30-Minute Money Solutions

A Step-by-Step Guide to Managing Your Finances

Christine Benz
Director of Personal Finance

Foreword by Don Phillips, Managing Director

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30-Minute
Money Solutions

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For Greg, my comfort and joy

Contents

Foreword

YOU'D THINK THAT MANAGING YOUR OWN MONEY would be the most elemental of life skills, one we would all master at an early age. You work and are paid money. You spend some and save the rest. You invest some of what you save for higher returns in the future in case you can't work then. It doesn't sound like that difficult a set of skills to develop. Certainly, most of us develop much more complex capabilities for social interaction: how we dress, behave in public, develop a sense of humor, choose friends, maintain relationships, find employment, select a place to live, and so forth. Compared with that, personal finance should be a breeze.

Yet for most people personal finance remains a mystery, leaving far too many of us prone to scams that play on our naïveté. Small wonder—for most of us, the subject of saving and investing wasn't something discussed at home while we were growing up. It most certainly wasn't something taught in our schools. And to compound the problem, the financial services industry seemingly goes out of its way to make the topic impenetrable. What other industry has more needless complexity and more confusing and constantly changing terminology? Did your Fannie Mae ARM get turned into an RMBS or a CMO with a long WAM rated by a NRSRO and sold to a convert/arb shop?

Fortunately, it is possible to cut through the nonsense and forge a sound financial path, even if you're not hip to this week's financial acronym. The basics of personal finance are just that: basic. Buy low, sell high; live within your means; understand your time horizon; set reasonable goals—these are all simple concepts that can be readily grasped and, with effort, mastered by all of us. All you need is a good coach to help you cut through the clutter and keep you on target. *30-Minute Money Solutions* is designed to be just such a guide to get you started or to help you brush up on individual tasks such as saving for college or rolling over a 401(k) plan.

I can think of no finer guide for conquering these tasks than Christine Benz. Christine is a gifted financial analyst—as talented as any we've ever had at Morningstar. She quickly rose through the ranks as an analyst to become director of all our mutual fund analysts. Under her leadership, the team did groundbreaking work and Christine nurtured a team of fine young analysts into seasoned pros. Following the typical Morningstar career path, Christine was poised to run a business unit or to take a central role in corporate management, but she chose to follow her heart. She recognized that her first love was helping investors, so she opted to become Morningstar's in-house financial-planning expert—and she's really run with that mandate, editing our *PracticalFinance* newsletter and contributing regularly to Morningstar.com.

Christine recognizes what far too many people in financial services forget—that it's all about the individual investor. If the investor doesn't win, everyone in and around the investment process has failed, no matter how big a bonus some investment banker or bond trader may walk away with. Personal finance is about people. Helping people navigate this terrain and meet their goals is Christine's passion. You'll see that concern and the human element throughout this book, which centers on real issues faced by real investors. I truly believe that *30-Minute Money Solutions* will help you take control of your financial life and master the elemental skill of personal finance. And by doing that, you'll put your family's security and your own dreams on firmer footing, something we would all define as a winning outcome.

DON PHILLIPS
Managing Director
Morningstar, Inc.

Preface

INVESTORS ARE MOTIVATED by fear and greed, the saying goes. But I saw another emotion on display in the 2008 bear market: grief. And it played out exactly the way psychiatrist Elisabeth Kübler-Ross documented back in the late 1960s.

The first stage, denial, was widespread during the late 2007 through early 2009 downturn. Countless friends, colleagues, and Morningstar readers told me that they weren't opening their investment statements, as if not seeing their losses in black and white would make it all go away.

Others got angry (the next stage), and there were certainly plenty of targets available during the recent debacle. Choose your culprit: reckless lenders, greedy investment firms, and consumers signing up for loans that they knew they couldn't possibly afford. All had a hand in causing the worst stock market calamity since the Great Depression.

Bargaining is the next phase, and while it's less common than the other stages of the grief process, I've seen that in action, too. Many investors have told me that they're hanging on to stocks that they know are too risky for them in the hope of getting back to the price where they bought them. Another couple in their early sixties acknowledged that they have too much of their retirement kitty in stocks but they're determined to hang on. They say that they'll switch to a more age-appropriate mix just as soon as their portfolio gets back to the high point it scaled in 2007.

There have also been plenty of depressed people walking around, not just because of the stock market but because of the overall gloom surrounding the economy. Retirees have had to go back to work, adult kids have had to move in with their parents, and everyone with anything in the stock market has had to recalibrate their dreams. "I'll be working until I'm 95!" one of my friends lamented after taking a pay cut and seeing the value of her 401(k) cut in half.

Finally, there's acceptance, and I think that's where many people are today. With the economy showing signs of life and the market rebounding off its lows, most individuals have made peace with what they've lost. They're ready to get on with the business of their lives, wiser than they were before "subprime" entered the national lexicon, and determined not to get sucked into the next bubble.

At the same time, they're every bit as concerned with meeting their key financial goals—funding comfortable retirements, sending their kids to school, or buying their first homes—as they were before the crisis.

That's where this book comes in. Whether you're a newbie investor or you're trying to revitalize a portfolio that's gone through the wringer, this book is designed to help you meet your financial goals, one step at a time.

Your Get-It-Done Guide

Because you don't have an unlimited amount of time to devote to your financial affairs, *30-Minute Money Solutions* breaks down the broad, daunting goal of getting one's financial house in order into manageable, doable steps. I recognize that most individuals probably can't spend hours at a time tackling financial tasks, and even if they could, they might choose to spend that time another way. Instead, this book is designed to help you use smaller windows of time—30 minutes or an hour—to accomplish a specific financial task, check it off your list, and move on to the next one.

To many in the finance field—including, no doubt, some of my dear colleagues at Morningstar—the very idea of this book is going to seem overly simplistic. How can you possibly do justice to a complicated topic like asset allocation, to which Morningstar affiliate Ibbotson Associates has devoted years of worthwhile study, in a half hour? Surely you can't dig into an issue like selecting good international funds—a topic to which my colleagues Bill Rocco and Gregg Wolper have dedicated much of their careers—in just 30 minutes?

The short answer is that you can't. I'll be the first to acknowledge that this book won't teach you everything that you could possibly want to know about some of these topics.

That doesn't mean, though, that you can't assemble a good, sound portfolio for yourself. You don't need a PhD in finance to achieve your financial goals. You needn't be an expert on the theories behind asset allocation to arrive at a stock/bond/cash mix that's appropriate for you given your age and how long you have until you need to put your hands on that money. You don't have to know a lot about international investing to make room for a slice of foreign stocks in your portfolio and to select a worthwhile mutual fund for the job.

In fact, the more I've studied the topic of personal finance and gotten to know successful investors, the more I've become convinced that the best-laid financial plans are often the most simple. That's something of a revelation to many investors, because financial services providers and the media often work overtime to send the opposite message. Given the legions of financial firms selling their services, many investors assume that creating their own portfolios is a hopelessly complicated endeavor that they couldn't possibly tackle on their own. And minute-by-minute stock market coverage also leads investors to believe that successful investing means making frequent changes to their portfolios based on what's happening in the financial markets throughout the day.

Neither assertion is true. Instead, I firmly believe that successful investing doesn't require complex strategies or an embrace of arcane investment types. If you can get the big-picture decisions right—notably, you save enough and your portfolio is anchored in sensible investments appropriate for your time horizon—you'll be well on your way to financial success. Moreover, tuning out the market's day-to-day gyrations can help, not hinder, your chances of investment success. This book tells you what you need to know to create a simple, straightforward financial plan and how to stick with it through challenging market conditions.

Of course, saving enough and having a good plan are only part of the battle. You need to pick the right investments, too. That's where Morningstar's expertise is a particular advantage. We employ a large group of stock and mutual fund analysts, who spend each day helping our subscribers identify the best stocks and mutual funds. Throughout this book, I won't just provide financial planning guidance, but I've also harnessed our team's top investment recommendations to enable you to put your plan into action.

You may notice that I've relied on a fairly small group of investment picks for various tasks throughout this book. As the former head of Morningstar's fund analyst team and in my current role as Morningstar's director of personal finance, I found myself recommending the same handful of funds again and again. The reason? Because they're so much better than the competition. Those investment recommendations are at the heart of *30-Minute Money Solutions*, and I own many of them in my personal portfolio.

How to Use This Book

30-Minute Money Solutions includes 11 parts. Each of those parts, in turn, is subdivided into chapters that help you accomplish specific financial goals in no more than 30 minutes.

We've also provided a companion web site, www.morningstar.com/goto/30MinuteSolutions. Free and exclusive to readers of this book, the site is an electronic reference guide where you can download worksheets, use financial calculators and other planning tools, and view up-to-date lists of the best investments for various goals and roles in your portfolio. The worksheets provided in the book are for illustration purposes only and aren't meant to be written on. In some cases, the book includes the first page of a worksheet with multiple pages. On *30-Minute Money Solutions'* companion web site, you can download and print out 8.5" × 11" worksheets.

You can use this book in one of two ways. You can, of course, work your way through it from start to finish. The book begins with chapters covering relatively basic financial planning tasks, such as calculating your net worth and budgeting, and then progresses to chapters about tasks that are more sophisticated, such as investing during retirement and rebalancing your portfolio.

However, each of the chapters in this book generally stands on its own, too, so you should also feel free to pick and choose, particularly if you're pressed for time. For example, if college funding is a top priority, by all means start by digging into Part Seven, which focuses on the best strategies for saving for your child's or grandchild's education.

Those who choose to read the book from cover to cover may notice that some concepts are repeated in various spots throughout the book: How to find a stock/bond mix that makes sense for you comes up more than once, as does building yourself a cash cushion to cover emergency expenses, among others. The repetition is intentional: Those concepts underpin a number of financial planning tasks, not just one.

There's No Time Like the Present

Even under the best of circumstances, it can be hard to get motivated to complete financial tasks. That's particularly the case these days, as the recent financial crisis has shaken the faith of even the most seasoned investors. Of course, there's no telling when the market will mount a sustained rebound, and when it does it surely won't go straight up.

Nonetheless, I think that we'll look back on the current environment as one of the most opportune times to invest in a generation. I hope this book provides you with a solid foundation for a lasting and profitable financial plan.

Acknowledgments

Although my name is on the cover, many individuals contributed to the development of this book.

"Investors First" is one of Morningstar's core tenets, and I have Morningstar founder Joe Mansueto to thank for inspiring me to write a book that helps individuals make better financial decisions.

My crack in-house editing team of Christopher Davis, Susan Dziubinski, Don Phillips, and Gregg Wolper provided invaluable feedback on the content and tone of *30-Minute Money Solutions* as well as moral support along the way. All are superb analysts and writers, and their thoughtful comments improved the content immeasurably.

Maureen Dahlen served as business and project manager for this book. Not only did she keep the project on track, but she also contributed many valuable insights on the book's contents.

Jennifer Gierat and Elizabeth Knapik copyedited *30-Minute Money Solutions*, working into the wee hours to get the manuscript into shape. Christopher Cantore, Mollie Edgar, and Meghan Tweedie did a fabulous job designing the worksheets, tables, and figures that appear in the book and on its companion web site, www.morningstar.com/goto/30MinuteSolutions, all

under a tight deadline and with their usual good humor. Matthew Butz and Jun Lin brought creativity and technical know-how to bear as we developed the book's companion web site.

The book also draws on the wisdom and research of many of Morningstar's foremost investment experts, notably managing director Don Phillips, chief of securities research Haywood Kelly, president of equity research Catherine Odelbo, director of mutual fund research Russel Kinnel, and director of mutual fund analysis Karen Dolan.

In addition, I owe thanks to scores of Morningstar analysts, both past and present, especially Scott Berry, Mike Breen, Scott Cooley, Dan Culloton, Paul Herbert, Eric Jacobson, Kunal Kapoor, Dan Lefkovitz, Laura Lutton, Sonya Morris, Jeff Ptak, Bill Rocco, and Christopher Traulsen. Their work, and that of many other Morningstar fund, stock, and exchange-traded fund analysts over the years, gives me great confidence about the investment recommendations contained in this book.

My parents, Richard and Lorraine Smith, as well as my five beautiful sisters, have been an enduring source of love and encouragement for me in this and every other major endeavor I've undertaken. I feel lucky that they all are such a big part of my life.

Last but not least, I owe a huge debt of gratitude to my husband, Greg, who provided crucial feedback and kept our lives on track while I was busy writing. His unflagging support, good sense, and dry wit make every day better.

PART ONE

Find Your Baseline

Jim, one of my good friends, had a deathly fear of going to the doctor, as many men do. Having enjoyed his share of beer and rare steaks, he was sure that a diagnosis of sky-high cholesterol would consign him to a life of broccoli and flaxseed. Jim also feared that bad genetics were another strike against him, as his father had encountered several serious health problems before the age of 70. Jim figured that enduring the periodic anxious thought about his health was preferable to visiting the doctor and opening a Pandora's box of health concerns.

Eventually, Jim's chronic heartburn led him to break down and schedule a doctor's appointment. Much to his surprise, Jim was in better shape than he had imagined. Yes, his doctor did recommend that he watch his fat intake, get more exercise, and cut out black coffee. But Jim's cholesterol level was within normal range, his weight was good for someone his age, and his ticker was fine. After hearing this good news, Jim was a little like Mr. Scrooge on Christmas morning. He began running 5 and 10Ks, learned to love oatmeal, and now prides himself on looking a lot younger than his 45 years.

Much like Jim, many people are so terrified about the state of their finances that they don't even want to schedule a checkup. They'd rather not know anything about their financial picture than find out that they're just a few paychecks away from financial ruin.

Yet once they get over the fear of the unknown and see the facts of their money situation laid out in black and white, many individuals find that their finances aren't nearly as bad as they had feared. And even if they do have work to do, they still feel a huge sense of relief—much like Jim did. Rather than worrying constantly that things could get worse, they can rest assured that they know what their problem areas are and are taking action to improve matters.

Finding your financial baseline, which is the focus of the chapters that follow, is a lot like giving yourself a financial checkup. Seeing where you are now—in terms of your assets and liabilities as well as your spending and savings patterns—may seem a little daunting. But it's an essential first step if you want to banish worries and get on the road to improving your finances, something this book is designed to do. I discuss how to calculate your net worth and create a cash-flow statement in Chapters 1 and 2. Chapter 3 helps you set your financial goals and prioritize them, while Chapter 4 demonstrates how to develop a budget that will help you achieve your goals.

1

Calculate Your Net Worth

For many people, stepping on the scale at the doctor's office can inspire a touch of anxiety.

If you've been eating well and finding time to exercise, the weigh-in can be proof that you're on the right track. But if you've just returned from a vacation where fried shrimp and umbrella drinks were the norm, the scale lets you know you've got some work to do.

Calculating your net worth—summarizing your assets and liabilities, which is the first step in any financial plan—is a lot like stepping on the scale in your doctor's office. (I promise, this is the last time I'll bring up the doctor. But the analogy is particularly apt here.) Your net worth statement (sometimes called a personal balance sheet or statement of financial position), like the scale, provides a clear-eyed look at how well you're doing. Sometimes your net worth isn't pretty—particularly when the stock market isn't cooperating or you've been hit with unexpected expenses. But if you have been watching your expenses, saving regularly, and taken care in your investment selections, it can be pretty gratifying to see your net worth trend up from one year to the next.

Your net worth statement is only a snapshot of where your household's finances stand at a given point in time; your real net worth fluctuates every day, depending on the value of your assets. But that snapshot can go a long way toward helping you identify red flags, plot what your financial priorities should be, and make sure you're on track to reach your goals.

Your net worth statement will also serve as the foundation for other financial-planning-related activities that I discuss in this book. In Chapter 7, I walk you through how to create a master directory so that you will always be able to find important information about your assets: account numbers, passwords, contacts, and so on. Creating a net worth statement will help expedite the process of creating that directory.

Creating and maintaining a net worth statement will also help expedite the estate planning process, because taking a full inventory of your assets and liabilities is usually the first step. (In Chapter 34 you find what you need to know to get started on your estate plan.)

To create a net worth statement, you'll need:

- Net Worth Worksheet (Worksheet 1.1, available at www.morningstar.com/goto/30MinuteSolutions)
- Most recent investment statements for taxable investment accounts, retirement accounts, and college savings plans
- Most recent checking and savings account statements
- An estimate of the current market value of your home(s). (Be realistic! Unfortunately, homes aren't worth what they were three years ago.)
- An estimate of the current market value of other assets, including cars, jewelry, artwork, and so on
- Life insurance policy face values
- Most recent credit card statement(s), if you have a balance on your account(s)
- Most recent mortgage and home equity loan statements
- Most recent statements from any other debts you owe, such as student or auto loans

Start the Clock

Step 1

To create your net worth statement, fill out the information on the Net Worth Worksheet (Worksheet 1.1), available at www.morningstar.com/goto/

Worksheet 1.1

Net Worth Worksheet

PREPARED FOR: DATE: / /

Find out how much your assets are worth in total by filling out this worksheet. List assets by ownership.

You'll Need:

- Most recent investment statements for taxable accounts, retirement accounts, and college savings plans
- Most recent checking and savings account statements
- An estimate of the current market value of your home(s). (Be realistic! Unfortunately, it's not worth what it was three years ago.)
- An estimate of the current market value of other assets, including cars, jewelry, artwork, etc.
- Life insurance policy face values
- Most recent credit card statement(s), if you have a balance on your account
- Most recent mortgage and home equity loan statements
- Most recent statements from any other debts you owe, such as student or auto loans

NET WORTH: ASSETS

Taxable Accounts:	You	Spouse	Joint	Total
Checking				
Savings				
Credit union				
Money markets				
CDs				
Mutual funds				
Stocks				
Bonds				
Stock options (vested)				
Other				

Retirement Accounts:	You	Spouse	Joint	Total
Annuities				
Traditional IRAs				
Roth IRAs				
401(k), 403(b), 457				
Other				

Print your worksheet at: www.morningstar.com/goto/30MinuteSolutions

30MinuteSolutions. Remember, you're filling in the current market value of your assets, not your purchase price (and not as nice as those memories may be, what the assets were worth at their peak). If you're part of a couple and you and your spouse hold some assets jointly and some separately, note who owns what—and the current value—on the form.

In some cases, like publicly traded securities such as stocks and mutual funds, you'll be able to get a very current, very specific read on what they're worth—for example, if you own 1,000 shares of Microsoft MSFT and the stock closed at $23.45 today, your shares are worth $23,450. For other, less-liquid assets (that is, those that don't trade all the time, such as real estate and automobiles), arriving at their value is more art than science. Web sites like zillow.com can help you make an educated guess about the value of your real estate, while Kelley Blue Book's web site (www.kbb.com) helps you estimate the value of your automobile.

You'll notice that I've included a line for personal assets. Don't get carried away totaling up the value of every pillowcase and pair of shoes that you own. But if you do have other assets of worth, such as artwork or expensive furniture, you can estimate their fair market values and record them here.

Step 2

Next, record your outstanding debts. As with your list of assets, married couples should indicate which spouse owes what (unless the debt is in both people's names).

Step 3

Once you're finished recording your assets and liabilities, total up each column and subtract the smaller sum from the larger one. That amount is your net worth, which you can then track in subsequent years.

Step 4

Now it's time for some analysis. Start by focusing on your bottom line.

- Is your net worth negative or barely positive? If so, you've got work to do; I discuss how to set up a budget in Chapter 4.
- Even if your net worth is positive, spend some time scrutinizing the underlying numbers. Check to see whether a big share of your net worth