

Money Management Tips

By David Futrelle, George Mannes and Cybele Weisser, *MONEY Magazine* June 7, 2005

Automate your financial life

Call your mutual fund or broker to have monthly investments routed from your bank. Do the same for your monthly utility, cell-phone and cable payments. You'll find it easier to budget, and you'll never pay a late fee again.

Know your credit score

Order your credit score from all three major credit bureaus for \$45 from Myfico.com. True, you're entitled to free copies of your credit reports this year, but one detail will be missing: the magic number that lenders and insurers use to judge your credit-worthiness. Pay for that.

Don't take it with you

Pass on money to your children now rather than bequeathing it. Gifts of up to \$11,000 a year are tax-free. Besides, your kids and grandkids will thank you -- which they can't do if you're dead.

Digitize the financial drudgery

Buy either Quicken or MS Money, software that will help you track your spending, see your portfolio allocations, estimate next year's tax bill -- all the tedious tasks you know you ought to do but never would unless someone made it very easy. You'll spend a couple of hours on initial setup, but from then on, you'll be amazed at what you can do with your money, once you know what you're doing with your money.

Have a financial plan

Hire a financial planner to review your retirement and college savings plans. At www.garrettplanningnetwork.com and www.myfinancialadvice.com, you'll find planners who work by the hour (usually \$150 to \$200 per). Getting on track will take eight to 10 hours up front, plus an hour or two for a yearly checkup.

Stop assuming you're immortal

Hire a lawyer to craft a will, a durable power of attorney, a living will and a health-care proxy. It may cost \$1,500 to \$2,000 (more for large or complicated estates), but could save your heirs thousands in taxes and fees. Unless, of course, you live forever.

Max out your saving

Put as much as you possibly can into your 401(k). Assuming a 7 percent return and a 50 percent match, upping your annual contribution by one grand and keeping that up for 30 years will fatten your nest egg by \$153,110. You can stash away a maximum of \$14,000 this year (a thousand more than last year), or \$18,000 if you're 50 or older.

Don't toss the spare change

At six-month intervals, find a coin sorter and deposit your change in a savings account.

Fill 'er up with regular

If your car's engine isn't supercharged or turbocharged, run it on regular gasoline. If the engine doesn't knock or ping, it's fine. You aren't hurting your engine or its performance. In most engines, all premium gasoline does is cost you more money.

Take advantage of the concierge

Book a room on the hotel's concierge floor. It'll cost \$20 to \$40 more than the same digs on another floor, but consider the freebies: drinks, hors d'oeuvres, dry cleaning, shoe shining and help with reservations.

Start your kids saving early

Have your child open an IRA. Kids who earn money from an after school or summer job can put as much as \$4,000 a year into a Roth IRA. After five years of tax-free growth, he or she can make penalty-free withdrawals for college -- or get a jump on retirement.

Bundle your communication bills

If you spend more than \$50 a month on local and long-distance phone service from two different companies -- or more than \$110 a month on phone, cable and high-speed Internet from three different ones -- you may be able to save up to 25 percent by ordering a bundled service from one provider.

Buy running shoes

How is investing in \$120 sneakers a smart money move? Let's see: Running reduces the risk of heart disease and stroke, lowers blood pressure and burns more calories than any other exercise -- for less than a \$50-a-month gym membership.

Reduce your taxable income

Fund a flexible spending account at work. Your boss deducts pretax money from your paycheck, which you then use to pay for medical expenses ranging from insurance deductibles to aspirin to acupuncture. Every \$1,000 you put in (you can contribute as much as \$5,000 a year) cuts your tax bill by about \$300. Sign up in open enrollment every fall.

Cut your losses

Sell a stinky stock or fund. In a taxable account, your losses can offset capital gains and cut your taxes, thus converting a dumb investment into a smart tax break. If you change your mind, you can always buy the fund back.

Donate your shares

Donate stock, not cash, to charity. Not only will you help those in need, you'll forever avoid taxes on any gains on the stock -- and you can deduct the full value of the shares on your tax return. The charity will be happy to help you with the paperwork.

Monetize the spare bedroom

Start a business from your home, however small, and magically, expenses ranging from Internet access to plumbing repairs can become at least partly deductible. There are rules, of course: You have to use your home workspace exclusively for work, among other things. Print out Publication 587 from www.irs.gov for details; however, don't read it when you're tired.

Save on a schedule

Invest the same amount in a mutual fund every month. That ensures you'll buy more shares when they're cheap and fewer when they're expensive. T. Rowe Price's Automatic Asset Builder program, for one, lets you contribute as little as \$50 a month to nearly any of its funds -- and limbo under the usual \$2,500 minimum initial investment (800-638-5660; www.troweprice.com).

Watch those fund expenses

Look for mutual funds that have expenses below 1.33 percent for stock funds and 0.89 percent for bond funds. Study after study shows that keeping investment costs low is the best way to increase your odds of earning a high return. Cheapest of the cheap are index funds from Vanguard (800-851-4999; www.vanguard.com) or Fidelity (800-343-3548; www.fidelity.com).

Have some splurging money for risky investments

If you really want to own the next big thing, set aside no more than 5 to 10 percent of your portfolio for those "swing for the fences" choices. You'll get your thrill -- but won't do yourself too much harm if (as is more common) the stock doesn't live up to its hype.

Own some foreign stocks

Diversify your portfolio beyond our shores and you'll reduce risk and have a shot at higher returns. Put at least 20 percent of your money overseas. Start with two **MONEY 50** funds: [Artisan International \(Research\)](#) for stocks, and [American Century International Bond \(Research\)](#) for bonds.

Rebalance once a year

Every Aug. 1 (or pick your own day), trim back investments that have grown and add to those that have lagged to match your ideal portfolio allocation (use our [Asset Allocator](#)). Do this once a year and you automatically sell high, buy low and, studies show, add measurably to your final return. Or put your money in a fund that allocates for you, such as Fidelity's Freedom Funds (800-343-3548; www.fidelity.com).

Splurge with your miles

Use your frequent-flier miles to buy a business- or first-class seat. Coach seats on domestic flights are so cheap that they're rarely the best use of your miles -- and those reward seats are scarce to boot. You'll spend 25,000 miles for a free seat worth \$150 on a coast-to-coast flight, whereas 100,000 miles gets you a \$3,000 business class seat to Europe and a shot at a good night's sleep.

Get your credit-card fees waived

Ask your issuer to waive that \$30-to-\$70 annual fee. The ability to take your business elsewhere confers great power. Use it. Many issuers will blink if they think you'll walk. Missed a payment just once? Cite your on-time record and ask them to kill the late fee.

Pay to replace your stuff

When you insure your home, make sure your policy includes replacement-cost coverage, not the default, called actual cash value. It'll cost about 10 percent more but will pick up the full price of rebuilding and refurbishing your home.

Dicker with the doctor

For routine and scheduled procedures like orthodontics, MRIs, colonoscopies or medically prescribed physical therapy, call your insurer and find out what it considers a "reasonable and customary amount" for the treatment. Then ask your doctor to match it. He or she probably will. Patients who ask get a lower price about half the time.

Buy used instead of new

Buy a used car instead of a new one, and let someone else pay for the depreciation. In a car's first year, that averages 30 percent, according to Edmunds.com. What that means: For about \$25,000, you can buy either a new Toyota Camry or a 2004 Lexus IS300. What's smarter?

Get stability control on your car

On your next new car, get electronic stability control, a safety feature helps prevent skids and spins. Studies show it reduces SUV single-vehicle crashes by 67 percent. It's standard on vehicles ranging from the Audi A3 to the BMW Z4, and a \$500 option on others. For a list of ESC-equipped vehicles, go to www.esceducation.org.

Say no to over-priced wine

Never spend more than \$20 on a bottle of wine (special occasions excluded). True aficionados know that some of the wine world's greatest pleasures can be found at the lower end of the wine list. If your snobby friends look askance at you for bypassing some overrated white Bordeaux in favor of an unpretentious but inexpensive pinot noir with a lovely fruity nose, get new friends.

Back up your data -- often

Buy an external hard drive and copy all the precious data on your computer. How devastating would it be to lose all your family photos, financial records and music files? Don't wait until your hard drive dies to find out.

Shred so it can't be read

Buy a paper shredder. When it comes to identity theft, real-world thieves eyeing your trash cans like hungry raccoons are a bigger threat than Internet hackers. Invest in a cross-cut shredder, and turn your financial documents into confetti. Personal shredders can go for as much as \$90.

Get rewards you will actually use

Switch your airline miles or other merchandise rewards to a credit card with rewards you'll actually use -- like cash back. Search for a no-fee card that suits you at www.cardweb.com or www.bankrate.com.

Change your oil

You'll improve your chances of the odometer setting records by doing so on the automaker's suggested schedule. Don't sabotage your diligence with cut-rate oil. Look for the American Petroleum Institute's seal of approval on the bottle.

Get a fast connection

Upgrade to a broadband Internet connection. A high-speed connection via cable TV or DSL phone service costs more -- expect to pay about \$30 to \$40 a month compared with monthly dial-up rates of \$10 to \$24 -- but you'll save time and money banking online, researching your investments or booking a vacation.

Don't carry a credit card balance

If you have cash wallowing in a money fund or bank account at 1 percent and a credit-card balance at, say, today's average rate of 13 percent, write a check for the balance immediately. That's a 13 percent return -- with no risk.

Network your way to a better job

Meet a former colleague once a month for a bite to eat. A regular \$30 out-of-the office lunch could reward you with a fat, up-to-date Rolodex the next time you're in the job market.

Spend down your assets for college financial aid eligibility

If you think your kid might qualify for aid, selectively spending down your assets and your child's can increase your chances of getting it. A year or two before your kid's junior year in high school, use any extra cash to pay off credit cards. If your child has an UGMA or UTMA custodial account, spend it on other education expenses, such as SAT tutoring or a computer for him or her.

Read up on your industry

Subscribe to a publication -- a business magazine, a trade rag, a learned journal -- that no one else in your office reads. Collect ideas, share said ideas with your boss, reap rewards.

Send the kids to college

Spend whatever it takes, save whatever it takes, borrow whatever it takes. Education is the smartest investment you can make in your children's most valuable asset, their earning power. College graduates make 80 percent more than people with only a high school diploma, which adds up to an extra million over a lifetime.

Go back to school

A recent study found that going back to school to get an M.B.A. can add a full 45 percent to your salary.

Speak confidently

No one ever got a raise by being a wallflower. Spend a few hundred dollars on a public speaking class at a community college or get training and practice at Toastmasters (www.toastmasters.org). Annual dues: \$50.

Get disability insurance

You have about a 30 percent chance of becoming disabled for three or more months at some point in your working life. Disability insurance keeps the cash flowing. You need this. If you're not covered at work, get a policy that pays 60 to 70 percent of your earnings until age 65.