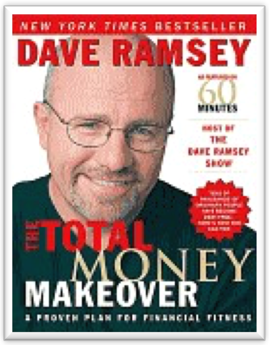
The Total Money Makeover: A Proven Plan for Financial Fitness
by Dave Ramsey



Ramsey broadcasts his financial advice to millions each week on his radio program, *The Dave Ramsey Show.*

So you're making payments on your car, your furniture, your house and your credit cards. In other words, you're a typical American...and you're in trouble. You're behind on your payments and see no earthly way to dig your way out of your miserable pit. You need Dave Ramsey.

If you've never heard Dave on the radio or read his works, be prepared for his direct talk. He doesn't sugarcoat his advice. He'll tell you what's smart and what's stupid. He won't tell you that the road out of debt is always easy. Read his book and you'll know very clearly where he stands.

Ramsey gives a step by step approach to getting out of debt, saving and investing for the future. But he gives you more. People in financial trouble need more than a method; they need hope. Ramsey offers hope by telling you, from his personal experience and the experiences of others, that YOU CAN MAKE IT! This book gives the wisdom you need, but, additionally, gives testimony after testimony after testimony of people who were $80,000 in debt or $120,000 in debt and became debt free by following Ramsey's advice.

Dave's Mantra:

If you live like no one else, later you can live like no one else.

In other words, don't try to keep up with the Joneses. Sure, they've got lots of nice things. But they're broke! To find financial peace and sleep well at night, you've got to live differently than those around you ("like no one else"), so that you can eventually live debt free, with a substantial emergency fund, and a sizeable nest egg saved up for retirement ("like no one else").

Dave's Advice:

1. Deal With Your Denial

Honestly evaluate your current financial condition. Don't take comfort in the fact that you're like everybody else. Most others are in perilous financial condition.

> *Seventy percent of Americans live paycheck to paycheck...." (p. 11)*

2. Don't Swallow the Lie that Debt is a Tool

We use credit cards to get what we want now, rather than earning until we have enough to afford them. There's a word for wanting things now, whatever the cost. Immaturity.

> *"My contention is that debt brings on enough risk to offset any advantage that could be gained through leverage of debt. Given time, a lifetime, risk will destroy the perceived returns purported by the mythsayers." (p. 21)*

> *"The Forbes 400 is a list of the richest 400 people in America.... When surveyed, 75 percent of the Forbes 400...said the best way to build wealth is to become and stay debt-free.... They all lived on less than they made and spent only when they had cash. No payments." (p. 23)*

Don't cosign for loans: You can ruin your own credit and will be responsible to pay if they don't. Lending institutions are eager to loan money. If they consider the person a bad risk, why shouldn't you?

Stay clear of these bad deals: Cash advances, Payday Loans, Rent- to-Own, Title Pawning, Tote-the-Note Car Lots.

Don't make car payments. Most people make car payments their entire lives. The average payment is $378 over 55 months. Let's imagine that instead of making car payments, you purchase a car outright and put that money in a mutual fund every month from age 25 to age 65, making 12% interest. You'd have $4,447,084.01. (p. 32)

> *"Taking a car payment is one of the dumbest things people do to destroy their chances of building wealth." (p. 32)*

Even if you pay your credit cards off each month, they are a bad deal.

> *"A study by Dunn and Bradstreet showed that the credit- card user spends 12 to 18 percent more when using credit instead of cash."* (p. 42)

On buying a trailer: It's better to rent rather than to buy a trailer, which goes down in value.

A home is a good investment if you can afford one.

Do a budget.

> *"A budget is people telling their money where to go instead of wondering where it went."* - John Maxwell

On homeowners' and auto insurance: Save on premiums by choosing higher deductibles.

On life insurance: Choose twenty-year level term insurance "equal to about ten times your income."

On health insurance: Go with a larger deductible to lower your premium.

On long-term disability insurance: Get it. *"You're twelve times more likely to become disabled than to die by age sixty-five."*

On long-term care insurance (for nursing home or in home care):
Get it if you're over 60.

Get a will: 70% die without one.

3. Start a Lifetime Quest to Learn More About Money

Read something new about money at least once per year. (See Dave's Web site at www.daveramsey.com for recommended reading.) Occasionally attend a money seminar.

4. Set Up a Budget.

> *"Money is an excellent slave and a horrible master." (P.T. Barnum)*

Your budget is where you tell your money what it will do next month.

> *"...I assure you that virtually none of the thousands of winners I have seen did so without a written budget." (p. 95)*

Don't be casual. Get fired up! You can't do it without focused intensity.

5. Take Baby Steps Toward Financial Freedom

Baby Step #1: Save $1,000 cash as a starter emergency fund.

78% of us will have a major negative event in the next 10 years. Without an emergency fund, you might sink!

Have a garage sale; deliver pizza on the side if you have to, but save that $1000!

Baby Step #2: **Start the "Debt Snowball."** Begin with the small debts first (in order to give you some quick wins and keep encouraged). Pay off every debt except for your home.

Flee debt with the intensity of a gazelle running from a cheetah.

Rule of thumb: *"If you can't be debt-free on it (not counting the home) in eighteen to twenty months, sell it."* (p. 125)

When you're out of credit card debt, perform a **plasectomy** (cut up your credit cards)

Baby Step #3: Complete Your Emergency Fund. It should cover three to six months of expenses (in case you lose your income).
It depends on your amount of risk. If you've worked for 15 years as a postal worker and you're healthy, go for three months. If you're a real estate agent, consider six months.

A *Parenting* magazine poll found that 49 percent of its respondents could last less than a month if they lost their income.

Keep the money liquid, so that you can retrieve it without a penalty. Not in a mutual fund. Not in a CD. A money market fund is usually best, since you can write a check on it and make some interest as well.

Baby Step #4: Invest 15% of Your Income in Retirement

Invest 15% of your gross income. Don't include company matches.

Don't count on Social Security benefits.

> ***USA Today***: *"56 percent of Americans do not systematically prepare for retirement age by investing." (p. 153)*
>
> ***Wealth Builder Magazine:*** *"80 percent of Americans believe their standard of living will go **up** at retirement." (153)*
>
> ***USA Today:*** *97 out of 100 sixty-five year-olds can't write a check for $600. (p. 154)*

Don't pay off your house first. You need to get that investment money multiplying.

> **Ibbotson Research:** *"97% of the five year periods and 100 percent of the ten-year periods in the stock market's history have made money."* (pp. 156, 157)

Start with any investment that your company will match.

Next, open a Roth IRA, which grows tax free. Invest as much as you're allowed to invest each year.

If you still have more in your 15%, go to 401ks, 403bs, 457s, or SEPPS.

Dave selects mutual funds with a winning record for more than five years, preferably more than ten years. He puts 25% into Growth and Income funds, 25% into Growth funds (an S&P Index fund would work), 25% into International funds, 25% into Aggressive Growth funds.

Have a goal! Plan to live off 8% of your nest egg each year. If you have an annual income of $40,000 and think you can live off that much in retirement, then multiply $40,000 by .08 to get your needed nest egg of $500,000.

Baby Step #5: Save for College

Education is for knowledge, not to guarantee a great job or success. In a few fields of study, it can matter which college you attend. In the great majority of fields, it doesn't matter. Pay cash. Don't borrow.

> *"Student loans are a cancer."*

Recommended: Invest in an ESA (Educational Savings Account) so that it can grow tax-free. Put it in a growth-stock mutual fund to get a high rate of return.

If you reach college age and don't have enough saved, find alternatives to student loans. Some companies have work-study programs. The military offers a free education to people who enlist for a certain number of years. Check into what the National Guard offers. Look into scholarships.

Baby Step #6: Pay Off Your Home Mortgage

Dave counters the two traditional arguments for not paying off your mortgage.

Argument #1: "I don't want to lose my tax break on my interest payments."

Counter Argument: When you run the numbers, you'd be paying much less each year by not making a payment (since your house is paid off) than by making a payment and getting a deduction. Example: if you had to pay $10,000 in interest last year and were in the 30% tax bracket, you'd get $3000 off of your taxes. But if your house was already paid off, you wouldn't have had to pay the $10,000 in the first place, so that you come out $7000 ahead.

Argument #2: Since the interest rate on my house is lower than the interest I can get in an investment, I'd be losing money by paying off my house.

Counter Argument: Let's say you're paying 8% on your mortgage and you think you can get 10% on your mutual fund. First, you have to pay taxes on the money you make each year in the mutual fund, so that you don't get the full 10%. Second, you take more risk by keeping the loan on your house. If your house were paid off, nobody could take it from you because of missed payments.

Never take more than a 15-year loan.

Never take out a mortgage where the payments consume more than 25% of your take home pay.

Baby Step #7: Build Wealth Like Crazy

There are three good uses for money:

- For Fun
- To Invest
- To Give

Dave invests in "simple mutual funds and debt-free real estate...."

> *"Always manage your own money. You should surround yourself with a team of people smarter than you, but you make the decisions."* (p. 208)

> *"Giving is possibly the most fun you will ever have with money."* (p. 212)

Ramsey ends the book with more testimonies and 17 useful forms for income sources, monthly cash flow plan, etc.