach $10K in my non-retirement mutual fund account

Now that you have these goals, we're ready to begin defining some plans … but let's sleep on it first.

Day 3: Create A Plan For Each Goal

Yesterday, we made up a list of ten goals that derive directly from our values. Now (and for some of you, finally), we start talking a little bit about numbers.
Let's get right down to business. **Take ten sheets of paper and at the top of each sheet, write one of the goals you defined yesterday.** On each of these sheets, you're going to define some specific milestones for each of your goals.

For each of the short term goals, I want you to define five specific actions:

I will do this in the next three days.
I will do this in the next week.
I will do this every week.
I will do this in the next month.
I will do this in the next six months.

Some of these will be information gathering and have no cost. Others will actually require some investment, usually the one that happens every week.

For example, yesterday I mentioned that one of my short term goals is doubling the value of my son's 529 college savings plan in the next year. Here's what my five specific actions look like:

In the next three days, I will get the balance of my son's 529 account, along with the data on the annual returns of each of the investment options in the plan.

In the next week, I will determine how much I need to invest in the coming year to double the account balance and also estimate what the return for the coming year might be.

Every week, I will invest 2% of what I calculate is needed to double the balance in the coming year.

In the next month, I will evaluate all of the different funds available for my son's 529 and choose a fund that I feel is the best match for him.

In six months, I will check in on the account and see how he's doing for the year, see how the various funds are doing for the year, and reconsider my investment choices.

Generally, the model outlined above works well: gather information in the next three days, plan a baseline amount you'll need in the next week, save an appropriate amount every week, investigate the details in the next month, and review things in six months. If you do this, you'll almost always meet your annual goal.

Now, **for each of the long term goals,** I want you to define five specific actions:

I will do this in the next week.
I will do this in the next month.
I will do this every month.
I will do this in the next year.
I will do this in three years.

Some of these will be information gathering and have no cost. Others will actually require some investment, usually the one that happens every month.

For example, yesterday I mentioned that one of my long term goals is completely owning a wonderful house in twenty five years. Here's what my five specific actions look like:

In the next week, I will gather information a selection of potential houses that reflect what I plan to buy immediately and what I plan to buy in fifteen years.

In the next month, I will calculate how much I will have to spend per month on mortgage, insurance, and taxes on the lower-end house, and also calculate how much the nice house will cost in fifteen years.

Each month, I will save 25% of a mortgage payment for helping me get ahead on payments when I purchase the first home. This will enable me to "trade up" more effectively when the time comes.

In the next year, I will buy a home that is in the lower house bracket and switch the extra 25% from a savings account to a direct payment on the mortgage.

In three years, I will sit down and re-evaluate what my "dream home" is like and refactor my plan accordingly.

By doing this, I break down something that seems far-off (a beautiful big house to retire in and for my children and grandchildren to enjoy) into smaller pieces that I can do right now. I also find it useful to **find an image that captures a long-term goal and place it in a place that I'll see regularly.** This way, the end goal is always in sight; it's a constant visual reminder of where I need to go.

Now that you've defined these plans, **you have specific things that you're saving for and spending your money on that are in line with your values and goals**. Whenever you go to spend money, pause for a second and think about your values, goals, and plans, and ask yourself if that money expenditure is really helping you reach your goals or is really reflecting your values.

You should strongly consider **making up a schedule that combines all of your plans together.** What will you do in the next week? What will you do every week? What will you do in the next month? What will you do every month? A schedule that keeps you following your plans will help with this.

One week from now, you should have some numbers that will show you what you need to be doing to reach your goals. The amounts might trouble you, but don't worry. In one week, we'll take these numbers and use some techniques to carefully evaluate what they really *mean* - and how you can make them count for more than you think.

Before I did this exercise, I often found that, even though I often realized it wasn't a good idea to spend, I would still spend money anyway. Why? I didn't have any sort of concrete plan for what to do with my money, especially not one that was larger than saving for a new gadget or toy. Now, whenever I'm tempted to spend money in a frivolous way, I think about what's important to me, and it directly connects to a plan for spending my money.

Tomorrow, we'll start looking at your money.

Day 4: How Much Did You Earn Last Year?

Yesterday, we developed some very specific plans to achieve aspirations that fit within the context of our personal values. These plans provide the basis for what we *should* be doing with our money; not only do they guide us towards a goal, but they also serve as a reminder that we're off track if we do things that oppose the plan.

Now that we have these plans in place, we need to dig into our finances a bit. The first step is to see what income you actually *have* with which to chase your dreams. This will provide a baseline with which to figure out how we can rebuild our finances.

As before, **take out a sheet of paper**. Along the top, make a list of each of your employments. For me, I just listed one job (right now, The Simple Dollar is a very involved hobby, not what I would call a "job"). On the right hand side of the paper, write how much you make *per year* at your job (minus only income taxes - include all benefits, including any employer matching for retirement).

Now, underneath that, **make a list of every single extra cost you have specifically because of your job.** What does the commute cost? How much does lunch cost if you don't bring your own lunch from home? What does your work wardrobe cost? What do you spend on going out with coworkers? On small professional gifts for others? On a nicer car or jewelry or other items for "work image"? What about child care? Each of these are expenses related to your job. Just make a list of them; don't worry about amounts yet.

Here's my list, if you'd like something to compare it to: child care, driving to work (gas and extra maintenance), wardrobe, meals, gifts, and office supplies.

Now, for each item on your list, **figure out how much it costs you per year.** First, figure out how many days a year you work (this is useful for the automotive calculations), then figure out how long your daily commute is. Multiply the two together and you get an estimate of the mileage you put on the car. I drive about 5,500 miles a year for work, so that amounts to roughly 400 gallons of gasoline, at $2.50 a pop (on average), which comes out to $1,000. I also figure that I'll have to spend about half that much on other maintenance (oil changes, filter changes, and increased risk of major problems): $500. Then I look at child care: $5,800. I usually buy about $300-$350 a year worth of extra clothes for work, and I eat out probably once a week with coworkers, so tack on another $780 ($15 a meal, estimated). I also buy gifts for our gift exchanges at work and some of my office supplies, adding up to nearly $100 a year. Obviously, your calculations will be far different.

When you've determined annual amounts for each entry, **subtract them from your salary.** This will be sort of painful, particularly if you work in an office at the $12-$15 an hour range. The amount you're left with is your true take-home salary for your job for a year. We used the post-tax number because *you're paying for this extra stuff after taxes*.

I know some people who claim to be making $35,000 a year, but when they take their post-tax number and subtract out their job expenses, the number left makes them feel rather worried. *It should*. Some people even realize that this number takes them down to near the poverty line, and they get quite sick when looking at this number in comparison to other things.

Over the next few days, we'll take a deeper look at this number and figure out what it really *means* in terms of your life values.

Day 5: How Much Did You Work Last Year?

Yesterday, we calculated the actual cost of our employment over a given year - and were surprised to discover how little it actually is. Once you remove all of the work-related expenses, such as the commute, the wardrobe, the extra meals, and the child care, the actual income you get from your job is ominously low.

Today, we're going to look at our work from a different angle: time. We need to get an accurate picture of how much time you spend in a year chasing the money you make. At first glance, this seems almost automatic, but let's look at it a bit more closely.

As usual, **take out a sheet of paper**. Along the top, make a list of each of your employments and, along the far right, write how many hours you actually spend at work (include your lunch break) in a given year. Don't include vacation time. If you work overtime some of the time, just estimate what an average day looks like, then calculate how many days you work in a year (total days minus holidays and vacation), then multiply the two numbers together.

Now, underneath your time spent at work, **list every other activity you do in relation to your work.** The list you made yesterday might help, but give the question some thought. List everything that you do that you wouldn't otherwise do if it wasn't for your job. For example, if you travel, you can list almost all of your nonworking waking hours. You can list the time it takes to travel to and from work. You can list the time you have to deal with child care. You can list the time you spend shopping for work clothes, or time you spend going out for business dinners, or time you spend doing "optional" training.

For example, here's my list:
Child care
Commute
Working outside the office
Business travel
Business dinners / parties

If you haven't already, **for each of these activities, list the number of hours you spend on them in a year**. Put these in next to each item, but over on the right hand side of the page under the time you spend at work in a year. I find that for many of these items, it's easier to figure out how much you invest in these things each day (like the commute or the child care connection), then multiply it out by the number of days you work in a year.

Now, **total all of the numbers on the right.** That's how many hours you actually spend working in a year. Divide it by 52 to get your weekly total, or by 365 to get your daily total (realize that this daily total does include weekends; if you want to exclude them, divide it by 260 to get only weekdays, or by 250 to exclude ten holidays - you may also want to subtract your vacation days from that total, too). For me, this number was a real eye-opener, as I began to realize how much of my time really is taken up by my chase for more money.

Spend some time thinking about this exercise and *what it means*. You spend all of this time working your tail off and yet you still find yourself in financial trouble. I spend an average of 70 hours a week working just to keep my job. What things could I do if I didn't have this time investment? What sort of things could I do if I did a low-wage job just down the block? I leave it up to you to draw your own conclusions, but it is a question worth thinking about.

Tomorrow, we're going to see how much your time is worth - and what that really means.

Day 6: Your True Hourly Wage

Two days ago, we determined your true annual salary. Yesterday, we determined the number of hours you truly work in a year. Today, we combine the two numbers - and consider what exactly that means about you, your employment, and your time usage.

Are you ready for the big calculation? **Take the total salary you calculated two days ago and divide it by the total hours you calculated yesterday.** You're going to be left with a number that you're going to have to ponder quite a bit.

This number is how much you actually bring home each hour you do something for your employment. For some of you, this number is going to be *shockingly low*. There are *many* seemingly decent-paying jobs that wind up with an hourly wage below minimum wage when looked at in this fashion. For example, if you come up with an hourly wage below minimum wage *and* you spend 60 hours a week involved in work activities, you might actually be better off working at Home Depot with a much lower responsibility and stress threshold.

Many of you might balk at the Home Depot idea, but hear me out. A relative (and friend) of mine walked away from a situation where she was making between $40,000 and $50,000 a year to take a job working the floor at a local Home Depot for $9 an hour. She worked forty hours a week, rode public transportation to and from work, and came home from her job without the baggage of additional stress. What happened? She was reinvigorated to follow her passions. What about her finances? Without all of the extra costs of her job, she was only slightly worse off than before, plus with the extra energy to follow her interests, she actually wound up doing *better* than before within six months.

Spend some time considering what this number actually means. There are a lot of truths about our lives that are revealed by this number.

If you buy a frivolous item for $X, consider how many hours you had to work to have the money to buy it. Let's say you calculated that you are actually earning $5 for each hour of your time invested in work. When you go to buy a new pair of shoes that cost $80, look at them and ask yourself whether or not they're worth 16 hours of your time spent working. When you go to buy a new electronic gadget for $300, look at it and ask yourself whether or not it's worth 60 hours of your time spent doing things you don't want to do.

When you pay a loan bill, figure out how many hours you have to work *just to pay for the finance charges or interest*. I find this one to be a real eye-opener. Whenever you pay a bill, look at the amount you're paying in finance charges or interest that month, then convert it to hours of your life spent at work. With the example above, a $100 finance charge amounts to twenty hours of work just so you could have some frivolous item before you could actually pay for it.

Some people consider this exercise frightening; others find it incredibly uplifting. The maxim that time is money is painfully true; by translating the things you spend money on directly into hours of your life spent toiling in labor, you often discover that maybe you don't need a lot of things after all. When you start doing that… well, that's tomorrow's exercise.

Day 7: Work For Your Dreams, Not Your Money

During this past week, we identified our primary values and used these to create clear goals and plans that derive from those values. Then, we spent some time discovering what our work time is actually worth. Today, we're going to combine these two together.

If you've been following the plan, you're probably working on the numbers for your plans right now. We won't evaluate them yet (after all, you've got a few days to go before you have some real numbers), but you should realize that you're going to have to save some money to meet these goals.

The big secret, though, is **the realization that you can in fact work for your dreams instead of working just to get by.** Yesterday, we calculated our true hourly wage, so you know how much you're making for each hour you're involved with work-related tasks. Let's transform this hourly wage into something that has more meaning.

Take out a new sheet of paper and list your ten goals on it. Today, we're going to make a framework that will enable you to go to work with renewed vigor, because you'll see the connection directly between your time at work and your dreams.

Under these goals, make a list of each of your debts as well. Part of the journey to your dreams is paying off these debts, so we want to put them each on the list, too.

Under that, **add one last item: living expenses**. Obviously, even as you work towards your dreams, you'll still need to cover your daily expenses, such as electricity, food, water, and whatever else is fundamentally important to you.

At the very bottom, **write TOTAL** and then over on the far right, write the total amount of hours you work in a week that you calculated the day before yesterday.

What we're going to do is see **how many hours we can spend at work each week on each of these items.** Once we have this first draft written, you can use it as a life baseline until we refine it later on in the month.

So let's get started! First thing, until you're sure how your life will be rebalanced, include 60% of the total hours under the item "living expenses." For example, let's say your total hours for a week is 80. You should then include 48 hours next to the living expenses. This may need to be more; we'll evaluate it more carefully in the next few days.

Now, let's handle the debts. **If you have debts, you should spend 25% of your hours on paying off the debts.** For example, if you have 80 hours, you should figure that 20 of them should be used on paying off debts. Note that this is *extra* debt payments; your basic minimum debt payments are included in the living expenses. When (or if) you have no debts, all of the time going into your debts can go straight to your dreams.

The remaining 15% should be assigned in equal pieces to your dreams. I had 12 hours left, so I gave 1.2 hours to each of my dreams.

So, what's the point? There are two points. First, if you multiply your hourly rate by the amount assigned to each element, *that's how much you can spend each week on that element*. If you're thinking that this is something like a budget, you're right in a way, but rather than a list of month-to-month expenses that demand things of you, this is a "dream budget" - a device that lets you follow your goals to achieve your dreams.

Second, **it lets you find real goals in your work.** This is the truly powerful part of this. So often, we wake up in the morning and trudge into work wishing we were doing *anything* else. If you realize that some portion of your day is spent working specifically for your dream, it becomes easier. For me, the hardest part of a day is getting ready in the morning; I'd much rather sit down with a cup of joe and check my email than take a shower, get dressed, and take my son to daycare. So for me, the first hour of a given day is an hour I'm working towards one of my goals. While I'm showering or out in the truck on the way to daycare, I remind myself over and over that I'm working solely for the purpose of one of my dreams. I imagine that dream and somehow I feel better about it.

There are two vital lessons that this exercise teaches. First, **the various aspects of your life are all connected**: your work, your pay, your dreams, and your goals. They're all tied together in one big picture. Many people often compartmentalize these things and fail to see how they all relate to one another.

Second, it reveals that **you can directly connect the work you do every day to your dreams.** This is the real power of the exercise, I think. Every single day you go into work, you can tie some of your least favorite tasks directly towards achieving a life goal. It can be the parts that you like the least, or it can be the commute. Just pick a portion of it and, while you're doing it, remind yourself that you're doing this action so that you can live in that beautiful house or so that you can travel to Italy with your wife.

Tomorrow, we'll start breaking this picture down piece by piece, starting with the living expenses. The goal is to create a picture of your life, with the living expenses as merely the frame around a beautiful picture of your dreams.

Day 8: Breaking Down Your Expenses

Yesterday, we worked out exactly how the hours you spend at work break down into three areas: your living expenses, your debts, and your dreams. Since this was only a thumbnail sketch, today we're going to look more carefully at the breakdown in living expenses.

Let's get started. **Take out a sheet of paper and start another list.** This time, we're listing every expense you have in a given year that do not directly relate to your employment. We're not going to worry about amounts yet, just a list of all of the things that we spend money on in a given month. Here's a sampling of the expenses that I listed when I did this exercise:

Rent
Electricity
Telephone
Cable
Student loans - minimum payment
Health Insurance
Car Insurance
Clothing
Food
Entertainment - Books
Entertainment - Music

Spend some time thinking about this. What do you spend money on each year? House insurance? Christmas gifts? Household items? Car repair? Home decor? Toiletries? Just keep listing things as you think of them. It might be useful to leave this list out somewhere you can see it and add things as you think of them. Don't worry about amounts yet; we'll worry about those in a bit.

Now, **let's figure how much you spend on each item in a given year.** For the amounts you know on a shorter timeframe, multiply them out. For amounts you don't know, use some estimation over a shorter timeframe (and estimate on the high side) and multiply it out. The point is to get a rough thumbnail sketch of what you spend in a year on various things. Note that *we're not making any value judgements yet*; we're merely trying to see what's there.

This will take some time, and during that time, **think about each of these expenses a little.** Do they bring you joy when you look at them now? Do they really feel essential to your life, or when you think about them, do you feel like you'd be better off if you spent money on the list of goals you created earlier this month?

When you're done with this list, total up everything. Then calculate 10% of that and add it to the bottom, labeled "incidentals." Add that into the total. That number is roughly what you spend on your *living expenses* in a given year. You can divide it by 12 to see how much it is a month, then divide it by 52 to see how much it is in a week.

Now, let's see how many hours you work in a week just to meet these expenses. **Take the weekly amount you just calculated and divide it by your true hourly wage.** A typical American usually winds up with a rather large number here.

Spend some time meditating on this - you spend *that* many hours a week at work just for the expenses you listed. What does that mean? What could you do with your life - with your *future* - if you trimmed away some of the extra fat? Your debt could be gone - and you could be working towards a better and brighter future for yourself.

Day 9: Cleaning Up Your Expenses

Now that you've built a list of your non-work expenses, you've probably realized that you do spend a lot of money on frivolous things. Don't worry, I'm not going to say "STOP BUYING FRIVOLOUS THINGS!" Everyone knows that frivolous expenses are the things that eat away at your long-term plans - and everyone keeps buying them anyway.

Instead, ***you* should evaluate the areas where *you* feel comfortable cutting down**. In some ways, it is like a diet: if you diet too strongly, it won't be long before you're laying prostrate on the couch, Sara Lee poundcake in one hand and a 20 ounce bottle of Mountain Dew in the other. Instead, dieting works when you make little choices throughout the day, like not super sizing a meal or choosing to take the stairs.

Let's get started. **Take out that list of expenses that you made yesterday** along with a blank sheet of paper. What you're going to do is go through the entire list and think about each item a little bit, then note how much you think you can save per week on that item.

Here's what you do. **Copy the first item to the new piece of paper, then close your eyes for one minute and think about that item.** Do you spend too much on it? Is there a way you could easily cut down on that expense without really feeling the crunch? Could you eliminate or drastically reduce that expense without feeling too bad about it? Keep in mind *why* you're doing this - you're trying to find money with which you can chase your dreams.

Here are ten quick suggestions about how to cut various kinds of expenses with minimal impact; if you want more, spend some time hanging around The Simple Dollar (http://www.thesimpledollar.com) and you'll find plenty.

- **Conserve energy** by installing energy efficient items like CFLs (compact fluorescent lights), programmable thermostats, and intelligent power strips.
- **Buy fewer books** by spending more time at your local library. Whenever I have a bad desire to go to the bookstore, I just consciously go to the library instead almost all of the time.
- **Buy less music** by listening to music in your collection that you've never spent the time to appreciate. Instead of buying a new CD, find an older one that you only listened to once or twice and put away.
- **Buy fewer clothes** by selecting items that go well with much of the rest of your wardrobe. A modular wardrobe creates the appearance of a lot of clothes without the need for a large clothing bill.
- **Eat out less** by buying a good cookbook that starts out at a beginner's level (try Mark Bittman's "How To Cook Everything") and stocking your kitchen well.

- **Reduce insurance** by calling your insurance carrier and looking at raising your deductible.
- **Reduce your credit card payments** by calling your credit card company and requesting a reduction in your interest rate.
- **Reduce your bank fees** by looking into no-fee or low-fee options at your bank - or at other banks.
- **Reduce your cable bill** by eliminating unwatched premium channels or looking at other basic package options - or even consider eliminating it altogether.
- **Reduce your car payments** by ending the leasing cycle and buying late model used cars instead.

For each item that you decide you can effectively reduce the cost of, **estimate realistically how much you might save in a year doing this.** Estimate your savings *low*; you're always better off with flexibility.

Once you've done these estimates, **rewrite your overall cost list with the spending reductions calculated in**, then divide each element by 52 to see how much that is per week. You should see a decent reduction in your living expenses. What will that translate into? More money that you can spend on your dreams - and fewer years until you get there.

Tomorrow, we'll see how much time we've saved - and what that means for the bigger picture.

Day 10: Fitting Your Expenses Into The Bigger Picture

Yesterday, we took a look at our living expenses and tried to find places where we could easily make some reductions. The goal was not to make hard cuts, but to find ways to reduce spending that fit within our lifestyles.

Today, we want to see how this revised personal expense balance fits within our overall life plan. **Pull out the overall plan you built a few days ago along with the estimates you calculated yesterday.** You'll notice that your older plan is calculated in terms of hours, which is a great way to see what your expenses are really costing you, so let's do the same conversion for your expenses.

Take out a fresh sheet of paper and make three columns on it, with the left one taking up about half of the page and the two on the right taking up about a quarter of the page each. In the first column, write each expense down from your sheet from yesterday, then in the second column, write the amount *per week* that you calculated yesterday. If you skipped that part, just take your annual estimate for each item and divide it by 52.

Got that? **Now, in the third column, divide each second column number by the true hourly wage that you calculated earlier.** This is the number of hours that you spend working each week to pay for that expense.

For me, **this exercise really opened my eyes**. I found lots of places where I felt almost guilty for what I was doing - things such as working eleven hours a week just for my entertainment expenses. I was working a lot every week just for silly little things, when that time could be spent working for something bigger, something that reaffirms my life.

Once you've converted all of these dollar amounts to hours, **total them up.** Unless you have some major spending problems, this total should be less than your total hours you spend working in a given week (which you figured up earlier in the week). Ideally, it's around 60% of the total hours in a week (mine is about 55% right now, but when I first did this, it was at about 92%), but you don't really need to worry unless it's pushing 95% or so. If it's over 100%, you *need* to make some cuts in your spending or you will *never* get ahead, as your spending will grow as your income grows.

At this point, it might be useful to start a "real" balance sheet. **Take the overall plan and recopy it with the same items as before, but don't move the numbers over.** Instead, just put in the total number of hours in a week and the total number of hours you spend on living expenses. The difference between the two is what you will use to begin building your future.

What if I'm left with only a 10% sliver? How can I "build my dreams" with that? First of all, even a small amount of money can get you started and, with the power of compound interest, can build up quite well over time. Second, *this process of evaluation is not a one-time process*. It's useful to go through this on an annual basis, just to re-evaluate where you're at and where you're headed. Once you get started and watch things begin to build to fulfill your dreams, the feeling is often so powerful that you find new places to trim your spending - you pay off debts, cut down on your nonessential purchases, and so on.

Tomorrow, we'll look at what to do with that remaining fraction.

Day 11: Dividing Up The Rest and Finishing Our "Time Budget"

Yesterday, we figured out exactly how much of your money - and your time - you spend with basic living expenses. From this, we determined what was left - the amount that we can use to pay off our debts and build our dreams.

A great rule of thumb applies here: you can reach your short term goals with debts, but you can't reach your long term goals with debts. In other words, **focus on your short term goals and for your long term ones, pay off your debts first.**

Why do it this way? I call it the "dream" factor. Paying off debts isn't romantic at all, but dreaming about the great things you can do in the future is romantic. Since you've defined five short term goals (and plans to execute them) that match your core values and also line up with your long term values, every step towards these short term goals is a step toward success - and living your dreams.

Sit down with a piece of paper and make a list of your five short term goals along with a list of all of your debts; you should already have these ready to go. Every step you take towards your short term goals should be matched with a step towards your long term goals, so you're going to divide up your money and time investment equally between your goals and your debts.

Now, take the amount of hours you have "left over" after yesterday's calculations and divide that in half. You're going to spend half of them on debts and half of them on your short term goals.

It's important to remember here that these debt payments are *extra debt payments*; in other words, you're going to pay an extra amount each month to get the burden of debt off of your shoulders so you can walk freely and confidently into your future.

Why am I dealing with "hours" instead of dollars? For many people, dollars are an abstraction: they have a hard time directly associating money with the work that they do. Money comes in, money goes out, and that's life. The truth of the matter is that **every dollar we make is the result of some amount of time spent doing something for someone else.** Time is something we all understand from our earliest days, and these hours are merely something much more tangible to hold onto.

How do I decide which debts to pay first? There is a lot of merit in the "debt snowball" concept, which advocates paying off the smallest debt first. For now, put the entire amount you have allocated for debts next to the smallest debt balance. We'll worry about dollar amounts tomorrow.

What if I have no debts? If you're lucky enough to be debt free, you can invest all of your extra money towards your goals. Take that half that you would have been using to pay off debts and apply them to your long-term goals as you see fit.

What about my short term goals? You can probably determine for yourself how to split things up among your short term goals. Look at your plans and decide which ones need more of your working time to make them come true, and which ones need less. Write them down.

Once you've figured this out, **assemble a new "big picture"** using the one you created three days ago, along with the individual expenses (and the hours you spend on each of them) yesterday. Add in the hour expenditures you created today (including the ones with 0 hours assigned to them), and do a final check to make sure the hours add up to what you figured that you actually work each week.

Sit back and look at this sheet. In some ways, it's a budget, but it's something more than that: it's actually a picture of *you*. This is what you work for each week, hour by hour. Maybe you work three hours a week so that you can keep your cable turned on, but you only work an hour a week towards a college education for your children. Do you feel comfortable or happy with this? Whether you do or don't, there are so many things here to think about in terms of how you choose to spend your time.

Tomorrow, we'll take this "time" budget and convert it all into real dollars - and begin the process of converting all this planning into some real action.

Day 12: A Flexible "Budget" That Reflects Your Reality

Today is something of a culmination of the first part of the "31 Days" program: it basically ties up all of the goal-setting and evaluation to date into a single document. This document isn't a set of rules to live by, but a financial picture of who you are and where you can go. Sound exciting? Let's get started.

Take out a blank sheet of paper, the "time budget" you prepared yesterday, and the approximate hourly wage you calculated earlier. We're going to use these two pieces to assemble a *true* budget.

What do I mean by "true" budget? Most of the time when people prepare a budget, it has no connection to their life experiences and their goals. The truth of the matter is that every person is unique, thus every budget should be unique. People fail at following "traditional" budgets because they aren't aligned to an individual's lifestyle, goals, and dreams.

The budget you're about to complete is a "true" budget: you've built it yourself, composing it out of your daily life, your hopes for the future, and your dreams for the rest of your life. Most "traditional" budgets expect you to change your life for it; a "true" budget asks only that you don't forget to plan for your dreams while living *your own* life.

On the blank sheet of paper, make three columns: one for each budgeted item, one for hours, and one for a dollar amount. We're going to prepare a monthly budget here, so take each item from the "time budget" prepared yesterday, then multiply that weekly hour number, multiply it by 52 (for the number of weeks in a year) and then divide that by 12 (for the number of months in a year). This is the number of hours of work time in an average month that you'll devote to each element on your budget.

Now, for the final piece: **multiply each hourly amount by your true hourly wage and enter it.** This is exactly how much money you're alloting to spend on each category during the month. For regular bills, this number should be very close to what your monthly bill is; for your extra debt payment and your goals, this is how much you're going to be setting aside each month for these. The total should add up to a number that is less than your monthly take home salary (remember, you have some extra that you bring home that you use for job-related expenses).

When I first did this, I read through the items and actually *shivered*. Why? It was the most accurate picture of my financial life that I'd ever seen - and it made it clear to me where I was doing things right and doing things wrong. I had never felt such a connection between a sheet of paper and my life as a whole.

What will it mean for you? **Spend some time reading over the sheet carefully and thinking about it.** There are countless different conclusions you may draw: maybe you feel that this whole thing is spot-on and is putting you in a position to live your dreams. Maybe you realize how much of your life is spent in the "now" and how little you're actually spending for the big things tomorrow. Maybe you believed you were planning well for the future, but you see some huge areas for improvement. It's up to you to figure this out.

Tomorrow, we'll discuss how to keep track of this budget each month, starting by ensuring that you're meeting your goals.

Day 13: Pay For Your Dreams First

Yesterday, we put the finishing touches on a *true* budget - one that reflects your own dreams and your own financial realities, not someone else's concept of what you should be spending and saving. Today, we begin the process of seeing what that budget actually means.

Most people never really achieve their dreams because they never get started. They keep believing that they'll save tomorrow for their dreams, but when tomorrow comes, nothing changes. **Because of the budget you just assembled,** you've now seen that it *is* possible to save for those dreams.

Now do it.

Before your next paycheck arrives, **open up a savings account at a new bank.** I'd recommend choosing one of the online offerings such as HSBC Direct (5.05% APY) or ING Direct (4.5% APY, but if you look online a bit you can find a referral code that will give you a $25 signup bonus). Their rates are stellar and their customer service is incredible.

Why use a new bank? Having an account at a new bank means that it's not already part of your normal routine. Many people open a savings account at the same bank as their checking account, but whenever they see something they want at the mall or something, they know they can stop at the ATM and pull money from that savings account. By getting an account at a new bank, you can simply never take the ATM card with you - or, better yet, not get an ATM card associated with that account at all. This drastically reduces any temptation you might have to spend that money.

Got that new account? Now, **when your next check arrives** (or now, if you have some extra cash right now in your checking account), **create an automatic monthly withdrawal from your primary checking into that account**. The amount of this withdrawal should be equal to the sum of the money you've budgeted to spend each month on your goals in the budget we've created this month.

By doing this, you're doing two things. One, you're getting started towards building your dreams. Every single month, your finances are moving towards those goals you've defined for your life. Two, you're learning how to survive with a bit less money each month - and soon you'll see that you won't miss that amount at all.

Tomorrow, we'll take a look at the "extra debts" portion of the budget.

Day 14: Get Rid Of Your Debts (Slowly But Surely)

Yesterday, we took our "true budget" and set it up so that we paid ourselves first through an automatic investment into a "dream" fund (or series of funds). Today, we're going to look at the debts section of the budget - and see how we can go about paying down our debts, so that we have more money to direct towards our dreams.

The "debts" section of your budget should list a number of debts that indicate all of the money that you owe to others. This doesn't include the minimum payment for each one; we are listing those as "expenses" until each one is gone. You should also have a zero balance in the debt section for all but one of your debts.

Each month, when you go through your monthly bills, all you have to do is **pay that amount *extra* on that expense.** Let's say the only debt you have listed with an amount next to it is a credit card with the amount of $200 next to it. You also have an expense for that credit card, which has a minimum payment of $40. When you go to write the check to pay for that card, write the check for $240.

It will take several months, but **soon you will pay off that first debt.** When you do, it's worth celebrating, because you can eliminate both an expense (the minimum payment) and a debt (the extra payment) from your budget. When you do that, take that combined amount (the sum of the minimum payment and the extra you were paying each month) and apply it to the next smallest debt amount. So, let's say that after you paid off that credit card, your next smallest payment was an auto loan. In your "debts" section, you would put in $240 next to that auto loan. You've already budgeted for it, so it will make no difference in your day to day life other than the good feeling of knowing your debts are disappearing.

This technique is commonly known as the "debt snowball," a term coined by the popular radio host and author Dave Ramsey. I'm actually using a variation of the debt snowball in my own life, modified a bit to leverage risk.

You might want to **take some time and calculate how long it will take for your "debt snowball" to roll through all of your debts.** Figure out the month when each debt will be paid off, then add on that payment to the next debt and see how many months it will take to pay that one off. Before long, you'll have a very solid idea of an approximate time in which you'll be debt free - and debt free is a place where you can **take that debt snowball and apply it directly to your dreams.**

Tomorrow, we'll look at what to do when you come in *under* your budgeted expenses in a month (the system is set up so that you can do this regularly, in fact!).

Day 15: Coming In Under Budget And An Emergency Fund

When you get rolling under the plan you've developed, you'll discover that (almost always) you'll come in under budget for the month if you stick to your guns on the nonessential spending. This is a good thing, of course, as it means that you're being financially responsible.

So what do I do with that excess? Obviously, it's not a big help if your checking account doesn't earn any interest and the balance just builds up over time, as it makes it much easier to simply spend it on unnecessary things. Instead, you should move it somewhere where it's accessible, it earns a little bit, and it's out of sight and out of mind until you need it. Here's the game plan.

First, **don't give into temptation and spend it - yet.** Although it might seem that this money is a "reward" for being fiscally responsible, it's actually just a result of the flexible budget you made. The flexibility actually has a purpose: protecting you from the unforeseen events that can happen in the future.

Second, **get a high-interest savings account in which to put the money.** Why get *another* account? Several separate accounts make it easy to partition your money and keep money for different purposes separate from each other. This money has a very specific purpose, so we'll keep it separate.

Now, at the end of each month when you have extra money left over from your budget, just deposit it into this new account. **This account will serve as your emergency fund.** Every once in a while, life will deal you a hand that is very difficult to play within the constraints of your monthly budget: a car breakdown, medical needs, or so forth. This fund will make it possible to just roll through those emergencies without breaking a sweat - just go withdraw the money you need to cover the emergency and it's taken care of.

How big should this emergency fund get? You should let your emergency fund continue to grow with budget leftovers until you have **six months worth of take-home salary in it**. After that, you have some options: I'd recommend paying off more debt with your budget leftovers at that point.

Remember, this is *not* an account for big-ticket purchases! If you're tempted to use it to buy an LCD television, you should instead reevaluate what your goals are and perhaps change one of those if you feel that a big screen television is more in line with your values. Leave this money alone; some day, you will be incredibly glad you did (like when your son comes home with a dented-up car, for example).

Tomorrow, we'll begin looking through your expenses for places to trim out more fat without altering your lifestyle.

Day 16: Evaluating Your Expenses – Home and Auto Insurance

During the first half of the month, we've created a real "living" budget that is built around your life, not forcing your life to live up to someone else's idea of a budget. Now that this budget is in place, we'll use it to see where we can trim some of the fat from expenditures. The next several days will focus on a specific expenditure area, with a discussion of things to think about when evaluating those expenses, along with some tips for reducing those expenses. **This is not a rulebook.** Spend an hour considering these tips, gathering information, and deciding what works for *you*, not what works for someone else that you'll try to shoehorn into your life.

Everyone who owns an automobile faces auto insurance, and everyone who owns a home pays homeowner insurance. It's a fact of life for most of us, so we just pay it and move on. What we often don't consider, though, is how much we can save on this insurance with just a little bit of legwork.

Look at other providers It doesn't hurt to shop around a bit. Take fifteen minutes and get a few quotes on your home and auto insurance from other carriers. I was surprised how much of a difference there was between various insurance carriers - depending on the factors they used, the rates varied quite a bit.

Raise your deductible The largest slice of Americans have a home insurance deductible of $500, but they very, very rarely make claims on that insurance. If you raise your deductible to $1,000, you can save as much as 25% on your insurance. How often do you make claims on your home insurance? If it's rarely, you might consider raising your deductible to reduce your payment. The same goes for auto insurance; if you don't make claims very often, look at raising your deductible to reduce your payments.

Look for package deals The majority of Americans have different providers for their home and automobile insurance. See whether or not you can get a reduction in your premium if you take all of your business to one provider. My parents did this a few years ago (they moved their home insurance to their auto insurance provider) and their overall premiums dropped about 18%.

Install a deadbolt and smoke detectors Call up your insurance provider and ask for their recommendations for deadbolts, smoke detectors, security systems, and other equipment that might reduce your premium. If they're cheap (often, smoke detectors are a great investment here), go buy them, install them, and get that reduction in your premium.

Check for other discounts Many insurance companies offer reduced home insurance rates if someone works at home (or doesn't work at all). Auto insurers will offer lower rates if you have a stable, socially responsible job. Both will offer a lower rate if you have a good credit rating. Explore these avenues with your insurer.

If you have an insurer you're generally happy with, don't switch. This is especially true if you're approaching the three year or six year mark with the same insurer, as they often reduce rates a bit (5%) at each point. That doesn't mean you shouldn't compare rates on occasion, but insurance companies look for stability.

You can evaluate all of these points with just a few telephone calls and web site visits, well worth an hour of your time if you can trim 10% (or more) from your premiums. If you pay $200 a month for insurance and can see that go down to $180 every month, you're suddenly looking at $240 extra per year for an hour of work.

Day 17: Evaluating Your Expenses – Life Insurance

Life insurance is a question that most of us simply avoid thinking about too much, especially when we're young. However, if you have more than yourself as a dependent on your income tax forms, life insurance is something you need in order to ensure that if something happens to you those dependents don't wind up in the street.

This is going to be the only expense evaluation where I might end up encouraging you to spend *more* money than you already are, but you will be able to sleep better at night knowing that those who depend on you are secure even in the event of something terrible happening to you.

First of all, **your best option for life insurance is term insurance if you're under fifty.** Term insurance is the best bet for younger people with their financial head on straight. An insurance salesman might try to coax you into whole life insurance or universal life insurance; don't let them!

If you have one of the other types, **you should strongly consider cashing it in and buying term insurance.** Term insurance is substantially cheaper per month, enough so that it's worth cashing in the other policy, removing the cash value, and instead start a term policy. You can take that cash value and use it to pay off debts; that's more worthwhile to a healthy financial future for you and your family than universal or whole life insurance (note that I *am not a professional financial advisor* - I am not liable for any choices you make based on what you read here. Do your own research if you're considering making a major choice that you might regret.).

Okay, so **how much life insurance do I need?** If you have no dependents besides yourself, *you don't need any at all*. In fact, if you see little chance at having dependents in the future, just skip the rest of this entry because it really doesn't apply to you.

I recommend getting insurance that will cover you until you're 70 (or close to it), but if you're very young, you may just want to get a 30 year term. Why? At that point, if you're financially responsible, your estate should be in good enough shape that your life insurance isn't necessary, and you can take that premium and do something else with it.

If you have only adult dependents, you should only need two or three years' worth of salary in life insurance. If you're under 35, a term policy for an amount equal to three years of your salary will be a trivial amount each month.

If you have child dependents, though, that's when you really need good life insurance coverage. **Take out a sheet of paper, find your last Social Security benefits statement, and do this calculation:** calculate 90% of your salary, subtract your dependent Social Security benefit from that, then divide that amount by 0.08. That number is roughly what you should have in life insurance if you have any dependent children.

Here's an example. Freddy has a wife, a child, and an $85,000 a year job. His Social Security statement reveals that his dependent benefit is about $11,000 a year. So Freddy calculates 90% of his salary ($76,500), subtracts his dependent's benefits (leaving $65,500), and divides that amount by 0.08 to get $818,750 in term life insurance.

Why so much? You want any dependents to be able to invest that money and have the proceeds match your current salary with some breathing room. This calculation assumes a small 8% return on investment, which hopefully they can beat, but that's not something you really want to bet on.

If you don't have enough insurance, **call your agent and discuss an increase in benefits.** Most insurance companies will happily revise policies upwards for you because it means more money for them.

If you don't have any insurance (and need some), **start doing some research.** Get some quotes on 30 year term policies and see which company has the best numbers. Then go ahead and make a purchase. This is something *well worth* fitting into your budget.

Tomorrow, we'll go back to evaluating expenses with an eye towards *cutting* some money.

Day 18: Evaluating Your Expenses – Energy

I'm often surprised how many people are extremely inefficient with their energy usage, and when they think of fixing problems, they put in tremendous effort to do things that aren't much of a benefit, like neurotically keeping their lights off while having inefficient lighting which costs them more for one hour of use than efficient bulbs would cost in four hours of use.

In short, an hour's worth of effort and a few small tasks can cut a solid chunk out of your home energy usage.

Replace your regular bulbs with CFLs. CFLs are those bulbs that look like small spirals, the ones most people skip by because they're "expensive" and they're "saving" because they buy the cheap ones. The truth is that the "expensive" bulbs are the ones that save a lot of money; if you have 15 bulbs in your home (many homes have many more than that) and use them an average of only four hours a day (again, some houses will use even more), you can save $100 a year *including the comparative bulb cost* if you switch to CFLs. Even better: CFLs rarely need to be replaced once they're installed.

Install programmable thermostats and learn how to use them. Letting the ambient temperature take over in unused rooms is a fantastic way to save energy; the only problem is that it's very easy to forget to do it if you're even doing it at all. If you replace your thermostats with programmable thermostats and spend the time to program them appropriately, you can easily trim hundreds of dollars from your energy bill each year.

Install surge protectors for all of your electronic devices. Not only will these protect your devices during a storm, they also prevent electrical "drag." "Drag" refers to the small amount of electricity (5 watts or so) that all electronic devices continuously pull out of your sockets when they're powered off, which can seriously add up if you have a lot of electrical devices.

Turn off your home computer. People who make claims about how powering up your computer uses tons of energy are living in the 1970s. The truth is that modern PCs don't use any extra energy when powering up, so you're better off powering down your computer when it's unused. But if you're like me, you tend to leave it on and forget about it, so set up your PC to turn off automatically.

Air seal your home. This will take a few hours, but the Department of Energy has a very nice guide (at http://www.eere.energy.gov/consumer/your_home/insulation_airsealing/index.cfm/mytopic=11260) for making this process as easy as possible. Make sure you don't have any drafts that can just slowly drain the heat (or the coolness) out of your home and you'll save a lot of money.

These four tasks will reduce your energy usage significantly and any reduction in energy usage will bring about some serious savings in your monthly energy bills. In a large home, these tips can save $50 a month easily, a pretty good deal for things that you can do once and forget about them.

Day 19: Evaluating Your Expenses – Automobiles

Almost all of us have an automobile. Many of us have two or more in our family. We all know that they're money pits, requiring maintenance, gasoline, and repairs, but we need them to get around, so we often just feed the beasts without thinking about it.

Yet there are several simple things you can do that can reduce the monthly cost of your automobile usage. The biggest key is raising your gasoline efficiency, but other tactics work as well. Take a look:

Go easy on the brakes. Braking is incredibly inefficient. Coast to a stop when you see a red light instead of speeding up to it and then braking. Choose routes that have fewer red lights. Try to time your driving so that you hit all green lights, even if this means driving slower. You can easily increase your efficiency by 20% by doing this, which in a car that you drive 10,000 miles a year and gets 15 MPG can save up to $250 a year (depending on your normal driving conditions). Yeah, just by laying off the brakes.

Don't speed. Keep it at 60 MPH or under, even if you feel like an old man on the interstate. Why? Every 5 MPH over 60 costs about 7% fuel efficiency. If you normally drive 75 on the interstate, trimming that back to 60 not only avoids tickets, but it also increases your fuel efficiency by about 20%.

Clean out your air filter. I do this once a month or so, but I suspect this will be the one tip that most people will avoid. It's quite easy, though; for most cars, it's simply removing a nut, lifting up a plate, pulling out your air filter, blowing the dust off of it and tapping it a bit to get rid of the dust, and then putting the filter, plate, and nut back into place. This increases your fuel efficiency by about 8%, which in a car that you drive 10,000 miles a year and currently gets 15 MPG can save about $110 a year.

Inflate your tires up to the manufacturer's recommendation. If you don't know what this is, go out and find out what tires you have, then research them on the 'net. Airing up your tires is really simple and can be done at most gas stations for free. For every two PSI that your tires are below the maximum recommendation, you increase your fuel consumption by nearly a percentage point. Many people have tires that are 10 PSI or more below their maximum, which reduces fuel efficiency by at least a mile per gallon. How much will that save? If you drive 10,000 miles a year and your auto currently gets 15 MPG, just keeping your tires inflated will save $93.75 a year (assuming $2.25 a gallon for gas).

Keep your car clean. Excess weight reduces your fuel efficiency, so cleaning out your car (especially of anything heavy) will save money on gas.

Turn off your car during long waits. Stuck in traffic and nothing's moving? Turn off your car. If it's off for more than thirty seconds, you're saving money. If it's off for several minutes, you're doing really well.

Keep an eye on gas station prices. Stations can vary quite a bit, even from day to day. Keep an eye open on your way to work to see which is cheapest, then hit that station on the way home. This variation is especially true if you cross state lines, as most states have a pretty strong variance in gas prices. For example, Iowa's gas prices are *much* cheaper than in Illinois, so if I go to Illinois, I fill up before crossing the border. I can save $0.15 a gallon or so by doing this.

If you start adding up these numbers, you'll realize quickly that you can save some serious cash, especially if you're driving a fuel-inefficient vehicle. If you're able to get your SUV from 10 MPG to 14 MPG using these tips, over a year of driving 10,000 miles and with gas averaging $2.25, you'll save $650. That's more than $50 a month just for keeping an eye on your car and driving a bit more cautiously.

Tomorrow, we'll look at cutting down on food costs.

Day 20: Evaluating Your Expenses – Food

For many of us, food eats a much bigger portion of our monthly budget than we even realize. We grab some fast food a few times a week, grab take out a few more times a week, and dine out at expensive restaurants here and there. The thing is, though, that it is *very* easy to cut down on this expense. Here are a few simple strategies to employ.

Eat out less; prepare more food at home. This is the single biggest key to reducing your spending on food over any period of time. I tend to find that it's more worthwhile to find simple replacements for fast food (like homemade burritos that I can microwave on my way out the door) and to make stuff at home rather than getting take out than giving up a weekend dinner out with my wife.

If you don't know how to cook, teach yourself, starting with simpler recipes. There are a lot of books out there that can teach you how to cook (trust me, I've read a *lot* of them). The three that stand out (for me) are *How to Cook Everything* (probably the best overall for learning), *The New Best Recipe* (probably the best recipes), and *The Joy of Cooking* (probably the best reference and easiest to find used). Get one of these three and make a commitment to cook. In fact, if you stick around until February, I'm going to somewhat give into my desire to have a cooking blog and do a four week crash course on learning to cook at home with an eye towards the pocketbook.

Give leftovers a try. I used to think leftovers were the epitome of nasty, but then I figured out a few key secrets about making leftovers better: keep the foods rotating and make sure to spice the leftovers themselves. If you prepare a bit extra at mealtime, leftovers make for extremely cheap dining.

Buy a deep freezer. This allows you to buy some foods in bulk at a very cheap rate. Once you have the freezer, check with a local butcher to see what kind of deal you can get on bulk meat; you'll be amazed how much of a discount you can get on bulk orders. You can also move to a system of preparing many meals at once and freezing them for later use; it's a lot easier after a busy day to come home and pop a meal in the oven than it is to stop at the take-out place, especially when you realize how much cheaper the first option is, too.

Organize a series of potluck dinners. If you have a group that regularly dines out together regularly, suggest that you have a rotation of potlucks or backyard barbecues instead. If everyone is on board with this, it can be *vastly* cheaper and often more fun. Some of my best memories of dining with friends are not from restaurants, but from sitting on back porches watching the moon rise and enjoying a bottle of wine in the gentle warmth of a summer evening.

Day 21: Evaluating Your Expenses – Housing

Most people, once they're locked into a home mortgage or have moved into an apartment, feel as though that is an amount that they are simply down each month, with no real way to reduce that amount. It's simply not true; it's just a psychological trick within your mind. The real truth is that there are ways to effectively reduce that amount each month without adding any significant risk to your situation.

Here are five avenues to explore in terms of reducing your monthly housing bill. Spend some time considering each one and actually ask yourself whether or not these things are feasible for you.

Rent out a room. Some people feel very uncomfortable doing this, but it is definitely a great way to reduce your monthly housing costs. If you have a close friend or relative who is in need of inexpensive housing, offer to rent them a room at your home for a good rate; you could even offer to give them board as well for a higher rent rate. When I was in college, a friend of mine used to pay $500 a month to one of his parents' friends in order to have space in their basement and free meals. We are also considering renting out a room in our own home after we make the big purchase.

Consider a home downgrade. If you're a married couple with no children left in the nest but a lot of bills to pay, it might be worth considering buying a smaller home or an equal sized one in a less expensive area. This is especially true if you cah sell your current home and move into a smaller one that's already paid off; it puts you in great position for the final push to retirement.

Negotiate. If you're living in a rental situation, negotiate with your landlord. Offer to sign a longer lease in exchange for lower rent if you know you're going to live there for a while. If you have a bit of money in the bank, you can also offer to pay several months of rent at once in exchange for a discounted rate. A close friend of mine was able to write a check for a year's worth of rent at once and her landlord gave her a 40% reduction in the rent level, simply because there was no risk on the landlord's part.

Practice preventive maintenance. Hometime.com provides a great checklist for home preventive maintenance at http://www.hometime.com/Howto/projects/prevent/phm_1.htm. It can seem like a lot of work, but it's a great way to save money. Set aside a few hours each month for these routine tasks and things will be much less likely to break down or cause major unexpected expenses.

Refinance. This is a carrot dropped in front of many people - and some jump for it without thinking about it. Spend some time and run the numbers to see whether a refinancing might improve your month-to-month financial situation. Don’t just jump on a refinance because it offers lower rates now, though; only get into a fixed rate refinancing.

Day 22: Evaluating Your Expenses – Monthly Services

Most of us have a set of monthly bills that we pay as part of our regular routine. They constantly chip away at our monthly and annual budget, eroding how much we can spend on a regular basis. Some of these are essential (electricity), while others are maybe less essential (Netflix). Today, we're going to take all of these monthly expenses and see whether or not any of them can be reduced or eliminated.

First, **make a list of every monthly bill you pay.** Cell phone, cable, internet, electricity, mortgage, rent, insurance, and so on. Write the approximate amount you pay each month next to them, but leave some space over to the right for some more calculations.

Once you've made this list, **cross off the ones that are fundamental for day to day life.** Electricity is fundamental, while internet access is not. The mortgage is fundamental, while Netflix is not. Loan payments are fundamental, while cable or satellite television is not.

Now **multiply each of the remaining elements by twelve** so that you can see how much the bill is costing you in a year. You should also multiply that yearly amount by 1.025 (2.5% more, in other words), because that's how much you'd have if you put that bill amount into savings each month. Multiplying out the bill amount like this can often make a reasonable bill seem crazy. For example, if you pay $19.95 a month for Netflix, that's $245.39 a year towards your life dream that's going away. Spend $50 a month on cable? That's $615 towards your dream gone forever. Got a $200 country club membership fee? $2,460 a year goes poof.

At this point, **go through each item and ask yourself whether it's worth what you're paying for it.** It might be worth it to you right now, or you might realize that it's something you rarely use so it's not really helping you build towards your dreams. Most likely, you'll find ways to reduce that bill without eliminating it. Maybe you can go to a cheaper plan on Netflix ($61.50 saved a year), or you could eliminate $15 worth of premium channels from your cable bill ($184.50 saved a year), or you could get a less expensive calling plan from your cell phone provider.

It's important to remember that even though each cut seems tiny, if you've been following the plan this month, you've trimmed away a lot of fat from your budget without really affecting your way of life all that much. Depending on your choices, you may have dropped ten percent of your expenditures already; if you take that ten percent and use it to pay off debts now and later invest it in your dreams, you've literally taken a dream that seemed impossible and transformed it into something possible.

Day 23: Evaluating Your Expenses – Bank Fees

The vast majority of Americans do their primary banking with one of several very large bank chains. Unfortunately, these large chains are often almost insulting in how they treat their average customers, charging numerous fees and other crazy charges that, over a year, can add up to quite a lot.

Today, we're going to take a serious look at how your bank (or banks) treats you. **Pull out a blank sheet of paper and a copy of your last bank statement.** We're going to see what the fees are costing you - and see if there's anything you can do about it.

First, **copy every single charge that's not a purchase from your statement to your blank sheet of paper**, along with the amount. Leave plenty of white space over to the far right so we can do a few simple calculations. If you earn interest on the account, include that amount as well.

When you're done, total these charges up (don't include any earned interest - we'll deal with that separately) and **find out what your account is really costing you a month.** The first time I did this, I discovered that I was losing about $25 a month in small fees. Each fee seemed tiny, but when I spent the time to add them up, I was flabbergasted.

Want to surprise yourself even more? **Multiply that total by twelve to see how much you're being dinged for in a year.** You should also figure in another 2.5% beyond that total because you could easily earn that much in savings over the course of a year. For me, I saw a total charge of over $300, meaning for the opportunity to use my money for their investments, the bank was charging me $300 in fees a year.

So what can you do? If the charges are appearing in your savings account, look at getting an ING Direct or HSBC Direct savings account. Both are basically charge-free and both earn a stellar interest rate (4.5% and 5.05% respectively). I went from earning about 0.5% on my savings account with occasional fee charges to earning 4.5% with no fee charges ever, putting a lot more money in my pocket.

If the charges are appearing in your checking account, **take a look at some local credit unions.** Credit unions generally have very strong checking accounts with almost nonexistent fees, though of course your mileage may vary. I found a local credit union that doesn't charge me any fees at all while offering me all of the same services as my own bank; the only time I'm ever dinged is when I use an ATM in a strange place, and even then the fee is very small. I now probably spend $10 annually in fees versus $300.

If you're worried about the process of switching primary checking accounts, I've written a guide to aid you in this process, available at http://www.thesimpledollar.com/2006/12/26/how-to-switch-to-a-new-checking-account/ . It takes less work than you think and over time the savings can be tremendous (if you can save $300 a year like I am, it's well worth the switch).

Day 24: Evaluating Your Expenses – Entertainment and Hobbies

If you've been following along with this series and have been participating in the expense evaluations of the last week, you're probably feeling pretty good about your financial direction. Now we come to the part that is the hardest for people to give up - and the one that makes most people relapse: entertainment and hobbies. In other words, all of the consumer joys you have in life, from television to gadgets to video games to clothes shopping.

I'm going to say something shocking here: if you really want to commit to this plan long term, **you should not give up most of these things**. They bring a lot of day to day joy into one's life and the guilt that they bring is due to excess, not due to the spending itself. **The key is not to trim out all the lattes you drink, but instead trim back a few lattes a month.** That way, you can still get the simple pleasure of enjoying a latte, but you also get the pleasure of skipping one every once in a while with the realization that you're skipping it for good reasons. It turns something that can be a big negative (and thus makes it very easy to quit and give up on) into something that is a net positive.

With that being said, take some time today and go through your more frivolous expenses in a given month. **You can start by digging out your last month worth of credit card and checking statements and highlighting everything you bought for pure entertainment, simple pleasure, or for a hobby.** This might take a little while, but it's worth the effort.

Once you've highlighted all of them, **go back and make some approximate groupings.** For example, group all of your coffee shop visits together, or all of your book purchases together, or all of your music purchases together. *Use groupings that make sense to you*; if you try too hard to use what someone else thinks should be grouped together, it will have no meaning for you.

Now, go through these groupings one at a time and ask yourself whether it would detriment your life to trim back spending in this area. Let's say you buy a grande latte each morning at the coffee shop. Maybe you could cut this back to four times a week, with two of them being regular lattes? That way, you could still enjoy your big latte on Monday morning and Friday morning and still have some on Tuesday and Wednesday, and just drive into work with a smile on Thursdays knowing you're working for a great future. You might also pledge to go to the library and mill around every other time instead of going to the bookstore or the music shop. Remember, **if cutting back at all makes you feel really unhappy, then don't cut back.**

These little changes are the ones that quietly make a big difference; if you try to make a big change, it will be no different than a New Year's resolution where you decide to diet and spend the first week eating salads. By the end of January, you'll be knocking back the proverbial poundcake and it will have all been for naught. The key is to **find those places where you can cut off some fat without damaging the meat.**

Tomorrow, we'll look at credit cards, their fees, and what we can do to reduce them.

Day 25: Evaluating Your Expenses – Credit Cards

Today is the final day of expense evaluation before we begin to tie things up (the month is nearing an end, after all), so today we'll tackle what is perhaps the biggest financial rough patch in the United States: credit cards. As anyone who has ever faced a big pile of credit card debt can tell you, credit cards are nefarious little devils that can sneak up on you and destroy all of your financial planning if you're not careful. Thus, here are some tips for managing that month-to-month credit card debt; spend some time today implementing them to reduce your monthly credit card spending.

Look into moving your balance to another card. If your credit is strong, you can easily obtain a 0% APR on balance transfers for as long as 18 months. Doing this can transform high interest debt into no interest debt, meaning that each payment will go straight towards eliminating the balance. Be sure, though, that you have eliminated a lot of the balance during this period, because it will be painful when the interest payments come back.

Ask for a rate reduction. Another potential avenue for reducing the monthly interest on a card is to call the number on the back of the card, get to a live operator, and ask to speak to a supervisor. At that point, tell them you're tempted to take a balance transfer offer in order to consolidate your debt and request that they reduce your interest rate. Quite often, they'll be happy to oblige because earning less interest on a credit card is better than earning nothing at all.

Look for lower interest methods to consolidate your credit card debt. You may have available to you a home equity line of credit that is at a much lower interest rate than your credit cards, so it might be worthwhile to pay off the cards with the HELOC. Another possibility is discussing a personal loan with your local bank; you might be able to consolidate a lot of the debt into a relatively low interest loan. However, these tactics don't mean you have a clean bill to spend again! Put the credit cards up for a while and learn how to live on the money you have.

Stop using credit cards for day to day expenses until you can eliminate the debt. Until I got my credit cards under control, I moved to using checks and cash wherever possible, supplemented by a debit card. I treated the credit card bills as a loan that needed to be paid off, *not* as a tool to buy more stuff I couldn't afford. I didn't cut them up, though; I just put them in a place that was hard to access. Why? Canceling a bunch of credit cards all at once can be severely detrimental to your credit health.

Tomorrow, we'll begin to finish out the month by re-evaluating where we've been and looking at ways to keep the momentum going.

Day 26: Refining Your Budget

For the last several days, we've been focused primarily on digging through our monthly expenses and looking for places to trim away some fat. It will take some time for this to become clear, so today we're going to look at how you can refine your life budget each month as the expenses begin to move downwards - and the available cash goes upwards.

First of all, **at the start of each month, you should refine your "life budget" a bit.** What this means is that you should take out the budget you prepared the previous month and use that as a starting point to develop the next month's budget. Since we're nearing the end of the first month, I'll walk you through this process once so you can get a feel for what should be done.

At the start of the month, **take out your budget from last month and all of the statements you got in the intervening month.** You'll also need a clean piece of paper for the budget for the upcoming month.

The first thing to deal with for the coming month is your overall income. **If your income this month is the same as last month, just carry the amount over to the new budget.** If you got a raise that will start taking effect in the coming month, enter that amount on the new budget instead.

Next, deal with the expenses. **Copy each expense (but not each expense amount) over to the new budget.** Then, copy over each expense that you didn't get a statement for in the past month. These expenses will remain unchanged.

Now let's deal with the expenses with new statements. Rather than confusing you too much, I'll give you an example of what to do to start with. Let's say your past budget had an electricity bill for $100, but in the intervening month, you installed CFLs and did a few other things, and the new bill is only $80. Rather than celebrating and immediately writing the lower amount into the new budget, *hedge your bets a little.* Take the amount from the old budget and multiply that by 4, then to that add the amount of the new bill. Divide that number by 5. That's the number you should write in for your energy budget for the coming month.

This trick is called weighted averaging, and it protects you from making significant changes based on one data point that may or may not be unusual. Over time, your energy budget will go down. For example, let's say that for the next six months, your energy bill stays at $80, and then summer kicks in and your bill goes back to $100. If you use weighted averaging, the bounce back won't hurt you at all, because you'll have a bit of a surplus from months of slightly overbudgeting and it'll be no problem at all to pay the bill. However, if it bounces back suddenly, your budget will be damaged by this sudden change.

If you've been diligent about doing trimming, you'll probably notice that after a few months, your numbers for expenses are either staying the same or trending downwards. Even better, you'll probably be seeing some surpluses at the end of the month beyond your budget. That's great; just move those surpluses into a savings account so they can earn some interest, and then move them back out if you need them. Even better: your budgeted total for expenses for the month is also lower than it was before. What does that mean? More money to eliminate debts and dreams!

Now that you've seen a little drop in budgeted expenses over the previous month, you can allot that money towards the debts and the future plans on your budget. My advice is to channel them into more extra debt payments, but you might also want to bolster a long-term plan as well. At the very least, take half of that extra money and add it into paying off debts, because the freedom of being debt free is incredible.

So just **copy over the debts and plans from the previous month, except add in the reduction in other expenses to the debt you're focused on** or perhaps also put part of it into one of the dreams. And you're done for another month.

I like to **keep my current budget posted in a place where I see it regularly, along with another big reminder:** I use Excel to create a chart showing my expenses and debts going down each month. Seeing both of those lines heading south is a big reminder that I'm living a financially healthy lifestyle.

Tomorrow, we'll look at some ways of managing your financial records.

Day 27: Keeping Good Records

Now that you've built a value-oriented budget and evaluated your life in terms of your rediscovered central values, it's time to take care of a little bit of housekeeping. The first part of this is keeping good records, something that seemed overwhelming and unnecessary to me at first. Once I finally broke down and did it, though, I found it to be a fantastic way of feeling more in control of my finances and my life as a whole.

Why keep good records? First of all, *good records can protect you against errors*. If you have adequate financial records, you're prepared for an audit, prepared to apply for a home loan, and prepared to verify anything that anyone might claim. Second (and actually more interesting most of the time), *good records enable you to analyze your financial life*. With everything organized, you're prepared for any sort of spending analyses you may wish to do.

How do I organize them? There are several strong organizing systems out there; spend some time looking at several of them and choosing one that works for you. Want to know what you should file? Try this checklist: http://cahe.nmsu.edu/pubs/_g/G-229.pdf

What materials do I need? If you're just getting started, a pile of folders and a box will do the trick; later on, if the system is working for you, you might want to invest in a filing cabinet. I wouldn't invest in one, though, until you're sure that you're actually using the system with regularity.

I don't know where to start! Help! When I started, I was completely overwhelmed with all of the papers stuffed into dresser drawers, desk drawers, and boxes. Whenever I thought about getting it done, I would quickly come up with something else to do. But when I finally sat down and did it, the process wasn't too bad. Here's what you do:

Set aside a block of time to do it. This is a great afternoon activity, so just pick an afternoon to get your items in order. Make sure you have a large box and plenty of folders before you begin.

Find a place with plenty of space to spread out. I used the living room floor.

Make a pile for each different type of record, and use the opportunity to discard everything inessential. You'll probably wind up with a lot of piles. Don't worry about any sorting within a pile, just get through all of the things you have built up. You should also be throwing away all inserts, envelopes, and other unimportant things.

Sort each pile by date. I like to have the newest on top, so I sort them in reverse chronological order.

When you've sorted a pile, put it straight in a folder, label it, and put it in the box. As you see the box filling up with organized records, you'll feel a *lot* better about things. For me, it was rather exhilirating to watch things slowly becoming ordered where there was only chaos before.

Tomorrow, we'll look at a topic that no one likes to think about.

Day 28: Preparing For The Inevitable

Today, we're going to talk about planning for your passing in the form of a will or a trust, something that many people haven't done. The truth is that it's not something that's necessary for everyone - but if it is necessary, you need to set aside a bit of time to get it done.

First of all, **determine whether or not you need such a thing at all.** I usually ask two questions: *do you have any dependents besides yourself?* and *do you have any relatives or friends that you wish to have your things or money when you pass on?* If you answer yes to either question, then it's time to get legally binding plans set in place. If you answer no to both (many young people will, in fact), then don't get one, as intestate (the state's default method for handling your leftover assets) will take care of things for you.

If you do need to make a plan, though, **don't go cheap and get a kit - contact a lawyer and do it right.** Ask around for references to one who can handle your will or trust preparation easily and clearly and can make sure that it is in fact legally binding in your locality. The fee for this is usually not too high, but knowing that the document is properly prepared makes it worth all of the effort.

There are a few basic things you should know before you go, though:

First, a **will** is the actual document that lists what you wish to happen to your estate upon your passing. There is one big drawback to a will: in most jurisdictions, for a will to be legally executed, it must go through a legal process known as **probate** to ensure that the statements in the will are actually carried out, which can be expensive.

Thus, some people choose to set up a **trust** (often called a revocable living trust), a legal entity to which a person can assign all of their assets while they are alive. This trust is legally bound to follow the rules of the trust, which usually kick in when the person who set up the trust passes on. Since these assets are owned by the trust and not by the person, they're often not subject to probate. The only drawback is that it can be expensive.

Again, to make sure that everything goes right, **ask for appropriate legal advice to ensure that you know what you're doing and the document is in fact legally binding.** For me, it was the best money I ever spent.

Spend an hour **piecing together what your wishes are for your estate, then contact a lawyer.** Knowing that things are taken care of when you enter the afterlife is a huge relief to many people.

Day 29: Paying Cash

There is one final point that merits discussion before we close out this month, and that is the logic behind paying cash for any purchases smaller than a home purchase. This includes automobiles, appliances, furniture, electronics, and so forth. To most Americans, this concept is almost alien, but if you take nothing else away from this month, this is the concept to remember.

Why pay cash? To put it simply, instead of paying some company an interest rate, you can invest that money yourself and earn some interest. This might seem like a minor issue, but in actuality it's thousands of dollars that you're throwing away, more than enough to keep companies like GMAC in solid financial shape year after year after year.

How much can I actually save? If you finance a late model used car costing $10,000 for 48 months, you can pocket about $3,000 simply by paying in cash rather than financing the car. That's how much you will pay in interest, plus the amount that you can earn in interest in a savings account. Do that three times and you've literally netted a free car.

How am I supposed to pay cash for a car? The next question that many people ask is how they can possibly pay cash for a car. If you've followed this plan from the beginning, the answer should be pretty clear: *your emergency fund*. If you see that an auto purchase is coming, start rolling money into your emergency fund instead of into other investments or uses, building it up to the point of having several months of salary in it. I recommend making car payments into the emergency fund at this point, preferably for a couple of years. Then simply walk into the dealership, negotiate a price without saying that you'll use their financing, then write a check. After that, you'll probably need to build up your emergency fund again, but you won't be making payments on your car.

I can't do that right now! That's true, you probably can't do that immediately. But you can set it as a goal. One big step towards achieving that goal is to **stop leasing**, because auto leases as they allow you to effectively rent a more expensive car than you can afford, but leave you with nothing in the end. If you already don't lease, then **buy a late model used and drive it for years past the end of the financing.** While that's happening, continue to make your car payments into your emergency fund. Then, when the time comes, you can simply buy a car, no questions asked.

So what can I take away? Spend some time and plan out when your next auto purchase will be and what type of car you're aiming to buy. Then, calculate the numbers and see if you can put yourself in place to pay in cash. Can't swing it? Could you swing it if you drove that car for another year? Remember, this *does* fit into your budget if you just transform your car payment into payments into your emergency fund, and in a few years the dividends of seeing interest build up on your car "payments" will really start to show.

Now that the month is almost complete, we'll spend the next two days tying up some loose ends.

Day 30: Live What You Love

If you've followed this plan all the way to this point, congratulations. Even if you've chosen to not follow every point, you have at least spent some serious time evaluating your finances and your spending and put them in the context of your overall life, which puts you already far ahead of many of your peers.

However, the reality of the world leads many of us to forget what our overall goals are in a desire to be accepted and to feel *good*. Our society tries to convince all of us to spend endlessly. We're constantly bombarded with enticements and reminders of how "great" it is to spend.

Here are seven useful tips that can help you keep your mindset in the right place, enabling you to live what you love every single day. Some of these might not work for you; just use the ones that seem as though they would be a powerful motivator.

Wrap your credit cards in a slip of paper that lists your life goals that you defined at the start of the month. It shouldn't take more than a little slip of paper. This way, every time you go to pull out your credit card, you see your goals right there - and it becomes a reminder that by using this card, you are likely pushing away those goals.

Reevaluate your social situations. Is an evening with friends always expensive? Is a day with the girls involve a big pile of shopping bags? If these things are true, your social situations may be causing you big problems. You have several options: suggesting other activities and seeing what happens, going along and capping your own spending, or simply "dropping out" of the social club and instead investing yourself in new activities - and perhaps new friends that better match your life goals.

Engage in inexpensive activities that match your life goals. If you dream of becoming a writer, don't spend your time at the mall buying stuff. Engage in online writing communities and look for ways to spend your time practising your writing. For almost any life goal or dream you have, there are inexpensive activities you can become involved in that synergize with that activity. For me, I've started this blog as a way to channel my writing and also educate myself about financial issues instead of spending my time doing the same old thing; it's a great way to spend my time that's much more in line with my life values, plus it's very inexpensive.

Use the ten second rule. Whenever you find yourself about to buy anything, count to ten and ask yourself whether or not this purchase really meshes with your life goals. Quite often, you'll find that it doesn't, and this will be enough to cause you to put that item back on the shelf or to close the browser window.

Keep a laminated "life goals" card in your pocket. This way, every time you reach into your pocket, you'll feel that laminated card. It will serve as a constant reminder of your goals and help keep your mind on a strong path.

Keep yourself clean. This seems bizarre to some, but a healthy personal appearance is well worth the money. By this, I don't mean investing money in clothing. I mean that investing adequate time in keeping yourself clean. You'll feel more confident and in control, and this will enable you to more easily resist the siren's call of spending.

Live what you love. Every single day, do something that is directly in line with your lifetime goals, and as you go to sleep that night, think back on it. Very few things make me feel better as I'm going to sleep than reflecting on my day and realizing that I spent today not just doing things, but actually living my life.

Day 31: Keeping It Up

Now that the end of the month has come, one final challenge remains: how does one keep up the momentum once you start with it? The day to day challenges of life are difficult and uncertain, so how can this plan ever deal with an ever-changing life?

Unlike most financial plans, this one has something intimately familiar at its core: you. Because you're at the core of this plan and not some form that you fill in and try to constrain your life to match, this plan can easily grow and change with you with just a few simple steps.

Once a week, make sure you're making some sort of progress towards your short term goals. You don't have to accomplish something every week, but keep them in mind - and regularly take the time to make forward progress towards your dreams.

Once a month, diligently update your life budget. You can do it with just money, but it's often useful to re-calculate the hours of your life spent working for each item each month, as it is a healthy reminder of where your time goes.

Once every few months, evaluate your progress towards your long term goals. I like to do this on the first day of each season - not only does this keep me on an "every three months" pace, it keeps me in mind that time is passing and the seasons are changing, so I'd better keep up with it. This usually results in a flurry of new activities for a short period with a gradual slowing down - but it does keep me always moving towards my goals while many others stay stuck in place.

Once a year, reevaluate each of your life's values and ask yourself whether they match your life now. When I first looked into my child's eyes, the values of my life changed quite a bit, and thus my goals changed substantially as well. From that, unsurprisingly, my budget changed, too: I suddenly found great value in buying diapers, but also great value in buying books and educational toys for infants and toddlers. My values used to be such that buying software was in line with my life goals; now, buying wooden alphabet blocks for stacking is much more in line with what I want to be doing.

Even if you fall off, there is never a day where it's too late to get back on. Even if you find yourself starting to fall back into your old ways, that doesn't mean it's time to abandon the plan. Old habits are hard to break. Try going through this entire process again to remind yourself where your values lie and what your goals are.

Good luck.