

STEP ONE**LEARN THE
FACTS—AND
MYTHS—ABOUT
YOUR MONEY**

Wendy sat in my office, perched on the edge of her chair, alert, inquisitive, and a little bit embarrassed. An experienced and highly successful real estate agent, she had come to me for a financial consultation—and the facts of her situation were hardly reassuring. Although she earned well over \$250,000 a year and was able to put two kids through private school at an annual cost of \$15,000 each, her personal finances were a mess. A self-employed single parent, she had less than \$25,000 saved for retirement, no life or disability insurance, and never bothered to write a will.

In short, this intelligent, ambitious businesswoman was completely unprotected from the unexpected and utterly unprepared for the future. When I asked Wendy why she had never done any financial planning, she shrugged and offered a response I'd heard countless times before: "I've always been too busy working to focus on what to do with the money I make."

Looking across the restaurant table, I could see the sadness in my mother's eyes. A good friend of hers had just gone through a bitter divorce. Suddenly, after more than three decades of marriage to a wealthy surgeon, the friend now found herself living in a tiny apartment, struggling to make ends meet as a \$25,000-a-year secretary. Like many formerly well-off women, she had never paid much attention to her family's finances, and as a result her estranged hus-

band was able to run rings around her in the settlement talks. It was a terrible thing—all the more so because it could have been prevented so easily—and it made me wonder if my mother was similarly in the dark. So I asked her. “Mom,” I said, “do you know where the family money is?”

I thought it would be an easy question. After all, my father was a successful financial consultant and stockbroker who taught investment classes three nights a week. My mother had to be up to speed on the family finances.

At first, however, she didn’t reply. Then she squirmed slightly in her chair. “Of course I know where our money is,” she finally said. “Your father manages it.”

“But where is it? Do you know where he’s got it invested?”

“Well, no, I don’t. Your father handles all that.”

“But don’t you have your own accounts, your own line of credit?”

My mother laughed. “David,” she said, “what do I need a line of credit for? I have the best bank in the world—your father.”

The reason I’ve started our journey with these two stories is that I know you are a very special woman—the kind of woman who believes in herself. Specifically, you believe that you possess the abilities and the intelligence to have the kind of life you feel you deserve. (If you didn’t, you would have never picked up this book in the first place.) You also believe—correctly—that money is important and that you need to learn more about accumulating and protecting it. Finally, I know that you are someone who recognizes that it takes more than a single burst of enthusiasm to improve yourself and develop new skills; it also takes commitment and education.

That is why the first step of our journey is all about getting motivated to educate yourself now and on an ongoing basis about your money and the role it plays in your life. I believe that no matter what your current situation is—whether you are already wealthy or living paycheck to paycheck—a little education combined with motivated action can go a long, long way.

I also know from working with thousands of women that, sadly, neither Wendy the real estate agent nor my mother are at all unusual. Yes, women have long owned nearly half of the financial assets in this country. Yes, most women work and nearly half of them are their family’s main income earner. Yes, the statistics about divorce and widowhood are appalling. Yet, despite all this, the sad fact is that shockingly few women know even a fraction of what they should about the state of their own personal and family finances.

By the same token, very few people know all of the fundamental

principles about money that you are about to learn. And most important, even when they think they do, they rarely follow the principles on a consistent basis. This last point is a key one, for as you will discover in the course of our journey, it is not what we learn that makes a difference in our lives but what we do with what we learn.

THE FACTS AND MYTHS ABOUT YOU AND YOUR MONEY

What we're going to do in this chapter is familiarize you with what I call the financial facts of life. By the time you have taken in all the facts, you will understand fully why it's essential that you take charge of your own financial future. Moreover, you will be totally motivated to get started learning how to do it.

The first fact of financial life to understand is that while planning ahead is important for everyone, it's more important for women. Indeed, though in many ways we live in an age of equality, there is no question that . . .

Fair or not, women need to do more financial planning than men.

As I said in the introduction, compared to previous eras, this is a great time for you to be a woman. In terms of opportunities and resources, you couldn't have picked a better time to begin a journey to a secure financial future. And it's more than just a matter of economics. Because of advances in both technology and public attitudes, women are not only living longer than ever before, they are active longer. In my seminars, I often joke that today's 80-year-old women are drinking "green juice" and doing aerobics every morning. I know my Grandma Bach was like that. Up to the age of 86, she hiked five miles a day and went dancing three nights a week! In her mid-80s, my grandmother enjoyed a life that was more active, socially and physically, than mine was at 30!

But if the good news is that we live in an age in which the barriers that held women back for so long seem finally to be falling, the bad news is that there are still many obstacles to be overcome. For one thing . . .

Women still typically earn 25 percent less than men.

For another, women are less likely to have a steady income stream over the course of their lifetimes. In some cases, that's due to discrimination, but it's also due to the fact that responsibilities such as child rearing and caring for elderly parents cause women to move in and out of the workforce a lot more than men do. In all, over their working lifetimes, women spend a total of 11½ years off the job on average, versus only 16 months for men.

What's more, according to a recent study by the U.S. Department of Labor . . .

Women are the ones hurt most by corporate downsizing.

That's because it takes women longer to find new work, and the replacement jobs women get are often part-time posts that offer less pay and fewer benefits.

As a result of all this, your accumulated pension benefits probably are going to be lower than those of your male counterparts—that is, if you have a pension at all. While half of all men get one . . .

Only about one woman in five over the age of 65 receives a pension.

But it's not simply that as a woman you'll have fewer benefits to look forward to. It's also that, as a woman, you'll have to make them go further. Specifically, you probably are going to live longer than most of your male counterparts (by an average of about seven years, according to the National Center for Health), which means that you are going to need even more retirement resources than they will. And not just for yourself. Because of your longer life expectancy, chances are that the financial burden of caring for elderly parents will fall on your shoulders.

What All This Adds Up to Is One Big Ouch!

This, in a nutshell, is why long-term financial planning is more important for women. Compared to men, you've got to be more farsighted, start saving earlier, and stick to your plans with more discipline. Fortunately, doing all this is not only possible, it's actually relatively easy. The trick is simply recognizing that it needs to be

done—which leads us to the other basic fact of financial life: Ignorance is *not* bliss. Quite the contrary . . .

It's what you don't know that can hurt you!

A wise woman once said, “It’s not what you know that can hurt you but rather what you don’t know.” I’d like to extend that thought a bit and suggest that what generally causes the most suffering and pain is what you don’t know that you don’t know.

Think about that for a minute. In our everyday lives, there are really only a few categories of knowledge.

- What you know you know (e.g., how much money you earn each month)
- What you know you don’t know (e.g., what the stock market will do next year)
- What you know you should know (e.g., how much it will take for you to be able to retire comfortably)
- What you don’t know you don’t know (e.g., that in 2001 the government made over 400 amendments to the tax code, many of which could directly affect how much you will be able to afford to spend on child care, college tuitions, medical expenses, and your own retirement)

It’s this last category, by the way, that causes the most problems in our lives. Think about it. When you find yourself in a real jam, doesn’t it always seem to be the result of something you didn’t know that you didn’t know? (Consider the “prime” Florida real estate you bought that actually was in the middle of an alligator swamp.) That’s the way life is—especially when it comes to money. Indeed, the reason most people fail financially—and, as a result, never have the kind of life they want—is almost always because of stuff they didn’t know that they didn’t know.

This concept is incredibly simple, but it’s also tremendously powerful. Among other things, it means that if we can reduce what you don’t know that you don’t know about money, your chances of becoming financially successful—and, most important, staying financially successful—can be significantly increased. (It also means that the more you realize you don’t know as you read this book, the happier you should be, because it shows you are already proactively learning!)

So how do we apply this concept? Well, I think the best way to reduce what you don’t know that you don’t know about money is to

learn what you need to unlearn. That is, you need to discover what you may have come to believe about money that isn't really true. Or, as I like to put it . . .

Don't fall for the most common myths about money.

Whenever I conduct one of my Smart Women Finish Rich® seminars, I generally begin the class by suggesting that the reason most people—not just women—fail financially is that they have fallen for a bunch of money myths that are simply not true. As we're learning the facts, I think it's important to spend a little time exploring these myths and learning to recognize them for what they are. The reason is simple: By doing this, you lessen the chances that you'll ever be taken in by them.

MYTH NO. 1:

MAKE MORE MONEY AND YOU'LL BE RICH!

The most commonly held myth about personal finances is that the most important factor in determining whether you will ever be rich is how much money you make. To put it another way, ask most women what it takes to be well off, and they will invariably say, "More money."

It seems logical, right? Make more money and you'll be rich. Now, you may be thinking, "What's wrong with that? How can it be a myth?"

Well, to me, the phrase "Make more money and you'll be rich" brings to mind certain late-night TV infomercials, with their enthusiastic pitchmen and slick get-rich-quick schemes. My current favorite is the one in which a guy wearing a gold necklace smiles into the camera and says you can earn a fortune while lying on the sofa watching television. Without getting into the question of whether his particular scheme makes any business sense, let me suggest to you that the basic premise of his pitch—namely, that the key to wealth is finding some quick and easy way to boost your income—is simply not true. In fact, what determines your wealth is not how much you make but how much you keep of what you make.

I'll take that even further. I believe that most Americans who think they have an income problem actually don't. You may not believe that. It's possible you feel you have an income problem yourself.

Perhaps you're thinking right now, *David, I'm sorry. I don't care what you say—with my bills and expenses, I'm telling you I have an income problem.*

Well, I'm not saying that you might not be facing some financial challenges. But I would be willing to bet that if we were to take a good look at your situation, we'd find that the problem really isn't the size of your income. Indeed, if you're at all typical, over the course of your working life you will likely earn a phenomenal amount of money. If you find that hard to believe, take a look at the Earnings Outlook chart (see p. 22).

The numbers don't lie. Over the course of their lifetimes, most Americans will earn between \$1 million and \$3 million!

Based on your monthly income, how much money does it look like you will earn in your lifetime? It's well into seven figures, isn't it? Don't you think you deserve to keep some of that money? I do—and I bet you do too! Unfortunately, most of us don't keep any. In fact, the average American works a total of some 90,000 hours in his or her life—and has nothing to show for it at the end! The typical 50-year-old in this country has less than \$10,000 in savings!

How do we explain that? It's simple, really.

The problem is not our income, it's what we spend!

We'll go into detail on this concept in Step Four. For now, just trust me on this one. It's not the size of your income that will determine your financial well-being over the next 20 or 30 years, it's how you handle the money you earn.

I know that sounds hard to believe, but it's true. Consider the findings in a recent book that I recommend highly to my students. It's called *The Millionaire Next Door*, and it was written by a man named Tom Stanley, who interviewed hundreds of millionaires and came up with some findings that surprised me and probably will surprise you.

There's a phrase Texans use to describe someone who is all show and no substance: "Big hat, no cattle." What Stanley found was that most millionaires are just the opposite. In other words . . .

EARNINGS OUTLOOK

How much money will pass through your hands during your lifetime
and what will you do with it?

Monthly Income	10 Years	20 Years	30 Years	40 Years
\$1,000	\$120,000	\$240,000	\$360,000	\$480,000
\$1,500	180,000	360,000	540,000	720,000
\$2,000	240,000	480,000	720,000	960,000
\$2,500	300,000	600,000	900,000	1,200,000
\$3,000	360,000	720,000	1,080,000	1,440,000
\$3,500	420,000	840,000	1,260,000	1,680,000
\$4,000	480,000	960,000	1,440,000	1,920,000
\$4,500	540,000	1,080,000	1,620,000	2,160,000
\$5,000	600,000	1,200,000	1,800,000	2,400,000
\$5,500	660,000	1,320,000	1,980,000	2,640,000
\$6,000	720,000	1,440,000	2,160,000	2,880,000
\$6,500	780,000	1,560,000	2,340,000	3,120,000
\$7,000	840,000	1,680,000	2,520,000	3,360,000
\$7,500	900,000	1,800,000	2,700,000	3,600,000
\$8,000	960,000	1,920,000	2,880,000	3,840,000
\$8,500	1,020,000	2,040,000	3,060,000	4,080,000
\$9,000	1,080,000	2,160,000	3,240,000	4,320,000
\$9,500	1,140,000	2,280,000	3,420,000	4,560,000
\$10,000	1,200,000	2,400,000	3,600,000	4,800,000

Source: *The Super Saver: Fundamental Strategies for Building Wealth*, by Janet Lowe (Longman Financial Services Publishing: United States, 1990)

SMALL HAT, LOTS OF CATTLE

Here are some of Stanley's findings.

- The average net worth of a millionaire is \$3.7 million.
- The average millionaire lives in a house that cost \$320,000.
- The average millionaire's taxable income is \$131,000 a year.
- For the most part, millionaires describe themselves as "tight-wads" who believe that charity begins at home.
- Most millionaires drive older, American-made cars. Only a minority drive new cars or ever lease their cars.
- Fully half of the millionaires Stanley surveyed never paid more than \$399 for a suit.
- Millionaires are dedicated investors—on average, investing nearly 20 percent of their total household income each year.

What amazes me about these facts is that a family with a net worth of nearly \$4 million (the average net worth that Stanley surveyed) is, by most people's standards, very wealthy. I certainly feel \$4 million is a rather comfortable amount to have accumulated, and I'd be willing to guess that you do too. Yet the income these people earn (an average of \$131,000 a year) is really not all that high. It's certainly above average, but it is definitely not of the extraordinary magnitude we tend to associate with people who have amassed great wealth.

The fact is, what has allowed most of these people to become millionaires is not how much they've made but how little (relatively speaking) they've spent. To use a sports metaphor, while their offense was probably pretty good, the defense they've played with their money has been nothing short of brilliant.

Unfortunately, most people handle their finances in the opposite way. They are great on offense and lousy on defense. As a financial advisor, I've personally met in my office with many people who make over \$100,000 a year and feel wealthy and live wealthy but in fact are not wealthy.

Here's a case in point.

BIG HAT, NO CATTLE

Nora first came to see me after attending a retirement-planning course I taught at the University of California—Berkeley Extension. The moment she entered my office it was clear I was dealing with a

very successful woman. Her clothes were the current year's top of the line, she was wearing a gold Rolex watch worth at least \$10,000, and I had seen her drive up in a brand-new \$82,000 Mercedes-Benz (which, it turned out, she leased).

A fit and attractive 48-year-old, Nora owned and ran a company that employed ten people and grossed more than \$5 million a year. But though her personal income was more than \$200,000 a year and she had been pulling down a six-figure income for well over a decade, her net worth was almost zero! Nora didn't even have a retirement account started. She did have about \$50,000 in equity in her home, but she also had two mortgages on the house, on which she owed a total of \$400,000. To make matters worse, Nora had run up more than \$35,000 in credit-card debt!

After she filled me in on her situation, I shook my head and said, "Nora, are you planning on working forever?"

She looked at me, confused. "What do you mean?" she asked.

"Well," I said, "were you planning on working for the rest of your life?"

"No," she replied. "I hope to retire by the time I turn fifty-five."

"Really?" I said. "With what?"

Nora blinked at me, not seeing what I was getting at.

"Is your business salable?" I continued.

Nora bit her lip. Her business, she explained, was built mainly on a few good relationships that probably couldn't be transferred to anyone else.

"I see," I said. "Then I suppose you have a wealthy relative who is planning to die in time for you to inherit this money when you turn fifty-five?"

Once again, Nora looked perplexed "No," she said slowly, "I don't have any inheritance coming."

"Then I'm confused," I said. "How are you going to retire? You don't have any savings. You can't sell your business. The equity in your house is minimal."

Nora shrugged. "I make so much money," she said, "that I thought I could play catch-up."

**SPEND MORE THAN YOU MAKE,
AND YOU'LL HAVE A SERIOUS PROBLEM!**

I'd like to tell you there was a quick fix for Nora, but there wasn't. First of all, Nora had some really bad habits—the worst of which was that she simply spent more than she made, all the time! Second, she

didn't really believe me when I told her that she needed to change her ways and change them fast.

It took Nora 18 months to get around to opening a retirement account and making her first contribution. That, however, was four years ago, and these days, fortunately, Nora is a completely different person. Every two weeks now, like clockwork, she sends me a check for her retirement fund. Not only is she fully funding her retirement account, but she is putting away even more money in some additional tax-deferred accounts (which we will cover in Step Five). So far Nora has managed to save close to \$90,000, and by slightly increasing her monthly mortgage payments, she will have her house fully paid off in 15 years instead of 30, which will save her close to \$285,000! (You'll learn how you can do this for yourself in Step Six.) Equally important, she has stopped leasing brand-new luxury cars (instead, she bought a used one), and she has paid off all her credit-card debt.

Nora isn't bringing home any more money than she was before. Yet now, for the first time, she is building real wealth. What changed? The answer is her spending habits—and, most important of all, her investment habits. That's the key. Like Tom Stanley's millionaires, she saw through the income myth and learned that it's not how much you make, it's how much you keep.

One important advantage Nora did have going for her was that she realized early on that she had to take care of herself, which is one reason why she started her own business. Instinctively, she understood that one of the most fundamental principles of smart money management is self-reliance—or, as I like to tell my clients . . .

Don't ever put your entire financial fate in someone else's hands.

This brings us to the second biggest myth I see women falling prey to—what I call the Cinderella myth, otherwise known as the “My husband will take of me” myth (or, even worse, the “Find and marry a wealthy man and everything will be fine” myth).

MYTH NO. 2:
MY HUSBAND (OR SOME OTHER MAN) WILL TAKE
CARE OF ME.

Now, before I go into detail on this subject, let me say that I know it is entirely possible that you are happily married or that you have chosen to be happily single. Nonetheless, I have found from experience that this myth is worth spending a little time on, for some ver-

sion of it affects nearly every woman. Indeed, over the years, hundreds of women have shared with me their painful personal stories of how their lives were nearly destroyed by the belief that some man—if not a husband, then a father, or an employer, or a financial advisor—would take care of them. And when I started to write this book, many more women implored me not to pass over this issue lightly. So here goes.

It's neither safe nor practical to assume that the man in your life can be counted on to take care of your finances.

Why do I say this? Let's look at the facts. If men generally have been in charge of their families' money for the last century or so, then clearly they have not been doing a very good job. Consider this sobering statistic . . .

Only 5 percent of Americans can afford to retire at age 65!

That's right—only 5 percent of Americans (that's just 1 in 20 of us) have annual incomes in excess of \$25,000 a year at age 65. I'm sure I don't have to tell you that in many places \$25,000 a year won't cover even basic living expenses. Would it cover yours?

But wait, the bad news gets worse. As I noted earlier, women live longer yet tend to earn fewer pension and other retirement benefits than men do. Thus you are likely to be forced to make do with even less.

What all this adds up to at retirement—or, more accurately, does not add up to—is another scary statistic . . .

The average income for a woman over 65 is less than \$7,000 a year.

You can't live on that—not these days, not in any semblance of comfort. And quite frankly, I wouldn't want you to have to try!

But, you may ask, what about Social Security? That will help, won't it? Maybe—assuming the system is still around by the time you reach retirement age. (And there's no guarantee it will be.) The fact is, Social Security was never intended to be a retirement plan. At most, it was designed to provide an income *supplement*.

Look at the numbers. In 2000, the latest year for which figures are available, the average retired woman's Social Security benefits totaled just under \$730 a month, or less than \$8,800 a year. Additionally, the

maximum benefit any retired person could collect was \$1,536 a month—just \$18,432 a year. In other words, the most anyone can possibly hope to get from Social Security these days, no matter how much he or she put into the system over a lifetime, is less than \$19,000 a year. That may be okay for walking-around money, but you sure wouldn't want to have to live on it. Unfortunately, millions of people have no choice but to try to do just that. You don't want to be one of them.

That's not to say you should forget about Social Security. It's just that you shouldn't count on it to provide more than a small fraction of your retirement income. How small? For most people, Social Security makes up less than a fifth of their retirement income.

As it happens, there's a very simple way to find out now what your Social Security check ultimately will look like—and I can't emphasize enough the importance of taking advantage of it right away. This is especially crucial for women, since, as I mentioned before, women tend to work less consistently throughout their lifetimes than men—and, as a result, often their Social Security benefits turn out to be much smaller than they had been expecting.

What you want to do in order to avoid any unpleasant surprises down the road is to put in a request for what's called your "Personal Earnings and Benefit Estimate Statement." This document shows your Social Security earnings history and estimates your future benefits. The Social Security Administration will provide you with a benefits statement for absolutely no charge, but you have to ask for it.

This is something you should do immediately. Today. This very minute. It's really quite easy. Just call your local Social Security office (you'll find the number in your local telephone directory under "Federal Government") and tell them you want to order a copy of your estimated benefits statement. You can also request the form on-line, by visiting the Social Security Administration's website at www.ssa.gov.

When it comes to divorce, women still end up with the short end of the stick.

Yes, we all want to believe that we can count on our spouses. Unfortunately, the statistics tell a very different story. Fully 50 percent of all marriages these days end in divorce. What about alimony and child support and community property? The bleak truth is, once her husband is gone, the average divorcée sees her standard of living plummet. According to a simulated study done by the Women's Legal

Defense Fund, which was cited in the book *A Women's Guide to Savvy Investing*, custodial parents (typically the women) will see their incomes drop by 25 percent. At the same time, to add insult to injury, the standard of living for noncustodial parents (typically the men) generally rises by more than 35 percent! In California these statistics may be even worse. According to author Ken Dychtwald, who wrote the immensely popular book *Age Wave*, a California study showed that in the first year after a divorce, the standard of living for older women dropped 73 percent, while the standard of living rose for men by 42 percent.

These statistics are hardly news. But despite all the attention they've received in recent years, apparently many women remain convinced that they will be the exception to the rule—and they are shocked when they're not. I can't tell you the number of women who've come to me for advice after being absolutely blindsided by the husbands in whose hands they'd trustingly placed their futures. Unfortunately, by then it's usually too late to do more than try to pick up the pieces.

To be fair, there are many good men out there. But even if you're fortunate enough to have wound up with one of them, that's still no guarantee of a happy and secure future. Why? Because no matter how good the man in your life is, sooner or later he is going to die—and whether it's sooner or later, it probably will be before you do. Remember, the average woman lives seven years longer than the average man. Of course, no one likes to think about this. Indeed, it's terrible how many well-intentioned men who sincerely love their wives and families simply refuse to face up to this inescapable truth. The worst thing about this sort of denial is that it leads otherwise good husbands to put off dealing with disagreeable reminders of their mortality such as life insurance and wills. And that's a prescription for disaster. For try as we might to ignore it . . .

The average age of widowhood today is just 56!

Because of our unwillingness to accept this unpleasant reality, we tend to be woefully unprepared to cope with it when it comes to pass. That's why, for a woman, losing a husband is generally as devastating economically as it is emotionally. Indeed, fully 80 percent of all widows living in poverty were not poor before their husbands died. How did they get that way? Inadequate—or, more likely, nonexistent—planning. How else do you explain the fact that one out of every four widows goes through all her husband's death benefits within two months?

When I shared this notion in one of my investment seminars, a woman named Sarah stood up in tears. “David,” she told the room, “everything you’re saying is true. I’m 57, and my husband was a successful lawyer who owned his own practice. He passed away six months ago and now I’m almost bankrupt.”

I asked Sarah how this could have happened. It turned out that though her husband specialized in trusts and wills, he had never bothered to do one for himself!

The entire group was aghast. I could see the question on everyone’s face: *You mean a lawyer who wrote wills for a living didn’t have a will himself?* But when I asked the class, “How many of you have a will?” less than half the people in the room answered in the affirmative. And when I asked further, “How many of you have reviewed your will in the last five years?” less than 10 percent of them raised their hands. So maybe Sarah’s story shouldn’t have been surprising after all.

Then I asked Sarah, “If your husband was so successful, why are you almost broke?” She replied that when her husband died she discovered that the \$2-million home in which they lived carried a \$1.5-million mortgage. With her husband gone and no income of her own, the massive mortgage payments were now way beyond her means. As a result, Sarah found herself forced to put the house up for sale. Unfortunately, this was at a time when the California real estate market was badly depressed, and she couldn’t find a buyer. To make matters worse, not only had her husband neglected to make a will, he had never taken out life insurance. And as if that wasn’t bad enough, he had used their home as collateral on loans for his law practice—which was now defunct, because his former partners had elected to start a new firm without the obligation of her husband’s debts! Sarah was in big trouble, all because she had assumed her husband would take care of her, and he had not prepared for the unforeseen.

Sarah’s case was extreme, but it was by no means unusual. In any case, there is an important lesson to be learned from her experience: Don’t ever let the “some man will take care of you” myth become your reality. It’s a recipe for disaster.

There’s one more myth I want to share with you.

MYTH NO. 3:
THE GOVERNMENT FINALLY HAS GOTTEN INFLATION
UNDER CONTROL.

There seems to be an increasingly widespread notion that we no longer need to worry about inflation. This is a particularly dangerous myth not simply because it's untrue, but because it breeds complacency. Indeed, I can't think of anything more financially self-destructive than the idea that we don't need to worry so much about the future because the government finally has gotten inflation under control.

It certainly would be nice if that were true. Unfortunately, it's not. To the contrary . . .

Inflation is still Public Enemy Number One.

Sometimes when I teach a class, someone will raise a hand and actually try to debate this issue. "But, David," she will say, "it sure looks as if the government has control over inflation. After all, I don't see things costing a lot more today than they used to."

Well, that's not what the statistics say. What the numbers tell us is that over the last 20 years, the annual increase in the cost of living has averaged about 5 percent; over the last 10 years, it's averaged about 3.5 percent. Based on that, it's probably a safe bet to figure that inflation will run at about 4 percent a year for the foreseeable future.

Now, that may not sound like very much, but it is. After all, when most people retire, they do so on a fixed income. Unfortunately, if you retire on a fixed income and inflation continues at 4 percent a year, you are going to be in deep trouble. Why? Because, at that rate, your purchasing power will be cut nearly in half within 15 years. In other words, the dollar sitting in your purse today will be worth only about 50 cents a decade and a half from now. In 20 years, it will be worth only about 40 cents.

There's nothing new about this phenomenon. When I talk about inflation in my seminars, one of the biggest laughs I always get is when I ask, "How many of you drove here tonight in a car that cost more than your first home?" What's amazing is that usually a third of the people in the class raise their hand. That's the power of inflation. Here's another example: The car I drive today cost more than twice what my parents paid for their first home in Oakland, California, and it was a nice five-bedroom house with three bathrooms. If you think I'm exaggerating, take a look at this chart.

CONSUMER PRICES: STICKER SHOCK SINCE 1970

Typical Prices	1970	1980	Today	Projected in 20 Years
House	\$25,600	\$64,000	\$210,200 ¹	\$463,508
Automobile	3,400	6,910	24,450 ²	89,965
Gasoline (10 Gal.)	3.48	9.68	17.20 ³	30.81
Stamp	.06	.15	.34 ⁴	1.11
Day in Hospital	47	134	390 ⁵	1,872

Sources:

1 U.S. Department of Housing and Urban Development—average price of new homes, 4th quarter 2000

2 National Association of Auto Dealers—1999 average new-vehicle selling price

3 Lundberg Survey—May 2001

4 United States Post Office

5 American Chambers of Commerce Researchers Association—2nd quarter 1997

There is no denying the lesson these numbers teach us.

The future is going to be expensive.

That's why, despite all the recent talk about how inflation is no longer a problem, I still consider it to be Public Enemy Number One. The good news here is that learning how to keep your nest egg growing faster than inflation isn't all that hard. But if you don't recognize inflation as a problem in the first place, chances are you won't bother to try to do anything about it—and if you don't try to do anything about it, you are going to find yourself in a world of hurt one day. So don't believe the myth about inflation being under control.

Show Me the Money

Now that we have exposed these money myths for what they are and looked at the external realities of what we can expect in our financial futures, let's examine the facts. The place to begin is close to home, with information about your own personal financial situation. Why here? By way of explanation, let me share a personal story with you.

When I was younger, I once asked my father why so many women seemed to be so devastated financially after a divorce or the death of a husband. “David,” he said, “women are not typically involved with the family finances. So when it comes time to split up the pie, they don’t know how much pie there is to split up, or even where to find it.”

That’s it? I thought. *Women don’t know where the money is?* Could it really be that basic? I doubted it.

Out of curiosity, I took my mother to lunch to see if she agreed with my dad’s assessment. What followed was the scene I described at the beginning of this chapter. As I mentioned, a good friend of my mom’s had just gone through a brutal and costly divorce. Quite understandably, my mother was very upset about it—not least because her friend was now in financial trouble so serious that she had been forced to take a secretarial job and move to a tiny apartment.

“But, Mom,” I said, “they were living in a million-dollar house. Where did all the money go?”

“It turned out her husband had used all the equity in their house to build up his medical practice,” my mother explained with a sigh. “And now, with the HMO situation, his practice isn’t doing so well.”

As much as I hated to admit it, it looked as if my dad was right. The terrible outcome was a result of the woman’s lack of knowledge about her family’s finances. She had signed papers allowing her husband to take out a second mortgage without knowing or even asking about what she was signing. The result was, for her, a financial disaster. It was scary.

With that in mind, I asked my mom the test question: “Do you know where our family’s money is?”

As I said, though I thought this would be an easy one for her to answer, it turned out that she had no idea. All she could tell me about our money was that my dad took care of it. And when I pressed her about her ignorance, she simply laughed at me.

I couldn’t believe it. This, from a woman who was president of a million-dollar nonprofit theater group, involved in numerous charity boards, and published two professional newsletters. This brilliant, beautiful woman was the same person who, when personal computers first appeared on the market, convinced the family that we needed one—and then single-handedly taught herself to master its intricacies so completely that she was able to computerize my father’s entire business! Yet she hadn’t a clue as to where our money was invested.

I was horrified. If a woman as sharp and successful as my mom could be so in the dark about money, what was happening to the mil-

lions of other women in this country who weren't married to men who managed money for a living? In the years since then, of course, I've seen firsthand how widespread this sort of ignorance is and how much damage it can do. So with that in mind, I ask you now the same question I asked my mother . . .

*Do you know what's going on with your money and
your family's money?*

To help you answer this important question, I've prepared a short quiz. Take a few moments to complete it, answering true or false for each statement. The results should give you a good idea of how knowledgeable you are (or aren't) about your personal finances.

THE "SMART WOMEN FINISH RICH"
FINANCIAL KNOWLEDGE QUIZ

True or False:

- [] [] I know the current value of my home, including the size of the mortgage and the amount of equity I've built.
- [] [] I know the length of the mortgage-payment schedule and how much extra it would cost each month to pay down the mortgage in half the time. I also know the interest rate we are paying on the mortgage and if it is competitive in today's market.
- [] [] I know how much life insurance I [and my spouse, if applicable] carry. I know how much cash value there is in the policy, and I know the rate of return my cash value is earning.
- [] [] I know the details (including amount of coverage, cost, monthly or yearly payment, etc.) of all other insurance policies carried by myself [and my spouse, if applicable]. This includes health, disability, term life, and so on.
- [] [] I have reviewed my life-insurance policy in the last 12 to 24 months to see if the price I am paying for it is still competitive in today's marketplace.
- [] [] If I own my own home, I know what kind of homeowner's coverage I have and what the deductibles are. If I rent, I know the amount of renter's insurance I have and what its deductible is. In either case, in the event of a fire or other catastrophic loss, I know whether my in-

urance will reimburse me for the actual cash value of my property or the cost of replacing it at today's current values.

- I have attempted to protect my family's nest egg from lawsuits by carrying an "umbrella" insurance policy that includes liability coverage.
- I either prepared my own tax return this year or reviewed my tax situation with the person who prepared my return.
- I know the location and amounts of all my or my family's investments, including
- cash in savings or money-market accounts:
 - CDs or savings bonds
 - stocks and bonds
 - real-estate investments (deeds, mortgages, rental agreements, etc.)
 - collectibles (valuation and where items are)
- I know the annualized return generated by each of the above investments.
- If I or my family owns a business, I know the current valuation of the business, including how much debt it currently carries and the value of its liquid assets.
- I know the value, location, and performance of all my retirement accounts [and those of my spouse, if applicable], including IRAs, SEP-IRAs, Keoghs, and company pension plans.
- I know the percentage of income I am putting away for retirement and what it's being invested in [and, if applicable, how much my spouse is putting away and what he is investing in].
- I know if I [and my spouse, if applicable] am making the maximum allowable contribution to my retirement plan at work, whether my employer is making matching contributions, and what the vesting schedule is.
- I know how much money I [and my spouse, if applicable] will be getting from Social Security and what my [and, if applicable, his] pension benefits will be.
- I know whether my [and my spouse's, if applicable] income is protected should I [or my spouse] become disabled. Because I own disability insurance. In addition, I know what the exact coverage is, when the benefits would start, and whether the benefits would be taxable.

- [] [] I [or my family] maintain a safety deposit box, know how to gain access to it, and have reviewed its contents within the last 12 months. If I have the only key, other family members know where to find it if something should happen to me.

Scoring:

Give yourself 1 point for every time you answered “true” and 0 for every time you answered “false.”

14 to 17 points: Excellent! You have a good grasp of where your money is.

9 to 13 points: You’re not totally in the dark, but there are some areas in which your knowledge is less than adequate.

Under 9 points: Your chances of being hurt financially because of insufficient knowledge are enormous. You need to learn how to protect yourself from future financial disaster.

If you scored well on this test, congratulations! But don’t go out and start celebrating just yet. Even among knowledgeable money managers, it’s rare to find anyone, male or female, who has a handle on every aspect of their own finances and what they could and should be doing to assure themselves a secure future. So even if you scored 12 or above, I guarantee you’ll discover many secrets and ideas that will be of enormous value to you in the pages that follow.

WHAT IF I DIDN’T SCORE WELL?

If you didn’t score so well, take heart—by the time you’ve finished this book, you’ll know *exactly* what you need to take immediate charge of your financial health and invest wisely for your family’s future security.

If you’re like most people, you probably knew some of the answers but not all of them—and some of the questions may have struck you as awfully complicated. Trust me, none of it is really that difficult. Before long you’ll be surprised by just how easy understanding your finances can be. Indeed, you’ll probably wonder why you ever thought any of it was confusing. In the meantime, don’t panic because you’ve just discovered there is all this information about your family finances that you don’t know. We’ll take care of it all soon enough.

At this point, what’s important is simply that you realize that there’s

a lot you don't know—and, even more important, a lot that you now *want* to know. If that's how you feel, pat yourself on the back—you've completed Step One. You are motivated to educate yourself about how to take control of your financial future—which is what the “Smart Women Finish Rich!” journey is all about.

ENOUGH WITH THE BAD NEWS . . .
LET'S GET TO THE GOOD STUFF!

It's possible that some of the myths about money that I've presented to you in this first step has struck you as being overly negative. If so, I apologize. As a rule, I make it a policy to avoid negative people, those dream stealers, as I call them, who seem to enjoy raining on other people's parades. But I started our journey this way for a reason: Because I know you purchased this book in order to make a positive change in your life, and sometimes change can be difficult. In fact, many people live their lives going nowhere and doing nothing, not because they like where they are but simply because they are afraid of change. Overcoming this fear takes real motivation. It has to hurt so much that finally you can't take it anymore and you say, “Enough is enough! I want my life to be different!”

It's in this spirit that I've offered some cautionary tales and depressing statistics. I simply want you to come to grips with the fact that if you don't take care of your financial future, no one—not the government, not your employer, not your spouse—is going to do it for you. And it definitely won't take care of itself.

But don't let the negativity get you down. Remember: Those gloomy facts and figures don't have to be your reality!

I often repeat to clients what my Grandmother Bach used to tell me. “You know, David,” she would say, “when I was growing up, going to work, starting my career, many people asked me why was I worrying about retirement plans. ‘You'll have Social Security,’ they'd say. ‘You'll have a pension from your company.’ But even at a young age, I didn't think it was a good idea to depend on someone else to take care of me—not my employer, not the government, not even your grandfather.”

That's why, unlike most of her friends, my grandmother always made a point each time she got a paycheck of putting some money aside and buying some high-quality stocks or bonds. It's also why, unlike most of her friends, when she reached retirement age, she was able to enjoy herself in worry-free comfort.

I hope now that you've accomplished Step One, you're motivated to take control of your financial future by getting educated about your money.

Now it's time to begin Step Two, in which we take a look at what's important to you about money.