<u>The One-Page Financial Plan</u>
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Introduction

p.2 Basic problem: everything we do has too many options, many of which we're not qualified to evaluate (or we don't know how to evaluate)

p.3 Many people just want to know "What should I do?"
-Paralyzed by fear of making the wrong decision
-Rather than do the wrong thing, people do nothing

p.6 On losing his house in a short-sale following the housing collapse: "As devastating as that experience was, I learned somthing valuable: the best financial plan has nothing to do with what the markets are doing, nothing to do with what your real estate agent is telling you, nothing to do with the host stock your brother-in-law told you about. It has everything to do with what's most important to you."

p.8 There's no silver bullet investment strategy

p.13 A one-page plan is not about getting things right. It's about realizing that life happens and things will go wrong. We need to get clear about what you want

p.18 "It's about being really honest about where you want to go, getting really clear about where you are now, and then making your best guesses about how to narrow the gap between the two."

The Most Important Money Question

p.22 All financial planning sessions should start with: "Why is money important to you?"

p.25 Asking clients "Why money is important" to them helps to get an understanding of their values, we should be making financial decisions in sync with these values

p.27 "We don't like asking ourselves why money is important because it often reflects how we feel about money instead of what we want to know"
THOUGHT: money is a taboo topic to discuss in our society

p.30 How we spend our time and money demonstrates what we truly value

p.38 The things we can invest: money, time, energy and skill (time, energy and skill are human capital)

Guess Where You Want To Go

p.49 Our futures are very uncertain
The point of financial planning is not to cling to a false sense of security that you'll know where you'll be in thirty or forty years--because you won't

p.50 Financial plans need to have some wiggle room to deal with the unexpected
Financial planning exists on a spectrum between two extremes:
1. Extremely rigorous, daily focus on achieving financial goals
2. Carefree, live for today attitude

p.51 Commit to the process of guessing where you want to go
Have some short-term, mid-term and ambitious long-term goals, but be prepared to change

p.53 We increase our chances of getting to a place we actually want to be by making a choice

p.60 Three guesses for estimating how much our goals will cost
1. What is the goal?

2. When do you want to do it?
3. How much will it cost?

p.62 Use values to guide prioritization among several goals

p.65 We have the expectation that our decisions about money are going to be perfect, but there's a problem: things change and we have to recalibrate

p.68 Avoid feeling disappointed
Disappointments come about when people are too focused on outcomes and the miss out on life (lack of flexibility)
Let go of outcome based goals and focus on living the lives we want
1. Let go of expectations about the future
2. Let go of outcomes we can't control
3. Let go of worry
4. Let go of our need to measure ourselves against others

p.73 Goals that matter often involve sacrifice

Get Really Clear About Your Current Location

p.76 Assessing where you are is the simplest part of a plan as there is no guessing involved

p.78 The difficulty we face in determining our current location is that it forces us to confront a lot of decisions we've made and mistakes we've tried to forget

p.79 Create a personal balance sheet. It's simply what we own and what we owe

p.87 We need to take responsibility for our past mistakes, but don't beat ourselves up over them
George Soros: "Once we realize that imperfect understanding is the human condition, there is no shame in being wrong, only failing to correct our mistakes."
If we don't know where we are today, how can we get to where we want to be tomorrow

p.88 The one-page financial plan summarizes the 3 to 5 things that are most important right now
-The answer to the question "Why is money important to me?"
-Your best guess at your financial goals
-Any debts that you'll need to pay down

Budgeting As A Tool For Awareness

p.92 "At some point we stopped being American citizens and started being, first and foremost, American Consumers"
Temptation to spend is everywhere and follows us (internet browser ads)
Must understand that we need to take responsibility for our spending and that will only chnage when we change our behavior

p.94 We tell ourselves stories to justify our purchases, ultimately we just want something, which can have huge problems when it comes to saving
Why do we feel the need to attribute every decision to the amount of money it saves us
-Society places a lot of value on the cost of things
-We often don't want to admit we really want something
-Because it looks good on paper
In many instances, if you look a little closer, you get a very different story
These stories need to be replaced with the truth

p.97 Budgeting is the tool to separate the stories we tell ourselves from the truth

Budgeting is usually a nonstarter as we view it as punishment: something that prevents us from buying the things that we want, and a way to feel guilty about paying for the things we need

p.98 Budgeting isn't about numbers, it's about awareness about how we're spending our money so that we have enough for the things that matter most

p.100 We don't budget because we're afraid of what we'll find

p.101 "Budgeting forces us to face the reality of how we spend. It allows us the opportunity to see the gap between what we say is important to us and how we spend our money."

p.110 Make radical long-term changes to behavior by taking baby steps (BJ Fogg of Stanford's Persuasive Technology Lab developed a methodology called "Tiny Habits")

Save As Much As You Reasonably Can

p.114 Simple rule for saving: save as much as you reasonably can

We should not be saving so much that we deny ourselves the things that keep us happy and healthy right now

p.116 The biggest obstacle we need to overcome in order to save more is instant gratification

p.118 We often don't feel much connection to our future selves (brain scans from Kelly McGonigal at Stanford)

p.119 When trying to find places to cut back, look for impulsive purchases first

p.122 No matter where we stand financially, it's important to start saving now. Don't dwell on the past or feel remorse for not saving earlier in life

p.123 Basics of Saving

1. Save as much as you reasonably can
2. Spend less than you earn
3. Don't lose money. Don't make speculative investment decisions in attempt to make up for the past.

p.124 Universal tips for saving

-Be more mindful of money flowin in and out of your hands

-Save one-time windfalls (inheritence, bonuses, gifts, etc.)

-Automate savings

-Set short-term goals

p.126 Figuring out what's most important about money can require taking a hard look at the difference between what we need and what we think we need

Buy Just Enough Insurance--Today

p.132 Insurance is an expense, not an investment

Should not be used to accomplish investment goals or pay for education

Insurance is meant to replace an economic loss

p.134 You only need life insurance if someone depends on you economically

p.137 Use the 4% rule to determine how much insurance is necessary. Size of policy to replace a spouse's $50,000 income, would require a $50,000/0.04=$1,250,000 policy (inflation is factored in, accounts for a 30 year period)

Buy only term life insurance: fixed cost that is locked in for term of contract, low cost (annual premium), can cancel at any time

p.138 "Here's the thing about life. It's full of risks, and the decision to buy insurance boils down to deciding between the risks we're okay with and the ones we'd like someone else to take care of."
Goal with life insurance is to always have as much as you need, but never more than what you need

"The Best Investment I Ever Made": Borrowing And Spending Wisely

p.144 Just as with spending, we use stories to justify our borrowing
Our resources (time, money, energy, etc.) are limited
Saying "No" to spending on one thing says "Yes" to spending on another
p.145 Widen our definition of investment to include smart decisions about decreasing debt
When we reach our credit limit we have only two choices: earn more money, spend less
p.147 Paying down debt is an investment with a guaranteed return
Rate of Return on a home is about 3% (Shiller data)
p.149 Buying a house is the biggest financial decision we will make during our life
p.151 Questions to ask before taking on a mortgage
p.152 Renting is not throwing money down the drain
p.153 Never assume you must own a home, and never buy a house solely for the tax benefits
p.157 "The more we can make money decisions that support our values--including when and how we borrow money--the less likely we'll regret those decisions, even if they're expensive choices."

Invest Like A Scientist

p.161 "In fact, real investing has as little to do with CNBC programs it does with Lifetime movies of the week."
Trading and investing are completely different things
p.163 Avoid the "Big Mistake": buying high and selling low
p.165 No matter how much data we have about the past, we have not data about the future
p.166 Three investing principles based on scientific and historic evidence
1) Diversify your portfolio
2) Keep costs low
3) There is a correlation between risk and return
Diversification eliminates unsystematic risk, and exposes us purely to systematic risks
p.168 Unsystematic risks
A. Betting on a particular industry or sector
B. Owning individual stocks
C. Believing we can predict the market
Systematic risk is the risk associated with the broader market--the short-term ups and downs
p.174 Smart investors look to take on risks that they will be compensated for
-Equity risk premium: paid more for owning stocks than owning bonds
-You're likely to be paid more for owning small companies compared to large companies
-You're likely to be paid more for owning financially weak (value) companies compared to financially strong (growth) companies
p.176 No one-size fits all answers to portfolio construction

p.177 Recommends a basic, default portfolio: 60/40 Stocks/Bonds. 18% Total International, 42% Total US, 40% Total Bond

p.184 Rebalancing is an unemotional way to reinforce the correct behavior of buying low and selling high

p.188 "Behave. For a really long time."

Hire A "Real Financial Advisor"

p.195 How real financial advisors work:

1. Diagnose before prescribing
2. Are open about conflicts of interest
3. Are Transparent about fees and compensation
4. Stand between clients and the "Big Mistake" (buying high and selling low)

Behave, For A Really Long Time

p.202 Summary of Thinking Fast And Slow, quotes from Kahnemann

Financial success is more about behavior than skill

Our ability to control our biases may be determined by our genetics, some are better than others

Some guardrails to help promote good behavior

1. Have a plan and stick to it
2. Automate good behavior
3. Remember, remember, remember
4. Leave it alone

p.207 Buffett: "The hallmark of our investment process is benign neglect, bordering on sloth."