"This book can help anyone who's struggling with money find a path to a better financial life."
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columnist and author of *Easy Money*

Your Money

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J.D. Roth

Your Money: The Missing Manual

J.D. Roth

Editor

Dawn Mann

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The Missing Credits

About the Author

J.D. Roth is an accidental personal-finance expert—a regular guy who found himself deep in debt. After deciding to turn his life around, he read everything he could about money and finance. To share what he'd learned, in 2006 J.D. started the award-winning website Get Rich Slowly (www.getrichslowly.org), which Money magazine named the Web's most inspiring personal-finance blog.

Over the past 4 years, Get Rich Slowly has grown into an active community where 500,000 monthly visitors share ideas on how to save money on food, find the best savings accounts, dig out of debt, an otherwise improve their financial lives.

J.D. lives with his wife and four cats in a 100-year-old house in Portland, Oregon. When he's not writing about money, he likes to read, eat, and laugh with his friends. You can read about his obsessions with books, cats, and comic books at www.jdroth.com. If you have questions, drop him a line at jdroth@foldedspace.org.

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This book is dedicated to Sparky: http://tinyurl.com/GRS-sparky.

Introduction

> "*What we get from this adventure is just sheer joy. And joy is, after all, the end of life. We do not live to eat and make money. We eat and make money to be able to live. That is what life means and what life is for.*"
>
> —George Mallory

For years, I lived paycheck to paycheck on an average American salary. Every month I struggled to pay my bills and make ends meet. I spent everything I had, and sometimes more. In the decade after graduated from college, I racked up over $35,000 in debt. I knew how to spend money, but I didn't know how to save it.

2004 was a turning point for me. My wife and I bought a 100-year-old farmhouse that needed a lot of work. My budget was already stretched to the limit, and I didn't see how I'd be able to afford the plumber, electrician, and carpenter we needed. I felt like I was drowning.

With the help of some friends, I was able to keep my head above water: They loaned me some books about money. I read them, and then went to the public library and borrowed more books on the topic. started picking up personal-finance magazines and browsing financial websites. All of the advice made sense, but there were so many numbers and terms involved that I couldn't keep them straight.

To make sense of it all for myself—and maybe to help some others along the way—I started writing about the things I learned and posting them at GetRichSlowly.org. I reviewed the books I read, shared the websites I found, and wrote down my thoughts about my relationship with money. I never expected anyone other than my family and friends to read the site, but to my surprise, others wanted learn about this stuff, too.

Get Rich Slowly has grown into an amazing community of everyday folks who help each other tackle financial problems. (The site gets half a million visitors every month!) Want to learn how to cut your cable bill by 33%, where to find the best online savings account, or find out what a bond is? Get Rich Slowly readers have the answers.

Over the years, I've continued to use the site to share what I learn about managing money. I also shar my own story, both the successes and the failures. I know a lot more about money than I did 5 years ago, but I still do dumb things from time to time. (We all make mistakes, right?) The key is to learn from them and move on.

This book is the culmination of everything I've learned while turning my financial life around. I've included the most important things I've discovered during 5 years of reading and writing about mone every day. I've done my best to pack Your Money: The Missing Manual with tons of useful info whil keeping it easy to understand and (I hope) fun to read. Above all, this book aims to give you the information you need to change your financial situation for the better.

About This Book

Based on my research—and my experiences with what does and doesn't work—I've developed a list o 14 guidelines that form the basis of my financial philosophy. These ideas lurk behind every page of this book:

1. Financial success is more about mastering the *mental* game of money than about understanding ~~the numbers. The math is simple; it's controlling your habits and emotions that's hard.~~
2. The road to wealth is paved with goals. Without financial goals, you have no direction, so it's easy to spend money on things you'll regret later. But if you're saving for a house, your daughter college education, or a new car, your goal will keep you focused.
3. To build wealth, you've got to spend less than you earn. Successful personal finance is all about building positive cash flow (which you'll learn about in Chapter 4). That's easy to say, but not always easy to do.
4. Saving *must* be a priority. Before you pay your bills, buy groceries, or do anything else, you should set aside some part of your income. Start small if you have to (even $25 a month is good and then increase your saving rate with time.
5. Small amounts matter. Your everyday habits have a huge impact on your financial success, so don't be frustrated if you can only save $25 a month for now; I started small, too. Small changes help build good habits, and they can make a real difference over time.
6. Large amounts matter, too. It's good to clip coupons and to save money on groceries, but it's eve better to save money on the big stuff like buying a car or house. By making smart choices on big ticket items, you can save thousands of dollars in one blow.
7. Financial balance lets you enjoy tomorrow and today. Being smart with money isn't about giving up your plasma TV or your daily latte. It's about setting priorities and managing expectations: choosing to spend only on the things that matter to you, while cutting costs on the things that don't.
8. Slow and steady wins the race. The most successful folks are those who work longest and hardes at things they love to do. So try to find ways to make frugality fun, and recognize you're in this for the long haul. Remember that you're making a lifestyle change, not looking for a quick fix.
9. The perfect is the enemy of the good. Too many people are afraid to start getting their finances i order because they don't know what the "best" first step is. Don't worry about getting things exactly right—just choose a good option and do something to get started.
10. Failure is okay. Even billionaires like Warren Buffett make mistakes, so don't let one slip-up drag you down. Use failures to learn how to do better next time.
11. Nobody cares more about your money than you do. The advice that others give you is almost always in their best interest—which may or may not be the same as your best interest. Don't do what others tell you just because they're compelling. Get advice from various folks (and books like this one), but in the end, make your own decisions.
12. Each person is different. There's no one right way to save, invest, pay off debt, or buy a house, s don't believe anyone who says there is. Experiment until you find methods that work for you.
13. Action beats inaction. It's easy to put things off, but the sooner you start moving toward your goals, the easier they'll be to reach.
14. It's more important to be happy than to be rich. Don't be obsessed with money—it won't buy you happiness. It'll give you more options, sure, but happiness is what makes life worth living. If you can stay happy and in control of your life, money will be easier to manage.

Your Money: The Missing Manual will show you how to kick debt to the curb, save for the future, an
~~pursue your financial dreams. I've done my best to write the book that I wish I'd read 20 years ago~~
—before I got deep in debt. My hope is that I can help you avoid the same fate and build a brighter financial future.

About the Outline

This book is divided into three parts, each containing several chapters:

- In Part One: Blueprint for Financial Prosperity, you'll learn how to lay the groundwork for success; a little advance planning will pay off big in the long run. Chapter 1 explores the relationship between money and happiness, and suggests some ways of finding balance. Chapter 2 helps you set financial goals. In Chapter 3, you'll learn that budgeting isn't necessaril evil; in fact, it can be a great way to help you defeat debt, which is the subject of Chapter 4.
- Part Two: Laying the Foundation teaches you the importance of cash flow—the difference between what you earn and what you spend. In Chapter 5, you'll learn frugal tactics to help you save money on everyday spending. Chapter 6 looks at the other side of the equation: How to boost your income.

  Chapter 7 helps you find the best bank accounts for storing your money, and Chapter 8 will help you get your credit cards under control. Chapter 9 discusses how to be smart when buying big items, and Chapter 10 covers the biggest expense of all: housing. Finally, Chapter 11 provides t basic info you need to deal with taxes and insurance effectively.
- Part Three: Building a Rich Life shows you how to use your financial foundation to build a rich life—both today and in the future. Chapter 12 gives you a brief intro to investing, and Chapter 1 explains how and why to save for retirement. Chapter 14 wraps things up with a look at the relationship between love and money.

There's no way for one book to cover everything there is to know about personal finance. I've covere the essentials and included pointers to where you can learn more about any given topic by doing further reading in other books, on various websites, and in magazines. Along the way, I also share real-life stories from people like you.

Frequently Asked Question: What Are Tiny URLs?

This book mentions lots of great websites where you can learn more ways to be smart with your money. But sometimes that info is on a very specific part of a site, and the Web address that takes you to that spot can be awfully long. That's where Tiny URLs come in.

URL (short for Uniform Resource Locator) is the geeky name for a Web address. For example, http://www.google.com is the URL that tells your Web browser how to get to the Google home page. But not all URLs are that short. To read a great Get Rich Slowly article about bonds, for instance, you have to go to http://www.getrichslowly.org/blog/2009/04/21/investing-101-how-bonds-work/. That's a lot of gobbledygook to type in, and you have better things to do with your time.

In 2002, a guy named Kevin Gilbertson started the website TinyURL.com. The site's mission is simple: to shorten ungainly Web addresses. All you do is copy the address you want to shrink, head over to http://tinyurl.com, and then paste the address in the box. Click the Make TinyURL button and voilà—the site gives you a much shorter address (which starts with http://tinyurl.com) that takes you to the same exact spot as the long one.

Throughout this book, you'll see TinyURLs used in place of giant, clunky ones. To get to the GRS page mentioned above, for example, you can use http://tinyurl.com/GRS-bonds instead. Just type that address into your browser and your computer will get you to the right place. Better yet, head to this book's Missing CD page at www.missingmanuals.com, where you'll find clickable links to all the sites referenced in this book.

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Part I. Blueprint for Financial Prosperity

Chapter 1. It's More Important to Be Happy Than to Be Rich

"*Happiness, not gold or prestige, is the ultimate currency*."

—Tal Ben-Shahar

You don't want to be rich—you want to be happy. Although the mass media has convinced many Americans that wealth leads to happiness, that's not always the case. Money can certainly help you achieve your goals, provide for your future, and make life more enjoyable, but merely having the stu doesn't guarantee fulfillment.

This book will show you how to make the most of your money, but before we dive into the details, it' important to explore why you should care. It doesn't do much good to learn about compound interest or high-yield savings accounts if you don't know how money affects your well-being.

If personal finance were as simple as understanding math, this book wouldn't be necessary; people would never overspend, get into debt, or make foolish financial decisions. But research shows that ou choices are based on more than just arithmetic—they're also influenced by a complex web of psychological and emotional factors.

This chapter gives you a quick overview of the relationship between money and happiness. You'll als learn techniques for escaping the mental traps that make it hard to be content with what you have. As you'll see, you don't need a million bucks to be happy.

How Money Affects Happiness

The big question is, "Can money buy happiness?" There's no simple answer.

"It seems natural to assume that rich people will be happier than others," write psychologists Ed Diener and Robert Biswas-Diener in *Happiness* (Blackwell Publishing, 2008). "But money is only on part of psychological wealth, so the picture is complicated."

There is a strong correlation between wealth and happiness, the authors say: "Rich people and nation are happier than their poor counterparts; don't let anyone tell you differently." But they note that money's impact on happiness isn't as large as you might think. If you have clothes to wear, food to ea and a roof over your head, increased disposable income has just a small influence on your sense of well-being.

To put it another way, if you're living below the poverty line ($22,050 annual income for a family of four in 2009), an extra $5,000 a year can make a huge difference in your happiness. On the other han if your family earns $70,000 a year, $5,000 may be a welcome bonus, but it won't radically change your life.

So, yes, money can buy some happiness, but as you'll see, it's just one piece of the puzzle. And there' a real danger that increased income can actually make you miserable—if your desire to spend grows with it. But that's not to say you have to live like a monk. The key is finding a balance between havin too little and having too much—and that's no easy task.

Note

A recent article in the *Journal of Consumer Research* showed that, in general, our feelings for material purchases fade more quickly than they do for experiential purchases. Material goods depreciate: The day after you buy something, it's usually worth less than you paid for it. Experiences, on the other hand, appreciate: Your memories of the things you do—vacations you take, concerts you go to—become fonder with time because you tend to recall the positives and forget the negatives.

The Fulfillment Curve

American culture is consumption-driven. The media teaches you to want the clothes and cars you see on TV and the watches and jewelry you see in magazine ads. Yet studies show that people who are materialistic tend to be less happy than those who aren't. In other words, if you want to be content, yo should own—and want—less Stuff.

Note

Because Stuff has such an important role in your happiness (and unhappiness), it deserves a capital S. You'll read more about Stuff throughout this book, especially in Chapter 5.

In their personal-finance classic *Your Money or Your Life* (Penguin, 2008), Joe Dominguez and Vick Robin argue that the relationship between spending and happiness is non-linear, meaning every dolla you spend brings you a little less happiness than the one before it.

More spending does lead to more fulfillment—up to a point. But spending too much can actually hav a negative impact on your quality of life. The authors suggest that personal fulfillment—that is, bein content with your life—can be graphed on a curve that looks like this:

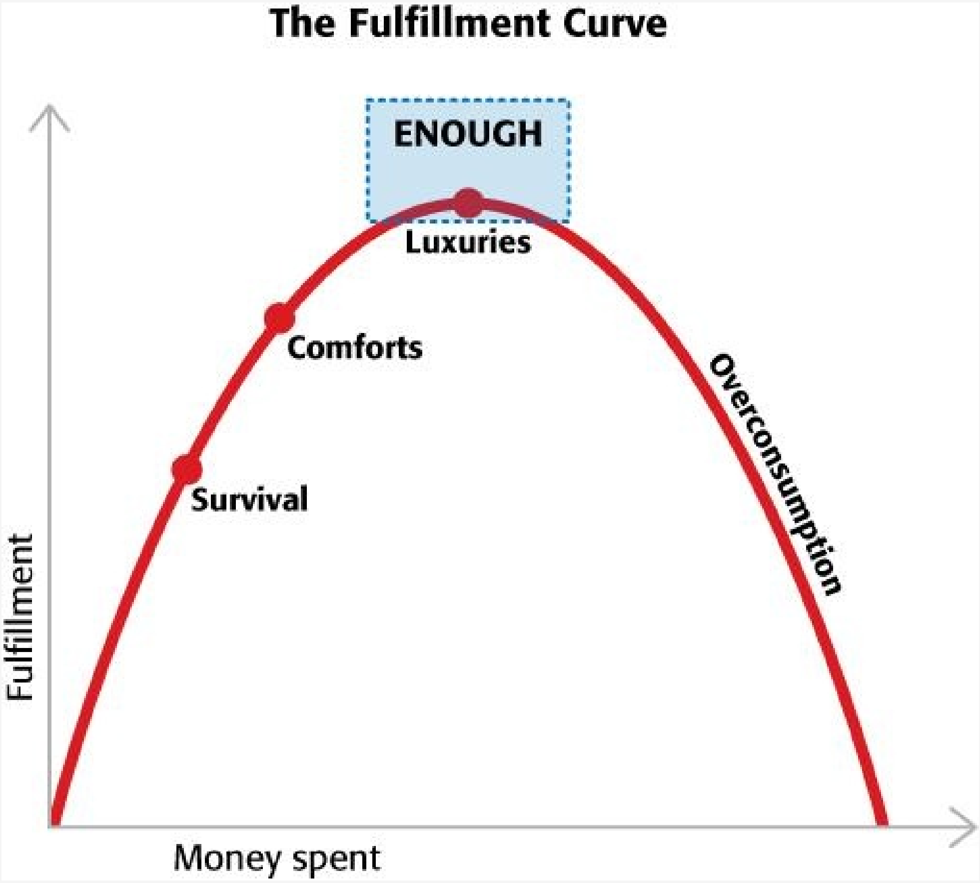

Figure 1-1. The Fulfillment Curve

This Fulfillment Curve has four sections:

- Survival. In this part of the curve, a little money brings a large gain in happiness. If you have nothing, buying things really does contribute to your well-being. You're much happier when you basic needs—food, clothing, and shelter—are provided for than when they're not.
- Comforts. After the basics are taken care of, you begin to spend on comforts: a chair to sit in, a pillow to sleep on, a second pair of pants. These purchases, too, bring increased fulfillment. The make you happy, but not as happy as the items that satisfied your survival needs. This part of th curve is still positive, but not as steep as the first section.
- Luxuries. Eventually your spending extends from comforts to outright luxuries. You move from small apartment to a home in the suburbs, say, and you have an entire wardrobe of clothing. You drink hot chocolate on winter evenings, sit on a new sofa, and have a library of DVDs. These things are more than comforts—they're luxuries, and they make you happy. They push you to th peak of the Fulfillment Curve.
- Overconsumption. Beyond the peak, Stuff starts to take control of your life. Buying a sofa made you happy, so you buy recliners to match. Your DVD collection grows from 20 titles to 200, and you drink expensive hot chocolate made from Peruvian cocoa beans. Soon your house is so full Stuff that you have to buy a bigger home—and rent a storage unit. But none of this makes you any happier. In fact, all of your things become a burden. Rather than adding to your fulfillment, buying new Stuff actually detracts from it.

The sweet spot on the Fulfillment Curve is in the Luxuries section, where money gives you the most happiness: You've provided for your survival needs, you have some creature comforts, and you even have a few luxuries. Life is grand. Your spending and your happiness are perfectly balanced. You hav

Enough.

> **Note**
>
> Yup, Enough gets a capital E, too. You'll learn more about deciding how much is Enough later in this chapter. (And don't worry: There aren't any more words with goofy capitals ahead.)

Unfortunately, in real life you don't have handy visual aids to show the relationship between your spending and your happiness; you have to figure out what Enough is on your own. But as you'll see in the next section, because we've been conditioned to believe that more money brings more happiness, most people reach the peak of the Fulfillment Curve and then keep on spending.

Caught Up in the Rat Race

Typically, as your income increases, your lifestyle grows with it. When your boss gives you a raise, you want to reward yourself (you deserve it!), so you spend more. All that new Stuff costs money to buy, store, and maintain. Gradually, your lifestyle becomes more expensive so you have to work harder to earn more. You think that if only you got another raise, then you'd have Enough. But in all likelihood, you'd just repeat the process by spending even more.

Psychologists call this vicious cycle the hedonic treadmill, though you probably know it as the "rat race." People on the hedonic treadmill think they'd be happy if they just had a little more money. But when they get more money, they discover something else they want. Because they're never content with what they have, they can never have Enough.

Most Americans are stuck on this treadmill. According to the U.S. Census Bureau (http://tinyurl.com/census-inc), in 1967 the median American household income was $38,771 (adjusted for inflation). Back then, less than one-fifth of U.S. families had color TVs and only one in 25 had cable. Compare that with 2007, when the median household income was $50,233 and nearly everyone had a widescreen color TV and cable. Americans now own twice as many cars as they did in 1967, and we have computers, iPods, and cellphones. Life is good, right? But despite our increased incomes and material wealth, we're no happier than were in the '60s.

> **Note**
>
> In case it's been a while since your last math class, here's a quick refresher: If you have a set of numbers, half of them will be greater than the median, and half will be less. The median is usually different from the average. For example, in the group of numbers 2, 3, 4, 5, and 101, the average is 23, but the median is only 4. (If economists talked about average incomes instead of median incomes, their numbers would be skewed by billionaires like Warren Buffett.)

Since 1972, the National Opinion Research Center has been polling Americans about their happiness (http://tinyurl.com/norc-gss). As you can see in the following graph, the numbers haven't changed much over the past 35 years. About one-third of Americans consistently say they're "very happy" with their lives (http://tinyurl.com/gss-happy), while a little less than one-third say they're "pretty well satisfied" with their financial situations (http://tinyurl.com/gss-satfin).

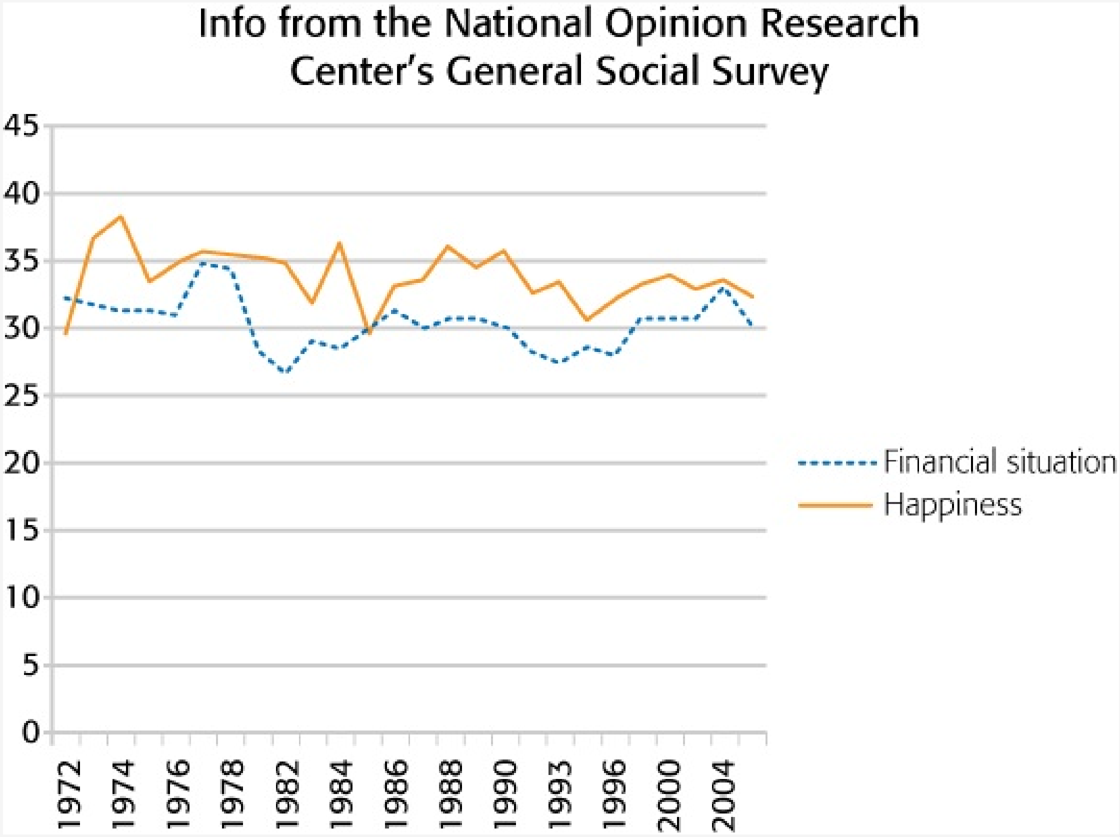

Figure 1-2. Info from the National Opinion Research Center's General Social Survey

If Americans are earning more, why aren't they happier? We've been led to believe that prosperity brings peace of mind, but it turns out your grandfather was right: Money isn't everything.

The bottom line: *Money can't make you happy if your increased wealth brings increased expectations.* In other words, if you want more as you earn more, you'll never be content; there will always be something else you crave, so you'll need to work even harder to get the money to buy it. You'll be stuck on the hedonic treadmill, running like a hamster on a wheel.

The hedonic treadmill leads to lifestyle inflation, which is just as dangerous to your money as economic inflation; both destroy the value of your dollars. Fortunately, you can control lifestyle inflation. You can opt out, step off the treadmill, and escape from the rat race. To do that, you have to set priorities and decide how much is Enough. The next section shows you how.

How Much Is Enough?

Kurt Vonnegut used to recount a conversation he had with fellow author Joseph Heller (Vonnegut published this anecdote as a poem in the New Yorker). The two writers were at a party thrown by a billionaire when Vonnegut joked, "How does it feel to know that our host makes more in one day than Catch-22 [Heller's best-known work] has made in its entire history?" Heller responded, "I've got something he can never have. I've got Enough."

Your Money And Your Life: Sudden Riches

Some folks believe their worries would vanish if only they had a six-figure salary. Others play the lottery because they think winning would solve their problems. But it's not how much you earn that determines how happy you are—it's how much you spend in relation to your income.

Take pro athletes: The average NFL player earns $1.1 million per year, and the average NBA player makes $4 million per year. Yet even these vast incomes sometimes aren't enough to cover what players spend. In a recent issue of Sports Illustrated, Pablo S. Torre described how and why athletes go broke (you can read his article at http://tinyurl.com/brokeathletes). He writes that after 2 years of retirement, "78% of former NFL players have gone bankrupt or are under financial stress. "Within 5 years of retirement, roughly 60% of former NBA players are in similar positions.

Lottery winners have the same kinds of problems. A 2001 article in *The American Economic Review* found that after receiving half their jackpots, the typical lotto winner had only put about 16% of that money into savings. It's estimated that over a quarter of lottery winners go bankrupt. Take Bud Post. He won $16.2 million in 1988. Within weeks of receiving his first annual payment of nearly half a million dollars, he'd spent $300,000. During the next few years, Post bought boats, mansions, and airplanes, but trouble followed him everywhere. "I was much happier when I was broke," he's reported to have said. When he died in 2006, Post was living on a $450 monthly disability check. You can read more about him here: http://tinyurl.com/budpost.

Of course, not every wealthy person is so profligate. In fact, according to Thomas Stanley and William Danko, most millionaires are careful with their money. In their classic book *The Millionaire Next Door* (Pocket, 1998), Stanley and Danko catalog the characteristics of the quiet millionaires—those who live in average neighborhoods, drive average cars, and work average jobs. These folks are able to build and maintain wealth because they keep their spending in check—even as their incomes rise. The authors say the three words that best describe the affluent are "frugal frugal frugal."

So even if you come into a windfall like an inheritance or a bonus—or even a lottery jackpot—take your cue from the frugal millionaires: Don't spend it all in one place. (Church, Charity, and Community has more about how to handle a windfall.)

Knowing that you have Enough can be better than having billions of dollars. If you're obscenely rich but aren't happy, what good is your money? Contentment comes from having Enough—not too little and not too much. But how much is Enough?

There's no simple answer. What's Enough for you may not be Enough for your best friend. And what you need to remain at the peak of the Fulfillment Curve (The Fulfillment Curve) will change with time, so Enough is a bit of a moving target. It's tough to define Enough, but there are some steps you can take to figure out what it means to you.

Understand your goals and values

If you don't know why you're earning and spending money, then you can't say when you have Enough. So take time to really think about what having Enough means to you. Discuss it with your family, and explore the idea with your best friend. Is being debt-free Enough? Being able to pay cash for a new boat? Having a million dollars saved for retirement? Decide what Enough means to you, and then write it down. If you don't have an end in sight, you're at greater risk of getting stuck in the rat race.

Note

Personal goals are so critical to financial success that you'll spend all of Chapter 2 learning how to set them.

Practice conscious spending

Because the notion of Enough is so vague, the best way to approach it is to be mindful of your financial habits. The act of consciously choosing how you spend can help you make purchases that ar in line with your goals and values.

Ramit Sethi popularized the concept of conscious spending in his book *I Will Teach You to Be Rich* (Workman Publishing, 2009). The idea is to spend with intent, deliberately deciding where to direct your money instead of spending impulsively. Sethi argues that it's okay to spend $5,000 a year on shoes—if that spending is aligned with your goals and values and you've made a conscious choice to spend this way (as opposed to spending compulsively—see Curbing Compulsive Spending).

If you're new to conscious spending, try asking yourself the following questions:

- Did I receive value from this equal to the amount I spent? In other words, did you get your money's worth? You already know that $100 spent on one thing isn't always as good as $100 spent on another. Conscious spending is about striving to get the most bang for your buck.
- Is this spending aligned with my goals and values? Conscious spending means prioritizing: putting your money toward the things you love—and cutting costs mercilessly on the things you don't. If you're happy with the coffee at the office, then don't waste your money at Starbucks. Bu if your extra-hot nonfat caramel latte is the highlight of your day, then buy the latte! Spend only on the things that matter to you.

The box below tells the story of Chris Guillebeau, who has made a lot of unorthodox choices to be sure his spending matches his priorities.

Your Money And Your Life: The Art of Non-Conformity

Chris Guillebeau takes conscious spending to an extreme. At 32, he's defined what's important to him and is willing to make sacrifices to be sure his spending is aligned with his goals and values. One of his ambitions is to visit every country in the world by his 35th birthday. (As of this writing, he's visited 124 of 192 countries, and he's got 3 years to go.)

Travel is expensive, so in order to meet his goal, Guillebeau has made it his top priority. "Some people think I'm crazy," he says. "I don't own a car, so I walk everywhere. I don't even like spending a few bucks to use public transportation. But I spend thousands of dollars to fly all over the world."

By doing without the things that aren't meaningful to him—like a car—Guillebeau can afford the things he's passionate about. To read more about his unconventional life, check out his blog at www.chrisguillebeau.com, and look for his upcoming book, *The Art of Non-Conformity* (Perigee, 2010).

Reduce clutter

If you have so much Stuff that you need to rent a storage shed, you have more than Enough. If the Stuff leads to clutter that stresses you out, you've passed the peak of the Fulfillment Curve and your added luxuries are bringing you less happiness, not more.

Purging clutter can be a profound experience, but it can be difficult, too: You don't want to toss anything out because you might need it someday, or it has sentimental value, or it may be worth something.

Getting rid of Stuff only hurts for a little bit. Once you've pared your belongings, it's like a weight ha been lifted; you feel free. Some people find the process so liberating that they go farther and practice voluntary simplicity, even to the point of moving into a smaller home. For example, Dave Bruno is chronicling his fight against materialism at his website (http://tinyurl.com/100thingchallenge); his goal is to own only 100 personal items.

Tip

Living Green: The Missing Manual suggests lots of great ways to de-clutter your life.

Seek balance

A balanced life is a fulfilling life. To find balance, you have to figure out how much is Enough for yo—the point where you're content with what you have and can say "this much, but no more."

Once you define Enough, you gain a sense of freedom. You're no longer caught up in the rat race and have time to pursue your passions. You can surround yourself with family and friends, and rediscove the importance of social capital—the value you get from making personal connections with people in your community (see Social Capital). And because you no longer feel compelled to buy more Stuff, you can use your money to save for things that truly matter.

It's Not About the Money

If vast riches won't bring you peace of mind, what will?

In a 2005 issue of the *Review of General Psychology*, Sonja Lyubomirsky, Kennon Sheldon, and Davi Schkade looked at years of research to figure out what contributes to "chronic happiness" (as opposed to temporary happiness). Based on their survey, they came up with a three-part model:

- About half of your happiness is biological. Each person seems to have a happiness "set point," which accounts for roughly 50% of your sense of well-being. Because this set point is genetic, it hard to change.
- Another 10% of happiness is based on circumstances—external factors beyond your control. These include biological traits like age, race, nationality, and gender, as well as things like marital status, occupational status, job security, and income. Your financial situation is part of this 10%—but only a part—which means it accounts for just a fraction of your total happiness.
- The final 40% of happiness comes from intentional activity—the things you choose to do. Whereas circumstances happen to you, intentional activity happens when you act by doing thing like exercising, pursuing meaningful goals, or keeping a gratitude journal.

According to the authors, because circumstances—including your financial situation—play such a small role in your general contentment, it makes more sense to boost your bliss through intentional activity, by controlling the things you can and ignoring those you can't. (You can read the entire article at http://tinyurl.com/hmodel.)

Although your financial situation plays only a small role in your overall happiness, most people believe it's more important than that. Because of this, many Americans spend their lives striving for more money and possessions—but find that this materialism makes them less happy.

If you're caught up in the rat race, you may be dealing with things like credit card debt, living paycheck to paycheck, fighting with your spouse over money, and working a job you hate. These problems all stem from one issue: lack of control. When you feel like you have no control over money, you're worried and stressed. By taking charge of your finances, you can get rid of many of these stressors and be happier. Wealth gives you options and makes it easier to focus on things that can make you content.

This book will teach you specific ways to gain control of your finances. The first step to leading a ric life is learning how to set priorities.

On The Money: Happiness by the Numbers

In their book *Happiness*, Ed Diener and Robert Biswas-Diener talk about the happiness formula, their attempt to quantify all this psychological stuff about money and well-being.

They found that a larger income generally makes people happier—but not always. It's not just how much you make that determines how satisfied you are with your life, but how that money relates to your desires. You might say that happiness is equal to what you have divided by what you want.

Say, for instance, that you're a famous author earning $200,000 a year. On paper, that sounds like a lot of money, but if you yearn for expensive luxuries and experiences, you may actually feel poor.

On the other hand, if you're a struggling writer bringing in $40,000 a year, you can be happy as long as your expectations are low—that is, if you don't want more than you have. This is why frugality is so important. (Chapter 5 is chock-full of tips for spending less.)

For another attempt to quantify well-being, take a look at this happiness formula from Dilbert creator Scott Adams: http://tinyurl.com/happy-dilbert.

Living a Rich Life

Living richly means figuring out what to spend your time, money, and energy on—and what to ignor
Since you can't have everything, you have to prioritize. This means spending money on things that matter to you—and skimping on things that don't.

Psychologists generally agree that a life well-lived is rich in:

- Security. It's hard to be happy when you're constantly worrying about how to pay the bills. If yo have money, you don't have to worry about those things. (But, as you now know, you don't have to be rich to be happy.) By living below your means and avoiding debt, you can gain some financial control over your life.
- Relationships. True wealth comes from relationships, not from dollars and cents. Wealthy or poor, people with five or more close friends are more apt to describe themselves as happy than those with fewer. A long-term, loving partnership goes hand in hand with this. And as you'll lear later (Social Capital), social capital can be worth as much as financial capital.
- Experiences. As explained in the Note on How Money Affects Happiness, memories tend to gro more positive with time, but Stuff usually drops in value—both actual value and perceived valu As Gregory Karp writes in *The 1-2-3 Money Plan* (FT Press, 2009), "Experiences appreciate, assets depreciate." And in *Your Money and Your Brain* (Simon & Schuster, 2008), Jason Zweig notes, "Doing and being are better than having."

Remember these three pillars of happiness and you can build a rich life even on a limited income.

To further improve your relationship with money, keep these guidelines in mind:

- Prioritize. Spend on the things that make you happiest. There's nothing wrong with buying thing you'll use and enjoy—that's the purpose of money. If you're spending less than you earn, meetin your needs, and saving for the future, you can afford things that make life easier and more enjoyable. (For another way to prioritize, see the box on Living a Rich Life.)
- Stay healthy. There's a strong tie between health and happiness. Anyone who's experienced a prolonged injury or illness knows just how emotionally—and financially—devastating it can be Eat right, exercise, and get enough sleep (*Your Body: The Missing Manual* has loads of tips on how to do all those things).
- Don't compare yourself to others. Financially, psychologically, and socially, keeping up with th Joneses is a trap. You'll always have friends who are wealthier and more successful in their careers than you. Focus on your own life and goals.
- Limit media exposure. Mass media—especially TV—tries to persuade you that happiness depends on things you don't really need and can't afford. Studies have found that watching lots o

TV can influence your levels of materialism—how much you think you need to be happy.

- Simplify. The average Joe believes that materialism is the path to happiness—but the average Jo is wrong. Research shows that materialism actually leads to unhappiness and dissatisfaction. By simplifying your life and reducing the amount of Stuff you own (or want to own), you'll save money and be happier.
- Help others. Altruism is one of the best ways to boost your happiness. It may seem counter-intuitive (and maybe even a little self-serving), but donating to your church or favorite charity is a proven method for brightening your day.
- Embrace routine. Emerson wrote, "A foolish consistency is the hobgoblin of little minds," but there's evidence that some consistency is conducive to contentment. In *Happier* (McGraw-Hill, 2007), Tal Ben-Shahar recommends building routines around the things you love: reading, walking, gaming, knitting, whatever. Because it can be difficult to make the time for these activities, he argues that we should make rituals out of them. If you enjoy biking, make a ritual out of riding to the park every evening, for example. (See the box below for tips on finding time for what you love.)
- Pursue meaningful goals. As you'll learn in the next chapter, the road to wealth is paved with goals, and the same is true of the road to happiness. But for a goal to be worthwhile, it has to be related to your values and interests—it has to add something to your life. Chapter 2 will help yo decide what goals to set.

On The Money: Fun Things First

You lead a busy life. There never seems to be enough time to do the things you really want, like doing yoga, running, or having a weekly night out with your sweetie. With so much already on your plate, how can you fit it all in?

In *Work Less, Live More* (Nolo Press, 2007), Bob Clyatt argues that you can make time for fun stuff. The secret, he says, is prioritizing:

> Imagine you have an empty jar, a collection of a few large rocks, and several handfuls of gravel. Your task is to put all the large and small rocks into the jar. One approach would be to pile all the gravel first, but doing so would leave room for only one or two of the large rocks; you wouldn't get everything to fit. Switch your approach and put the large rocks in first, and you'll find that the gravel will all fit nicely around the empty space. If a bit of gravel doesn't fit at the end, you've not lost much.
>
> Let too many little things take priority, and there never seems to be time for the big things. Consider the Big Rocks to be really important things you want to accomplish in life, the things that define you. Get the big things in first, work on the right projects and priorities, and let the little stuff fit in around the edges. Let your Big Rocks be non-negotiable priorities in your weekly calendar—and learn to say "no" when other things begin to intrude. Then fit those other things in where you can.

So if running makes you happy, schedule your runs—and then fit the rest of your life around them. Don't ignore your obligations, but make the stuff you have to do fit around the stuff you want to do, not the other way around.

The bottom line is that if you can't be content, you'll never lead a rich life, no matter how much mon you have. The key to money management—and happiness—is being satisfied. It's not how much you have that makes you happy or unhappy, but how much you want. If you want less, you'll be happy wi less. This isn't a psychological game or New Age mumbo-jumbo, it's fact: The lower your expectations, the easier they are to fulfill—and the happier you'll be.

That's not to say you should lead an aimless life of poverty; quite the opposite, in fact. But most people confuse the means with the ends. They chase after money and Stuff in an attempt to feel fulfilled, but their choices are impulsive and random. Their "retail therapy" doesn't address the root cause of their unhappiness: They lack goals and an underlying value system to help guide their decisions.

In the next chapter, you'll learn how to create meaningful financial goals that are aligned with your passions. Then you'll be able to use these goals to make better decisions about money. These choices will, in turn, help you live a happier life.

Note

For an excellent look at how to be happy, pick up a copy of Gretchen Rubin's *The Happiness Project* (Harper, 2009).

Chapter 2. The Road to Wealth Is Paved with Goals

> "*If one moves confidently in the direction of his dreams, and endeavors to live the life which he has imagined, he will meet with a success unexpected in common hours*."
>
> —Henry David Thoreau

Whether you want to get rich or just get out of debt, you need to set goals. Goals give you purpose an help you know what your money is for. Think of goals as blueprints and money as the building material you can use to build the life you want.

When you have a fixed purpose, financial decisions are easy. You know that each night out with friends delays your ultimate objective, whether that's buying a house, saving for a wedding, or startin your own business.

In this chapter, you'll learn how to translate your dreams and passions into smart financial goals to help direct your saving and investing. But chasing your dreams isn't easy; you'll make mistakes and bad things will happen. That's why this chapter also includes tips for coping with setbacks, and equip you with tools to help you build the financial future you've dreamed of.

The Road to Success

Studies have shown again and again that people who pursue meaningful goals enjoy a greater sense o well-being and accomplish more than those without goals. In other words, having goals actually makes you happier. And while some people succeed without setting goals, they're the exception, not the rule. For the rest of us, goals provide direction. Once you know where you're headed, you can create a budget, which (as you'll learn in Chapter 3) is like a roadmap that helps you find your way.

So how do you create goals that will guide you to financial success? The first step is discovering wha brings meaning to your life.

The Importance of Passion

Goals are more than just wants: You want a chocolate chip cookie or the latest video game, but they'r not your goals in life. Goals are about the Big Picture. You should be so passionate about your goals that you're willing to make sacrifices in order to achieve them.

You've probably set financial targets before, and it's likely you've met some of them and failed at others. Some of your goals were probably pretty crazy, like, "I want to be rich by the time I'm 30." That's an admirable aim, but odds are you didn't achieve it. Why not? For one thing, it's vague: What does "being rich" mean? And what would you do if you were?

For a goal to motivate you, it has to be specific. It should also be based on your values and desires. D you really want to be rich in the sense of simply having lots of cash? Or were you just dreaming abou what you could do with that wealth?

To you, being rich might mean owning a goat farm in South Carolina. For your best friend, it might mean being able to start her own business selling wine over the Internet. Whatever the case, you're probably not motivated by the money itself, but by what the money could let you be and do.

Some people have an easy time setting meaningful goals because they know exactly what they want. But ~~it can be tough to know what you want, especially when you're young. With time and experience,~~ you begin to learn what motivates you. You'll find that it's not enough to simply say, "Yeah, I might want to go to France someday. I'll make that a goal." Your goals should make you stand up and shout "I've always wanted to spend a summer backpacking across France! How do I make that happen?"

If you're 20 years old, retirement probably seems pretty abstract—it's something that people talk about, but which has little relation to your own life. (Actually, retirement seems like a dream to man 30- and 40-year-olds, too!) Something this abstract makes for a poor goal. You know you should sav for retirement, but that goal doesn't fill you with passion. But what if you re-framed the question? Think about what does matter to you and how saving for the future can help you to make that dream a reality.

With goals come tradeoffs, but having goals makes those tradeoffs easier to bear. If you're saving 25 of your take-home pay so you can quit your crummy job and start your own business, it's easier to pa up a ski weekend with friends because you know doing so will help you reach your goal that much sooner. When you have a why (in this case, to start your own business), the how (skipping the ski weekend) is a whole lot easier. Chris Guillebeau's story on Reduce clutter gives a real-life example o someone who's made big tradeoffs to follow his dreams.

Once you've established your priorities, you can set meaningful goals that'll help you accomplish more and live a happier life. Your goals will form the foundation of your financial success and give you a framework that can help you decide how to spend money.

Your Money And Your Life: Life Planning

Life planning is a new approach to setting financial goals. Instead of focusing solely on maximum wealth, life planners work with people to find the point where the clients' money and happiness intersect. They help people align their spending with their values.

The father of the life-planning movement, George Kinder, is a Certified Financial Planner and the author of The Seven Stages of Money Maturity (Delacorte, 1999). To identify and clarify your goals, Kinder suggests thinking about three hypothetical situations:

- Imagine that you have enough money to take care of your needs, now and in the future. How would you live your life? Would you change anything? What would you do with the money?
- Now imagine that you visit your doctor and she tells you that you have 5–10 years left to live. She says that you won't feel sick, but you'll have no notice of the moment of your death. What would you do in the time you have left? Would you change your life? How?
- Finally, imagine your doctor shocks you with news that you have only 24 hours left to live. If you only had a day to live, what dreams would you have left unfulfilled? What would you wish you had finished? What would you wish you had done or been? What would you have missed?

These questions are powerful tools for figuring out what's important to you. If you take the time to really think about them and answer them honestly, they can help you clarify your personal values and set meaningful goals. For more about life planning, check out Kinder's website (www.kinderinstitute.com) or pick up a copy of his book.

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