The One-Page Financial Plan

A Simple Way to Be Smart About Your Money

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INTRODUCTION

NOT long ago I was e-mailing back and forth with Dan Heath. He's a writer—and a successful one at that. Together with his brother Chip, he has a few *New York Times* bestsellers under his belt—so he asked me what I was working on. I told him about two ideas I had been thinking about for books, and then, almost as an afterthought, I mentioned something I'd had in the back of my mind for ten years. It was a book I was thinking about writing someday called *The One-Page Financial Plan.*

"I'd buy that," he replied almost immediately.

Surprised by his response, I asked him to tell me more. I was curious since I'd only told him the title. What exactly did he think he'd be buying? Why the sudden interest?

"Creating a 'financial plan' just seems so overwhelming," he responded. "I'm going to have to meet with a lawyer and a financial planner and decide what my goals are for the rest of my life, and then face the overwhelming and depressing truth about planning for retirement (it seems you need to have $7.8 million saved by age sixty-five or else get ready to eat dog food), and then pick among a thousand mutual funds, but then there is the 401(k) plan at work with these Latin American government bond funds and such, and so the only rational response is *not* to create a financial plan."

It doesn't surprise me that he would respond this way, given how inundated we are with countless choices. Even a trip to the grocery store can lead to our feeling overwhelmed and exhausted. I have a friend in New York who lives a few blocks from a fancy mayonnaise store. How many kinds of mayonnaise do we really need? (My friend admits that she's tried numerous flavors, and they're all delicious.)

Of course, things get really frustrating when the stakes are higher than what we're going to put on our BLTs. Take my recent experience with my dog, Zeke. He was having some stomach problems (I'll spare you the details of how I knew), and it was clear we needed to take him to the vet to get him checked out. I'm probably a lot like you: busy. When Zeke got sick, my family was getting ready to leave on vacation, work was piling up, and the kids needed to be shipped back and forth between a bunch of activities.

But luckily the vet is located literally two hundred yards from my office. When I dropped him off, I told the vet I had a ton of errands to run. "Why don't I come back in a few hours once you've had plenty of time to fully check him out?"

When I returned, the vet informed me that they had time to do a full diagnosis and they'd run all kinds of tests.

Then she said, "You have three options."

That was the moment everything fell apart.

As soon as she said “three options,” I felt myself start to panic. In fact, I felt like my head was about to explode.

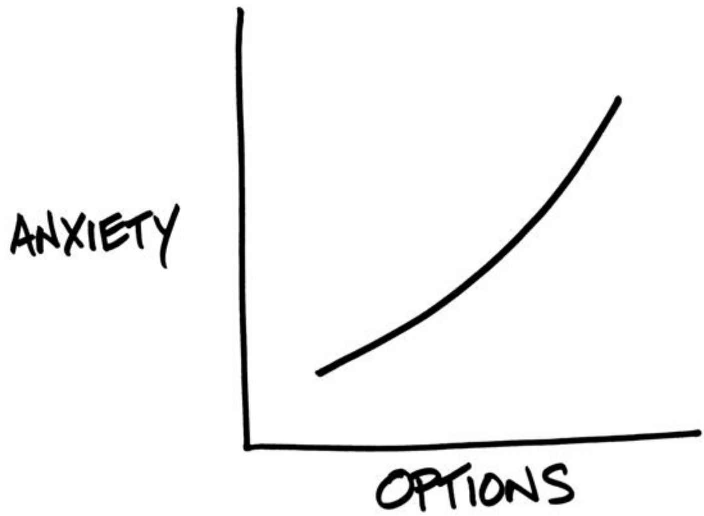
As I tried to collect myself, she started to walk me through option one. About halfway through her description of the treatment, I couldn’t take it anymore. I held my hands up in the air, looked her in the eyes, and said, “Stop. Just tell me: If Zeke were your dog, what would you do?”

She went back to walking me through the options. I stopped her again. She did it again: more options.

Finally, I put my finger to my lips and I actually shushed her. Then I said, very slowly, “No. Really. I mean it. Stop giving me options I’m not qualified to evaluate. Please. I’m begging you. . . . Just tell me what to do.”

Most financial books and magazines and Web sites are like that vet: they give readers a long list of options that just add to their confusion. No wonder my friend had given up on coming up with a financial plan: he didn’t even know where to start.

And he’s not the only one. Whether I’m eating dinner with friends or telling someone what I do, the conversation inevitably turns to how hopeless they feel about their retirement or investment plans. More than once, people have asked me the same thing I asked the vet: “Just tell me what to do.”



These people are smart. They're great at what they do. Many are total stars in their fields—experts in business, science, and the arts—and yet, when it comes to their own finances, they're stuck. They're often paralyzed by the fear of making the wrong decision.

It doesn't surprise me that my most successful friends are confused when it comes to savings and retirement. When they do something, they want to do it right. They don't just want good advice, they want the *best* advice. They've often got a shelfful of books about investing or finance, but they simply don't have the time to really dive in—so, rather than do the "wrong thing," they do nothing.

Of course, it's not just fear of making a mistake that holds us back from taking action—it's also the mistakes we've already made that we don't want to own up to. Often, just the idea of having to open our bank statements can be stressful so we let them pile up, hoping that something will happen to change our situation. Of course, what actually needs to change is our own behavior—but that's easier said than done.

There are many stories these days of people who lost their financial bearings during the housing boom and the crisis that followed—but when I lost my own house in 2010, it was a little bit different.

I'm a financial advisor. I get paid to help people make smart financial choices. I should have known that we couldn't afford a house that cost almost twice what we'd originally set out to spend. I should have known that there was something wrong with being able to borrow 100 percent of the purchase price. I should have listened to my gut when it told me, *Something's wrong.*

I'm a financial advisor, and yet I never sat down to figure out what it would take to make this work. I just wanted to believe our real estate agent, despite the fact that he was making money on the deal. And it was so easy to believe he had been right, at least at first. We loved our new house. The children went to an awesome public school, and we made some great friends. I could ride my bike to Red Rocks, the wilderness area outside of town. And for a time, the real estate market erased any doubt I may have had.

It just kept going up . . . until, well, you know.

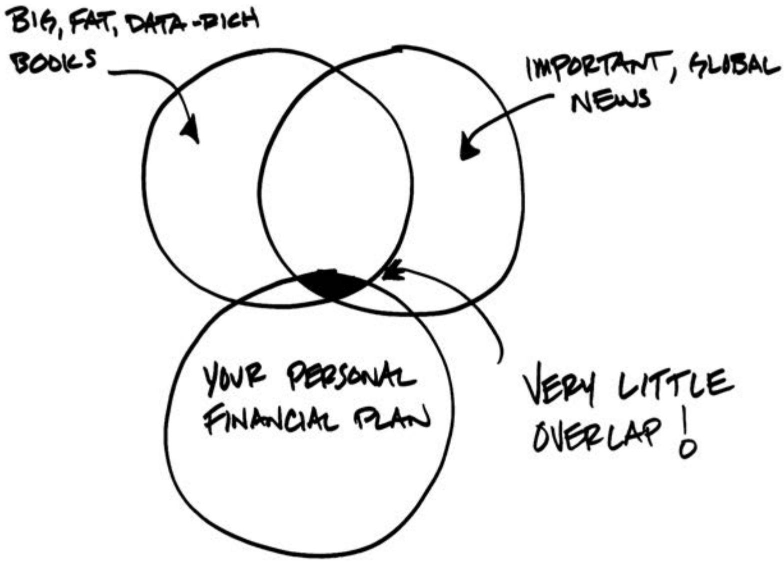
Yes, I'm a financial advisor. But in the heat of the moment, when my income was rising rapidly, when home prices were soaring with no sign of stopping, I wasn't thinking like one.

Some might say I wasn't even thinking at all. I was just following the crowd.

After I watched my house almost triple in value and used some of that equity to start a business, the real estate market collapsed faster than almost any of us realized. Within a matter of just a few short months, we found ourselves faced with the reality that we had to move back to Utah and that we owed more than the house was worth. After working with the bank for almost a year, everybody agreed that a short sale was the best option.

As devastating as that experience was, I learned something 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 hot stock your brother-in-law told you about.

It has everything to do with what's most important to you.



Over the last two decades, I've had thousands of conversations about this topic. I've worked with hundreds of clients to create customized financial plans and talked to hundreds of advisors about their best ideas and techniques. And, as I'll write about throughout this book, I've learned from experience: I've made mistakes that no rational financial advisor should make—but, of course, I'm not just a financial advisor, I'm also human, and a big part of being human involves irrationality.

Irrational decisions and bad calls about money aren't "failures"; they're just what happens when emotional creatures have to make decisions about the future with limited information. They're not something to run from; they're something to be acknowledged, something we can learn from, and, yes, even something we can plan for. With that in mind, we're going to scrap any striving for perfection and instead commit to a process of guessing and making adjustments when things go off track. Of course we're going to make the best guesses we can—but we're not going to obsess over getting them exactly right.

How important is it to get started? "The average working household has virtually no retirement savings" was one of the startling conclusions of a 2013 report from the National Institute on Retirement. "When all households are included—not just households with retirement accounts—the median retirement account balance is $3,000 for all working-age households and $12,000 for near-retirement households. Two-thirds of working households ages fifty-five to sixty-four with at least one earner have retirement savings less than one time their annual income, which is far below what they will need to maintain their standard of living in retirement."[1]

Simply by reading this book and making some choices, you'll be better off than the vast majority of your neighbors.

One thing you won't find in this book is a silver bullet investment strategy. There's an entire industry built around the idea that successful financial planning requires finding the best investment: if we just look hard enough or have the right contacts, we'll be able to identify the next hot stock, sector, or mutual fund. However, the research is pretty clear that this strategy almost always leaves us disappointed. We simply aren't great at picking the next Google.

What you will find here is some advice that, at first glance, may seem out of place in a financial planning book. The first three chapters of the book help you think through the kinds of questions and conversations that typically come up when I'm helping my clients create a customized financial plan. Some of them might seem like the kind of questions you'd find in a self-help book, but, I assure you, this isn't a book full of empty promises and trademarked mantras. This is a book about answers.

But here's the thing: your answers shouldn't look anything like my answers or your neighbor's answers. That's why we're going to start with some questions not simply about *how* to save and invest your money, but about *why* you're doing it in the first place.

I know what you want to do: skip to the chapter where I answer the question "Where do I put my money and how much?" Pretty much every client I've ever worked with has walked into my office with an "Okay, kid, show me what you've got" kind of attitude, and to be honest, I was tempted to write that book for you. I could write about how to pick the best stock; I could write a book on "One stock that will change your life." I'd get to be on all the shows, but I wouldn't be helping you. I'd just be adding to the circus. But that's not why I wrote this book. My goal was to help my friend, or my mom, or the friends I've had lunch with.

Am I really supposed to fit my financial plan on one page?

Not long ago, my wife and I were trying to make some really important financial decisions. We'd already spent a lot of time on the details—we'd set up savings accounts, bought insurance, and come up with an investment process. But whenever we had to make a decision, we were getting bogged down in all the details. Finally, out of a sense of frustration, I wondered, "What if I had to put it all on one page? What's the stuff that *really* matters?"

I noticed a Sharpie on my desk and saw card stock in the printer, so I pulled them out and just wrote down the three or four things that were really important to us.

The first answered the question "Why?—Why is money really important to us?" It served as a kind of statement of our values, something that would remind us why we were working hard and saving money.

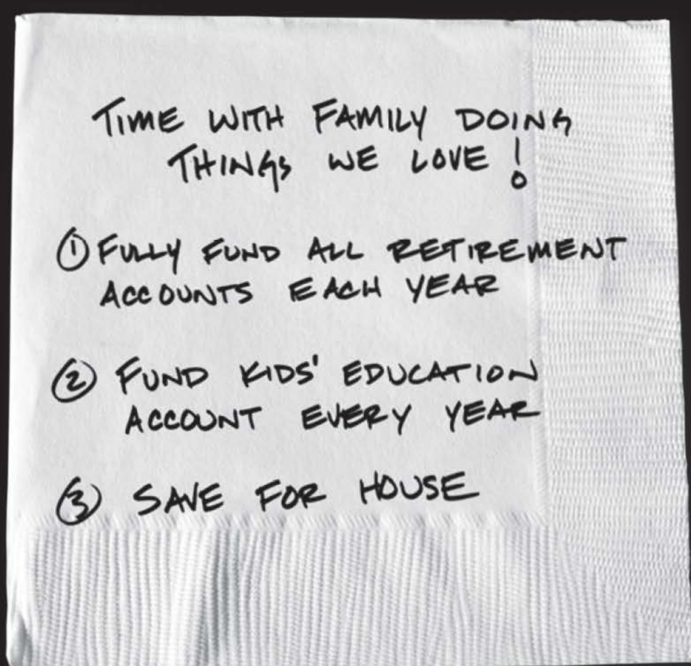
The remaining three were specific things that we needed to do to reach our major financial goals:

1. We wanted to make sure we fully funded all our retirement accounts each year.
2. We wanted to put a certain amount of money into each of our four kids' education funds each year.
3. All the money we saved beyond that would be set aside in an account to one day buy a house.

That was it.

Then we set it aside.

About a month went by before we found ourselves facing another big decision and having a similar conversation.


TIME WITH FAMILY DOING THINGS WE LOVE!
① FULLY FUND ALL RETIREMENT ACCOUNTS EACH YEAR
② FUND KIDS' EDUCATION ACCOUNT EVERY YEAR
③ SAVE FOR HOUSE

Then I said, "Wait a second. I think we've already done this." So I went and found the one-page plan. After all, we'd already spent the cognitive energy to make these decisions. Why go through them all again?

There's a couple of important things to keep in mind about your one-page plan.

No two financial plans will look the same. Yours will probably look a lot different from the one my wife and I created. That's the point.

What's perhaps most interesting about the one-page plan is what's not on there. What about all the details about how much money you plan to invest each year or how much life insurance to purchase? Don't worry: I'll cover all these topics throughout the book, sharing strategies that will take the complexity out of all these decisions. Your one-page plan simply represents the three to four things that are the most important to you: some action items that need to get done along with a reminder of why you're doing them.

I suggest using a Sharpie for a reason: you can't be too precise with it. Using a thick marker and card stock forces you to make broad statements without worrying too much about how things look. You can't fit very much on a page when you're writing with a Sharpie: this constraint helps you focus on what's really important.

Your goal is not to create a "one-page plan for the rest of your life." Creating a financial plan is a process. My wife and I will look at our plan often—whenever we need to make a big decision, it will be there to guide us—but I'm sure we'll be adjusting it often.

And as we adjust our goals, we'll pull out a new Sharpie and card.

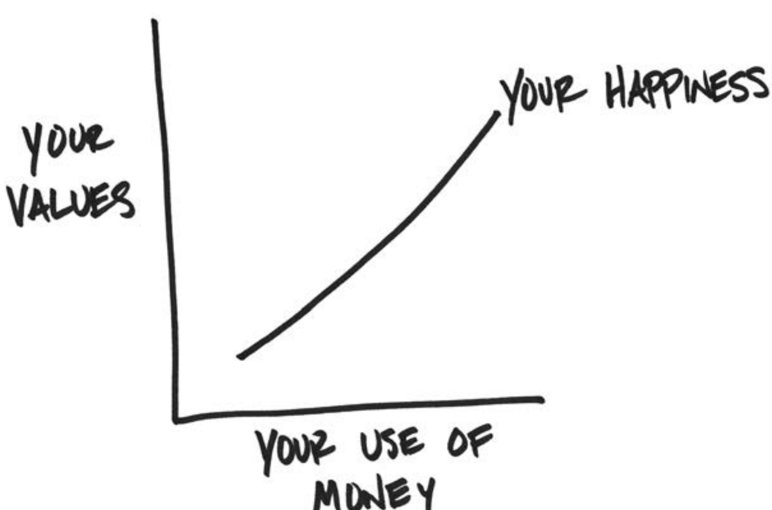
Think about your one-page plan as a snapshot, not an instruction book. If you've ever put together a kids' toy, you'll know that most of them come with a fifty-page instruction manual. Sure, the fifty-page plan is incredibly important—probably vital if you want the drawbridge on the castle to open or the rocket to launch—but what's arguably most important is the picture on the front of the box. The picture lets you know you're on the right track.

Similarly, it's equally important to make choices about your 401(k) allocation and paying down your consumer debt—and I'll walk you through making these kinds of decisions throughout the book—but it's also helpful to keep in mind why you're making all these decisions in the first place. The one-page plan lets you know whether you're on course to meet your goals, or whether you need to make some adjustments.

Remember, *The One-Page Financial Plan* isn't about getting things "right." It's about realizing that you will always get things at least a little wrong. You'll lose the job you thought was secure, you'll take a financial risk that doesn't pan out the way you thought it would, you'll have twins when you were only budgeting for one. In other words: life will happen. I've found it's best to create a financial plan that takes uncertainty as a given—that sets you up to make adjustments as quickly and painlessly as possible so your disappointments won't spiral into disasters.

This book is also about getting really clear about what you want so that you won't be so swayed by your neighbors' new car or ads for that fancy new smart phone—all those "American dream" promises that might have nothing to do with what's most important to you. I've let myself get caught up in those promises, too, so I know how tempting it can be to trade in your own values for the ones that everyone is telling you you should have. But when the paint on the car starts to chip and the gadget gets tossed into the closet with all the others, you can't help but wonder if you've been pouring all your hard-earned money into the wrong things.

Some more good news: none of the foundational work I'm suggesting you do takes very long. In fact, it's the kind of conversation you can have with a spouse or a trusted friend in about an hour. Once you've gone through that



process, I'll switch gears and provide some simple strategies for everything from saving for retirement to rebalancing your 401(k) each year. While I don't believe that any financial plan should be one size fits all, I know that you're busy—and so, I have provided some basic exercises and tips that should help keep your financial plan as simple as possible.

My goal in writing this book is to pull the curtain back a bit: to show you how real financial planning works, to give you an experience of what it's like to work with a real financial advisor. Whether you're working with an advisor or on your own, this book will help you understand the basic steps for creating a personalized plan that takes into account your unique values and goals.

Before we dive in, I want to share a few things I've learned from my two decades as a financial advisor and four decades as an irrational human that I hope you'll keep in mind as you read the book.

One is that the problems are never quite as bad as they seem. When I was at my lowest point—feeling like my decisions had put not only my house and business at risk, but also the happiness of my family—I stopped, took a deep breath, and realized that while many things seemed out of control, I still had the ability to make some changes and set myself on the right track. Today, I rent my house instead of own and live more modestly than I did at the height of the boom, but I'm also really clear on what's important to me: spending time with my family and giving them as many great opportunities as I can.

Another thing I've learned is that we're all in this together. The specifics may vary from person to person and family to family, but most of our money decisions are driven by a desire to feel happy, safe, and secure. Of course, my version of happiness, safety, and security will probably look nothing like my friend's, who has no kids and just wants to have time to travel and pursue her creative goals. So why should my financial plan look like hers?

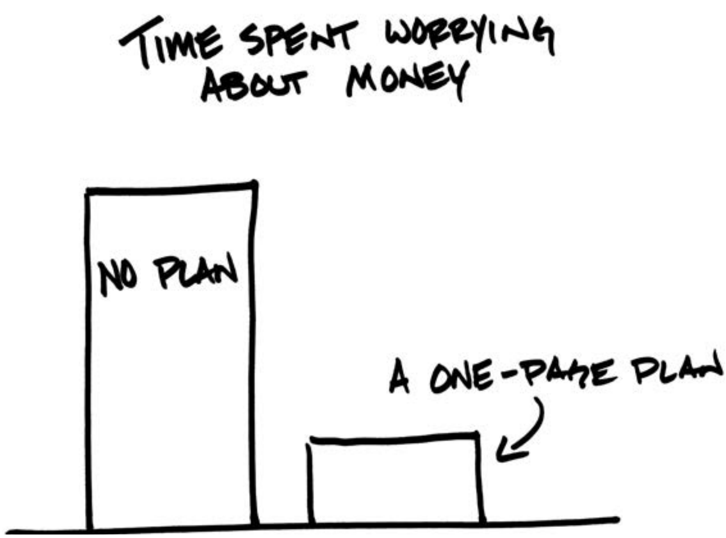
This is something I try to keep in mind whenever I'm faced with a new financial decision. Since I've shared these ideas with clients and friends, I've watched them realize that the things they thought were impossible—taking time off from work to start a family, spending more time with their small kids, even paying down massive debt—were actually attainable.

Which brings me to a final reason for putting a plan into place:

Creating a financial plan is one of the best ways of giving yourself something that everyone wants more of: time.

Our goal is not to create a one-hundred-page plan that we need to obsess about for hours every day. In fact, quite the opposite: once we've used our one-page plan to guide our decisions about saving and investing, we want to do our best to forget about all those little details, automating processes whenever possible. That way, we won't be tempted to stray from our plan every time the market moves.

I have a friend who sat down and calculated how much time he saves now that he no longer has to pore over financial statements each week. He was shocked to find a whopping four to six hours a week! And not only did he have much more time, by leaving his investments alone, he found they were doing much better. For those of you who think you don't have time to put a plan into place, let me assure you: while it can take a little time to use your one-page plan to guide your financial decisions, by making that small investment, you're setting yourself up to save hundreds of hours each year.



A lot of us think that financial planning is boring and by the numbers—and it can be. But I believe it can actually be a truly exciting and revealing process: it's about realizing the connection between tangible things like the money we make and the intangible things like how great it feels to be there when your daughter scores her first goal.

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.

PART ONE
Discovery

THE first step in creating your one-page financial plan is simply to get clear about where you are and where you want to be. When I go through this process with clients, I call it the Discovery meeting—and it's a conversation that can be broken into three parts. Sometimes people go through the Discovery process in as little as an hour. For others, it takes longer.

The good news is, this doesn't require a lot of work, math, or financial savvy. It's actually a relatively simple process. But simple doesn't necessarily mean easy—this discussion brings us face-to-face with our fears about money, and makes it shockingly clear whether or not our behavior lines up with our goals.

Think of this section as the foundational work that will help you create a financial plan that's uniquely suited to your needs: and that means getting to the bottom of what you want from money—and (cue the dramatic music) from your life.

The first chapter consists of an important question. Some people need only about fifteen to twenty minutes to answer it. Others find that some time spent thinking about the question leads them to a deeper answer.

In chapter 2, you'll make some guesses (yes, I said "guesses") about your financial goals and how to meet them.

In chapter 3, you'll get to the place where most financial books might have you begin: by taking stock of where you are today in terms of your finances. This is where most people give up on the process of creating a financial plan. Why? Two reasons: they don't know how to measure their current financial status—and they are often scared of what they'll discover. I'll walk you through the process of creating a "personal balance sheet"—a task typically seen as a major undertaking largely because many traditional financial plans ask for way more information than you could ever know—or that's even useful. Instead, I'll walk you through an exercise that will deliver bottom-line results quickly, focusing on the data that's easily available and most relevant. And perhaps most important, I'll offer some strategies about dealing with the emotional aspects of facing your financial status.

THE MOST IMPORTANT MONEY QUESTION

A few years ago, while I was working at a large brokerage firm, I sat down to help my friend Sara and her husband, Mark, with their financial plan.

Like so many of my clients, Sara and Mark are smart, successful, and driven. Sara's a managing partner of her emergency group—if you know anything about ER medicine, you know that you've got to be at the top of your game just to get a residency. A rock star in her field and "type A" to the hilt, Sara didn't seem to mind working the long hours required to get ahead. And so it was only natural that when it came to her financial strategy, she didn't want to settle for anything less than the best.

The meeting began as most do. Sara and Mark were hoping I'd share some hot tip or secret. They had an acute problem—they had no idea how to invest the money they'd worked so hard for—and they wanted a solution. But they didn't want just any solution: they wanted the right one.

Instead of rattling off my credentials, my investment strategy, or my thoughts about the current economic landscape, I began the way I start every meeting.

I asked them one question: why is money important to you?

It's a simple enough question, but as Sara and Mark soon discovered, simple questions aren't always so easy to answer.

The Power of "Why?"

After I posed the question, Sara shifted in her seat. She had the same look that almost everyone gets when presented with this question: one that said, "Just *why* exactly are we talking about this? Aren't you supposed to be telling *us* what to do?"

Why is this question so unexpected? Because we're not used to starting financial conversations with a question that might seem more appropriate in a therapy session. We don't go to financial advisors to have touchy-feely conversations about the meaning of life; we want them to tell us where to put our money—and we want them to do it quickly so that we can go back to doing what's important.

Once a few moments passed and Sara and Mark realized that I wouldn't let them move on before they answered, Sara gave the answer most people give when they want to get out of the situation: the easy one.

"Freedom," she said.

Sara's quick response wasn't a surprise. It's a common answer (who doesn't want more freedom?) and a decent enough starting point. But I knew we needed to go deeper. I wrote her answer down on a piece of paper, but pressed her: "What does freedom mean to you?"

At this point, I could tell she was thinking a little harder. Eventually, she answered, "flexibility." I still felt we hadn't gotten anywhere yet, so I asked her to explain. "Okay, so what's important about flexibility?" I asked. "Tell me more."

There was a long pause, and eventually she answered.

"I just want some time."

I remember this moment clearly. I found Sara's answer surprising because she seemed to thrive in a highly competitive environment and nothing she had said gave me the impression that she needed or wanted a break from that lifestyle.

I wrote down "I just want some time" on a piece of paper, but I still didn't feel I understood why time was so important to Sara. So I asked her one last question. "Okay, let's pretend you're there," I said. "Let's say you've gotten to that point where you have more time. What's important about being at that spot?"

After a few minutes of silence, Sara looked at Mark and then responded with some emotion. "I really want to have a family," she said, "and I haven't even had the time to think about it."

The answer surprised Mark. They'd talked about having a family, but he'd never realized how important it was to Sara. This is perhaps not all that shocking—how many of us learn something surprising about our spouses years into our relationships? We're constantly learning new things about the people we love and spend a lot of time with.

But what's so interesting about going through this process is that we learn things about ourselves. In fact, that's what happened with Sara—she even seemed surprised with her own answer. Until we took the moment to have that conversation, she hadn't really made the connection between how hard she was working to earn money and what she hoped her income would bring: the financial security to put the brakes on her high-speed, high-pressure career for a bit so that she could start a family.

"Before we go any further," I said, "is there anything more important than having the freedom and time to start a family?"

"No," she said. "There's nothing more important."

The reason I ask my clients this question is because it helps us understand their values. Often, the process of asking "Why?"—"Why is money important to me?" or "Why have I been so anxious about money lately?" or "Just why do I work so hard anyway?"—uncovers deep desires and fears that we are often too busy or too scared to think about. While the process can be uncomfortable, recognizing what really matters to you is the first step toward making financial decisions that are in sync with your values.

"Great," I said. "So if there's nothing more important, is it okay if we view all your financial decisions through that lens?"

Sara nodded.

Now we were ready to start thinking about a plan.

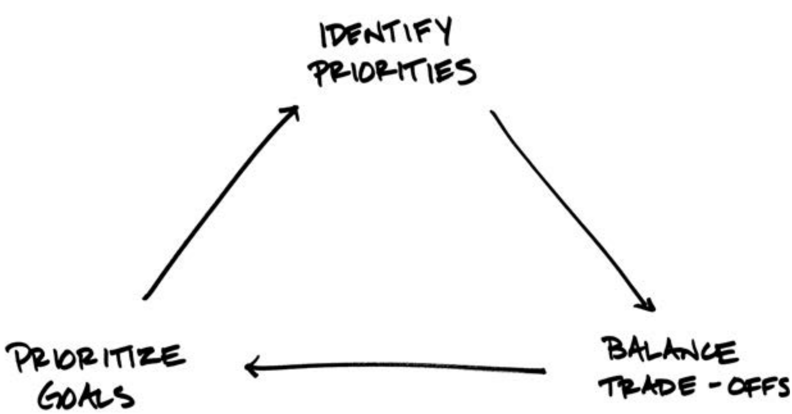
Before you can plan, you have to know why you're planning.

Sara and Mark didn't realize that before I could give them any advice about some future plan, we had to first back up and assess what exactly we were planning *for*. After all, just think how different our strategy would have to have been if what was most important to Sara was expanding her practice or retiring early so that she could write that series of thrillers set in an ER.

Having done this with hundreds of my clients, I've found no more efficient strategy for solving the problem of how to handle our finances than asking "Why is money important to you?"

I first learned a version of this question more than a decade ago from author and speaker Bill Bachrach, and later refined it with help from my mentor, John Bowen. It quickly became my favorite question to start the process of financial planning because it helped uncover the reason why we need to do financial planning in the first place.

Obviously, everyone's answer will be different, but as I've seen firsthand, once you discover it, it flips a hidden switch. Instead of feeling overwhelmed by the supposed complexity surrounding financial decisions, you'll have clarity about which strategies will work best for your particular situation.



That said, even though this process can be incredibly powerful, it's not always easy. For one thing, it's uncomfortable. We don't like asking ourselves why money is important because it often reflects how we *feel* about money instead of what we *know*. It's much easier (we think) to talk about numbers and cents than about our emotions and deep desires.

And it's scary to take this dive into the unknown. What if the answer changes everything we thought we knew about money—and maybe even everything we thought we wanted out of life?

To understand why this Discovery process is critical, let's switch to another area of your life for a moment. Let's say you weren't feeling well but you didn't know why. You'd make an appointment with your doctor and explain your symptoms. How would you feel if, twenty-seven seconds after you'd listed your symptoms, the doctor began writing you a prescription? Or, even worse, before you finished speaking, she concluded that you probably have the same flu as everyone else?

Compare that with finding a doctor who really takes the time to diagnose you properly. This doctor examines you and gives you tests before making a diagnosis or giving you a prescription.

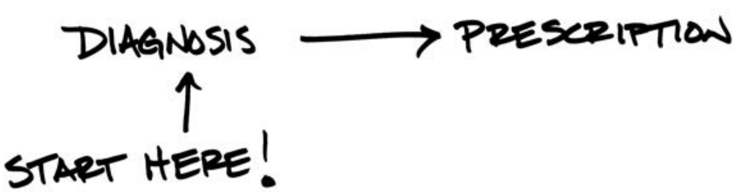
Which one would you prefer? Obviously you'd feel better with the doctor who took the time to walk through the diagnosis process. You shouldn't expect anything different from your financial life.

Asking why money is important to you is a bit like applying the rigor of a doctor's examination to your financial health. It's no crazier than going to the doctor's office for a checkup *before* you get a prescription.

The process looks a bit like this:

A. You're noting your symptoms (your financial life feels out of balance or just needs a checkup).
B. You're identifying what health would look like (you're asking yourself why money is important).
C. You're discovering a solution (you're using the values you've identified to drive your financial planning decisions).

Logically, we know that doing the last thing first—asking a financial advisor for a solution before identifying the problem—makes no sense, yet that's where the traditional financial services industry would have us start: at the end.



I'm encouraging you to instead start at the beginning. Then you can use what you've learned about your values to come up with a financial plan that's right for you.

Keep Asking "Why?"

By now, the importance of asking why money is important to you should be clear. Having an understanding of your values can help you make better financial decisions—not better because they reflect some Wall Street strategy, better because they're tailor-made for you.

Take some time now to follow the same process that Sara and I went through by asking yourself why money is important to you. You can go do this alone, but you might also find it useful to ask a trusted friend to sit down with you; he or she may be able to see patterns or habits that you cannot. If you're doing this with a spouse, it's important that each partner answer the question separately. If money is important to you for different reasons, you want to find that out as soon as possible. (Later in this chapter, I'll share some tips about how to have important money conversations with spouses and family members.)

I recommend starting with the big question: "Why is money important to me?" but you might find that other "Why?" questions will help you home in on an answer that's clear and specific.

Ask yourself:

- *Why do I invest so much of my money and time on* X*?*
- *Why do I spend so little on Y when I claim it's so important?*
- *Why do I save as much (or as little) as I do? What am I hoping to achieve?*

Like Sara's, your answers may start out vague—many of my clients start with big ideas like "freedom" or "security" or "control." I encourage you to keep going until you hit upon the concrete reasons behind these somewhat intangible concepts. Strive for specifics like "I want my children to have more opportunities than I did" or "I want more time to volunteer in my community" or "I don't want to have to worry about money like my parents did."

If you hit a dead end when it comes to figuring out what's most important to you, there are two places to look that should give you a clue:

- *How you spend your time*
- *How you spend your money*

That's why the old saying "The calendar and the checkbook never lie" resonates with so many of us. It turns out the way we spend our money and our time often says something about what we value.

A caveat: while the calendar and the checkbook are good places to start, remember that you might also be surprised to discover that you've been spending a lot of time and money on things that don't really matter—at the expense of the things that do. This process can help you reset the balance.

Because we're entering unknown and potentially scary territory, I suggest you set up a few guardrails to make this process productive.

Before you ask "Why?":

1. Set aside a time.

Whether you're beginning this process alone or with a spouse, it's important to carve out the time to ask "Why?" Pick a time when you'll have the energy—avoid late nights or the end of a long week. Often, it won't take a ton of time to figure out why money matters to you, but you'll want to leave yourself enough time to reflect and deal with any surprising revelations the process may have helped you uncover.

2. Get out of the house.

I used to joke with my clients that someone was going to cry in our first meeting and it wasn't going to be me. In fact, a good way to tell that you haven't gone deep enough is if you haven't gotten emotional. For this reason, I advise picking a place outside of your normal routine—it could be a café you don't usually go to or your CPA's office or a private room at your local library. Having a specific place can serve as a reminder that these conversations can be emotional, and can help you prepare for that. For the same reason, I suggest keeping conversations about money out of the bedroom, the park where you go to relax, or the place where you had your first date.

3. Let go of the past.

I recently worked with a couple, Caitlin and James, who lost a large amount of money in the stock market. While the bad investment was the result of poor timing, not poor judgment, Caitlin just couldn't let it go. Every time the subject of money came up, she couldn't help but point out that they would have far more money if it weren't for that mistake.

If we approach the process with the right frame of mind, reflecting on our mistakes may help us avoid repeating the same mistake in the future. But at a certain point, you need to make peace with what's happened in the past and move on. This is especially crucial when you're assessing what's important to you. Don't use the mistakes you've made in the past as an excuse to deny yourself what's really important.

4. Adopt a "no shame, no blame" attitude.

When my wife and I first discussed moving to Park City, Utah, we looked at a building lot. It cost more than we felt comfortable spending, so we didn't buy it. When we finally moved a few years later, we learned that the lot was for sale again. But this time around, it was five times more expensive!

It would have been easy for each of us to blame the other for missing that opportunity. In fact, it's right across the street from a park we go to a couple of times a week—just think of all those opportunities to get bummed out about our decision. . . . Rather than let it serve as a constant reminder of our mistake, though, we just sort of look at each other when we pass it, acknowledging that it's not worth the frustration. Besides, the lot was still more expensive than we could have afforded at the time, a fact we could easily forget if we get caught up in the blame game.

We all have made financial mistakes in the past. By adopting a "no shame, no blame" attitude, we can reframe mistakes as valuable lessons. Over time, they'll lose the emotional charge.

5. Skip over goals—for now.

The purpose of asking "Why?" isn't to come up with specific goals or plans of action. It's meant to reveal the *reason* why you have certain goals. Expect the first answers to come fairly easily. But give yourself time to pause and really think; by doing so, you can go even deeper, getting much closer to what's most important.

Remember, this process was designed to make you uncomfortable. You will no doubt recognize some inconsistencies between your values and your behavior. Don't worry. We all do. That's just part of the process of trying to live a more aligned life. But that's the point—once you've hit upon what's most important to you, you'll have a tool for these decisions going forward. These conversations often involve someone else, so it's important to give your partners or family members the space to talk about money without fear of judgment.

Once you've hit upon your "most important thing," you'll have a tool that will help you make lots of decisions going forward—and not simply decisions that seem financial in nature. Knowing your values can make it easy to say no to things that distract us from what's most important. As best-selling author Stephen Covey said, "It's easy to say 'no!' when there's a deeper 'yes!' burning inside."

Asking "Why?" helps you identify that "deeper yes."

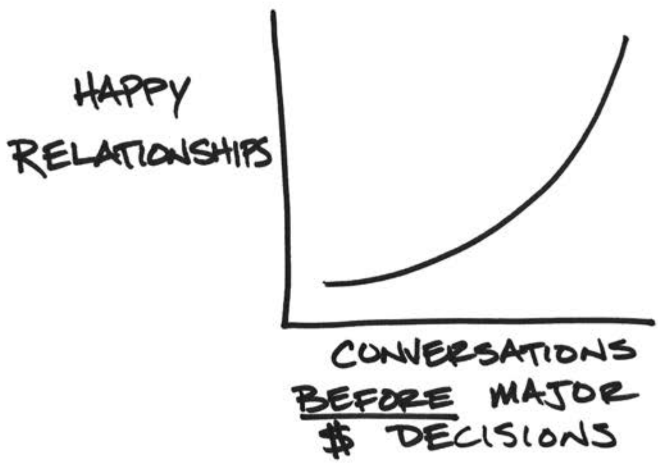
Why We Fight About Money—and What to Do About It

Years ago, my wife and I had dinner with another couple, Bob and Sue. During the meal, we were talking about money, the market, and our goals and dreams for our families. As we were talking about what's important to us, Sue spoke up. "I really want the flexibility to travel more."

Bob looked shocked. "What? I never knew that," he said. "I love to travel but I didn't think that was important to you at all."

What made this exchange so surprising is that Bob and Sue had been married for more than a decade in a solid relationship. All the signs pointed to their having had this conversation, but they hadn't, and there was an awkward moment as the disconnect sank in. After an uncomfortable silence, we looked at one another and laughed. Isn't it funny how we can be in a relationship with someone for fifteen years and not know such an important detail? Laughter aside, this moment was really valuable. It helped Sue and Bob change the way they'd been thinking about the next thirty or forty years.

I've touched on why this process can be so challenging, but if you're married or have kids, this discussion can rocket straight past uncomfortable to unbearable. Few families sit down and have even the most basic of conversations about what money means to their family—or they wait until they're forced to have a discussion because of some financial setback. As a result, they may find out they have completely different ideas about the future.



More than once, I've been in client meetings where it's clear that couples are having their first discussion about big decisions—their kids' education, their saving strategies, their thoughts about retirement. Without fail, either one or both individuals are surprised, if not shocked, by their partner's opinion on a topic. To help you navigate this discussion, I suggest keeping a few things in mind:

1. It's almost impossible to overestimate money's role in our relationships.

Take a quick mental count of how many arguments you've had that involve money. It's probably quite a few. Even if the argument wasn't explicitly about money, it's a driving factor for many family disagreements. So don't be surprised if your significant other doesn't immediately understand or appreciate how important your values are to you. It may take some time, but commit to following through with the discussion because it's all but impossible to remove money from a relationship.

2. We all have baggage.

Each of us brings a set of deeply ingrained beliefs, habits, and feelings about money to our relationships. Most of us were raised in families where money (like religion and politics) was a subject not to be discussed in polite company. As a result, we have very little training on how to talk about and deal with the emotional issues inherent in our financial lives.

Don't be afraid to defend what you've said is important to you, but understand that a spouse or child may not see it the same way. The goal is to stay respectful and look for common ground (remember: "no shame, no blame").

3. Know when to talk about money—and when to table the conversation.

Spontaneous conversations about why money is important can either be the best you'll ever have or the worst. If you're walking around in your local park on a beautiful spring day and realize that maybe you could spend some time off rediscovering your own city rather than taking an expensive trip abroad, that can be a perfect time to open a discussion about what truly matters. If you just got home from a long day at work and realized your Amex bill is a lot higher than you anticipated, that might be a time to table the conversation for a moment when you're feeling clear and fresh.

4. Money seems to be the last thing we talk about (at least at first).

It's not unusual if you didn't talk about money during your courtship or engagement. Many believe that if you need to talk about money in your relationship, it's a sign you're not truly in love. Prenuptial agreements are passé, and no one wants to be accused of marrying just for the money.

But even if you've managed to avoid any money discussions before marriage, you can't avoid them forever. The sooner you sit down and talk about why money is important to each of you, the sooner you can work together toward reconciling competing visions of the future.

Remember, these conversations can be uncomfortable; because of that, having this conversation on your own can be challenging and you may benefit from having an objective third party present. We'll talk about that later in the book.

Financial Planning Is About More Than Money

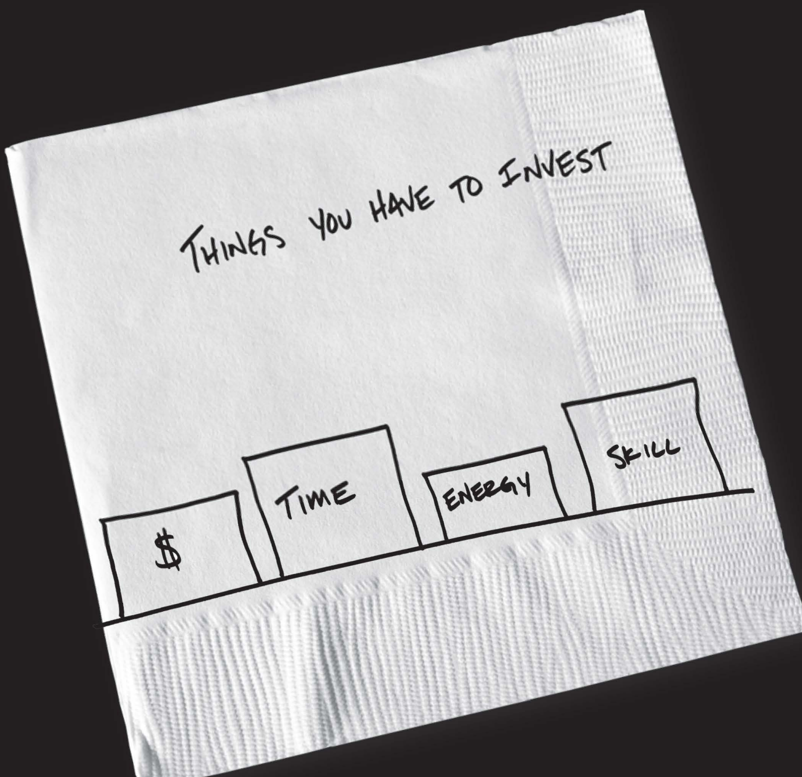
As I mentioned earlier, I consider my family to be my highest priority; I work as hard as I do because I want the financial freedom to be able to spend time with my four children and give them a foundation for a life full of opportunity.

Sounds great, right? Sure, at least until those weeks where I spend hours on Twitter trying to bring attention to my ideas. Watching the number of retweets soar seems like concrete proof that I'm doing something positive for my career—and therefore related to my values—until I catch myself interrupting a conversation with my thirteen-year-old son to check if someone had responded to a tweet.

During the process of asking yourself why money is important, I expect you'll discover that there are different kinds of "human capital." Most financial planning focuses primarily on money while ignoring three other incredibly valuable things:

1. Your time
2. Your skills
3. Your energy

But as I'm sure you already know, these other three are equally important.

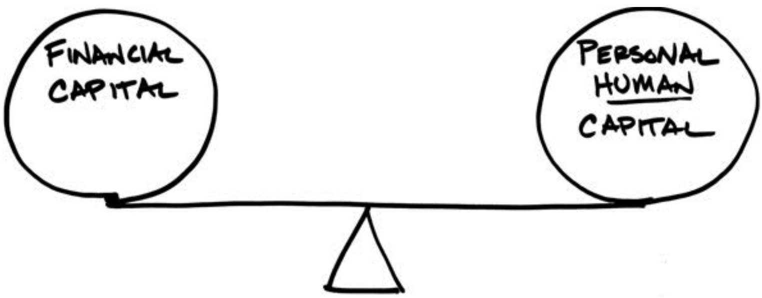

THINGS YOU HAVE TO INVEST
$
TIME
ENERGY
SKILL

Realizing I was taking time away from my son to tweet served as a great reminder that I needed to stop thinking about capital just in terms of money. Sure, getting people on Twitter buzzing about my work might help me financially, but in this case, the cost of using Twitter to advance my work was too great for me personally.

It may help to think about the different kinds of human capital in units—units of time, units of energy, and so on. Each day, you take some of your units and exchange them for units of money. You then take those units of money and spend them on something. But every time you exchange a unit, there's a trade-off, and we often fail to look past the immediate return to the potential long-term consequences. When we think about money only in terms of dollars and cents, we risk depleting our stores of energy, time, and skill.

Of course, there will be times when our reserves of all four kinds of capital will be well stocked, allowing us to do more of the things we want. Other times, our needs and wants will seem to dwarf the limited resources we have to throw at them. Identifying your values by asking what's important to you can help you cut out the activities that may bring in monetary income but pull you away from what's truly important in your life.

I've been amazed to see how people's lives have been transformed once they figure out how to manage their human capital. They worry a lot less about things they have no control over. They stop caring about society's ideas of what they're supposed to need, and concentrate on what's really important. They spend more time with the people they love and doing things that make them happy.



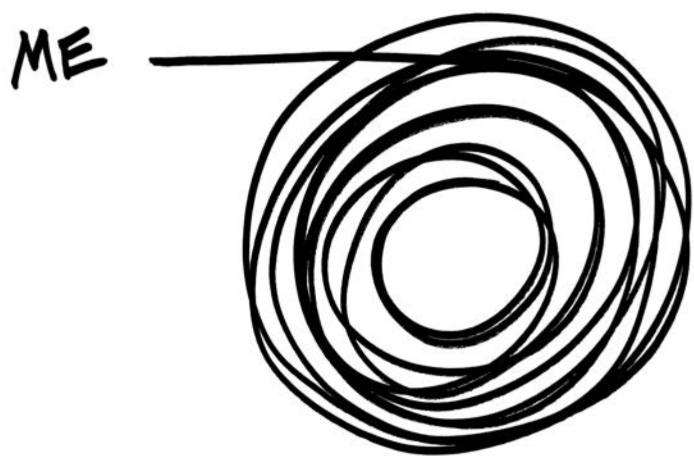
Focus on What You Can Control

When I ask clients, "Why is money important to you?" many of them say, "I just want to be in control" or "I want financial security." Their answers don't surprise me. Each day, we're confronted with lots of big, bad news about big, bad things that will surely lead to the end of the world. The problem? We have no control over lots of things, making it very easy to feel we lack control over *anything*.

I remember feeling this way in 2008. I was living in Las Vegas, about to lose my home, and I felt like my business was going to disappear at any moment, too. Some nights, I would watch the Tokyo Stock Exchange open and then stay up to watch London wake up—and I was not even a trader. I just hoped to see some sign of relief. Most nights none came, and I never made it to bed.

When I could actually fall asleep, my dreams were disturbing and unsettling. In one recurring nightmare, I would find myself sitting alone in a room with an oversized light switch on the wall. It had the name of my business above it and the words ON and OFF. An evil-looking guy in a suit would come in, grab the switch, and, laughing maniacally, flip it from ON to OFF.

Nothing I did could change my feeling that things were spiraling out of control.



But then something did change. It might sound like something out of a yoga class, but I remembered a friend telling me that when you feel anxious and out of control, it helps to focus on breathing.

So I did. Every time my mind started to latch on to one of these problems, I would focus on my breathing, one breath at a time. There were a few days where it seemed like all I could do was go from one breath to the next, but doing so helped me gain a *tiny* sense of control.

Nothing about my financial situation had changed, but over time, that tiny sense of control grew. After a while, it became easier to focus again on the things that I had some control over and the things that mattered. An evening out with my wife, time with my kids, going for a long bike ride were simple things, but by focusing on them, I realized that a lot of the other things didn't matter.

I soon found myself able to do something about my situation. By focusing only on what I could control, and letting go of the rest, everything changed.

The news was still just as crazy, but I let it go.

The markets were still just as scary, but I let it go.

It just takes a small step—or a breath, if you will. And from there, you can feel a little more in control and break that cycle of panic and fear.

When you find yourself obsessing over the same issues time after time, remind yourself that no matter how bad things seem, you can gain control and clarity by remembering what matters most. It will help you focus on the things you have some control over, and let go of the things you don't.

It can take time to figure out what's really important.

I started this chapter with Sara and Mark's story because we were able to answer "Why?" in just a few minutes, but don't be surprised if it takes you more than four questions to get your own answer. Sara's answer popped up fast because it had been sitting just below the surface for quite some time. Yours may be buried a little deeper. Give yourself time. And give yourself permission to think about money in new ways—don't forget to factor in other forms of capital: time, energy, and skills.

And last, but definitely not least, remember to ignore any one-size-fits-all financial advice that starts with a solution. Your goal is to create a financial plan that's right for you—so why not start by thinking about what you really want to achieve?

Your One-Page Financial Plan

If you haven't done so already, take out your own Sharpie and a piece of paper, and jot down your answers to the question "Why is money important to me?" Your answer or answers will reflect the values that are most important to you—they should be at the top of your one-page plan.

In the chapters that follow, I'll walk you through the process of setting some goals in line with those values. Together, your values and goals will help you create a one-page plan that will guide all your financial decisions: from how much to save for retirement to customizing a unique investment portfolio.

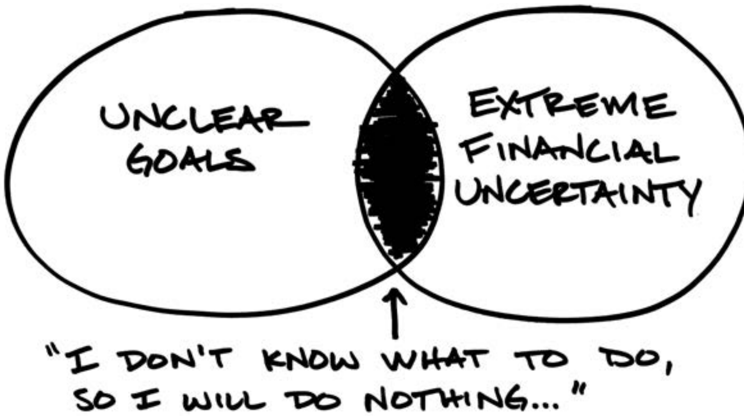
GUESS WHERE YOU WANT TO GO

WHEN it comes to talking about our financial futures, the one thing we're most scared of is uncertainty.

Few of us think we should be able to predict major world events or know what our kids will want to be when they grow up, but for some reason, we think we're supposed to have a crystal ball when it comes to our financial futures.

Ironically, some traditional approaches to financial planning can make our fear of uncertainty even worse. If you've ever gone to a financial advisor's office and gone through the process of setting goals, you've probably noticed the obsession with a false sense of precision. We get hit with questions like "I need to know what your utility bills are twenty-five years from now" or "Tell us how much you plan to spend on auto insurance in 2043."

For this reason, many of us put off financial planning altogether. "Forget about a financial planner," we think. "They're just going to have me generate another two-hundred-page book of plans; the last time I did that, it sat on my shelf for two years and I never looked at it once."



Rather than tell you that you should start setting some goals, I'm going to tell you something you might not have heard before:

Relax.

Look, there's nothing wrong with setting two short-range goals, two mid-range goals, and one big, hairy, audacious goal when it comes to your finances. But it's also not necessary. Nor are time lines or deadlines or any other kinds of lines: life doesn't often follow the linear path we expect it to—rather than let that freak us out, we can embrace that uncertainty and work with it.

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. Plans change, the unexpected occurs, and we all know the John Lennon quote about life happening when we were busy making other plans.

I like to think of financial goal setting like I'm planning a freewheeling vacation to Europe. Rather than sticking to a by-the-minute agenda, you'd probably do better with a plan that leaves room for the unexpected: that way, you can choose to take the walking tour on the sunniest day of your trip, and you'll have time to have a piece of cake at the charming restaurant you couldn't have found in any of your travel books.

I'm not talking about throwing out your plans altogether, but rather suggesting you give yourself some wiggle room to make decisions on the fly: after all, you might find that the Leaning Tower of Pisa isn't all it's cracked up to be—it's crowded and full of people selling souvenirs—wouldn't you rather have a loose enough plan so that you can ditch the crowds and head to the countryside for an afternoon instead?

A lot of my work with clients is about finding the balance between two extreme approaches to financial planning. On the one hand, we all know those people who tape their financial goals to their rearview mirrors to remind themselves daily of exactly what they need to do to meet their goals. But that's never seemed like a fun way to live to me. And from my experience, it doesn't seem to work.

And then there's the opposite camp that says, "I'm just going to live for today and not care about goals." And we all know where that approach leads us.

In my personal experience and my work with clients, I've found that people have had the most success when they abandon those two extreme approaches and instead admit that when it comes to the future, they don't know exactly what will happen.

But they can make some good guesses about where they'd like to go.

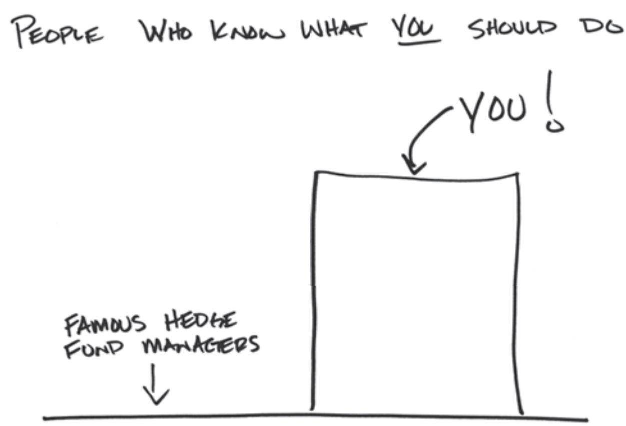
Don't be committed to the *guess*, be committed to the *process of guessing.*

As scary as "I don't know" sounds, I've found that there is a tremendous sense of freedom that comes with recognizing that we just don't know what the future will look like. Most of us don't know what industry we'll be working in next year, let alone how much we'll be able to save over the next three decades or how much we'll need to spend once we've retired.

It can take time to accept just how uncertain the future is—if you're having trouble, ask yourself if your life today looks exactly how you would have predicted it five or ten years ago. Maybe the big-picture stuff looks the same—you're living in Boston or Charleston as you had always hoped—but how could you ever have predicted your smart phone bills a decade before the advent of the iPhone? Or how much real estate prices would fluctuate in the last ten years? Or that the cost of college tuition would triple over the last forty years?[1]

Accepting that we just don't know exactly how things will turn out allows us to let go of any anxiety around the idea that we should be able to predict the future—or that we should at least find someone who can. Let me share a secret with you about that: There isn't anyone who knows what the next week, month, year, or even decade of the stock market will look like. And if an advisor or investment expert tells you they can: run.

It's tempting to believe that there's someone out there who can rescue us from our uncertainty, someone with sophisticated enough algorithms or a brilliant enough research staff. But there isn't. Sure, experts can model the direction of the economy based on historical data, but as we learn every time a bubble bursts or the market crashes, often the experts are wrong.



Once we've accepted that a lot can happen between now and the future, financial planning boils down to making the best guess we can about what goals will help us live the life we want. Don't worry about getting it "right." You can—and should—simply course-correct your guess when you notice yourself going off track.

Unfortunately, most people are so afraid of making the wrong guess, they don't guess at all. It reminds me a bit of a conversation between Alice and the Cheshire Cat:

> "Would you tell me, please, which way I ought to go from here?"
> "That depends a good deal on where you want to get to," said the Cat.
> "I don't much care where," said Alice.
> "Then it doesn't matter which way you go," said the Cat.
> "—so long as I get somewhere," Alice added as an explanation.
> "Oh, you're sure to do that," said the Cat, "if you only walk long enough."

Like Alice, we all want to end up somewhere, but we increase our chances of getting to a place we actually want to *be* by making a choice.

Guessing can be a frustrating process, since it involves making some really important decisions under extreme uncertainty. We have to guess what the markets will do in ten years, where interest rates will be in twenty, and how much utilities will cost at a time when the utilities we use today will look like something out of *The Flintstones.* Even more difficult, we have to get inside the head of someone who's a complete stranger to us today: ourselves in thirty or forty years.

Regardless of all the uncertainty and assumptions, it's still important to take a guess at our goals. Otherwise, we'll be like Alice, asking for directions without knowing what directions we need.

So how do we know which directions we need? We begin with what's important.

Guessing Your Way to Your Goal

You've just thought quite a bit about your values. You've had a conversation about why money is important with a spouse, trusted friend, or advisor. Those values will serve as the lens through which you can view your entire financial plan.

Now we're going to switch gears slightly and talk about goals, keeping in mind that the set of core values you identified in the last chapter can be useful not only in helping you nail down some goals, but also in helping you prioritize goals when we start ranking them later in the chapter.

Chances are, you already have a few goals in mind—but they're probably a little broad or undefined. It's time to put a framework around your answers to make them more concrete and actionable. Here's how Sara and Mark, the couple whose story I introduced in chapter 1, mapped out some of their goals.

"Let's start with an easy one," I said, after Sara revealed that one of her most important goals was starting a family. "What would it take to get to the place you want to be?"

"Well," she said, "I'm going to have to work less. And in order to feel comfortable doing that, a couple of things would need to fall into place. My partners at the medical center would need to be okay with me taking some time off, Mark would need to be okay with it, and I would need to be okay with it."

"And what would 'okay' mean?"

I suspect that Sara already knew the answer to this question. In my experience, most people have a pretty good idea of what they'd need to meet some financial goal—often, they have a specific number in mind, even if they've never really done the math to get there. By taking a guess, we can see if our "number" is a good estimate, or if we need to make some adjustments.

"Well," said Sara, "we'd need to feel like we're on track for retirement." To be clear, it wasn't that Sara expected to have met all her retirement goals before starting her family. She just wanted to make sure she was on track for meeting them decades later, and that taking the time off wouldn't make those goals impossible to reach.

I asked Sara what that would look like. "I love my work," she said, "but by age fifty-five, I'd like to choose whether or not I have to work. By sixty-five, I might not be able to work in an ER anymore, so I'd like to retire."

So I asked her, "If you were to retire today, how much money would you need per month to live the way you'd hoped?"

Sara gave me the number, and we wrote it down.

"That's your first goal," I said. "To make sure you're on track today to hit that retirement goal in the future."

Then I continued, "What else is important right now?"

At that point, we were able to circle back to the first conversation about what was most important. In addition to starting a family, Sara and Mark had told me that they liked to take one big trip every summer. We calculated the cost and then added it to the list of goals.

Next, we talked about setting aside an emergency fund for about three to six months, and we added that to the list.

You may be surprised to discover that the "number" you had in mind for your goal was way off base. Many of my clients, in fact, have discovered that they overestimated the amount they'd need to achieve some goal. This can be tricky; if you're an insecure person, no amount of money is going to make you feel secure. But sometimes walking through this process can help you see you were making a goal seem unattainable by inflating the numbers needed to get there.

Your Goals May Surprise You

Often, your goals can come as quite a surprise. This is why I suggest you not limit yourself when it comes to this portion of the exercise. We'll get to prioritization later. For now, allow yourself to really ask "What if?" You may be surprised to find that many of your seemingly unattainable goals are actually quite reasonable.

This was certainly true with my clients Henry and Elizabeth. As often is the case, they were not only clients but also good friends. Henry, a doctor, and Elizabeth, a full-time mom, have three kids—and at the time we met, their oldest couldn't have been more than eight or nine. We didn't have to talk long for it to become clear that gaining some financial security for their kids was important to Henry and Elizabeth.

And so, they said, setting up education accounts would naturally be a part of their financial plan. But as I dug deeper into why this was the most important thing, something else came up.

Henry and Elizabeth felt that in America, we've got the wrong idea about how to spend our time and money. They hated the idea of working really hard when the kids are young in the hopes of having a relationship with them in high school. "When they're teenagers, they could have purple hair and nose rings," said Henry. (We can cut Henry some slack for sounding uptight; this was a decade ago.) "They're not going to even want to talk to us!"

"What we'd really like," they told me, "is to take six months off and drive in an RV around the country and homeschool our kids."

I asked Henry and Elizabeth if this goal was reasonable. Could Henry take the time off from work? Could they save up enough for a six-month sabbatical?

They thought about it before answering. "I think we could," they agreed.

"If you could do it," I said, "*would you*?"

I remember they got a kind of deer-in-the-headlights look in their eyes. They'd never thought the dream was a realistic one; it was just the kind of "What if?" game you played on vacations or over a nice dinner. But they had just said that time with their kids was the most important thing. Suddenly, an idea that always seemed impossible sounded like the very reason they'd been working so hard.

"Yeah," they said, finally. "I think we would."

The thought that they could make this vision real was a huge "Whoa!" moment for Henry and Elizabeth. They turned a vague dream into a concrete goal, putting it down on paper that they wanted to travel around the country. Next, we began the process of calculating how much it would cost.

Three Guesses for Determining What Your Goals Are—and How Much They'll Cost

Henry and Elizabeth weren't certain about how much their six-month vacation would cost, but they could begin to tally up the cost of RV, gas, food, insurance, school supplies, and discretionary expenses and make a pretty good guess.

When it comes to determining the cost of your goals, you can throw the need for precision out the window. You'll still be better off than most people just by making your best guess. Let's say you decided in the last chapter that what was most important to you was "providing your kids with the financial security you didn't have growing up." You can use that answer to come up with some financial goals such as:

- *We'd like to save enough to send our kids to state college.*
- *We'd like to set up an emergency fund for three to six months.*

Then you can start listing some other goals you know will need to be addressed. They can be short-, medium-, or long-term goals (remember, you're just guessing):

- *I can see the car will need to be replaced in five years.*
- *We want to retire by age sixty-five.*
- *We want to pay down our mortgage in twenty years.*

And finally, don't forget some stretch goals that might not be at the top of the list, but which may be closely related to your values—such as the desire to give your kids some of the opportunities you never had.

- *We'd like to take a small family trip each summer.*
- *We'd like to help our kids for the first one or two months after school while they look for a job.*

Some of those costs will be easy to calculate. But how do we put a number to those that won't be?

Take saving up for retirement, a key goal for nearly everyone I've ever worked with. If you try to get it "right," this process could make your head spin. You may avoid the exercise altogether for fear of getting it wrong. A simpler approach is to just guess. One way to get there is to ask: if you lost your job and had to live off your savings, how much would you spend every month? Stated as a goal, that would look like:

> *By the time I'm sixty, I'd like to be able to have a retirement income of $7,500 per month.*

Or take an emergency fund, which I recommend that all my clients set up whenever "security" comes up in our first conversations. Most people are more than fine with a fund that will protect them for six months or so, but three months may be fine if you're a tenured professor at a university, while twenty-four months may not be enough if you're a serial entrepreneur. Everyone's idea of security is a little different; if you're quiet and listen to your inner voice, I bet you already have some sense of what will work for you.

Here's a "three-guess process" for estimating how much your goals will cost. Once you've guessed at each goal, take another guess about when you'd like to achieve it, and how much it will cost. This process won't make the future any less certain, but it will help ensure that you're ready for the things you'd like to have happen, and prepared for the inevitable challenges that will arise from time to time.

1. What is the goal?
2. When do you want to do it?
3. How much will it cost?

Still not sure? Remember: You're just guessing. That said, you should still make your guesses the best you can. Be specific.

Just saying "I want my kids to be financially secure" isn't enough of a goal. "I want my kids to be able to go to a private university if they want" is a way of making that goal more concrete.


A WISH
A GOAL

"I'll save money each month for my travel fund" is a good starting point. But "I'll find $100 on the fifteenth of each month" is better.

Even though I'm asking you to be specific, give yourself permission to be flexible. An attitude of flexibility goes a long way toward dealing with uncertainty. There is something very powerful about having specific goals but not obsessing about them.

Your Values Can Serve as a System of Checks and Balances

It's time to return to your Sharpie and piece of paper. Underneath your answer to the question "Why is money important to me?" you can begin writing down your guesses.

Once you write down all your guesses, begin ranking each goal in terms of importance and urgency. Sometimes you will have to deal with something that is urgent, like paying off a credit card bill, before you can move on to long-term goals, like saving for retirement. When you have to weigh different goals against one another, use the values you identified in chapter 1 to guide you in the prioritization process. That doesn't mean if you've identified time with your family as a core value that you're not going to have to work hard to fund your other goals. What it does mean is using your values to guide each decision so that you're making these decisions consciously. There are always going to be trade-offs.

As we started looking at all the goals Sara and Mark came up with, it became clear that putting aside thousands of dollars a year to travel was bumping up against their most important goal: having the time to start a family.

"Which one will you choose?" I asked them.

Since starting a family was the most important thing, the answer was a no-brainer, and they were able to tweak their original goal, opting for a less expensive vacation or even skipping trips until they were able to save a significant amount for Sara's time off.

This process can be eye-opening: it allows us to see whether our goals are in line with our values. I remember a client who insisted that more than anything else, he just wanted to be the best dad. When we got to the process of listing goals, many of them surrounded having more time with his kids, but there were naturally some others. "I really want to buy an M5," he said, referring to a BMW that, at the time, clocked in at $80,000.

We added it to the list, but when we got to the process of ranking goals, I reminded him that this secondary goal would make it harder for him to do what was most important. "Wait a second—do you really want to have to put in any extra time at work to have the money for the car?"

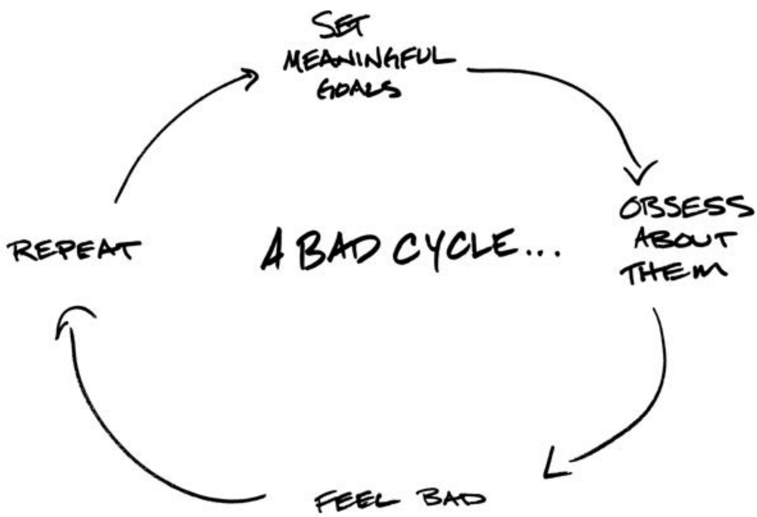
I reminded him of his values not out of judgment. We want to remember the "No shame, no blame" rule when listing our values and goals. We're simply pointing out places where our goals and values might not be aligned. Often, my clients are shocked to realize that they've been pouring money into an area that wasn't truly important at the expense of things that were; going through this process reminds us our money wells are not unlimited—we might think we're treating ourselves by indulging in the moment, but it's often at the expense of the more important stuff down the line.

Of course, staying committed to your most important values is easier said than done. Who hasn't made really important New Year's resolutions that they abandoned by the third week of January? The point is to stay as aware as we can when temptation strikes. And strike it will. We don't often think that money spent on a new car can be directly translated into time not spent with our kids—but when we forget to make room for the intangible things in our financial planning, we pay the price.

Stop Obsessing over Your Goals

As important as it is to go through this process of "goal guessing," it's equally important to let go of the need to obsess over your goals. The first time my wife and I ever made a list of financial goals, something like fifteen years ago, we actually lost track of the paper. The following year, when the topic came up, we went looking for the paper and found it tucked away in a drawer. And here's the amazing thing: we had totally forgotten about the items on our list, and yet we had achieved every one of the short-term goals on the list—even very specific goals, such as spending a week in Costa Rica.

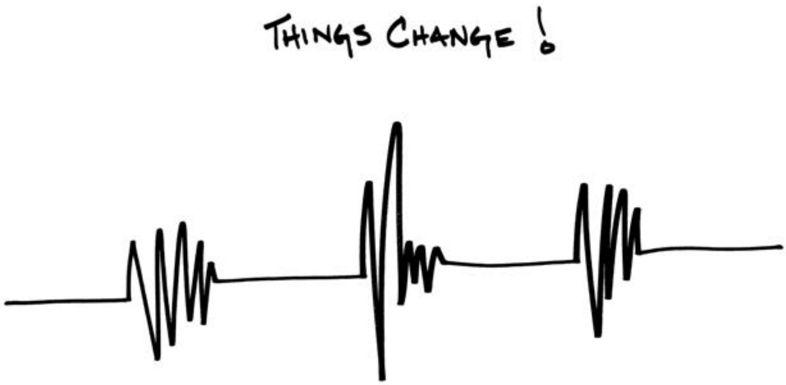
We weren't sitting around obsessing over our goals. When a decision needed to be made, we didn't go searching for the list. And yet somehow, we achieved what we'd hoped we would.



There's No Such Thing as Perfect

Given the amount of time in each day and the number of resources we have at our disposal, it's only natural that we have an expectation that we're going to get the decisions we make about money "perfect." But there's a problem with getting caught up in the idea of perfect: things change.

Whether we like it or not, our lives are in a constant state of flux. Just as we adapt to things like relationships coming to an end or having a new baby, we need to adapt to changes surrounding money.



If you or your partner loses your job, you need to adjust how much you can save each month. If your plans to have another child get moved ahead a year or two, you may need to buy a new car sooner than you planned. Your goal to retire early may be put on hold after a health emergency. In each example, you didn't do anything wrong; life just happened.

Few financial decisions should be set in stone. At some point, we'll all need to recalibrate, taking into account new circumstances that change our decisions. Too often we get caught up in thinking that this recalibration is a sign we made a mistake.

Hardly. We just have a life.

In fact, if you don't ever find yourself recalibrating your decisions, you're likely ignoring some issues that might become problems down the line.

Remember that you're not simply going to guess once and hope that you got it right: this is an ongoing process. Your guesses will change—because life changes. That knowledge can do one of two things: (1) stop you in your tracks, or (2) free you to start somewhere.

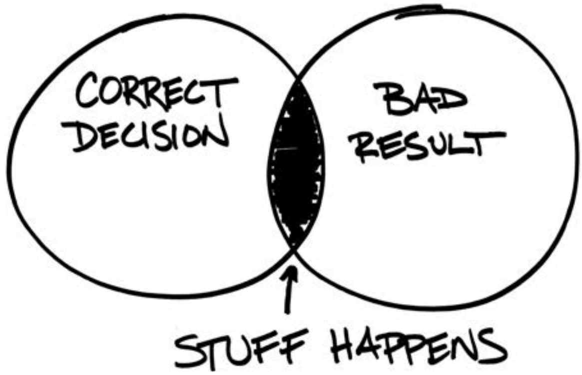
It's your choice which option you pick.

Sometimes We'll Be Disappointed

Not long ago, a woman contacted me after I did an art show in her city and asked me for some financial planning advice. As we talked about what was important to her, it was clear she was really hung up on her "bucket list." She'd always wanted to travel to Nepal and spend a fair bit of time there. But she hadn't been able to do it and now that she was in her early sixties, it was becoming more obvious that she might never get the chance. With tears in her eyes, she told me she finally realized that she might never have the money or the time to accomplish everything on her list.

Yet, just moments before, we had talked about her job as a docent at the local art museum, which was a source of incredible satisfaction. She lived near a trail and got to walk her dog there every morning, and had family nearby with whom she had close relationships.

I could see this was very emotional for her, but at a certain point, I stopped her. "Hold on," I said. "Look at all the stuff that's really gone well." She lived a life that many would consider a dream. She participated in her community and enjoyed meaningful work. But despite all that, it was clear from our conversation that the pain of her unmet expectations was very real.



No matter how good our guesses, we may have to confront a hard truth: we won't have enough money to reach all of our goals.

There are few things more painful than working hard for something that might be just out of reach. But this, too, is also part of life. We learn to deal with disappointments, set more attainable goals, and move on.

For some, this disappointment comes when we realize that the retirement we planned is no longer an option. Years of working and saving just didn't turn out the way we'd hoped. So it's no surprise that if we spent a decade or two attached to a certain outcome, even delaying life because we're so focused on that outcome, we're really disappointed when it doesn't happen.

The question is: What do we do about it? Can we avoid feeling disappointed?

I think we can, but to do so, we have to do something a little radical. We've all heard the stories of people who were completely focused on goals like retiring by age sixty or having $1,750,000 in the bank—they might reach them, but when they look back, they see a trail littered with broken relationships. What many of these stories share is that disappointments often come when people are so focused on outcomes that they miss out on life. They lack the flexibility they need to adjust their goals as different circumstances arise. As part of figuring out your guesses, I suggest thinking seriously about letting go of outcome-based goals and focusing instead on the process of living the lives we want right now.

1. Let go of expectations about the future.

Just in case life hasn't already shown you otherwise, the world doesn't necessarily owe you anything. Making guesses about our goals can set us on the right track. But don't turn a guess into an expectation. Recognize that circumstances might arise that derail even those goals you've worked very hard for—so make sure you're also setting some goals for how you want to live in the next year, the next five years, the next ten.

2. Let go of outcomes we can't control.

When I wrote my first book, I hoped that in some small way it would help people make decisions about money that were more aligned with their values. My goal wasn't to write a *New York Times* bestseller but instead to help people. Even though I started out with the right intention, I sometimes forgot that goal and instead focused on the things that were outside of my control, like sales and reviews. And, no surprise, it led to anxiety and often disappointment. Whenever

I found myself spiraling into worry about the things I couldn't control, I tried to get back to the things I could.

Similarly, we can't control what the stock market does day to day, or even year to year, but by focusing instead on how much we spend and how much we save, we can get our focus back where it belongs.

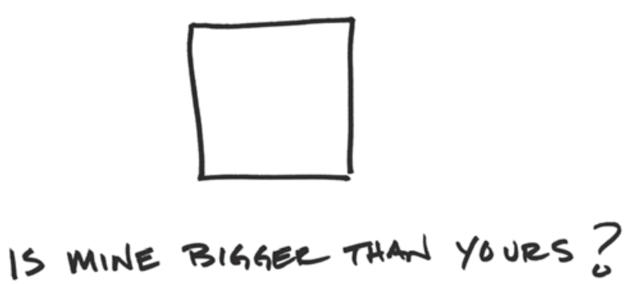
3. Let go of worry.

I know how hard it is to stop worrying about money. After all, many of the things we worry about have a financial component. What if my retirement account dries up? What if I can't afford to send my kids to college? Worrying is a hard habit to break, but it doesn't do us any good. Can you think of one single thing that got better because you worried about it?

Of course, as anyone who's ever been told "Stop worrying!" knows, it's easier said than done. Just what exactly should we do when we start worrying? A good starting place is to do our best to get back to the process of living our lives according to the values we identified in the beginning of the book. Not surprisingly, not one person I've worked with has ever identified "worry" as a value.

4. Let go of our need to measure ourselves against others.

Human beings are competitive. We compare ourselves with other people both out of a desire to "win" and sometimes just to assure ourselves that we're "on the right track." Whenever I feel my urges to compare and compete kick in, I remind myself that, at the most basic level, what's driving that behavior is a desire to be happy. Often, I can snap myself out of this competitive thinking by reminding myself that my values have nothing to do with my neighbors'. For me, happiness is spending time with my family and serving in my community, and that has very little to do with competing with my neighbor.



How Badly Do You Want It?

A few months ago, I had a conversation with an acquaintance who, by all accounts, would be considered highly successful. He had a thriving business, he was a private pilot, and he took plenty of vacations—although they were always a little stressful. His life was "full gas" all the time—he was either working really hard or playing really hard.

He told me that he wanted to make big changes in his life, like cutting back on work, maybe even changing jobs completely. He swore up and down that he really wanted to do it.

When I asked him why it hadn't happened, he explained that he didn't have enough savings to make the change. "But you're making tons of money," I said.

"Well, yes," he said. "And I don't really want to give that up."

And now we identified the real problem. He didn't want to make the change badly enough to make the sacrifices required to get there.

When people tell me about a goal they have in mind and their struggles to reach it, it's usually an important goal, connected to their career, their families, or some sort of personal achievement. When they tell me about their problems achieving it, I ask them, "How badly do you want it?"

Their responses tend to fall into two categories:

1. I want it badly, and I'll do whatever it takes to get there.
2. I want it badly, but I don't think it's possible for me to do.

Think about those two answers for a minute.

If you answered that you'll do whatever it takes, you've made a choice. You've decided that this goal means enough to you that you'll pursue it until you achieve it. I don't worry too much about these people.

But if you answered the second way—that you don't think it's possible—then I have to wonder if you really want it. I typically follow up with a few more questions:

- *What have you tried to help you achieve the goal?*
- *What sacrifices have you made?*

Most of the time, this process helps people discover that they've written off their goals as impossible without even trying to achieve them.

We can all be guilty of giving up because a goal seems out of reach. Or perhaps we talk a lot about how important our goals are to us, but do little to actually achieve them. In either case, we should stop and ask ourselves, "How badly do we want it?"

Here's the thing about goals: the ones that matter often involve a sacrifice. It can be tough to break patterns and deny ourselves instant gratification in order to stay focused, but when the goals are important enough, it's always worth it.

What are you prepared to sacrifice in order to focus on some important goal? If you can't come up with anything, perhaps the goal wasn't as important as you thought. Hopefully, however, this question already has you evaluating how much you needed those new headphones or that pair of shoes.

By now, I'm sure that you have at least a couple of goals in mind, and a good first stab at your one-page plan. Make sure to give yourself permission to not obsess over them. Remember that they're guesses. When you feel your goals and priorities shifting, ask yourself whether it's time to break out the Sharpie once again.

GET REALLY CLEAR ABOUT YOUR CURRENT LOCATION

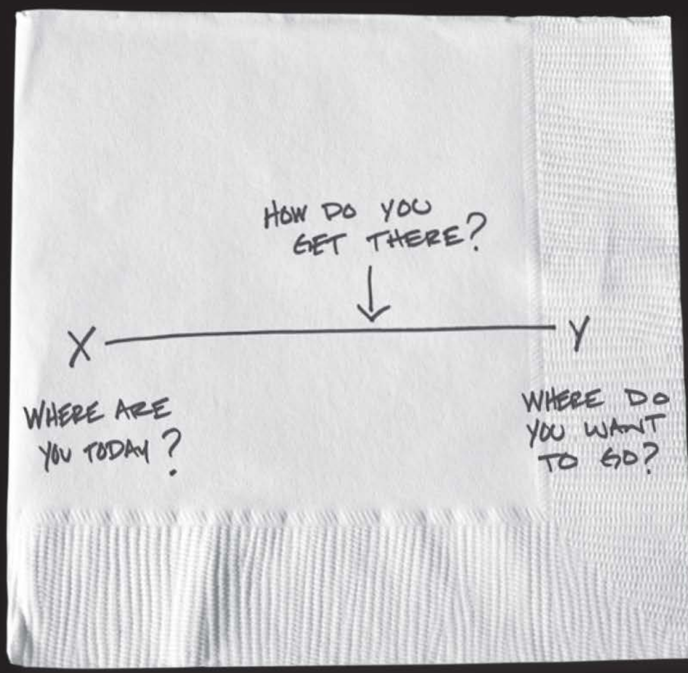
NOT long ago, my friend Steve asked me to help him get his finances in order. Steve was about forty with two teenagers who'd begun looking at colleges. Suddenly the idea of retirement didn't seem like just a faraway dream. Things were starting to feel "real," and he just wanted to make sure he was doing the right thing.

After we discussed his values and goals, I asked him where he stood financially.

As it turned out, he wasn't exactly sure.

Now Steve's a corporate CFO—but despite his ability to manage the finances of a large organization, when it came to his own finances, things were a little fuzzier.

Steve was hardly alone: most people don't have a very clear understanding of their current financial location. Part of me is continually surprised by this. In many ways, assessing where you are today is one of the simplest aspects of financial planning. After all, you don't need to guess about the future, or think hard about what really matters. All you have to do is tally up your assets and liabilities.


HOW DO YOU
GET THERE?
X
Y
WHERE ARE
YOU TODAY?
WHERE DO
YOU WANT
TO GO?

But the other part of me has been there—I know exactly what it's like when you just don't want to know.

Why is it so hard to take a clear look at our current financial state?

As soon as we start looking at our assets and liabilities, we're forced to deal with a lot of mistakes and missteps we may have spent months or years trying to forget. Even seemingly small liabilities can send us straight into avoidance mode. One friend told me about a doctor's bill that sat in her drawer for months until eventually she got a notice from a collection agency—all because she didn't want to think about how she'd failed to get it reimbursed by her insurance company in time.

Those small debts can add up, but the big ones can push us past our breaking point. I once met with a woman who had borrowed around $6,000 several decades earlier for a student loan. For years, it had been keeping her up at night, but she didn't want to face it. When she finally called the company that had issued the loan, she learned it had snowballed into a $34,000 debt.

This is the monster so many of us are hiding from: How on earth are we supposed to tackle something so huge? Is this debt going to breathe down my neck for the rest of my life? Can't we just pull up the covers until we have more money than we do now?

Once she was ready to deal with the debt, we were able to put a plan in place that she's following today, but the fact that she'd been avoiding it for so long made it a lot harder than it needed to be.

The only way to get past this often painful moment and move on to what really matters is to do our best to put aside our emotions and focus on the facts. If you've made some missteps, do what you can to focus on moving forward. If your spouse blew your budget with some big-ticket item that hasn't been paid off, it's time to forgive, learn from the mistake, and deal with what's right in front of you.

This process is going to involve getting up close and personal with some of your baggage—but that doesn't mean you need to figure out a way to fix everything right now. We'll get to the matter of getting things back on track later in the book. For now, all you need to do is get clear about where you are. Without that clarity, you'll never be able to take the necessary steps toward meeting your goals.

About those goals: You have permission to forget about them for a moment. You're going to absolve yourself of any responsibility you feel to figure things out right now and simply get clear about where you are: by creating a personal balance sheet.

Things Just Might Not Be as Bad as You Think

My friend Steve had been putting off this process for a long time. But after I asked him to simply list his assets and liabilities—everything he owned and everything he owed—he realized he was in a lot better shape than he'd imagined.

"You know, we've been really aggressively paying down our mortgage," he said. "I hadn't really thought about it, but that's really made a big difference the last couple of years."

He also was reminded that they'd been systematically plugging money into their 401(k)s and the kids' savings accounts. Neither he nor his wife had really been obsessing about the accounts—they hadn't looked at either since they automated the process years earlier.

Steve quickly learned that their anxiety had been unfounded. Simply by doing some of the things every financial book will tell you to do, they were in a lot better shape than they realized.

Steve was hardly alone in this discovery. Many of my friends and clients have been pleasantly surprised that their assets are a lot more robust than they had imagined or their debts were not as bad as they thought.

Of course, for many of you, this process will be a different kind of reality check. I know it's going to be harder for you to pick up the phone and start calling creditors because I've spent more time adding items to the liability side of my balance sheet than I'd like to admit. When I realized I could no longer make my mortgage payments and I'd reached the end of my credit line, I couldn't bear to go through this process.

My anxiety about the situation affected my health. The pain would start in my stomach, and then I'd spend hours vomiting. It happened once, then three months later it happened again, then one month later it happened yet again. Eventually, it was happening every couple of weeks. The doctors couldn't find a physical cause.

I remember feeling like there was a small leak in the dam above our town, but no one wanted to face the fact that the dam's going to burst. Finally, it hit me: I had to be the one to do it. I remember thinking, Nothing's going to change unless I figure out where I am today.

When I finally sat down and said, "Okay, how bad is it?" I realized that not only was I going to lose my house, I would also have to lose the image of myself I'd been clinging to. I wasn't someone who always made smart financial decisions. As difficult as it was to get myself to face reality, as soon as I did, I was surprised to feel some sense of control returning. I can deal with this, I thought. It just might take some time to get there.

One of the first things I did was return my car. The lease on my Passat was up, and though I'd planned to get an Audi A6 at the same dealership, I knew we could no longer afford it. That didn't mean facing up to the reality was easy, exactly: I was friendly with the manager of the dealership and he knew my plans. I certainly didn't want to admit to him that I just couldn't afford the car—what would it say about me? I turned the key in and felt—*embarrassed* isn't the right word.

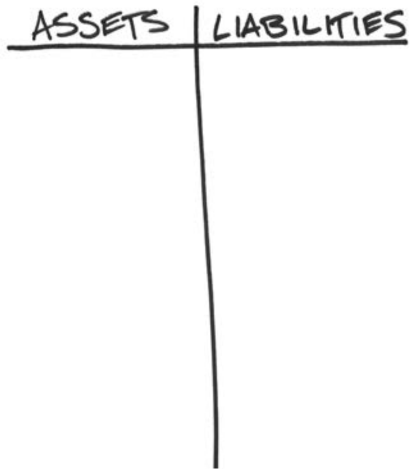
I remember it was gloomy that day. It was raining, which never happens in Las Vegas. I left the dealership with no car, which ushered in a period of three years where my family of six learned to make do with one car in a city where public transportation is nearly nonexistent.

It was hard, but also the right decision. As gloomy as that day was, I remember that I also experienced a flash of clarity. "This is reality," I thought, after I turned in the keys. "This is the right decision." When people would ask me what happened to the new car or ask me how my wife and I could live with just one car with a family of six, I would have to tell them we were cutting back. It wasn't the story I wanted to tell, but it was the truth. As you create your own balance sheet, remember that almost every line will tell a story—be prepared to question them.

If this all feels heavy to you, please take my word for it: The really difficult moments are only temporary. They will pass, and you'll be okay. Remember, ignoring the dam that is about to burst won't fix things. The sooner you start the work of repairing it, the better off you'll be.

Creating a Personal Balance Sheet

Once we get past all the drama and emotional resistance, creating a balance sheet is actually quite simple. All you're going to do is list what you own and what you owe. You don't need a fancy spreadsheet or even a computer for this exercise. Just grab a blank piece of paper and a pen. Then draw a line down the middle.



On the left side, list all your assets in detail. Bank accounts, the fair market value of your home, your investment portfolio. For every asset, list it and its value. On the right side, list all your liabilities. Credit card debt, mortgage, school loans. Again, get specific and list the actual amounts of each liability. (If you're wondering why I'm even taking the time to walk you through something so simple, it's because I keep crossing paths with people who've never done this.)

To help my friend Steve create his list of assets, I asked him questions like:

- *How much do you have in savings?*
- *What's the value of your house? (Don't worry about getting an appraisal. You can get a fair estimate using*

Zillow or factoring in what you know about the market and friends' houses.)

- *What do you have in investments or retirement accounts?*

After we created the list, I asked Steve, "Okay, now, what do you owe?" He began to list things like:

- *Credit card debt*
- *Mortgage balance (remember, you already listed the fair market value on the left side of your sheet)*
- *Other loans (car loans, student loans, etc.)*

If you're not sure about any of the numbers, call your bank, credit card company, or advisor. When it comes to debts, guessing isn't allowed, so take whatever steps you need to get the real numbers on the page. When it comes to assets, estimates are fine, but strive to be as accurate as you can.

Then add up all your assets and subtract all your liabilities. You now have your net worth.

Calculating Your "Emotional Balance Sheet"

The task of creating a balance sheet can become even more daunting when we bring in a spouse or family member—it's very difficult not to start playing the blame game when we have to dip into our savings to pay down a credit card bill someone maxed out.

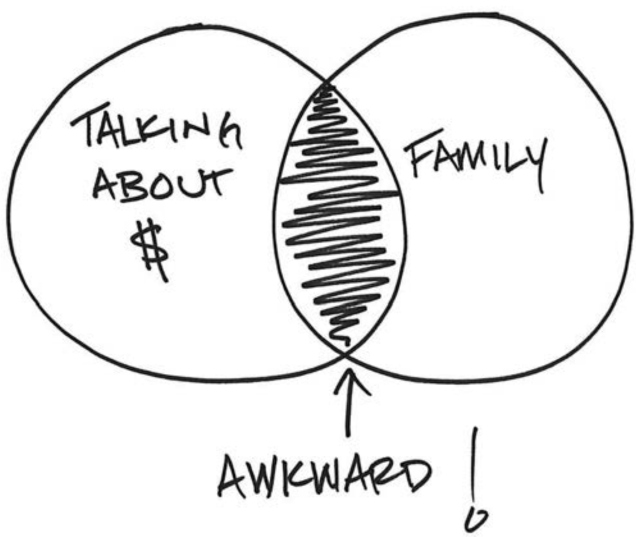
My friend Beth recently discovered this when she and her husband, Chris, started having some conversations about money. Beth had paid most of the rent the previous year so that Chris could take on a bigger stake in his company; it meant a dip in his annual salary but seemed to make sense as a long-term investment. A few years earlier, he'd paid rent so that she could pursue a job opportunity that paid less but taught her a great deal about her profession.

As they talked about it, they realized both of them had been feeling like their "sacrifices" were a bit unappreciated. It was an "Aha!" moment for them both. Why were they still thinking about money as "yours" or "mine"? Sure, they each had individual goals, but what was most important to each of them was having flexibility to pursue projects that excited them. But resources were not unlimited. In order to help each other meet their goals, it would mean they'd need to take turns working longer hours.

The discussion helped remind them how aligned their goals were. Suddenly, they were talking about the shared dreams they hadn't discussed since the early days of their marriage—the places they wanted to travel and the impact they wanted to have on their industries.

The discussion ended up being one of the most important they'd ever had, but that doesn't mean it was easy for them to get to that place. Before they sat down and started talking about this, both felt like they'd been giving more than they'd been receiving. They'd been fighting about money without really knowing why.

When you're doing this work with a spouse or loved one, expect a lot of old resentment to bubble to the surface. My suggestion is to be completely honest about any "emotional assets and liabilities"—and don't limit yourself to thinking in terms of salaries and monetary investments. Remember the different kinds of human capital I introduced in chapter 1? Maybe one person hasn't brought in as much income as the other, but they've made other valuable investments: they put time and energy into taking care of the kids or running the household.



Keep as open a mind as possible, and do what you can to make peace with the past. Approach the process with empathy, and don't forget that the reason you're doing this probably has nothing to do with the material things we often fight about. Don't let your mistakes poison the opportunity to work together and move forward.

Drop the Blame

George Soros once tapped into something most of us know, but don't like to admit: "Once we realize that imperfect understanding is the human condition, there is no shame in being wrong, only failing to correct our mistakes."

We've got to stop beating ourselves up over financial mistakes. But we also need to take responsibility for what we've done. My experience losing my house has changed just about everything about how I do financial planning and the advice I give in public. For one thing, I am less quick to judge other people's financial behavior. I'm also more inclined to take into account personal factors that determine how people behave around money.

But despite all I've lost, the experience has been a surprisingly valuable one. I always knew the process would be tough, but I never knew how much clarity it would give me about how to move forward. In retrospect, it makes perfect sense: if we don't know where we are today, how can we get to where we want to be tomorrow?

Revisiting Your One-Page Plan

Creating a personal balance sheet may have given you some new insights about areas where you need to focus. Before you go further, it will make sense to revisit it and factor in any new goals. Remember, you can revise your plan over time. The one-page plan should simply include the three to five things that are really important right now:

- *The answer to the question "Why is money important to me?"*
- *Your best guesses at your financial goals*
- *Any debts that you'll need to pay down*

In the next section, we'll go deeper into strategies for spending and saving. Your one-page plan will be there anytime you're feeling bogged down in the details and need a reminder of the big picture.

PART TWO
Spending and Saving

NOW that you've set some financial goals and gained some clarity about your current location and used that knowledge to create a big-picture financial plan, it's time to narrow the gap between where you are now and where you want to be.

Whether you've discovered that you owe more than you thought or you've identified some ambitious goals, I imagine you're feeling a bit overwhelmed. How will you ever pay down your debt? Where will you find the extra money? Where do you go from here?

If you've gotten clear about your values, goals, and current reality, you might be thinking it's now time to start talking about investing your money. Hold on. Before we get there, we need to talk about something really important first. Because you could have the best investing strategy in the world, but if you don't have any money to invest, it won't help you. So we need to spend a little time figuring out where the money will come from.

This next section will give you some tools to help you take control of your spending and saving today.

WHAT PEOPLE ARE SAYING ABOUT THE ONE-PAGE FINANCIAL PLAN:

"In a world where financial advice is (often purposely) complicated and filled with jargon, Carl distills what matters most into something that is easy and fun to read. The true measure of a brilliant book is whether the material is as relevant to an industry expert as it is to a lay person. *The One-Page Financial Plan* unquestionably is. Buy two copies—one for yourself, and one to hand to the nearest pundit."

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