PERSONAL FINANCIAL PLAN

DIY KIT

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Disclaimer

Hey folks - time for a disclaimer. But this isn't your normal disclaimer where you have no idea what it means but you assumes it means nothing. This one actually means something I would appreciate you taking a quick read:

This guide is meant for educational use. It is not advice for you specifically. It is a description of the mental framework that I, and other professionals, use when giving advice. I wrote it to give you insight into how this framework might be used, by you, to make decisions about how and where to invest.

This can be a big risk for a professionals for a couple reasons. There are lots of professional standards and regulatory rules out there - when I give specific advice I am generally on the hook for it. This is why there aren't guides like this out in the world very much. Most professionals are worried if they say anything they will be on the hook for it so they only work one on one with people to give specific advice. Secondly, they make a living selling knowledge so the more they guard it, the more scarce they can make it - and the more they can charge for it.

But I believe that people, given proper educational guidelines, can make their own choices. And we should be empowering and educating people - not guarding knowledge like some oracles of the past.

But let's be real: Everyone is different, the financial world is complicated. There could very likely be factors in your world that make some of the things I say in here the wrong choice. This is not a hard and fast guide. I think that the ideas here will are great guidelines in about 85% of cases. You'll need someone that really knows this stuff to get to a 100% (but even then, will you?). But I think that getting a LOT of people to 85% is better than getting a select few to 100%.

So, I hope you enjoy the guide, I hope you learn something, and I hope it helps you tame the Money Monster. And thanks for not suing me.

Away with you, money.

I will sink you that I may not be sunk by you.

INTRODUCTION

Hello!

And thanks for buying the CFOAndrew guide to building your own financial plan. Allow me to briefly walk you through what you will find here.

There are two steps to creating a personal financial plan. We need to build out your roadmap. This is critical to making sure that all your assets have a purpose. Second, we need to figure out what to do with your savings. For this we use the "waterfall" metaphor. A good savings plan will slowly, over time, carve out a big change in your financial world. But it takes lots and lots of little steps.

The steps to building your own roadmap are:

CREATE YOUR OWN FINANCIAL ROADMAP

Step One: Understanding Your Assets & Liabilities
Where we will get a handle on your current situation and look for ways to simplify it

Step Two: Basic Life Insurance
Where we make sure you get the basic protection in place

Step Three: Will and Trust Package
Where we talk about why you need other legal protections
Saving is an ongoing process but you want to make it as easy as possible:

FIGURE OUT YOUR WATERFALL

Step Four: Fill Your Waterfall
Where we figure out where to put your savings each month to fill in the roadmap.

RESOURCES

Throughout the guide we reference several things:

Financial Roadmap: the form that we use to illustrate and explain what purpose your money services. We will fill it out in Step One.

Waterfall Plan: the form that we use to build the savings goals. This will show you how to prioritize your savings.

Emergency Fund Target: You'll use this in Step Four to figure out how much to target for your emergency fund.

Savings Plans: You'll use this in Step Four as well, to prioritize your savings. There are two versions, one for if you have an employer 401(K) and one if you don't.

ROTH Table: This is a quick reference for your "Beyond the Horizon" or retirement savings. It will help you determine if you should be using a ROTH or not.

Enduring vs Opportunistic Table: You'll use this at the end of Step Four to help you understand how much to balance between the two top levels of your plan.

Life Insurance Matrix: You'll use this while filling in your roadmap to make sure you are protected.

Also, I have a habit of using acronyms and some jargon throughout. I made a glossary of terms at the end of the guide, so feel free to jump there if you aren't sure what something means.

HAVE FUN!

UNDERSTAND YOUR ASSETS & LIABILITIES

The first step to making your financial plan is to figure out where you are. You need to gather up all your info on your finances. You can start by just making a list. It doesn't need to down to the penny, but you need a general idea.

To do this, collect all your various financial documents: bank account statements, credit card statements, loan statements, investment accounts and 401(k) statement. We need a complete picture of what you have and what you owe.

We're going to add each one of these to your financial roadmap and it won't do much good if it's not complete.

I like to just list things with the four main data points: Location, Owner, Type, & Amount.

For example:
- Betterment, Andrew, IRA, $1,000
- Employer, Andrew, 401(k), $2,000

For debt, you'll want to include a few other items, like the monthly payment and the interest rate:
- NelNet, Andrew, Student Loan, $300 per month, $3,000 at 4.9%
- Chase, Andrew, Credit Card, Minimum is $50, $1,000 at 18.9%

Once you have this data gathered up, we want to put all your assets on the Roadmap. To do this just add each item from your asset list to the appropriate level of the plan. Don't worry about if you are out of balance right now. We just need to get them on there and take stock.

Some specific instructions while doing this:

- This is not a precision exercise. Rounding to the nearest thousand, or even ten thousand is fine. We are dealing with long terms and orders of magnitude here, so don't stress the details too much.
- Ignore your checking account. Generally there is too much in and out to have a reliable balance for planning purposes.

- Any other money in bank accounts, CDs, or money markets should go in your foundation under the "emergency fund" header.
- All your IRAs and Qualified plans (regardless of type: ROTH, Traditional, 401(k), SEP, SIMPLEs, etc.) should go in the "Beyond the Horizon" area.
- All your debts should go in the 'Fiscal Toolkit' area

All your remaining financial assets (stocks, bonds, options, RSUs, and crypto currency) should be split between the two top levels Enduring and Opportunistic. What are enduring and opportunistic? Glad you asked!

Once you build your roadmap all the way up the last form of investing is the paired duo - Enduring and Opportunistic. Opportunistic are the investments that come along every so often that you want to jump on. They are the riskier, more illiquid and longer term investments. Enduring investments are more stable and earn a modest amount - but have "enduring value". They are easily accessible at all times, they don't have big swings in value. This pair works well together because when there are opportunities to exploit, we can empty out the enduring accounts to jump on them. And when we don't have any opportunities, we can have a nice place for our money to sit while it waits for the next opportunity to present itself.

Here are some examples of how we split this up:

- Options, RSUs, and Cryptocurrencies go into Opportunistic
- Any account that is more than 20% stocks goes into Opportunistic
- Any account that is 80% or more bonds or other low-risk investments goes into Enduring
- Any non-financial assets (rental properties, start-ups, etc.) go into Opportunistic

Now that we have all that data gathered the first thing we can do is look for ways to simplify:

SAVINGS AND RETIREMENT ACCOUNTS

Generally you don't want to have more than two savings accounts. If you can, consolidate them into one or two main accounts so you have one location to go for your emergency fund. Wherever possible, consolidate your IRAs and old 401(k)s. I usually recommend one of the big Robo Advisors, like Betterment or Wealthfront. But any low-cost provider of index or ETF funds is fine (Vanguard, Fidelity, eTrade).

At most, you want to have one IRA, one ROTH and one Employer Plan 401(k). Your spouse, if you have one, should also have the same. The IRA should be used to collect and hold 401(k)s from old employers and any other IRA money you collect over your live.

INVESTMENTS

I generally look for somewhere around an 80/20 to 90/10 mix between stocks and bonds on these accounts before retirement. But now that you have the purpose narrowed down (since you have assigned each account to a specific part of your roadmap) you can take the risk questionnaire that the Robo advisors use and it should provide you a solid asset allocation (fancy term for stock bond mix) and monitor for you.

Your enduring investments should be your taxable account. It is generally just a normal brokerage account. It could easily be shared between you and your spouse, unless you have a reason to want to keep your money separate. These should also be consolidated where possible.

Two schools of thought on this, both good: A) Have the Enduring be at a different place than the IRAs, to diversify your investment companies. B) Have it all at one location for ease of use.

Both of these have Pros and Cons. If you go with A, I would encourage you to have the IRAs at a Robo Advisor and the Enduring investments at a straight broker like Vanguard or Fidelity.

I generally look for something like a 20/80 mix on stocks and bonds on the enduring account. If you use the Robo Advisors, that would be somewhere around a 2 – 3 (out of ten) on the risk scale. Generally the stocks should be mostly large companies, hopefully more stable companies. The bonds side should be a broad mix of US Government, corporate and possibly muni bonds.

On the Opportunistic side, the mix can get a little funky. Generally speaking we want to have things as consolidated as possible – but in this arena you might very well have lots of accounts at different places. This is normal and a result of taking advantage of opportunities when they arise.

We'll skip the Fiscal Toolkit section for now, as we will revisit it in our checklist later.

LIFE INSURANCE

Basic Life Insurance is pretty easy. Even if you don't have a spouse, kids, or a major debt, I still recommend that you get some basic coverage. This is not because I think your friends need some cash when you die, but because even early on it is good to start building the habit of paying for insurance. And if you do have a spouse and/or kids - you need to get coverage as quickly as possible!

For basic life insurance coverage, I always recommend term life insurance. This policy will be in force for a certain number of years - the term of the policy - and will pay out a certain dollar amount if you die during that term. The other common type of life insurance policy is a whole-life, which means you'll be covered for your entire life, not just part of it.

There are a lot of people who will want to sell you life policies that are version of a Whole Life policy. These can be great and in some cases VERY powerful tools. But they are not appropriate for your basic coverage. They should be purpose built tools that come into play once you have the basics covered.

There are two things you have to figure out with term life insurance: the term (length in years you are going to pay and be covered) and the face amount (the amount the policy will pay when you get hit by the proverbial bus).

Here is my shorthand to figure out basic coverage:

Face Amount:

- Start at $50,000
- Add enough (in round numbers, to the closest $10,000) to cover any consumer debt, student loans, and mortgage balances.
- Add $500,000 for each kid you have under ten years old
- Add $250,000 for each kid you have over ten years old

This amount is how much you should have in coverage. If you are married, this is what coverage the person with the lower income has. The primary or larger income person should have double this amount.

Term:
Now the shorthand for how long a term you need:

- If you have any kids under ten, use a 20 year term.
- If you are under 40 years old, use a 20 year term
- If you are between 40 and 55, use a 15 year term
- If you are between 50 and 55, use a 10 year term
- If you are over 55, you need to contact a professional, as the rates get way more complicated.

In some cases, you might end up with a million dollars or more in coverage. If you are young, this might seem like overkill. And it is, in many cases. But I always think of it this way: An extra $100 a month won't make a big difference in your standard of living over your life. But your heirs having a million dollars instead of $500,000 makes a HUGE difference. In that scenario, I think of it as a pretty good investment.

OK, so I am not a lawyer and you should not take this guide as a substitute for legal advice. Trusts and such can get very complicated but I do know one thing for sure - if you are married and especially if you have kids, you should have basic legal documents in place. I usually encourage people to get a trust package, not just a will. A trust package, in my mind, includes four things: a Pour-over Will, a Living Trust, Durable Power of Attorneys, and Medical Directives. Let's look at them one by one.

A Pour-over Will is basically a document that says "anything I didn't put in my trust while I was alive, I leave to my trust now that I am dead." A will goes into effect when you die (not before).

A Living Trust is a contractual agreement that goes into effect as soon as it is executed. This is handy because it can be used for lots of things besides just what happens when you die. But the main thing that it does is avoid probate. A will will be administered by the probate courts when you die. A trust, on the other hand, is a contract that is executed outside of probate by the trustees. It is also easier to include lots of provisions for things you want to have happen after you die. For example, you don't want your kids to get all your money (remember that big life insurance policy?!) outright. You might for example, build into the trust what you would do as a parent:
Money stays in trust while they go to college, at age 24 they get a lump sum to help buy a house, they get half the remaining balance at age 30, and the rest of the money at age 35.

Guardians for kids is the other major thing - you need to designate what happens to the kids if you die. In many cases you can split who takes care of the kids and who handles money. Suppose your sibling is an amazing parent but horrible with money. You might have the sibling be the guardian and raise the kids, but your uncle might be the trustee of the trust that manages the money and distributes it as necessary.

Durable Power of Attorney is basically a document that says your spouse (or anyone else you want to give one to) can act on your behalf. My wife and I have these, for example. So, technically speaking, she can sign anything for me and I can sign things for her. We don't do it a lot, but it can be very handy, especially if one of us is indisposed. You can make it go into force immediately or you can have it only kick in if you are disabled or unable to act on your own. It is very common for elderly parents to appoint their children as a power of attorney to handle their finances.

Medical Directives are simply an outline of various medical situations and what you want to have happen. E.g. "if I am in a coma keep me alive, but only for this long or only if my chances of recovery are more than XX%" or "do not resuscitate if I have more than one organ system failed" or some such. This is scary stuff, I know. But you need to do it. Be responsible, think it through, and make the choices now. Do NOT wait until you are lying in a hospital to make these kinds of choices. And even worse: do NOT leave these choices to your spouse or parents or kids. Forcing them to make these kinds of choices when they are already distraught can make a horrible situation even more horrible. Do NOT make them live with the choice to pull the plug or not and be left wondering forever if it was the right thing to do. That is a shitty thing to do to people you love. So don't be shitty and figure it out now.

How do I get this done? Two main choices and as with most things "it depends". There are online tools that are cheaper to get this done. You can also go to a lawyer to get it done. As you might expect, the online version is cheaper and generally not as easy to customize and might have some issues if you do something wrong. The lawyer will be more expensive but likely higher quality and you'll have the ability to really fine tune it with them if you want. Both are fine, in difference cases. The only bad choice is not doing it.

BUILDING YOUR WATERFALL

Ok, now the final step! You have the basics in place, you have moved your money around to fine tune it and now we just have to figure out where the best place to put your savings is. Your savings, of course, refers to the extra money you have each month that you are putting away for the future.

A quick note about savings: Savings can be the most fraught topic in personal finance. It causes no small amount of anxiety: "Is it enough?" "Will I ever retire?" "Am I being smart with my money?" I usually have two (somewhat contradictory) points about this. Because life is compromise, right?

Point One: you HAVE to save money. You will live longer than you can produce income which means that you will have to have assets to live on later in life. If you are running a business or working at a job that does not allow you to put aside a little extra you need to cut expenses or find a better job. Savings is mandatory.

Point Two: life has lots of twists and turns. If you don't have extra money right this second it will likely be ok. While it is mandatory to save you don't want to have excessive guilt about it. You do the best you can - put one foot in front of the other. Making money is hard work and saving it can be a slow process. But the best way to get there is one step at a time - continually make steady progress. Think about how a waterfall can create caves and canyons out of the hardest rock. Same idea here - slow, but steady, will get results!

And that is the point of the waterfall plan. To help you pick the best way forward. The waterfall plan starts with your monthly savings. Your monthly savings number is effectively how much you have "extra" each month. In some cases it can be helpful to make a budget to have some idea of what this looks like. But if your income is "choppy" (lower salary with bigger bonuses or you freelance) this can be tough. What I recommend in these cases is to look at it each month and peel out the "extra" money.

At the end of the month (or each pay period, or some other convenient time) after you have paid all your bills, take a look at your checking account. Pick a baseline that makes you happy ($500, $1,000, $5,000) and take out everything above that number and run it through your savings plans. Based on what happens each month you might have more or less.

Your savings strategy like a waterfall another way as well. Money earmarked for saving starts at the top with our most immediate savings goal, your emergency fund. Once that's full, it drops to the next bucket below. See the waterfall plan at the end of this guide for your sample.

Two notes on this:

- This assumes your bills are paid. When we assume your bills are paid we assume that ALL the minimum payments on both student loans and credit cards are paid. When we talk later about payments to consumer debt or student loans these refer extra payments. If you aren't carrying a balance on credit cards, then paying off the entire balance each month is considered part of your "bills" that need to be paid before we look at savings.

- This flies in the face of the "pay yourself first" idea. The core concept there is that you should take 10% of your income (or some other arbitrary number) and put that into savings first. If you can do this, I 100% encourage you to do it! The only reason I don't lead with this is that it is more important that you try to save SOMETHING then say to yourself "I can't put 10% away" and give up and do nothing.

But in keeping with the idea above that savings is mandatory, I encourage you to, if at all possible, put the first 10% you make into your savings goals first and then live on what is left.

OK, now that you have an "input" to your waterfall, it's time to figure out the best way to use it. Let's get started:

- Figure out your emergency fund target from the table on page 25.
- Add in any multipliers that might need to for kids, job insecurity, or marriage, based on the supporting table below it.
- Figure out which savings plan applies to you.

We use one major factor to decide which savings plan applies to you. That factor is whether you have a company plan or not. This refers mostly to 401(k) plans. Because the contribution limits on those plans are so much higher than IRAs, we have to tweak where we save money based on your access to one of these plans. If you are self employed you can set up a SEP IRA or in some cases a SIMPLE plan (if you have a company) and substitute for the 401(k).

This guide is not meant to be an exhaustive study of different types of retirement plans. The main idea here is to use 401(k) or IRA as a proxy for savings into a retirement vehicle that gives you tax benefits.

The other factor is consumer debt. Consumer debt is, generally, credit cards or other short term and high interest loans. If you have student loans that are higher than 7%, I would consider them consumer debt and treat them like a credit card. If you have an adjustable rate mortgage, I would encourage you to get a professional to help you figure out your finances. They can be tricky and might require some extreme maneuvers outside the scope of this general advice framework. If you do have consumer debt, you need to do Step Zero before using one of the table plans.

Step Zero is this:

- If your consumer debt is less than 30% of your annual income, put 100% of your savings to paying down the debt.

- If your consumer debt is more than 30% of your annual income, put 75% of your savings to paying down the debt and 25% of your savings into your emergency fund.

By way of example:

- If you make $100,000 per year and have $25,000 in credit card debt, put 100% of your savings toward paying off the credit cards.

- If you make $100,000 per year and have $40,000 in credit card debt, put 75% of your savings toward paying down consumer debt and the remaining 25% into your emergency fund.

You should always be paying down your consumer debt in order of highest interest rate to lowest interest rate. If you have any "12 months same as cash" type deals, they should also be prioritized because if you miss the deadline to pay it off, the interest can be huge.

One item to note: When I say "100% of your savings to consumer debt" remember that I am talking about the amount of money you have to save each month. I am not saying that you should empty your current bank accounts to pay down debt. In this context savings refers to the amount you are savings each month not your savings account.

After you get your debt paid down, you can start savings according to the tables:

Table 1 - If you have no company 401(k)
Table 2 - If you have a company sponsored 401(k) plan

This can be the hardest part of the plan, because it can seem overwhelming when you read it all at once. This is why we made the Waterfall Plan visual. Once you tackle the order and fill it into the template, you should only have to look at the one task right in front of you.

To use the template effectively you have three bullets to fill in. You want to fill them in the method of "Put Bullet 1 of my savings into Bullet 2 until Bullet 3".

So, for example, if I am a Table 1 saver my Goal One would be: "Put 100% of my savings into the Chase Savings Account until it equals $12,500 (this assumes my emergency fund target was $25,000).

My Goal Two would be Put 50/50 of my savings into the Betterment IRA and the Chase Savings Account until it my savings is at $12,500 and I've added $5,500 to my IRA.

And so on, and so forth!

When you get to the bottom of both tables, you'll find it looks the same. At this rate, we are targeting a ratio between the Enduring Investments and the Opportunistic. The reason we use a ratio is that this is the portion of money that can grow forever. There is no annual limit, there is no restrictions on contribution - this is your main accumulation point for money. And the total dollars you have in there isn't relevant to what you do with it. What matters is that they balance out. If you look at the Y Ratio Table, you will see my targets.

Here is an example of the ratio table. If I am in my 30s, the table is Enduring 1 to Opportunistic 1.75. This means I want $1.75 in Opportunistic for every dollar in the Enduring. So if I have filled in my roadmap and have $10,000 to invest in the duo, I would want roughly $3500 in Enduring and $6500 in Opportunistic.

And that's pretty much it! Each month figure out what you are going, to run it through your waterfall and call it a job well done, I firmly believe that a plan like this is the best path to a happy financial life. Do the best you can, save as much as you can, and work as hard as you can and you should be all right!

NOTES

ROTH versus Traditional:
You will find another table in this package called the ROTH Overlay. When you are putting money into your Beyond the Horizon category or retirement category, you might want to use a ROTH IRA or 401(k) instead of a traditional. Look up your income and age and it will give you an idea of if those contributions would be best in a ROTH, a traditional, or a mix of the two.

Savings Goals:
For those that DO want to be a little more goal oriented, I can teach you the formula for figuring out how much to save each month. This is based on a series of time value of money calculations. It is a two part equation: figuring how much the future asset value needs to be and then how much to save to get there.

PART ONE: ASSET GOAL
It is generally assumed that a withdrawal rate of 4% is pretty safe. This means that you can withdraw 4% of the value of your asset base to live on. We assume that you can earn between 6% and 8% fairly consistently which means that, after taking 4% out you are still growing the base.

This is critical - you cannot withdraw the entire amount you earn because inflation will kill you. If you make 6% and withdraw 4%, then your income grows by 2% next year - which means while the dollars increase we can assume (hope?) the purchasing power stays consistent.

So, figure out how much you think you need to live on and divide it by 4% (0.04). That will tell you how much you need your investments to be worth at the the time you retire. You'll want to take into account if you plan to have a house paid off (which means less income is needed) and you'll want to include taxes. Let's assume that $5,000 a month is the goal. Our investments need to be: $1,500,000 total. That is ($5,000 x 12)/ .04.

Part Two: Savings Goals

Then we just need to calculate how much you need to save each month to get to $1,500,000. You can do this in Excel with the =pmt() function (which is where I usually do it).

But this calculator will also do it:

- Put the $1,500,000 (or your number) in the Savings Goals
- Enter how many years you want expect to go by before you retire
- I would just select "Monthly" on deposit frequency
- Put what you assume your investments will earn. Anywhere from 4% to 8% is reasonable
- Hit Calculate

That is the projected monthly deposit you need to save to hit that goal, under those assumptions.

CONCLUSION

You've now done the setup work necessary to have your own financial plan. You've cleaned up your data, made sure you have a plan to pay down your debts, ensured that your assets are all assigned a specific purpose, and have a plan for your savings each month.

Now is the time to remind you, however, of what Dwight Eisenhower said about planning:

"I have always found that plans are useless, but planning is indispensable."

Why is a plan useless? Because as soon as you complete this (or at least within a few short weeks) it will be off-kilter. Something else will happen, a new opportunity or life event will alter things. This is normal and not a reason to not plan!

The MAIN goal of this planning process is to give you a framework. Not answer all your questions, because any answer will change over time. With the concept of having a roadmap for your money (since it is such a poor multi-tasker) and a waterfall to give you comfort you are making progress - you will be running your money, it won't be running you.

And as things change or move or shake - you can go back to the framework and use it to make quick decisions and respond to those changes without feeling like everything is derailed.

A couple notes on follow-up:

It is best to update your roadmap and waterfall annually. I do this during the summer for most of my clients. Especially in the beginning, anything less often will let things get too far afield before being reigned in. More frequent and you'll create too much work and anxiety that doesn't help much. Most of the best money plans work very well over the long run and you might not see much change over weeks or months.

ADDITIONS

There are always things that you can add to your personal plan that we haven't covered here. They are generally best done with someone who knows a thing or two about them. But they are nice things to have, should you get some time and space in your plan for them.

DISABILITY INSURANCE: This is insurance that pays you income if you are disabled. It is worth noting that the odds of you being at least partially disabled are much higher than the odds of you being killed. Therefore, this is a great piece of protection to layer in. It can be expensive, however. The biggest thing to understand about long term care is that is the concepts involved (these are generalizations, please check with an agent before buying anything):

- **Elimination Period:** This is how long you have to wait before you get benefits. If you have an emergency fund, you can extend this and lower the cost.

- **Own or Any Occupation:** This has to do with the definition of "disability". If you are engineer and have a mental breakdown and can't do engineering anymore, but could still work the fry line at McDonald's, then only an "Own" occupation policy would pay out. An "Any Occupation" policy you have to be almost totally disabled.

- **Benefit Percentage:** Most policies define their benefit as a percentage of your previous income. This can be tough for self-employed folks as they tend to have lower taxable income than W-2 workers. Expect the maximum policy to be around [illegible]s of your verified income.

LONG-TERM CARE INSURANCE: Similar to disability, this policy pays for nursing home coverage should you ever need to go into one. Since a very large percentage of people do, at some point, need this coverage, the sooner you get the insurance the better off you are. But because the usage of these policies is so high, expect it to be pricey as well.

I like to think of this as a savings tools because I run the math the way the insurance company does: If my nursing home stay will be for the last two years of my life and will cost, say, $250,000 and I start saving for that at age 60 I only have, say 15 years to save that money. If I start at age 30, I, in effect, "amortize" that cost over 40 or 45 years. Which has the effect of making it dramatically more affordable.

Long-term Care (LTC) policies also have elimination periods, they quote benefits in "dollars per day" and the biggest driver of cost is your age and how the amount is indexed. E.g. if you buy a $150 a day benefit policy today, will it still be $150 when you use it or will they increase the benefit by, say 2% a year to keep up with inflation.

COLLEGE ACCOUNTS FOR KIDS: These can be a great idea - the most common and widely used today is the 529 college account. The same rules apply to these investments as anything else. Invest for the long haul, get as low a cost as possible, and just wait. I have just a couple pieces of advice on college accounts:

- **Check your state rules.** Some states provide tax benefits for using their plan. If they do, you likely want to use them. If your state does not, you will find that any major provider (Fidelity, Vanguard, etc) will offer things like Alaska plans or other random states. Don't worry about it, it has to do with legal protection and has no effect on where you live or where your kid goes to school.

- **Don't overfund.** Remember that 529s can't be used for the car your kids might need to go to college, or the apartment. I usually tell people to put in at most a couple thousand a year starting at birth and no more. $100 a month at birth through college age will go a long ways. But plan for your other assets (like the Enduring) to be used since they are more flexible - and it is impossible to know what your kid will need or want.

That is it for now - happy planning! And if you have more questions, find me on Twitter @cfoandrew and let's have a chat!

GLOSSARY OF TERMS

Here is a list of the most obvious terms/ideas that might be jargon-y. If you don't understand a term you see in the guide feel free to hit me up on twitter (@cfoandrew) and I'll define it.

RSUs

Restricted Stock Units. A form of equity compensation when working in a W-2 job. In effect you are granted shares but they are "restricted", e.g. you can't sell or transfer them yet. Usually tied to a vesting schedule. For example, you get 1,000 shares in Facebook when you get hired there, but they vest 200 shares a year for five years.

CDs

Certificate of Deposit. A form of savings account at the bank. It is an FDIC guaranteed investment that pays a fixed rate of interest (generally higher than a savings account) in exchange for leaving your money in a given period of time (6 months, a year, two years, etc).

SEP

Simplified Employee Pension. A version of an IRA that has higher contribution limits for people that have self employed income. The assumption in this case is that if you are self employed, you generally don't have a 401(k).

SIMPLE IRA

Savings Incentive Match Plan for Employees Individual Retirement Account. A form of an IRA that employers can set up for themselves and their employees. Functionally similar to the 401(k) but with a lower limit and much more simplified setup and maintenance.

Qualified Plans

This can mean a couple different things, but generally we use it to colloquially to refer to any sort of retirement style account that offers some sort of tax advantage in exchange for restrictions. This could include IRAs, 401(k)s, ROTHs, SIMPLEs and SEPs.

Cryptocurrencies

Any asset that uses a blockchain ledger to maintain. This would include Bitcoin, Ethereum, LiteCoin and others. When I refer to crypto's, I mean things held in an exchange (like Coinbase) or encryption keys held directly (if you're hardcore like that).

Illiquid
An investing term that refers to a lack of Liquidity. Liquidity refers to the investor's ability to turn the investment into cash. So a portfolio of bonds in a brokerage account is very liquid - there is a ready market you can place a trade into. The shares you own in your own company are very illiquid - it can be very difficult to sell those shares to someone.

Robo Advisor
A colloquialism for managed investment accounts that are managed by an algorithm instead of an advisor. The most common examples are Betterment and Wealthfront. These places are actively managing the allocation of your portfolio. Unlike, say, a Fidelity or Vanguard where you can place trades yourself but trading only happens when you initiate it. Any robo advisor worth anything has some sort of "risk tolerance questionnaire". Which just means that they are going to ask some questions to determine what sort of portfolio they should build for you.

ETF Funds / Index Funds
Exchange Traded Fund. These are effectively mutual funds. But instead of an active manager selecting the underlying stocks or bonds they are built simply to mimic an index. An index would be something like the S&P 500 or the Russell 2000. Instead of buying individual large stocks, you could just buy the market and purchase an S&P 500 index fund which will follow the entire 500 stocks. You can also follow a sector, e.g. all the Tech stocks or all the industrials. Not having to pay someone to pick individual stocks make this is a very low-cost way to invest and is a popular way to execute a "buy and hold" strategy. The difference between index fund and ETF funds lies in the structure. Both follow the same basic idea. But Index funds are built like mutual funds in that they only trade at the end of the day - you can't buy and sell mutual funds during trading hours. An ETF, as the name says, are built onto an "exchange" so that you can trade them intra-day like a stock.

Probate
Refers to Probate Court, which is a certain portion of the law that governs the disposition of people's assets at death. If you don't stipulate ahead of time, the court system is responsible for making sure that the money goes where it is supposed to. Nothing inherently wrong with this, but it can take time.

Volatility
Often used as a measure of risk in investments. Volatility refers to how volatile the stock is. Which means how much it moves up and down. All publicly traded securities move around in price a lot - a stock that returns 10% on average might swing between up 30% and down 20%, which makes it very volatile. A bond on the other hand, tends to be less volatile. If it returns 5% on average over the long run it might swing between up 10% and down 5%.

Why do we care? Because if I need to sell that security at some point to A) take advantage of an opportunity or B) to live on, then you would be wary about investing in something that is volatile. Because you don't want to be in the down 30% phase when you need the cash - because then you might be forced to sell at low points.

Alternative / Non-Correlating
A generic term to refer to assets that do not move inline with the markets. When we talk about the markets, we are generally referring to the stock and bond markets. Correlation means how these markets (and other assets) move together. We discuss them in terms of positive and negative. Traditionally when stocks go up, bonds go down. They are negatively correlated.

Stocks, on the other hand, tend to be positively correlated - if lots of stocks are going up, other stocks tend to go up as well. Non-correlating simply means that they don't affect each other. Traditionally, commodities (precious metals, real estate, etc) move independent of both the stock and bond markets. They were considered alternative assets because they were non-correlating. By the same token, if you start your own business and it is not publicly traded - the stock market going down will likely have no effect on the value of your business. All of these ideas, however, are a LOT like the Pirate Code. They are more like guidelines than actual rules. (See 2008 when literally everything went down at the same time).

NOTES FOR EXHIBITS

FINANCIAL ROADMAP

The financial roadmap is the main portion of your financial plan. It outlines the basic tools you need and where/how we invest your money. As we say above, money is a very poor multi-tasker. It needs to be assigned to a specific job to be effective. And since some jobs are riskier than others, they need to happen in a certain order to make sure you don't run into trouble.

WATERFALL PLAN

Your waterfall plan is the what some describe as your savings plan. We all have limited resources and have more things we want to do with our money than we have money to do them with. The goal of the waterfall plan is to help you prioritize the items to make sure they happen in an optimal order. Remember, you will get there eventually but sometimes you have to put one foot in front of the other for a bit!

EMERGENCY FUND MATRIX

The first level of your financial roadmap and the first savings goal you need to accomplish is to fund your emergency fund. But how much should your emergency fund have? This handy matrix will give you an idea of what the goal should be.

PERSONAL SAVINGS PLANS

There are two versions of this, each slightly different based on if you have an employer sponsored retirement plan (e.g. a 401(k)) or not. The goal of these steps is to help you fill in your Waterfall or personal savings plans - based on your current scenario. As with most things, balance is key. These steps will help you prioritize your savings so you can relax knowing that, while we might be doing everything we want right now, there IS a plan to get there!

IRA OVERLAY

One of the biggest questions I get all time is whether or not to use a ROTH IRA or a Traditional IRA. If you are funding your "Beyond the Horizon" goal (either 401(k) OR IRA) and you ahve the option to use a ROTH, it can be a great idea. This table will help you figure out how much of that IRA money needs to put into a ROTH account versus a regular account.

ENDURING VS OPPORTUNISTIC

Once you build your house all the way up the last form of investing is the paired duo - Enduring and Opportunistic. Remember that Opportunistic are the investments that come along every so often that you want to jump on. They are the riskier, more illiquid and longer term investments. Enduring investments are very stable, earn a modest amount - but have enduring value. They are accessible easily at all times, they don't have big swing. These pair will together because when there are opportunities we can empty out the enduring to jump on them. And when we don't have any opportunities we can have a nice place for our money to sit while it waits for the next opportunity to present itself.

For these investments it is all about the **ratio** between them and keeping that ratio intact over time. Emphasis added because we might swing one way or the other quite dramatically - but over the long run, we like to maintain a balance between them. We use ratios here instead of dollars because this is the area that can grow infinitely - which is why it is the TOP of you plan. Things like IRAs and 401(k)s have hard dollar limits. The dynamic duo doesn't: a 1:2 ratio could be $1,000 and $2,000 or it could be $1,000,000 and $2,000,000. It doesn't matter how much you have, just that you keep the duo balanced.

LIFE INSURANCE MATRIX

Like the Emergency fund we use a basic matrix to determine how much life insurance you might need. The general idea is that we want enough to pay off any major debts if you die and we want to have a chunk of money that can be used to help support each of your kids. We also generally use term policies because it keeps the cost lower. Some people do use life insurance as a savings tool as well, but I generally only recommend that once the basic coverage is done with term.

Financial Roadmap

Review & Refine

ENDURING INVESTMENTS
Stable Value & Low Volatility

Flexible, low risk, and easy to access investments.

OPPORTUNISTIC ASSETS
Alternative & Non-Correlating

Assets not market-based — commonly start-ups or real estate.

FISCAL TOOLKIT
Debt & Insurance

Using debt as a tool and insuring against longer term risks.

BEYOND THE HORIZON
Long-term Investments & Retirement

Volatile investments in accounts with restrictions.

Start Here

FINANCIAL FOUNDATION
Basic Planning & Liquidity

Checklist:
-Will & Trust Package
-Basic Life Insurance
-Understand Assets & Liabilities
-Build Your Own Plan
-Understand Good Habits

Waterfall Plan

Income & Savings Goals

Let's get started...

Goal 1
*
*
*

Goal 2
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*
*

Goal 3
*
*
*

Goal 4
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*
*

Goal 5
*
*
*

Bravo!

Emergency Fund Matrix

Use this to help figure out what you should have in your emergency fund

Let's get started...

Start with the Base Amount

Age	Under 30	30 - 40	40-55	55-65	Over 65
Income					
Under $50k	$ 10,000	$ 15,000	$ 20,000	$ 25,000	$ 30,000
$51k to $100k	$ 15,000	$ 20,000	$ 25,000	$ 30,000	$ 35,000
$100k to $150k	$ 20,000	$ 30,000	$ 40,000	$ 50,000	$ 75,000
$150k to $250k	$ 25,000	$ 40,000	$ 50,000	$ 60,000	$ 85,000
Above $250k	$ 35,000	$ 50,000	$ 75,000	$ 85,000	$ 100,000

Increase Factor #1: Do you have children?

Age	Under 5	5 to 11	11 to 15	16 to 22	Above 23
For Each Kid	5%	5%	7%	10%	0%

Increase Factor #2: How insecure is your job?

Job Insecurity	Extreme	Moderate	Low	Self Employed
	15%	10%	5%	15%

Increase Factor #3: Are you married?

Marriage	10%

Congratulations!

You now have a solid number that you can use as your goal!

Bravo!

Personal Savings Plans
Employer 401(k)

- If your Mortgage is adjustable - contact a professional
- If you have Student Loans over 7% rate, consider them consumer debt
- Assume that all minimum and mandatory payments are made as part of normal expenses

STEP 0	**If Consumer Debt is less than 30% of total income:** 100% to Consumer Debt until paid off, then Step Two **If Consumer Debt is more than 30% of total income:** 75% to Consumer Debt and 25% to Emergency Fund, until debt is paid then Step One.
STEP 1	**If Emergency fund is less than 50% of target,** 100% to Emergency Fund, then Step Two.
STEP 2	50% to Emergency Fund, and 50% to IRA **Once Emergency fund hits 50% of goal AND Retirement contribution is maxed** then Step Three.
STEP 3	**Two Extra payments to Student Loans and/or Personal Loans** (If Applicable) 100% remainder to Emergency **$X a year to Beyond Horizon (Where X = 3% of income)** 100% to Enduring Investment **When Enduring = 100% of annual income or 200% of Beyond Horizon** then Step Four.
STEP 4	Target ratio of "Y" between Enduring and Opportunistic

Personal Savings Plans
Non-Employer 401(k)

- If your Mortgage is adjustable - contact a professional
- If you have Student Loans over 7% rate, consider them consumer debt
- Assume that all minimum and mandatory payments are made as part of normal expenses

STEP 0	**If Consumer Debt is less than 30% of total income:** 100% to Consumer Debt until paid off, then Step Two **If Consumer Debt is more than 30% of total income:** 75% to Consumer Debt and 25% to Emergency Fund, until debt is paid then Step One.
STEP 1	**If Emergency fund is less than 50% of target,** 100% to Emergency Fund, then Step Two.
STEP 2	50% to Emergency Fund, and 50% to Company 401(k) **Once Emergency fund hits 50% of goal AND Retirement contribution** is $500 per month (Or on track to be $6,000 for the year), then Step Three.
STEP 3	**Two Extra payments to Student Loans and/or Personal loans (If Applicable)** 100% remainder to Emergency 100% to 401(k) Maximum 100% to Enduring Investment **When Enduring = 100% of annual income or 200% of Beyond Horizon** then Step Four.
STEP 4	Target ratio of "Y" between Enduring and Opportunistic

IRA Overlay

Which IRA should you get?

	Under $50k	$51k to $100k	$100k to $150k	$150k to $250k	Above $250k
Under 30	ROTH	ROTH	50/50	50/50	Traditional
30 - 40	ROTH	ROTH	50/50	50/50	Traditional
40-55	ROTH	ROTH	50/50	Traditional	Traditional
55-65	ROTH	ROTH	Traditional	Traditional	Traditional
Over 65	Traditional	Traditional	Traditional	Traditional	Traditional

Enduring vs Opportunistic

Use this to help figure out which type of investments to make.

Enduring	Opportunistic	Age
1	2	Under 30
1	1.75	30-40
1	1.5	40-55
1	1.25	55-65
2	1	Over 65

Life Insurance Matrix

Use this to help figure out what amount you should get your life insurance for.

Let's get started...

Start with $50k

Add enough to cover the mortgage & consumer debt

Add $500k for each kid under 10

Add $250k for each kid over 10

Total is non breadwinner
Double it for primary income source

Type of Policy:
Any kids under 10, use a 20 year term

Under 40, use a twenty year term
40 to 50, use a fifteen year term
50 to 55, use a ten year term
Age over 55, contact a professional