

Making the Most of Your Money

Do you know people who handle money carelessly? Lots of seemingly smart people are clueless on where they stand financially. There is Beverly, a professional woman, who calls the bank every two or three months to find out what the balance is in her checking account. She has never reconciled her checking account, so she never knows what her balance is. What Beverly still hasn't learned is that people at her bank don't know what Bev's real balance is either, because they don't know what checks Beverly has written in the last day or two. Only Beverly knows that. And then there is Ben. Ben actually believes that he can write checks as long as he has blank ones to be used. Ben has been heard to say, "Why would the bank give me blank checks if I'm not supposed to use them?"

You can avoid financial life in the Bev and Ben lane. You can get on the fast track to wealth by becoming good at managing your money. It starts with knowing some basic information and using some common sense and then taking action. We recommend three steps.

First, get a grip on your spending. How can you do that? Use the old-fashioned way. Set up a budget. Make a list of your income and expenses. Then subtract your expenses from your income. If you have any surplus cash, plan how you will use it. Do this each month. Maybe you will learn that now is the time to get started with a mutual fund or stock account.

Second, get to know the various services offered by financial institutions in your community. Checking accounts are perhaps the most common financial service people use, but there are many others including ATMs, direct deposits, savings accounts, credit cards, installment loans, student loans, retirement accounts, and stock accounts. While there are many types of financial institutions, the four most important ones are commercial banks, savings and loans, credit unions, and brokerage firms. Open an account now at one or more financial institutions. Start with checking and savings, but don't wait long to start other, more rewarding savings programs. Becoming wealthy is within your grasp. Starting to save when you are young is absolutely the best time.

Finally, you need to learn how to protect yourself against risk. All choices involve risk. But some risks are greater than others. Buying insurance is a common way to reduce risk. There are many kinds of insurance to consider including auto, health, renter's, homeowner's, life, and disability. The type and amount of insurance you will need will change as you get older and as the value of your assets increases.

The best thing regarding these three tips and others covered in these lessons is that none of this is overly difficult. It might take some work, but you can learn this stuff. Your efforts now can have a big payoff later.

Questions

1. What is a budget?

2. What are examples of financial institutions?

3. What is the point of buying insurance?

4. What are common forms of insurance?

5. When is the best time to get started on saving your first million bucks?

FAQs ... about Managing Your Money

1. What is net worth? Net worth is a measure of what you are worth financially. Net worth is the current value of your assets minus your liabilities.

2. What does it mean to “pay yourself first”? Treat savings like it is a fixed expense-the same as paying your rent or car payment. Set your saving goal and arrange your income and spending so that you can reach it.

3. What are some common services offered by financial institutions such as banks, savings and loans, credit unions, and brokerage firms? There are many financial services with which to become familiar. These include checking accounts, savings accounts, certificates of deposit, direct deposit, deposit insurance, credit cards, installment loans, home mortgages, home equity loans, student loans, small business loans, retirement accounts, and accounts for the purchase of stocks, bonds, and mutual funds.

4. Can you write checks as long as you have blank checks? No. Here is how it works. You deposit money in your checking account to cover checks that you write. The checks that you write are subtracted from your checking account. If you write checks for more than the amount of funds in the account, negative consequences await. Your bank and most creditors charge high fees for overdrafts, which is when the requested payments from the account are more than what is in the account. When you write a check for money you don't have in the account, you risk ruining your credit rating. If you repeatedly write checks for more than what is in your account, you will be taken to court and could be put in jail.

5. How does insurance work? The idea is to spread out the risk over several payers. A pool of people contribute money to buy insurance with the expectation that only a few will actually experience a loss that will need to be covered.

6. When is the best time to get started on your first million bucks? Now!