



Your Money Ratios: 8 Simple Tools for Financial Security

Charles Farrell

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A troubled economy calls for answers. Forget complicated, abstract philosophy—people need sound financial advice that's easy to follow and can be implemented immediately. For the first time, a leading financial adviser has developed a remarkable set of guidelines to give individuals the same kind of objective insight into their personal finances that successful businesses have. *Your Money Ratios* will help readers effectively manage debt, invest prudently, and develop a realistic and effective savings plan to ensure both financial success and security. Readers need only plug their income and age into Farrell's ratios in order to get an instant picture of their savings status and overall financial health, as well as a roadmap for the important choices they must make in the future. Here's what you will find in this book:

IF YOU ARE IN YOUR 20s OR 30s: *Your Money Ratios* will tell you how to get started and what you need to do over the next 35 years to stay on track. If you are lucky enough to read this book when you are young, you will have a clear vision for where you need to go throughout your working career. By setting yourself on the right path, you won't have to work so hard later in life to meet your goals.

IF YOU ARE IN YOUR 40s: You can benchmark your own financial circumstances against the ratios and see how you are doing with respect to your savings, debt, investments and insurance. You have plenty of time to make adjustments if necessary and plot out your path to retirement.

IF YOU ARE IN YOUR 50s: The formula will provide you with a realistic assessment of your ability to retire. It will help you make the important decisions about how to allocate your financial resources over the next 10 to 15 years, and how to put on the final push for retirement.

Your Money Ratios: 8 Simple Tools for Financial Security Details

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Nathan Schwartz says

Most personal finance is really simple, and I love to see books strip it down to the very bare bones, but here there were just too many places where there were total palm-to-the-face errors. He uses a 5.5% expected return for treasuries, yes this is what treasuries have yielded historically, but you can be assured that you're not going to earn that with treasuries that you buy in 2015. He suggests a 50/50 stock bond split for people as young as 20 years old. He suggests that people not invest in any equities or retirement accounts until they have a 6 month emergency fund (this is fairly common terrible advice).

Jack Cheng says

This is a good beginning financial book for anyone who needs one, and a good check in for anyone further along in their financial life.

For me, I'm happy that it answers two questions that always nag me: do we have enough saved for retirement and how much should we save this year?

Farrell breaks it down into ratios: you need to save x times your income to maintain a good savings rate and you need to have x amount in the bank to retire comfortably at age 65. He also explains how he obtains these numbers (they are dependent on your age) and the (conservative) assumptions he used.

Other topics he goes into are insurance: life, disability, long term care -- what kind you need and how much, and general investment ratios (stocks vs. bonds -- he doesn't go much further than that; basically he suggests intermediate T bills and 500 index funds).

Worth reviewing

Andrew Mutch says

Of all the personal finance books that I've read, this has been one of the best. The ratios described help you track your progress towards securing your financial future. Elegant in their simplicity, they rely on a hundred years of financial data to provide a reality check that ensures that you'll have enough money to provide for a secure retirement. Just as important, the author explains the steps you need to take to protect your financial resources through prudent investing strategies, using insurance to protect your personal and financial resources and using strategies that avoid the emotions that come with the ups and downs of the economy and the stock market. Where other books rely on complex or gimmicky strategies that rely on your emotions to get you to do the right thing, the author boils it down to simple numbers that can be easily understood.

The only weakness in the book is that it doesn't really address credit card debt, which many people struggle with, other than to say "don't have it". Sounds great but people who do have it need strategies to pay it down. Also, this book is about financial planning. While the author spends a lot of time on smart strategies for

investing, you may want to talk to a personal financial adviser about the actual details about investing. Or read a title more focused on investing. But keep the key concepts from the book in mind as you move forward with your investments.

Also, if this is your first book on personal finance, some of the topics may be unfamiliar to you. You may want to start with a more basic introduction on personal finance to get more familiar with some of the terms and concepts used in the book. But then come back and read this book. After the financial collapse of 2008, the author's realistic and unblinking assessment of how to plan for your personal finances in the real world is a must-read for anyone from the age of 18 - 60.

Vinit says

The book describes important ratios wrt your income, savings etc and provides you a simplistic approach to manage your finances.

Lil' C says

I stumbled upon this book on the "new books" shelf at the library and I'm so glad I did. It gave me a whole new perspective on finances. Prior to reading this book, the how-to of retirement planning was a very nebulous concept in my mind. But after reading the book, I feel like I now have a very good road map for approaching retirement, as well as other tools for financial security. This book is very practical. Farrell teaches you what you need to know about social security, investing, health insurance, disability insurance, etc., and all in plain language that anyone can understand. Even though we're about 10 years late on an ideal savings plan for retirement, I'm very glad we read this book when we did, while we still have time to catch up. This book is very clearly written and keeps your attention. I highly recommend reading this book. You will feel empowered to take control of your finances.

James says

Interesting book which simplifies finance. Accumulate 12x of your final salary on the day you retire (the ultimate goal), earn at least 8% annually over the lifetime of your investments, withdraw 5% of that every year, and live on 80% of what you earned at retirement. Simple.

Shayne says

This book is one gigantic "rule of thumb", useful for people anxious about "how they're doing" financially. However, because it's set as a one-size-fits-all proposition, its utility is limited for anyone who "doesn't fit the mold" (e.g., retiring early, alternative retirement lifestyles, etc.). Seems to set a reasonable minimum bar for people who don't want to think too much about it; that's just not for me.

Tie Webb says

I have read a lot of personal finance books and this book is surely unique. It gives you perspective and helps you to keep the long view through out your career. Keep debt in check and don't over extend yourself. Just wish I would have read this book when I got out of college. Highly recommended.

Michael says

A well-written and easy-to-follow book on personal finance based on a unique angle. It presents 8 ratios, or "rules of thumb" that you can follow to know where you stand financially, and to answer questions such as: Am I saving enough? Is this mortgage too much for me to afford? How much should I spend on disability insurance, or do I even need it?

The author has done a great deal of number crunching to present the ratios in the form of tables, where you simply look up your age and income to get a benchmark to compare yourself with. The discussion surrounding these ratios is equally fluid and easy to follow; the author crafted the examples well so they are easy to understand.

But beyond the ratios, the real value of this book is the insights it provides into personal finance, and how you should think about important expenses such as mortgages and student loans. Everything is judged against the question, "Will this help me move from laborer to capitalist?" - i.e., will this help me get to the point I am able to stop working and live off the returns on my investments?

My big concern with the book is that sometimes it simplifies things too greatly. The ratios themselves are geared around everyday middle-class Americans; adjustments are covered in a too-short appendix. The chapter on investing oversimplifies the options to S&P 500 stock fund and an intermediate-term Treasury bond fund; other options are not explored. Similarly, some important options to fund your retirement expenses, such as SPIA annuities, are not discussed.

Another big concern is that one focus of the book is to steer you into the arms of a for-pay personal finance adviser. While the author goes to great lengths to help you pick a capable and trustworthy assistant, most other books I've seen, especially those covering investing, are grounded on the notion you can (and should) manage your finances yourself.

Read this for some excellent rules of thumb and some really valuable insights on how to think about money. But by no means should this be the only personal finance book you read.

Ben Hyrman says

I want to like this book.

The author has a solid grasp of safe withdrawal rates established by the Trinity study as well as realistic portfolio success rates based on historic periods. However, there is very much an assumption baked in that this book is targeted at someone working to full retirement age and then living on more than they were making while working. That is, work until you're 65 while living on 60% of your gross salary and then you

can live on 80% in retirement. If your goal is to retire sooner and live on that same 60% then you won't find much in the way of guidance here (although I can appreciate that is well outside Mr. Farrell's scope for this book).

Likewise, there's some small breakdowns along similar lines if you find yourself in the position of being behind the ratios. You must live on less and save more. Conversely, though, if you're able to live on 50% and save the remainder then you would likely be comfortable in retirement at less than 80% gross pay replacement.

I found the buy vs rent advice to be solid. Doubly so for the discussion on life, disability and LTC insurance (all given meaty chapters appropriate their weight). This book is pre-ACA so the health insurance section may be outdated (although the author has likely addressed this on the accompanying website)

My two hangups about the book revolve around Mr. Farrell's recommended asset allocation and his insistence on using a financial services professional.

His recommendation on asset allocation, broadly, is 50/50 stocks and bonds with stocks mainly large-cap US with some international and bonds all long-term treasury bills. With a catch. You never rebalance bonds into stocks. So, if stocks rise enough above 50% of your portfolio, rebalance into bonds. If stocks drop well below 50% of your portfolio (hello 2008) then you let them ride. This significantly limits your downside but it also hampers your upside. This is fine advice for someone in their 40's or 50's but I'm not convinced it's an appropriate risk model for someone in their 20's or early 30's.

The flip side to this is that most portfolio growth for someone just starting out will be through contributions. So, with stocks dropping, you'd be purchasing assets on sale with new money while locking in old gains via bonds.

I think a better option would be to individually assess your risk tolerance and then choose an asset allocation based on that. This might include low-beta (or hopefully low-beta) assets outside of a straight stock/bond split and it might lead to a less cookie-cutter stock/bond allocation.

On the financial planner front, the author does spend a good amount of time educating the reader on what they should look for in a financial advisor. While he mentions FINRA and ethics, he neglects to talk about the fiduciary oath. He also insists, repeatedly through the book, the importance of working with a financial advisor. Given the wealth of information available as well as DIY plans from the likes of Vanguard, Fidelity, or most any 401(k) plan these days, I'm simply not convinced. I suspect that the need for a financial advisor for most of us (not-high income, not-high asset) may come down to comfort level with procuring life, disability and long-term care insurance.

Overall, this was a good book to cover the basics of a road to retirement.

ilham.mukhtar says

Quickly glanced the book. Capital to Income ratio, Savings ratio, and Investment ratio are recommended like it is cast in stone. not that it is particularly bad. It's rare that people would stick their neck out and firmly hold

the magic number. In any case, worth to be considered in your personal finance implementation.

Not keen on the insurance section.

Sam says

A useful introduction to all of the financial considerations (e.g., retirement savings, life insurance, health insurance, etc.) a young professional should start considering. I now know what a 401(k) is, and how it is different from a Roth 401(k)!

Madalena Elshoff says

This gives a really good basic overview of personal finance and how to save and invest for a stable future and retirement. If I weren't so lucky to have others who already knew this stuff guiding me, I would definitely have wanted to read this at least a decade ago. The author also provides some online ratio calculators but they don't seem to work. This is not a problem because the ratios are really straightforward to do by hand. Even though this is for all ages, I would think it best to read this in your early 20s when you're starting to save.

Allison says

I wanted to like this book, because the ratios seemed both conservative and easy to keep track of. However, the advice was just way too broad and simplistic (spend as little as possible on a car, for instance). When the author glossed over the differences between a 401k and a Roth IRA and implied that the tax advantages for both vehicles are pretty similar over the long haul, I stopped reading but did skim the rest of the book. If you're looking for a good intro to personal finance book, I'd suggest All Your Worth by Sen. Warren.

Sarah says

He approaches personal finances like a business and using ratios as a tool to measure wealth accumulation. Stresses the importance of taking emotion out of finances. His basic theory is that your decisions should move you from being a laborer (being paid for your work) to being a capitalist (being paid for your money). The application is to ask "Will this debt/investment/insurance move me from laborer to capitalist?" He did an excellent job explaining insurance. Many people don't understand that portion of money management and his explanation is straightforward and simple. Some of the items are dated as far as insurance or new regulations for investments. But that's kind of the norm with this genre.
