Sarah Miller: Now let’s turn the program over to Gail Patterson to introduce our second speaker. Gail—

Gail Patterson: Thank you, Sarah. For the past decade, Dayana Yochim has demystified the basics of money and has pulled the curtain back on all areas of consumer finance including savings, spending, home buying, credit cards, insurance, couples’ finances, IRAs and the [psychology] of money. Dayana’s ability to make money-saving and money-making strategies accessible for millions of people is one of the reasons she is a frequently sought-after public speaker and commentator. She has appeared on “The Today Show,” Fox News, PBS and CNN, NPR, and has been quoted in such publications as The Washington Post, Newsweek magazine, Glamour, Details and Jane. Dayana is the [co-]author of two books, *The Motley Fool’s Guide to Couples and Cash: How to Handle Money with Your Honey* and *The Motley Fool Personal Finance Workbook: A Foolproof Guide to Organizing Your Cash and Building Wealth*.

She is currently one of the advisors for GreenLight, The Motley Fool’s personal finance newsletter service. The Motley Fool is a multi-media financial education company whose mission is to educate, enrich and amuse individual investors around the world.

Prior to joining The Motley Fool, Dayana spent six years writing for business publications in Kansas City and New York, before becoming the editor of the online edition of Worth magazine. Welcome, Dayana.
Dayana Yochim: Thank you very much. The best part of a teleconference is I don’t have to worry if I’m having a good hair day or not, so I love this – talking on the phone about money.

As Michele said, this can be a daunting topic. It’s overwhelming. Entire books have been written about preparing for every financial inevitability in life. You know, life events -- the typical ones -- are marriage, moving, divorce, college, having kids, but even things like buying a car, getting a pet or getting a nose job – those are also financial events. They’re life events that touch your finances in some way. But what inspires most of us to actually prepare financially for a life event is one thing – it’s panic.

A few years ago, my car was stolen. That’s the panic event that actually got me to finally review my insurance coverage after years of simply paying the bill and, you know, going on my merry way. And, that’s when I learned that I only had liability and not comprehensive coverage. So, my stolen car -- although an older model -- I was out that and wasn’t going to get an insurance check in the mail. You know, it’s human nature to wait until there’s a four-alarm fire to get our finances in order, and studies show that people, after they lose a job, get divorced or married, have a medical emergency. Those are the times that they often seek help and they start to really dig into their financial picture.

The point here is not to wait for a major life event to send you into money triage. As Sarah mentioned in her opening remarks, preparation is what turns a potential financial setback into [an] opportunity. So, having a formal financial plan in place can eliminate a lot of the stress and uncertainty that many of us face every day and don’t even realize it’s stressing us out.

In general, your financial priorities tend to age with you. In our twenties and thirties, we focus on building a decent future. There should be two goals here.
Number one is keep your debt in check -- and we can’t emphasize this enough. Live like a poor college student as long as you can stand it. Have roommates. You know, eat take-out. No, your entire diet shouldn’t consist of Ramen Noodles, but really watch the spending here, and also don’t rely on other people who are telling you how much money you actually have to spend.

The credit card industry – lots of lenders depend on you spending up to your potential and beyond it. That’s how they make money. That is not how you make money over the long term.

And, Number two, in your twenties and thirties get into the habit of saving. When you’re young, it’s much more important how much you save, not necessarily the rate of return because of something magical called compound interest. And Michele mentioned a couple of calculator sites you can go to, and we have calculators as well – savings calculators on www.fool.com. Start running a few scenarios. You will be surprised at how everyday savings -- if you start young -- really builds on itself and can make you pretty wealthy at a younger age.

The next life stages are forties and fifties, and luckily these are peak earning years. But, try not to make them your peak spending years either. At this point, there are a lot of big-ticket items that are going to be fighting for your dollars -- things like covering college costs for the kids and retirement savings for you. Here it’s important to consider the aid that’s at your disposal when you’re allocating your money. So, in the example there of [saving for] college versus retirement, remember there’s no such thing as a scholarship for retirement. So, “Sorry kids, you’re going to have to study hard, get some scholarships or foot the college bill on your own.”
And, also at this point, it’s important to balance your priorities elsewhere, to think about your insurance needs and your savings and to make sure that you’re really concentrating on your returns at this point, as you’re still in the working world.

And, finally when you’re approaching retirement -- you’re age 55 and up -- it’s more about protecting your wealth and also your family’s wellbeing, and again here, adequate insurance -- long-term care, for example -- is extremely important. It’s something to look into. A serious medical condition can wipe out a lifetime of retirement savings if you’re not careful.

Also here, you want to make smart choices about sheltering your income from taxes. Estate planning is very critical. It ensures that your family -- and not Uncle Sam -- will receive the bulk of your bounty when you do finally pass on.

So, really it doesn’t matter what life stage you’re in or what life event you’re facing, having a formal financial plan in place again removes stress and uncertainty at every turn.

Now, since you probably have plans this weekend, or a full-time job, or don’t do money for a living like the rest of us do, we’re going to take a financial planning shortcut. I have broken this down into five easy steps.

First, Step One – take a simple financial inventory. The math here is really easy. A financial inventory is simply your assets minus your liabilities, and that equals your net worth. So, your assets [are] things you own, your savings, your retirement accounts, you know, your Beanie Babies collection that you could sell on e-Bay for some quick cash.
Next you subtract what you owe other people – liabilities. They’re like credit card debt, a car loan or student loan, and we’re leaving the home equity mortgage out of this equation just to keep it simple. The number that you get equals your net worth. That’s Step One.

Step Two – you’re going to freak out because your net worth is not going to be anywhere near the net worth that you’re reading about in Forbes and Fortune and People magazine.

Step Three – follow the money once you’re done freaking out. See where it goes on a day-to-day basis. Now, this doesn’t have to be a torturous exercise. You can simply track your money for a week, take out cash and write down – keep a little notebook and write down exactly where you’re spending your money. It’s a very eye opening exercise, and it leads directly into Step Four, which is freak out again.

And, finally Step Five – take deep breaths. Remind yourself that this is not a permanent state. Consider this the “before” shot of your finances, before the make-over. Why this is important – why getting a snapshot of where you are now is critical is because vague ideas about your finances, about how you spend and save don’t serve you very well when you’re making a financial plan. You cannot re-evaluate your finances until you evaluate them in the first place.

So, now you have a snapshot of where you are right now. Next comes the planning part. There’s the emotional, the mental preparation. I call this the virtual shopping trip, and if you’re coupled, you do this exercise with your significant other. First, write down your goals. Break this into three parts. [First write down] your immediate goals, the things that are important to you in the present that require some cash to keep going. Next, write down five things that you envision for your near-term future, for the next five to ten
years. Maybe it’s a down payment on a house or finally funding an emergency stash of cash, all of those things that you see happening in the sort of mid-term future.

And, finally long-term – where do you want to retire? When do you want to retire? Where will you live? What will you spend your days on? How much do you think you will need? Then, take a break. You’ve got this list of your goals. Revisit this list with fresh eyes and start prioritizing them. Add some tangible money milestone markers to each of them. What you do is you break down that vacation into, you know, check for the prices on the cruise you want to take your family on next year. Break it down to a monthly savings goal. Write all these things down by your goals so that you have really a more concrete action plan to get to where you want to be.

What you have in your hands - these financial goals - are an actual plan. Don’t skip this goal-setting part. There are a lot of psychological and practical bonuses to setting these goals. First of all, they give you a reason to save. Again, it’s avoiding the vagueness of not knowing what you want to do with your money. So, they help you funnel your money to the things that are really important to you and your family.

Also, being specific helps you pinpoint how to spend your money. Just having this idea, “Oh, I’m saving for the future,” isn’t good enough. Pie charts, graphs; they totally rock. There are a lot of financial tools out there that help put your finances in union – a three-color pie-chart glory. So, use those to see exactly where you stand now. And, finally, goals really crystallize the fuzzy thinking about finances and inspire people to take action.

Now, financial planning also has a lot more formal items that will help make your plan go without a hitch, and I’ll only touch on a few of these briefly.
Legally, you want to make sure that things are in place so that you and your family if you’re caught off guard – because, unfortunately, a lot of life events are ones you don’t necessarily see coming … if you’re caught off guard, you want to make sure you have the important papers in place to make sure everything goes well.

The three most important documents are a will, number one. It details exactly what should happen to your property or your assets if you die, and if you have children, this is a must. Not having one really complicates things and really needlessly puts the pressure on your loved ones at really one of the worst times of your life, so you’ll want to see an attorney to get this.

A living will or an advance medical directive is a second item that you want to get. You can get this free at virtually any hospital. It details your medical wishes so that if you are unable to do so yourself, there’s this document that’s in place that tells people what you wish to happen and finally, there’s the Durable Power of Attorney and Medical Power of Attorney. Again, should you be unable to make legal or financial or medical decisions on your own, this designates someone or some ones to do so on your behalf. Again, this is something that you’ll probably need to see an attorney to get.

So, all of these things, if you have a family or a significant other, keep them up to date. Review this annually, at least. Review your goals and again those milestone markers on a regular basis. Quarterly, that’s great. The financial world loves to issue quarterly reports, and at The Motley Fool, we recommend that’s probably a good thing to mark your calendar with too. You want to see how you’re progressing and where you might need to make some tweaks in your plan.

And remember, you don’t have to wait for a major life event, like a stolen car in my instance, to scramble to come up with a money plan to see how you’re
doing. Take a few simple steps right now and you’ll be amazed at how much better and more prepared you feel. Thank you very much.

Sarah Miller: Thank you, Dayana.