

Quick
AND Dirty
Tips

Money Girl's

Smart Moves to Grow Rich

A Proven
Plan for
Taking Charge
of Your
Finances

LAURA D. ADAMS



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**Smart Moves
to Grow Rich**

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Introduction

I've always enjoyed managing money. As a young high school kid, I couldn't wait to get my own checking account. But as I got older, graduated from college, and went out on my own, I discovered that I had a lot to learn about money. Even working in accounting didn't teach me what I needed to know to stay out of trouble. I fell into the trap that so many people do—living above my means. I rented apartments that I couldn't afford. I spent too much on vacations. I became a shopaholic. My first coworkers in Atlanta, Georgia, made comments about how I always showed up in new clothes and never wore the same outfit twice. They assumed I was living at home with financial support from my parents. I could see the shock on their faces when I told them that, no, I lived on my own. The reality is that I was being supported—not by my parents, but by my credit card!

Later on, I brought my credit card debt into my marriage. As we unpacked big cardboard boxes and started to fill our only bedroom closet, my husband asked, "So, exactly how many pairs of shoes do you have?" It was obvious that my shopping habit would put a squeeze not just on closet space but on our finances as well. After getting extremely anxious about our growing credit card balance,

we made a commitment to cut way back and slowly pay off the card. I'll never forget the feeling of accomplishment we had after making the final payment.

Since then I've done a 180—my passion for spending has turned into a passion for saving, investing, and every aspect of personal finance. What I've learned along the way is that you can't manage your money wisely if you don't know how. Many people I talk to about money say something like, "Isn't it a shame that we didn't learn financial stuff in high school?" It *is* a shame, because you don't know what you don't know. Over the years, I went searching for financial answers from lots of books, financial gurus, professional advisers, and eventually graduate school. I accrued so much knowledge that I then began sharing my financial knowledge as the host of the *Money Girl* blog and audio podcast on the Quick and Dirty Tips Network (QDT). As Money Girl, I get all kinds of questions from people who want to take control of their finances but just don't know how. They want to know how to pay off their credit card bills faster, how to choose the best checking and savings accounts, and how to make sure they're saving enough for retirement. My mission as Money Girl is to tell you what you really need to know to master your money, make the right moves, and set yourself up for lasting financial security.

The bottom line is that you're responsible for your own financial well-being, but we live in a world full of complex financial concepts and products. I understand how hard that can be when you're trying to figure out how much to save for retirement, what type of mortgage to get, or how to make investments that aren't too risky. Not only are you managing money in challenging economic times, but there are new tax laws, modernized banking methods, different credit guidelines, and predatory scams to stay on top of. That inspires me to make personal finances easier for you by creating simple explanations, down-to-earth examples, and quick tips that you can put to use right away.

Maybe you're just getting started in the working world and want to make sure you're keeping your money in the right place. Chapter 7 will give you tips on how to grow your money using retirement accounts like IRAs and 401(k)s. Perhaps you're frustrated

about your debt, indecisive about your investment choices, unsure about refinancing, or want a faster way to manage your money. If so, keep reading because those are just a smattering of the topics covered in this book. There's a chapter devoted to figuring out where your finances are right now, where you want to take them, and exactly how to bridge the gap. You'll see how easy it is to reorganize your banking so you can earn more money and keep tabs on all your spending with the most modern tools and technology. Chapter 5 will give you hope because there are real ways to reduce and eliminate your debt—I cover them all in detail. You'll get completely up-to-speed on the fundamentals of investing, and by the end of the book you'll know exactly how to save money on your everyday expenses, pick investments, cut your tax bill, buy real estate, pay for education, and lots more. No matter if you're struggling to meet your basic needs or have plenty of income, you'll benefit from this information. If you haven't saved a dime for retirement or are in too much debt (like I was years ago), this book will help you take control of your finances. What you'll find is that once you have good financial knowledge, it's simple to put it into practice and improve your situation.

The purpose of this book is to help you create a richer life. Financial struggles can weigh you down psychologically and hold you back from being who you really want to be. I hope to give you the tips, tools, and inspiration to master your finances, leverage your resources, and reach your highest potential. Small changes in lifestyle and financial routines can create big bank accounts that'll be there when you want to retire, start a business, send a child to college, or give to others in need. Making the right moves now will not only help you manage your money better, you'll grow richer as well.

MONEY GIRL'S

SMART MOVES TO GROW RICH

1

What's Your Money Mind-set?

If you want to create wealth, it is imperative that you believe that you are at the steering wheel of life, especially your financial life.

—T. HARV EKER, author of *Secrets of the Millionaire Mind*

As Money Girl, I love answering people's questions and sharing helpful financial information and timely tips. In addition to enjoying the nuts and bolts of things like retirement accounts, mortgages, and taxes, I'm also fascinated by the way people think about money. I call it our money mind-set. Your money mind-set—or thoughts about money—is important because it's the precursor to your behavior. In other words, your thoughts turn into actions. If your money mind-set is unhealthy, it only makes sense that you'll probably make some (or a lot of) financial mistakes.

Many people make the same slipups with money over and over again because they're stuck in bad patterns of behavior. They may know an awful lot about making good investments, for example, but can't ever manage to spend less than they make each month and so waste all of their investment knowledge when they have nothing to invest with. The problem isn't a lack of knowledge or the economy—it's them! It's not all gloom and doom, however, because bad financial habits can be fixed. Raising your awareness about them is half the battle. Then you can put the information, tips, and tools in this book into action to take control of your money and make the smart moves needed to get your personal finances

back on track and start growing your wealth. In this chapter, I'll help you think about some of the issues that may be getting in the way of your ability to make the most of your money. Let's start by looking at how you've grown to relate to money over the years and bring to light any bad habits you've picked up along the way.

WHAT'S YOUR RELATIONSHIP WITH MONEY?

We usually inherit our money mind-set from our parents or close role models. How we relate to money on a psychological level begins to take shape early in life. That's because young minds can't help but absorb a great deal of their parents' viewpoints. This became obvious to me when I backpacked through Europe with a good friend during the summer after my junior year in college. Neither one of us had a lot of money for the trip, but we decided that we'd travel until our money ran out. Back then, it was realistic for budget travelers to tour Europe on \$30 a day. According to my plan, after purchasing flights and train passes, spending no more than \$30 a day would keep us afloat in Europe for about a month. My goal was to spend as little as possible so we could stay as long as possible. I was willing to sleep in bunk rooms at youth hostels and to live on bread and water to stretch our funds. But my friend wanted to have more fun, eat fancier meals, and stay at better hotels—even if it meant coming home a little earlier. She simply wasn't as frugal as I was and we both had to compromise. We had the time of our lives—though a shorter time than I would have liked!

I realized that being a little frugal comes naturally to me because that's how I was raised. Even though my parents never actually said, "Laura, you should be frugal with your money," I learned from them by observing their actions. We really didn't talk about money much, but they always focused their resources on what was important to them and never seemed to spend money on whims or fads. That gave me an idea of how to be responsible with money.

Think back to your childhood. If you grew up in a home where there wasn't enough money for the necessities, you might have heard, "We don't have money for that!" or "Do you think money

grows on trees?" when begging for that new Barbie or Transformer. If money was tight in your household, you might have grown up thinking that it was hard to earn or that it was impossible to have enough. If your parents constantly fought about how to pay the bills, you might have grown up subconsciously feeling that money was a source of tension or a destructive force in relationships. Or, if you were raised in an affluent family where it was important to keep up the image of wealth, you might still think that you should buy expensive brands, fancy cars, and lead a materialistic lifestyle. Regardless of what kind of household you grew up in, it's likely that your biases and beliefs about money from childhood have stuck with you. Some beliefs—like the importance of delayed gratification—serve us well, but unfortunately, many don't, like the importance of buying expensive brands.

In addition to subconsciously forming some of our strongly held ideas about money when we were only children, the majority of us were taught little or nothing about personal finances during our secondary education. I graduated from a school known for giving a great education. Even though it was, and still is, a fantastic institution, there wasn't a class about money back then. I had a lot of fun making scarves in knitting class (yes, knitting!), but I can't help feeling like my time would have been better spent learning how to balance a checkbook! So don't feel bad if there's a gap in your education when it comes to money matters. Many fellow MBAs I know graduated without being required to take a personal finance class, and they probably have no idea about a lot of everyday money matters. If you lack an educational foundation (formal or informal) for managing your finances, it's very possible that you can lose a great deal of money, no matter how much you have. Conversely, if you make a modest income, but become skilled at money management, you can make the right moves necessary to become quite wealthy over time.

This book will help you form a better relationship with your money, no matter how much of it you have and no matter what your money mind-set is right now. After you read it, I urge you to share your financial knowledge with family members or friends who might benefit from your good sense. Without basic financial

education, anyone can create money troubles that are difficult to resolve. When that happens, we run the risk of living in perpetual fear about the state of our finances. That burden can hold us back from living the kind of life we truly want for ourselves and for our families.

BIG, BAD FINANCIAL HABITS (AND LITTLE ONES, TOO)

What stops many people from achieving the bank account and financial stability they dream of are bad spending habits. It's the small things we do day after day, week after week, and year after year that affect our overall financial health. That's good news! That means making little changes is how you'll be able to take total control of your finances. The tips and advice I'll give you in this book won't require that you go out and make all kinds of major changes all at once—that's not realistic. It's the little changes—the baby steps—that will add up to big results with the power to be life changing. But before we can even talk about making small changes, let's figure out if you have any bad financial habits that need to be broken.

The most common bad financial habit is living above your means—that's when your spending is higher than your income. Anyone can spend excessively by taking out loans or making purchases on credit. If you read the introduction to this book, you know that even included me. Living above your means is akin to inhabiting an imaginary place that I call the Dangerous Debt Zone. Unfortunately, it's easy to get there. And if you stay there too long, you will suffer financial injury. If you currently live there, don't worry. Chapter 5 will equip you with the tools you need to get yourself out in no time. But before we can even begin thinking about getting out of debt, we must first realize what got us there in the first place and why we overspend.

See if you recognize yourself in any of these:

- You fall prey to equating self-image with material things
- You crave the thrill of shopping and buying
- You feel entitled to have what others may have

- You're too generous
- You can't delay gratification
- You lack personal responsibility

Let's take a closer look at each of these reasons for overspending so we can put an end to it for good. That's step one on the journey toward financial well-being.

Why We Overspend

As consumers, many of us get brainwashed by the successful branding efforts of product marketers and advertisers. We hear radio commercials and see television, magazine, and billboard ads almost constantly. Most of us are deeply affected by branding, even if we say we're not. Marketers purposefully create brands to act as psychological shortcuts. A psychological shortcut means that the consumer doesn't spend much time considering a given purchase; they just put it in their shopping cart and head to the checkout aisle. I know I'm guilty of doing this every time I go to the grocery store.

There's an irony about the brands we buy. If you think about it, many times the brands we purchase reflect who we want to be, not who we are. For example, if we aren't wealthy but want to be seen as though we are, we buy brands that portray an image of being wealthy, such as Mercedes, Rolex, or Louis Vuitton. We may become attracted to brands and their associated images that we feel disconnected from in our life. For example, if we feel detached from nature, perhaps we buy brands that are associated with the rustic spirit of the outdoors, like Jeep, Patagonia, or The North Face. Or, if we feel old, we might be partial to brands we link to a youthful, vibrant culture like Abercrombie & Fitch or Juicy Couture. What I'm saying is that brands and tastes can be a reflection of what we need the most, and therefore, we may buy them to boost our self-image and self-esteem.

Don't get me wrong, there's nothing wrong with buying any of the great brands that I've mentioned. My point is that if you find that you have a tendency to buy brands that you can't afford, try to

understand what's at the core of your behavior. Is it a longing to be unique, part of a crowd, or seen as trendy, elite, or intelligent? Things will never fill our emotional voids. A poor self-image is a bottomless pit that no amount of spending can fill up or make good. Search for ways to fulfill those emotional needs without spending beyond your means. Overspending is not a good way to feel accepted or part of the crowd.

Another reason we may overspend is for the rush that comes from shopping. I'm guilty of this one, too—I can lose hours searching through online sales at my favorite retail sites. For some, shopping produces such a high that it becomes a distraction from everyday life. Frustrations and stress seem to disappear when we're on the hunt for the next best deal. Being aware of this type of addictive behavior is the first step toward conquering it. If you're addicted to shopping, it's important to understand why you buy what you buy. Be conscious of your emotions when you're shopping so you can recognize when a detrimental buying impulse starts to wash over you so that you can stop it.

We may also live above our means due to an "entitlement mentality." If you feel jealous of others or have a sense of entitlement to have what your neighbors or friends have, that may be a root cause of overspending. The truth is that you just might not be able to afford the same car as your neighbor or the same shoes as your best friend. But no matter your level of income or skills, you can create a life that has a safe and secure financial future—as long as you drop your feelings of entitlement.

Overspending also happens when you want to do more for others than you can afford. Do you have relatives who always seem to want more and more from you? Do you overspend on gifts during the holidays or for other special occasions? Do you give money to anyone who knocks on your door and asks for it? It's wonderful to be a generous person when you truly can afford it. But when you go overboard to try to win the affections of others or because you're not clear about your own financial needs, you're not taking good care of yourself.

What if you don't equate your self-worth with the products you buy, you don't get a thrill from shopping, and you don't have a

sense of entitlement when it comes to what you buy, but are still overspending? You might have an inability to balance short-term pleasures with long-term gains. Whether it's resisting the temptation to buy something shiny that we really don't need or pushing away a second helping of cake when we're on a diet, the desire for instant gratification is something we battle with every day. Maybe it will help you to keep the reasons you need to practice delayed gratification close to you. How you spend your money reflects your values. Consider putting your values down on paper so you can place them in strategic spots like on your computer, in front of the credit card in your wallet, or in your car, so you'll be reminded of them before blowing money in a way that's not helpful to you or your family.

The last reason many of us overspend is that we have a lack of personal responsibility. Responsibility or accountability can fly out the window when we simply can't or won't accept reality. We can rationalize situations and poor behavior in an attempt to cover up an ugly truth that we don't want to see. Rationalizations always sound good, but we know deep down that they're not the real explanations for why we may do something that's unproductive. I'll share an example with you about a friend who accepted a new sales job. His offer was a low base salary with a high commission in the construction industry. Even though the industry was starting to decline, he was convinced that his income would double within six months. Before getting his first paycheck he went out and bought an expensive car, boat, and lots of new furniture. He was able to buy all of these things by taking out loans and using a credit card. He felt he'd need those things to entertain and impress customers. When the construction business fell off due to the recession, my friend's job wasn't eliminated, but he couldn't generate the big commissions that he'd expected. He should've seen the writing on the wall, sold his expensive toys, and made spending cuts, but he didn't. He felt like a failure and couldn't accept that his big career break was broken. He went further into debt and waited too long to try to find a better-paying job.

Sometimes it takes a severe financial crisis to occur before our personal responsibility gets reawakened. If you have a habit of

overspending, look at the specific expenses that push you overboard. Once you uncover the root causes of your overspending, you're making good progress toward overcoming that bad habit.

ONE LAST MONEY SECRET TO GROWING RICH

Before we get started talking about specific information and techniques to make smart moves and grow rich, I'll share a secret with you that only the wealthy know. You begin to take control of your financial reality when you can take full control of yourself—not a moment before. The inability to manage money is actually the inability to manage yourself. So maybe you have some work to do before it's even possible to get on the road to financial security. That's okay, keep reading. My challenge to you is to complete this book, then come back to it again in the near future. You'll rediscover new truths and financial tactics that perhaps didn't mean anything to you before.

A financial transformation occurs when we adopt an entirely new view of money. That's why I asked you to examine your money mind-set at the beginning of this chapter. Stepping outside of the linear idea that work=money=things is the beginning of a transformation. Viewing money only for what it can bring you in terms of possessions is a root cause of financial distress and unhappiness.

Being rich or wealthy is a relative concept. The absolute amount of money you have isn't nearly as important as how you handle your money each and every day. If you maintain a foolish relationship with your money year after year, I can predict your future, and it's not as blissful as it could be. No matter if you're a millionaire with money freely flowing, or if you're making minimum wage, you have the power and ability to set aside enough money to create financial security. My goal in this book is to empower you to achieve your best financial life. Making the most of what you have, and being grateful for it, is truly the secret of financial well-being and happiness.

The next step in your journey to grow richer is to learn the skills you need to change your behavior, become a great money manager, and live within your means. Let's get started.

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