MuhlenkampMarathon

Financial Training Workbook
(with some running tips, too)

MUHLENKAMP

Muhlenkamp & Company, Inc.

From left: Ron, Tony, and Jeff Muhlenkamp

Muhlenkamp & Company, Inc. has been helping clients build a legacy of financial freedom for themselves and their children since 1977. We provide personalized financial planning and investment management services, either in combination or on a standalone basis. We invest with a value discipline and seek to maximize total return. We evaluate the current investment climate and economic data and utilize logic and rational thinking rather than emotion when making decisions for portfolio holdings.

Mission

We put money to work. We work to protect it. We work to make it grow. We work to help the owners sleep at night in the process.

Values

We are disciplined, independent, and rational. We help people who want their money to work as hard for them as they've had to work for it.

Vision

We help our clients build a legacy of financial freedom, for themselves and their children.

Website

Muhlenkamp.com is a go-to resource for investors of any asset size and experience. If you are new to investing or just getting started, spend some time reviewing our "Glossary," a combination of dictionary and encyclopedia, but not overwhelming! If you're a seasoned investor, peruse items in "Our Library," chock-full of educational essays, newsletters, and archives of investment seminars and conference calls.

Newsletter

Sign up for our free quarterly newsletter, *Muhlenkamp Memorandum*. Simply call us or visit www.muhlenkamp.com to subscribe.

Location

Just 20 minutes north of Pittsburgh in Wexford, Pennsylvania, our team of financial and investment professionals is ready to assist you in running the course.

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MuhlenkampMarathon

Financial Training Workbook

Creating Your Financial Legacy

There are many similarities between training for a marathon and creating a legacy of financial freedom—both take desire, time, effort, and discipline.

This workbook contains best practices based on current tax rules and regulations, as well as words of wisdom based on experience, observation, and statistics. While you can use it as a reference guide for getting your financial act together and we can serve as your "personal trainers," there are times when tax accountants and lawyers may be needed.

If you are just starting out, it may take longer to finish certain "miles." If your financial house is in order, you can breeze through them in no time, but it's still a useful workout.

Remember, training for a marathon takes time to lose fat and build up muscle and endurance. Training for financial freedom takes time to pay off debt and grow assets.

Just like any fitness agenda, once you have reached your goals, you must maintain them. We suggest you review this workbook annually, to make sure you are staying on course. As things change in your life, you may want to revise some decisions that you made in earlier years.

After running the financial marathon (or during), think of your parents, your children, and/or close friends and relatives. Could they complete each mile? Do they need a running partner? Might they need to run it with you? We can help them, too.

Since this is about a marathon, we've included general running tips, if you want to challenge yourself both physically and financially. Remember, these are also general guidelines.

Facing the Facts

Don't confuse income and wealth. Income can end with a dismissal notice or a change in interest rates.

—Ron Muhlenkamp

FOR THE RUNNER

If you haven't exercised for some time, check with a doctor before starting a rigorous exercise routine. Use a coach or personal trainer for specific and safe methods when beginning new exercises.

Are you prepared for this? Are you willing to train? Are you ready to reach your goals? A marathon is a long race, but if you prepare and push yourself along the way, you can finish.

The Starting Line

Take some time to think about how your financial life is going. Past performance is no guarantee of future results, but it's a good indication of where you are heading. Where is your starting line? Are you accumulating wealth, living paycheck-to-paycheck, or amassing debt?

Accumulating Wealth

Good for you—you are headed in the right direction. Are you reaching other financial goals? Could you be doing better?

Living Paycheck-to-Paycheck

If you are just getting by financially, a personal crisis could easily throw you off course. Then the domino effect could lead you to bankruptcy. What should you do to create a safety net to prevent this? What changes do you need to make to get you on the road to financial freedom?

Amassing Debt

If your debt is increasing because you continue to spend more than you make, your lifestyle may look wonderful from a distance, but your financial future probably looks dismal. What could you be doing differently to change your course? What is holding you back? Reduce your outflow, pay down your debt, and start growing your assets!

Since money is needed for almost every aspect of your life, cutting it too close every month or falling into debt can create tension and anxiety. No matter your income, you must learn to live below your means. Even if you continue to receive increases in salary, if you continue bad financial habits (like spending too much), you will never reach your goals. Old habits are hard to break, but if you set goals and put them in writing, you will have more incentive to choose a healthy financial lifestyle.

Repercussions of Stress

Since chronic mental stress takes a toll on your body, reducing your anxiety over financial matters can help improve your health. Becoming financially fit may also help your relationships. If you need to borrow money from family or friends, your relationship goes beyond family and friends and enters the lender/borrower relationship. This can cause tension and awkward feelings. No matter how old you are, your parents may also be relieved when they see you making wise decisions and becoming financially independent. Persistence, discipline, and responsibility all show when you start becoming financially fit.

Facing the Facts

You have to be honest with yourself about where you are financially—*you have to face the facts*. If your financial past and current trajectory indicate that you should make a change, you need to start your financial training now.

Getting Started

Instead of being overwhelmed with the process, just get started. How do you run a marathon? One mile at a time. It's never too late to get financially fit. As you get comfortable with your finances and develop good habits, you can put your money to work, so that one day you won't have to.

Mile by Mile

To get financially fit you have to first figure out what you are trying to do. What are your goals? Once you figure out your goals, you should break them down into short-term (Mile 1) and long-term goals (Mile 2).

After you've established your goals, look at your current net worth using a Balance Sheet (Mile 5) to see where you are financially and how much work you have to do to get to where you want to go. Look at your Cash Flow Statement (Mile 6), to see where you are spending and saving your income. That leads into creating a budget (Mile 7), to keep your spending aligned with your financial goals.

Keep a mini emergency fund (Mile 9) so you can handle small financial emergencies without turning to debt. As you continue along the course, you will make sure you are insured properly (Miles 10, 13, 18, and 20) to protect you and your family from financial disaster.

Prepare for any unexpected detours or dead-ends along the way (Mile 11 and 12). Get in shape by reducing outflow (Mile 14), increasing income (Mile 15), and reducing debt (Mile 16). Build up cash reserves (Mile 17) to provide a cushion when things are tough.

Spend less than you make so you can save for an automobile (Mile 18), a home (Mile 19), retirement (Mile 23), an education (Mile 24), and charitable giving (Mile 26). Invest over a long period of time to allow compounding returns to put your money to work for you.

Finally, after much discipline and effort, you can enjoy the accomplishment of being financially independent (Mile 26.2) as you cross the finish line of your financial marathon.

Get ready! Get set! Go!

Learn More at Muhlenkamp.com

– Basic Financial Maxims I Want My Kids to Know
– Personal Finances (Maxims Part II)

SMART Financial Goals – Short Term

Holding cash when inflation is high is quite risky, as you are sure to lose purchasing power—but, it is not volatile, since the number of dollars you have doesn't change.

—Jeff Muhlenkamp

FOR THE RUNNER

Do you have a number in mind? Is your goal to finish in under five hours? To finish in under three hours? To beat your personal best? Are you running at a consistent pace? Will you have to pick up your pace towards the end to finish in your desired time? Will you have the energy? If you don't have a goal, are you just going with the flow?

How do you set SMART financial goals?
SMART Financial Goals identify **Specific** outcomes; indicate **Measurable** and **Achievable** actions; recognize the **Reasons** for wanting to attain them; and establish **Target dates** for completion. Goals should be in writing. If you have multiple goals, they should be prioritized. If you are married or getting married, both of you should agree on your goals and how to achieve them. Set SMART goals to keep you motivated and focused.

What are short-term financial goals?
Short-term financial goals are goals that you would like to achieve in five years or less. The reason for separating short- and long-term goals is because the number of years that you have until your target date will affect where you should save or invest the assets you are accumulating to reach these goals.

Sample short-term goals may be to pay off all debt besides your mortgage and save $1,500 in a mini emergency fund by the end of two years.

If you are saving to buy something within the next five years, you should be saving your money in an account (like a savings or money market account) with low volatility[1] and moderate liquidity[2].

If you have goals set for longer than five years, you may need to place those assets in investment vehicles such as stocks or mutual funds that have the potential to keep up with or beat the inflation[3] rate (however there is no guarantee that they will). Otherwise, you will lose purchasing power[4]; (because of inflation, money that you have today will buy less in the future).

Some financial goals aren't about saving money, but are about taking action. These types of financial goals don't have dollar values, but are equally important, such as creating a budget or updating your will.

[1] *Volatility* is Wall Street's definition of risk. At Muhlenkamp & Company, we define volatility as how often, and the degree to which, price movements go up and down; the change in price over a period of time.

[2] *Liquidity* is a measure of the ease of converting assets to cash. Assets in a savings account are highly liquid. Assets in a house are not as liquid.

[3] *Inflation* is generated by increases in the money supply, as directed by the Federal Reserve Bank. If the money supply grows faster than the pool of goods and services on which to spend it, general prices are bid higher as a result. Such "price inflation" generates a loss of purchasing power. In the United States, price inflation is most commonly measured by the percentage rise in the Consumer Price Index (CPI).

[4] *Purchasing Power* is the value of assets after adjusting for inflation; in other words, the money you have available to spend, if you choose. In order to increase the purchasing power of an investment, the value of the investment must grow at a rate greater than inflation.

What are your SMART short-term financial goals?

1

S ______________________________

M ______________________________

A ______________________________

R ______________________________

T ______________________________

2

S ______________________________

M ______________________________

A ______________________________

R ______________________________

T ______________________________

3

S ______________________________

M ______________________________

A ______________________________

R ______________________________

T ______________________________

4

S ______________________________

M ______________________________

A ______________________________

R ______________________________

T ______________________________

SMART Goals:

S = **Specific** - What is the specific outcome?
M = **Measurable** - What steps or actions do you need to take to accomplish your goal? What is the total cost? What do you need to save per year? What do you need to save per month?
A = **Achievable** - Are you being realistic in the steps needed to hit your goal? Are you able to accomplish them?
R = **Reason** - Why do you want to attain your goal?
T = **Target Date** - What is your target date for attaining your goal?

Learn More at Muhlenkamp.com

– SMART Financial Goals Worksheet — Short-term
– Back to Basics

SMART Financial Goals – Long Term

> *People think of inflation as prices going up. It's not. It's the value of money going down.*
>
> **—Ron Muhlenkamp**

FOR THE RUNNER

When training for a marathon, you just don't go from 0 to 26.2 miles in one week, you build up your strength and endurance. You gradually increase your miles as you get closer to the race date, then you taper off a few weeks before.

What are long-term financial goals?
Long-term financial goals are those goals with a target date more than five years away. For long-term financial goals, you have to grow your assets to counteract the effects of inflation, but you don't have to worry as much about short-term market volatility or liquidity.

As consumers and investors, it's useful to think of inflation not in terms of prices moving higher, but as the value of our money shrinking. Inflation eats away at the purchasing power of assets, so you may need to place your assets in investment vehicles such as stocks or mutual funds that have the potential to keep up with or beat the inflation rate; (however there is no guarantee that they will).

Saving for long-term financial goals

- If you haven't started saving before, maybe start with saving 5% of your income, then 10%, and then build up to 15%.
- Since your investments are long term (over 5 years away), when there is a correction in the market, there is less reason to panic. Too many people get nervous and sell when prices are down. When the market reaches new highs, they get comfortable and want to buy. That's not a recommended way for investing in the stock market.
- If you get a bonus or increase in pay, instead of increasing your spending to match your new income, put the increase into an account for investing for your long-term goals. If you don't get accustomed to having it, you won't miss it.
- As the target date of your financial goal approaches five years, you should move assets designated to that goal to less volatile and higher liquid investments. (That long-term goal transforms into a short-term goal.)
- A method of saving for long-term goals is Dollar Cost Averaging, which is a strategy of buying securities in fixed-dollar amounts at scheduled intervals, with the aim to lower the average cost per share over time. *[Dollar cost averaging does not assure a profit, nor does it protect against loss in declining markets. You buy more shares when they are cheap and fewer when they are expensive, so it helps you buy at lower prices on average.]*
- The power of investing comes from a concept called "compound interest." Compound interest allows your money to grow exponentially, not linearly. Three things to consider about compounding: first, the length of time you let your money compound is most beneficial; second, the rate at which it compounds; third, siphoning off money to spend or pay taxes reduces the benefits. So, compound for long periods of time, preferably at reasonable rates and protect it from taxes.

What are your SMART long-term financial goals?

1
S ______________________________
M ______________________________
A ______________________________
R ______________________________
T ______________________________

2
S ______________________________
M ______________________________
A ______________________________
R ______________________________
T ______________________________

3
S ______________________________
M ______________________________
A ______________________________
R ______________________________
T ______________________________

4
S ______________________________
M ______________________________
A ______________________________
R ______________________________
T ______________________________

SMART Goals:
- S = **Specific** - What is the specific outcome?
- M = **Measurable** - What steps or actions do you need to take to accomplish your goal? What is the total cost? What do you need to save per year? What do you need to save per month?
- A = **Achievable** - Are you being realistic in the steps needed to hit your goal? Are you able to accomplish them?
- R = **Reason** - Why do you want to attain your goal?
- T = **Target Date** - What is your target date for attaining your goal?

Learn More at Muhlenkamp.com

- SMART Financial Goals Worksheet — Long-Term
- What is Risk
- What is Risk (Part II)

Get Your Financial Stuff in Order

Organize Your Financial Documents
Getting your financial statements and bills organized will make it easier to pay your bills on time, do your taxes, and to prepare a balance sheet and cash flow statement. This will give you a means to look at your financial life on paper and monitor your progress. Having things organized also makes it easier for your family members if they need to help out or take over for you. If you don't have an efficient method to organize your financial matters, this is the time to get started.

- Dedicate one area of your home (with a desk or table) for your personal financial matters.
- Gather supplies - stamps, envelops, scissors, stapler, paper-clips, calculator, computer, printer, paper, scanner, file cabinet, paper shredder, box for incoming mail, garbage can, 12-pocket file for receipts, checkbook, calendar, folders, hanging files, labels, pens, recycle bin, etc.
- How to file documents? Your choice—a file cabinet with folders, or scan and save electronic files or a combination.
- Receipts can be organized per month in a 12-pocket organizer. If you keep one organizer per year, you may have an easier time finding a receipt if an item breaks or you need documentation. For electronic storage, there are apps and software available to scan or take photos of receipts.

FOR THE RUNNER

To prevent injury to your toenail bed, trim your nails extra short. Also, make sure your running shoes have enough room in the toe-box for you to move your toes around—your shoes should not be too small. Unfortunately, even with taking precautions, you may still end up bruising your toenail from the long run. Make sure your running shoes are tied tightly enough for support but not too tight that you are cutting off circulation.

- Review statements for errors before filing. Sometimes, if you don't report an error within a certain timeframe, the company is not responsible for correcting it.
- Have a schedule for filing—maybe weekly or every payday.
- Save yearend statements. If the yearend statement includes all transactions for the entire year, you shouldn't need to keep your monthly or quarterly statements.
- Eliminate unneeded archived files.
- To help prevent identity theft, shred or destroy unneeded documents containing personal information or account numbers.

Financial Documents - Check for accuracy and then keep on file for your records

Financial Statements
- ☐ Checking accounts
- ☐ Savings accounts
- ☐ Brokerage account statements
- ☐ IRA statements
- ☐ 401(k), 403(b) statements
- ☐ Income tax returns
- ☐ Other

Income Statements
- ☐ Pay-stubs
- ☐ Rental income records
- ☐ Commission statements
- ☐ Royalty check information
- ☐ Other

Expense Information
- ☐ Mortgage statements or rental invoices
- ☐ Utility bills
- ☐ Personal Expenses
- ☐ Credit card statements
- ☐ Insurance policies (life, health, auto, home, etc.)
- ☐ Student loans
- ☐ Other

Escheatment

Escheatment is when forgotten, abandoned, or unclaimed property (including physical and financial assets) is turned over to the state of the owner's last known residence if the company holding the property is unable to contact its rightful owner. Though it is a way for states to protect the property of its citizens, sometimes, accounts that you are well aware of fall into the "abandoned property" category depending on the laws of your state of residence. If you have not made contact with the account administrator within the period of time specified by your state, your account may be seized by your state even if your current address is on file and you are making regular contributions and/or withdrawals.

Steps to prevent escheatment of your accounts

- Pull one statement for each of your financial accounts (e.g. checking, savings, brokerage, IRA, 401(k), etc.), and "check in" annually via online access (if available) or by telephone to the number provided on your account statement. It's beneficial to speak with a client service representative to make sure all of your contact information is correct.
- Where applicable, make sure your beneficiaries are up to date.
- Visit the National Association of Unclaimed Property Administrators website [www.unclaimed.org] to learn the escheatment laws of your current and/or past state(s) of residence and to search for any unclaimed property registered in your name.
- Check balances on gift cards. Some states claim unused balances after so many years.

Back Up Computer Files

If you store all of your financial information on your computer and it crashes, do you have a backup?

- Hard drives will crash—it is just a matter of time. Know where your critical files are located; keep them centralized and backed up frequently.
- Standard CDs or DVDs are not suitable for backup. They can degrade over time.
- Backup onto several external hard drives and store some of them off site.
- Solid-state hard drives are nice, but external backups are still a necessity.
- Online cloud storage is a good idea, but privacy may be a concern. Encrypt sensitive files.
- When a hard drive crashes, most of the digital content can be recovered by a third party, but it is expensive.
- Before you dispose of your PC, make sure that you "wipe/shred" the information on the hard drive completely in order to protect your privacy. Even though you delete files from the hard drive, the information is still retained on the disk and could be recovered by a third party. There are programs designed for wiping data.
- When backing up critical files onto an external hard drive, make sure to password protect the drive in order to keep your data private in case it is lost or stolen.
- No backup plan is "fool proof," so make sure that your program incorporates several methods.
- Flash drives are a nice option for your backup routine since they get their power from the host machine..
- When backing up your pictures onto an external server hosted on the Internet, make sure that the resolution is not reduced by the service. Most services compress the image in an effort to conserve storage space. Compression reduces the quality of the image..

Learn More at Muhlenkamp.com

– Personal Finances (Maxims Part II)

Stay Motivated

Prosperity has to be produced for it to be consumed.
—Ron Muhlenkamp

FOR THE RUNNER

Just keep running...just keep running...just keep running. Towards the end of the marathon, you will have to keep telling yourself that you can do it. The run becomes a mind game as much as a physical challenge. Don't quit. The crowd along the course will be there to cheer you on. Think of their high-fives as "power pills" to pick up your energy level and get you to the finish line.

How will you stay motivated to reach your financial goals?

Throughout *The Millionaire Next Door* by Thomas Stanley and William Danko, Stanley reminds us that for over the past 30 years he has consistently found that 80-85% of millionaires are selfmade (first-generation rich). With desire, time, effort, discipline, and diligence, you, too, may become the next millionaire.

Even if you don't have the goal of becoming a millionaire, whatever dollar amount you are aiming for, let it be one that allows you to become financially independent. Remember, the overall formula for building wealth is to have less of your money go to "the other guy" in items like taxes, fees, interest, and insurance premiums, and to have more of your money stay in your pocket for things like savings, investments, services, products, and charitable giving.

What do you need to do to stay motivated?
If you are a visual person and you are working your way through this workbook, make a copy of your SMART goals and keep them where you can see them everyday as a reminder. The mere fact that you set goals may motivate you. You can also use the checklist in the Table of Contents of this workbook as an indicator of your progress as you complete each mile.

If you need accountability, work with a friend and "run" the marathon together. If you need coaching, seek the assistance of a financial specialist.

Reward yourself—when you complete a goal, run another mile, or pay off another debt. Treat youself to something you really enjoy, as long as the indulgence doesn't throw you off course.

Balance Sheet

Total Assets - Total Liabilities = Net Worth as of ________________
mm/dd/yyyy

A balance sheet can be used to calculate your net worth. Use your most recent month-end or quarter-end financial statements to obtain the "Current Value" of each asset. Use your expense information to find the amount of each liability. For Personal Assets, the "Approximate Market Value" would be equivalent to the amount of cash that would be obtained if you were to have sold your assets. This value can be estimated by obtaining the price of assets similar to yours that were sold recently. All values should be from the same date. **Assets = What do you own and what is it worth?**

Personal Assets	Notes, description, owner(s), etc.	Purchase date (yyyy)	Purchase Amount	Appreciating or Depreciating	Approximate Market Value
House 1					
House 2					
Automobile 1					
Automobile 2					
Rental Property					
Other ________________________					
Other ________________________					
Other ________________________					

Taxable Accounts (Non-Qualified)	Notes, description, registration, etc.	Annual Rate or Return (%)	Current Value
Checking Account 1			
Checking Account 2			
Savings Account 1			
Savings Account 2			
Money Market Account 1			
Money Market Account 2			
Brokerage Account 1			
Brokerage Account 2			
Certificates of Deposit			
Savings Bonds			
Notes and Contracts Receivable			
Life Insurance Cash Value			
Emergency Fund/Cash Reserves			
Other ________________________			

Retirement / Educational Savings Accounts (Qualified Accounts)	Notes, registration, beneficiaries, etc.	Annual Rate or Return (%)	Current Value
401(k)/403(b)/457(b) Account(s)			
529 Plan			
Annuity			
CESA			
IRA - Roth			
IRA - SEP or SIMPLE IRA			
IRA - Traditional			
Pension (vested portion)			
Profit Sharing Plan (vested portion)			
Other ________________________			

Total Assets (Add all amounts in the last column) =	

FOR THE RUNNER

Monitor your progress by keeping track of your distance, time, and how you felt following your run—a runner's log. Keep your log so that you can look back at your progress (or lack of). The information can help you determine how to proceed in the future.

Liabilities = What do you owe and what does it cost you?

Mortgage / Home Loans Payable Personal Loans & Lines of Credit	Lender	Date of Loan (mm/yyyy)	Due in: (yyyy)	Original Loan Balance	Annual Interest Rate (%)	Monthly Payment	Current Balance
Mortgage 1							
Mortgage 2							
Automobile Loan / Lease 1							
Automobile Loan / Lease 2							
Equity Loan							
Education Loan							
Unsecured Loan							
Other ______________________							
Other ______________________							

Other Liabilities	Creditor	Date of Loan (mm/yyyy)	Due in: (yyyy)	Original Loan Balance	Annual Interest Rate (%)	Monthly Payment	Current Balance
Taxes Payable							
Notes Payable (Excluding Monthly Bills)							
Other: ___________________							
Other: ___________________							
Other: ___________________							

Credit Card / Charge Card (Outstanding Balances)	Name of Card / Creditor	Minimum Payment	Balance Carried Since (yyyy)	Annual Interest Rate (%)	Typical Monthly Payment	Current Balance
Credit Card 1						
Credit Card 2						
Credit Card 3						
Credit Card 4						
Other: ___________________						

TOTAL LIABILITIES (Add all amounts in the last column) =	

Calculate your net worth by subtracting liabilities from assets. (See below.)
If you calculate your net worth on a periodic basis, you can determine whether your assets are growing or shrinking. To increase your net worth, you must shrink your debt (liabilities) and grow your assets.

TOTAL ASSETS (Use number calculated on previous page)	
LESS TOTAL LIABILITIES (Use number calculated above) –	
NET WORTH =	

Learn More at Muhlenkamp.com

– Balance Sheet
– Personal Finances (Maxims Part II)

Cash Flow Statement

A personal cash flow statement can be used to see where your income is being spent over a period of time. It can be set up where total income, less total expenses, equals your net cash flow (which may be positive or could be negative).

Total Income - Total Expenses = Net Cash Flow

Another way to set up a cash flow statement is using a zero-sum budget where each dollar of income (inflow) is allocated to a specific expense (outflow), so that total inflow equals total outflow.

Total Inflow = Total Outflow

The personal cash flow statement below is using a zero-sum budget and is designed so that you can use it to estimate your monthly expenses, document your actual monthly cash flow, and plan your budgeted spending (Mile 7).

Earned Income Source (Gross Amount)	Employer	Estimated Monthly Amount	Actual Monthly Amount	Budgeted Monthly Amount
Occupation				
Bonus / Tips				
Occupation (Spouse)				
Bonus / Tips (Spouse)				
Other				
Total Earned Income =				

Other Inflow Sources	Notes	Estimated Monthly Amount	Actual Monthly Amount	Budgeted Monthly Amount
Alimony (Received)				
Annuity				
Business Income				
Disability Income				
Dividend Income				
Gifts Received				
Interest Income				
Investment Income				
Pension				
Pension (Spouse)				
Rental Property / Unit Number				
Royalty Income				
Systematic Withdrawals				
Social Security				
Social Security (Spouse)				
Other ________________________				
Total Other Inflows =				

Deficit Inflow Source	If you had to borrow, what did you use?	Estimated Monthly Amount	Actual Monthy Amount	Budgeted Monthly Amount
Credit Card ___________________				
Personal Loan _________________				
Other: ________________________				
Total Deficit Spending =				

TOTAL INFLOW (Add Earned Income, Other, & Deficit Inflow Sources) =			

Mile 6

FOR THE RUNNER

Check out the route ahead of time so you have a better idea of what to expect when you are running it. Pay attention to the elevation, so you know when to expect the hills.

Where does your money go? Write down what you think you spend every month in the “Estimated” column, then keep track of what you spend in the “Actual” column. How close was your estimate versus your actual spending? After reading Mile 7, use the “Budgeted” column to plan your spending for the following month.

Bills that you pay annually can be broken down into monthly expenses. Not all of the items or sections are applicable to every individual; complete those that are relevant to you. This Cash Flow Statement is condensed due to limited space.

Outflow (Earned Income Taxes)	**Notes**	**Estimated Monthly Amount**	**Actual Monthly Amount**	**Budgeted Monthly Amount**
Local Income Tax				
State Income Tax				
Federal Income Tax				
FICA Tax				
Medicare Tax				
Other				
Total Income Taxes =				

Outflow (Expenses)	**Examples of Expenses** *(Condensed due to limited space. Expanded Cash Flow Statement is available on our website)*	**Estimated Monthly Amount**	**Actual Monthly Amount**	**Budgeted Monthly Amount**
Family Personal Expenses	Activities, sports, child care, clothing, entertainment,etc.			
Food Expenses	Dining out, groceries			
Health Care Expenses	Health insurance, dental, prescriptions, vision, etc.			
Residential Expenses	Appliances, furniture, lawn care, insurance, mortgage			
Utilities	Cable, electric, garbage, water, sewer, etc.			
Automobile/Transportation Expenses	Auto insurance, gasoline, lease, loan, service, etc.			
Other Taxes	Capital gains tax, gift tax			
Outstanding Debt Payments	Credit cards, educational loans, other loans			
Total Other Expenses =				

Outflow (Savings & Investments)	**Where did you save or invest?** *(Condensed due to limited space. Expanded Cash Flow Statement available on our website)*	**Estimated Monthly Amount**	**Actual Monthly Amount**	**Budgeted Monthly Amount**
Emergency Fund/Cash Reserves	Mini-emergency fund, cash reserves			
Taxable Accounts (Non-Qualified)	Long-term goal fund, checking, saving			
Retirement Accounts (Qualified)	IRA, Roth, 401(k)			
Other: ______________________				
Total Savings/Investments =				

TOTAL OUTFLOW (Add taxes, expenses, savings & investments) =			

TOTAL OUTFLOW above should equal TOTAL INFLOW on the previous page. Your goal should be to only spend what you make. Try not to rely on borrowing.

Learn More at Muhlenkamp.com

– Cash Flow Statement
– Personal Finances (Maxims Part II)

Create a Budget

No person or company can make you buy their product (only government can do that). Unless the product and price attract a buyer, there will be no purchase.

—**Ron Muhlenkamp**

FOR THE RUNNER

At many marathons, there are experienced runners who act as official pacers to help other runners maintain a consistent pace. They carry signs that include their average pace per mile and projected finishing time. Pacing yourself helps you to conserve enough energy so you can finish the race. If your pace is off, try to gradually get back on track.

What is a budget?

A budget is a written plan of how you will spend your money for a specified time period (usually monthly). Typically in the form of a spreadsheet, this tool can help you manage your future spending in an attempt to keep your expenses aligned with your income and your financial goals. Budgeting is planning and looking forward, not backward.

Why have a budget?

- A budget allows you to see your financial life on paper. It takes the abstract (earning an income, spending your money, and planning your purchases) and makes it tangible. It allows you to create reports, monitor your progress, and keep a history of your financial life.
- Because your plan for spending is documented rather than only a thought (nobody can read your mind), it allows you and your spouse to be on the same course, to see the same thing, and to work as a team when attempting to reach your financial goals.
- It encourages you to look at necessities vs. luxuries. When you need to spend less, you can cut back in the luxury or convenience category.
- Budgets help you to reach your financial goals faster by showing you whether or not your spending is consistent with your short-term and long-term goals.

Guidelines to create a budget

- Create your own spreadsheet, use an app or software, or use the Cash Flow Statement (Mile 6).
- Decide on the level of detail for your budget, ranging from very broad categories to extremely detailed. The more specific you are, the better you can plan and analyze your spending.
- Be realistic about your expenses. Use your Cash Flow Statement as a reference for past expenses.
- Determine the amount you need to save monthly for your short-term and long-term goals. Enter this amount into your budget.
- Give yourself allowances in areas that you enjoy.
- Adjust your budget as your life changes, such as increased income, additional children, new goals.

Getting started

- Go back to your Cash Flow Statement (Mile 6). Did you keep track of your actual spending? Did you list your income? If not, do this for a month so you can see where you normally spend your money.
- Make a budget, using the guidelines above, for where you will spend your money next month. Include regular monthly expenses as well as infrequent expenses like birthday gifts. Every dollar should be accounted for, whether you spend or save it.
- Stick to it. You will get more comfortable with it if you continue each month. Adjust when needed.

Learn More at Muhlenkamp.com

– Budget Worksheet
– Personal Finances (Maxims Part II)

Mile 8

Get Your Personal Belongings in Order

It is not the creation of wealth that is wrong, but the love of money for its own sake.

—Margaret Thatcher

FOR THE RUNNER

Smile :) Many race organizers hire professional photographers to take pictures along the race course. You will probably have the opportunity to view and purchase these photos. Make sure your bib number is visible at all times. Your race number is how they identify you and market the photos to you through email.

Do you have a mess?

If your closets and cupboards are overflowing and you have piles of clutter throughout your home, it's time to get organized. It's alright to part with things you or your kids don't use anymore or have outgrown. Clutter can cost you time if you can't easily find what you are looking for, and can cost you money if you have to buy replacements for items you just can't find.

Declutter and organize

- Schedule time to declutter. How do you work best? 30 minutes at a time? A two-hour window?
- Focus on one room or even one drawer or closet at a time. Set a timer if it helps you stay on task.
- Make a decision about each item - throw out, recycle, fix, donate, sell, or keep.
- Everything you decide to keep should have a place. Communicate with family members so they know where to put things.
- Clear plastic containers allow you to see what's in your storage bins.
- If you still have piles of paperwork, gather them together and go back to Mile 3.
- When you finish organizing, enjoy the efficiencies of having a clutter-free home and being able to find items in a snap.

Donate items to charity

- Items that you decide to donate should be clean and in working condition.
- You may be able to get a tax receipt so that you can deduct the amount of the in-kind donation from your taxable income. (See Mile 26.)
- The charity may have drop-off locations and/or you may be able to schedule items to be picked up at your home.

Sell unwanted items

- There are a variety of ways to sell your items: have a garage sale; sell to an antique dealer or at an auction; post items on Ebay, Facebook, Craig's List, other online service, or a classified section of your local newspaper; or utilize consignment shops.
- The value you assign an item may not be the same as a buyer. You may have to lower your price to make a sale.
- Don't spend more time and energy trying to sell your items than what your time is worth.
- If you don't yet have a Mini Emergency Fund (Mile 9) and you are able to sell some unwanted items, use the proceeds to start one.
- If you have debt, use the proceeds to pay down your debt (Mile 16).

Take Inventory
Once your home is rid of clutter, take inventory. Pick a room in your home and without being in it, try to list all of its contents. After you made your list, go back into the room and see if you forgot anything. If there is ever a fire, flood, or burglar in your home, could you remember all missing or destroyed items when processing an insurance claim? Having a home inventory is a great benefit if a devastating event destroys your home or property because it speeds up the process for submitting a claim—your list is already done. Also, if going by memory, you are likely to forget something.

Steps for taking inventory:

- Take pictures of every worthwhile item in each room of your home, garage, and any out-buildings, as well as any rental storage space that you use. A slow walk through your home with a video camera could also work for documentation.
- Enter a description for each item in your inventory into a spreadsheet along with the photo (or photo number), copy of the receipt, the date of purchase, the serial and model numbers (if available), and current value. Check with your insurance agency to see if they can provide a spreadsheet or other program you can use to document your assets. There are options available online. Update your inventory annually, or as you add or eliminate items in your home.
- Check with your homeowner or rental insurance agency to see if your current policy is enough to cover what you determine is the total value of your personal assets.
- Store a backup copy (electronic or hard copy) of your records in a safe place (for example, bank safety deposit box or a relative’s home) outside of your residence in case of damage to your home.
- This inventory also comes in handy for the executor of your estate for filing an inventory and appraisal.
- While you have your camera out, go ahead and take a selfie since you will have a big smile on your face because your house is organized and clutter free.

Identity Theft Prevention
Your identity is something that should *only* belong to you, but identity theft is a growing problem and you could become a victim. It can be expensive and time consuming to clean up, so take steps to prevent it:

- Use a password on mobile devices and other electronics.
- Do not share your passwords (except with trusted family members).
- Check your credit report annually and credit card and bank statements monthly for fraudulent activity and inaccuracies.
- Destroy unnecessary paperwork that contains non-public personal information.
- Use anti-virus software on your computer and digital devices.
- Subscribe to an identity theft protection program.
- Learn to recognize phishing and spam emails.
- Use secure websites for purchases. You should see “https://” rather than “http://” in the website address bar on any page on which you enter account or credit card information.
- Avoid public Wi-Fi.
- Place your phone numbers on the “Do Not Call” list at www.donotcall.gov
- Visit www.optoutprescreen.com to reduce credit card offers, thus reducing the chances of someone else opening an account in your name.

Mini Emergency Fund & Supplies

The essentials of life are cheap. Only the luxuries are expensive.
—Ron Muhlenkamp

FOR THE RUNNER

Do you sometimes feel that you don't have time to breathe or the stress is too much? Take the time for deep breathing, because it helps get oxygen flowing through your bloodstream, relaxes you, and reduces stress.

Mini Emergency Fund

Why should I have a mini emergency fund?
Maybe the best reason to have an emergency fund is to put your mind at ease. You can breathe easy knowing that if something breaks, you have the money to repair it or to have it replaced without turning to your credit card or borrowing funds.

If you don't yet have an extra stash of money for emergencies, start somewhere—with a mini emergency fund. For what amount would you like to aim? $500, $1,000, or $2,000? Put it in writing. You can work on building up cash reserves later (a larger cash cushion), but start mini now just to get started and to show yourself that you can do it.

Mini Emergency Fund Goal:

Dollar Amount $______________

Target Date _____ /_____ /________
mm dd yyyy

Once it is built, don't touch it unless it's a true emergency—like the refrigerator breaks or the car needs to be repaired. It should not be used for things like new outfits or vacations, these are not emergencies. Build it back up if you have to use it.

How do I save $1,000 if money's tight?
Stop spending on luxuries and conveniences for a period until you have built up $1,000 in cash. Pack lunches instead of going out to eat. Drink water from the faucet instead of buying a soda or tea from the vending machines. Brew coffee at home rather than stopping at the local cafe'. Buy clothing on sale, on clearance, or just stop buying it for a while. Sometimes it's not the big purchases that you have to watch out for, but the little routine ones.

Where should I keep my emergency fund?
The money that you are saving in your mini emergency fund should be available if you need it. Therefore, it should be in cash or in a bank or brokerage account that has 24/7 ATM access. Not many people are disciplined enough to not touch available funds in their primary checking account. It might be a good idea to keep it in a separate checking account. This account could be where you will add your cash reserves that you build up after you pay off your debt. (See Mile 17.)

Emergency Supply Kits

Why should I have an Emergency Supply Kit?
If there were an emergency in your state or local community, basic supplies might become unavailable or offered at an inflated price. Now is the time to prepare by creating a basic emergency supply kit. The extent of your preparation is up to you. Maybe start with three days' worth of supplies and then build up from there if you desire.

Some emergency supply kit suggestions...

For your home:

- [ ] Water (drinking) - Store one gallon per person per day of drinking water.
- [ ] Water (washing & flushing) - Emptied and rinsed plastic laundry detergent (or similar) containers can be filled with tap water to accomplish this supply for pennies.
- [ ] Food - Keep a supply of nonperishable food available. Consider freeze-dried 25-year shelf life food. Hopefully it's a one-time investment that you won't ever have to use. The supply would also be useful in the event of a food scarcity or if you go through a period of unemployment and become short on cash.
- [ ] Manual can opener
- [ ] Flashlight - A hand-crank or wind-up powered flashlight will ensure that you won't run out of light if the batteries run low.
- [ ] Radio - Solar or hand-crank powered radio will eliminate the need for extra batteries.
- [ ] Extra batteries
- [ ] Duct tape
- [ ] Plastic sheeting
- [ ] First aid kit
- [ ] Prescriptions
- [ ] Toilet paper
- [ ] Cash - If there are power outages in your area, the ATMs might not be available. Keep a supply of small bills in a safe place in your home so that you can make necessary purchases during this time.
- [ ] ______________
- [ ] ______________

For your automobile:

- [ ] Water
- [ ] Snacks
- [ ] Towelettes or wipes
- [ ] Blanket
- [ ] Gloves
- [ ] Ice scraper
- [ ] Spare tire
- [ ] Tire pressure gauge
- [ ] Glow stick, flares, or reflective hazard sign
- [ ] Battery charger or jumper cables
- [ ] Flash light
- [ ] First aid kit
- [ ] ______________
- [ ] ______________

Have a Basic Emergency Plan

- What will you and your family do in an emergency? Talk over different scenarios and agree on some possible plans.
- Do you have an exit plan if there is a fire in the house? Do upper floors have an emergency ladder if the stairway is not accessible?
- Have you designated a meeting place in the event of a fire so you know if everyone is safely out of the house?

Learn More at Muhlenkamp.com

Life Insurance & Beneficiaries

If you don't understand it, it is a bad deal. Don't buy any product or service from someone who can't or won't explain it to you in terms you understand.
—Ron Muhlenkamp

FOR THE RUNNER

Any time you are out running or walking, especially by yourself, always carry a form of ID and an emergency contact name and number.

When running a race, always fill out the information on the back side of your runner's bib. It could be invaluable in the event of an emergency.

Life Insurance

Unlike most products that you buy and hope to use a lot, life insurance is one product that you hope you won't use. Insurance is to *protect you and your family against financial disaster.* Being financially fit includes being responsible. If people are dependent on you and your income, buying life insurance should become a priority. And, even if no one is dependent on you, would someone be left covering your debt and funeral expenses if you didn't have adequate assets to cover these expenses?

Reasons to have life insurance

- *To maintain the family's current standard of living.* Is your income used to cover day-to-day living expenses? If so, proper life insurance will cover this loss in the event of your death.
- *To pay for chores or services that you used to handle.* For example, if you stayed at home with young children, would they now need childcare? Would another family member be able to handle things for which you were responsible?
- *To be able to continue saving for long-term goals.* Is your income used to save or invest for long-term expenses such as college tuition for your children or retirement for your spouse?
- *To help cover end-of-life expenses.* Costs can range from an economical memorial service with cremation to an elaborate funeral with burial expenses, gravestone, and plot. It's not a bad idea to document your wishes for your loved ones so they know your preferences on this matter. (See Mile 11.) Remember, the more that is spent on your funeral, the less insurance money is left for your loved ones for other expenses.
- *To be able to get life insurance in the future.* If you are diagnosed with a disease or terminal illness, insurance providers may not sell you a policy or, if they do, the premiums might be enormous. Purchasing a policy when you are young and healthy can lock you into a lower rate. Even if you are single and have no dependents, it may be beneficial to purchase a policy to lock in a lower rate and to cover end-of-life expenses.
- *To pay off any unforgivable debt, for estate planning purposes, to repay bank loans, and/or to fulfill buy-sell provisions of business agreements.*

Who should purchase life insurance and when?

If you have enough assets that can sustain surviving family members for the remainder of time that they would have been dependent on your income, and you don't need it to cover any of the reasons above, *then, you probably do not need life insurance.*

What type of life insurance?
There are several types of life insurance (e.g. term life, whole life, universal life, variable life, etc.) We think it's better to keep life insurance and investments separate, so our preference is a term policy when considering the different life insurance options. Term life is *only* life insurance; it has no investment attached and has no cash value. Term life usually provides lower commissions to the insurance agent compared to whole and universal policies. Be aware of what you need and what is being sold to you. Read our essay *"The Fundamentals of Life Insurance"* to see if you agree with our reasoning.

For younger individuals, term premiums are priced much lower than the other types of life insurances because other insurance types (whole life and universal) have an investment portion attached and are more expensive because of it. As you get older, the probability of your death increases and so do the premiums, since the insurance company is more likely to have to pay the benefit during the term. Your goal should be to become financially independent as you age, so that you don't need to pay the higher premiums when you are older.

Estimate how many years you think you will need to carry life insurance and buy "level premium term" for that period. For example, if you are starting a family, your children will most likely be dependent on you for at least 20 years. So 20-year level premium term might be right for you. This means that the premium and the benefit will stay at the same rate for the specified period (number of years).

How much life insurance?
If you have determined that you should buy life insurance, for most people, the rule-of-thumb is ten times your annual income. So a $70,000 annual income would mean a term policy amount of $700,000.

Naming life insurance beneficiaries

- If you don't list a beneficiary, the death benefit will go to your estate and will probably have to go through probate.
- Typically you would list your spouse (if applicable), your trust account, or your children.
- If your primary beneficiary is an individual (rather than a trust), be sure to list secondary (contingency) beneficiary(ies) in case the primary beneficiary(ies) predecease(s) you.
- Marriage, remarriage, divorce, death, birth, and adoption in your family all demand that you review your named beneficiaries and make revisions as needed.
- List each beneficiary's full name and social security number, so there is no confusion when the distribution is made.
- If you list a minor make sure you appoint a guardian for the minor since they can't legally own the money until they reach the age of majority in their state. A trust with guardian appointment can take care of providing funding for minors.
- If you list multiple beneficiaries, indicate whether the distributions should be on a "per stirpes" (by branch) or "per capita" (by head) basis. The difference can mean leaving an unequal amount to the decendents of any beneficiary that predeceases you.
- Discuss your wishes with an estate lawyer so that you correctly appoint your beneficiaries and choose the distribution method that allows payment of the death benefit to be distributed according to your intentions.

What if you have been carrying whole life insurance?
If you have been carrying a whole or universal life insurance policy and you and your financial planner determine you don't need it anymore, you may be able to sell it in a Life Settlement transaction. Maybe use the proceeds and what you would have paid for future premiums to purchase a long-term care policy. (See Mile 13.)

Learn More at Muhlenkamp.com
– The Fundamentals of Life Insurance

Make End-of-Life Arrangements

Anything you want to do with your money after you are gone, you should start doing while you are living.

—Tony Muhlenkamp

FOR THE RUNNER

Many roads will be blocked off along the race course. Plan ahead for your arrival so you don't get caught unprepared. Check the race website for details on the times of road closures so you can park conveniently. Also make plans on where you will meet family and friends after the race. The area around the finish line can get congested.

Making End-of-Life Arrangements

Preparing for your death is probably not something that you are looking forward to and it may be somewhat uncomfortable. Death is inevitable, so it will happen to you sooner or later (hopefully much later). Organize your personal documents and put your wishes in writing now to ease the burden for your survivors. The effort that you take now will allow your family members to grieve rather than be overwhelmed with the financial and decision making tasks that come with the death of a loved one. You can live your life more fully knowing that you are ready.

Information you should prepare for your survivors:

- If you wish to donate your organs, did you indicate this in writing? Do you have it documented on your driver's license?
- Do you have specific wishes for your funeral or memorial service? What music, readings, funeral home (if applicable), etc. would you like?
- What is your favorite charity if family and friends wish to make donations in your memory in lieu of flowers?
- Have you already purchased a burial plot? If so, where? Keep receipts and documentation with your other important paperwork.
- If you are a veteran, there may be benefits that you are entitled to, such as a gravesite in a national cemetery or an allowance towards burial elsewhere. It's important to have your discharge papers available for your survivors to establish your eligibility. Visit www.va.gov for more information.
- Indicate where your will and trust are located. If these documents can't be located, they are useless.
- If you handle the family finances by paying most bills electronically, your spouse should know your passwords and processes so they can take over if something happens to you.
- If you have a safety deposit box or other off-site storage spaces, where are they located? Where are the keys or what are the combinations?
- What benefits are you enrolled in through your employer? Provide contact information for the benefits department.
- Where is your Social Security card located?
- What is your life insurance policy number?
- Where are your bank and brokerage account files kept? (Very important to document any on-line accounts since you may not have any paperwork for them.)
- Names and contact information for your accountants, attorneys, insurance agent, and financial advisers.

Wills
- A will is a legal document that you create to indicate how you want your estate to be distributed after your death.
- A will allows you to list guardians for your minor children, an executor (the person you name to handle your estate), and beneficiaries (who you want to receive specific property).
- An attorney has to probate* your will before a court. This has a cost involved and the process makes your will public record. Sometimes it could take months to years before the estate can be distributed to the heirs.
- If you already have a will, has your family grown since you last updated it? Do you still wish to list the same executor and beneficiaries?
- Intestacy is dying without a will. If you die without a will, the laws of your state of residence dictate who receives your property or assets not registered jointly, in a trust, or assigned beneficiaries.
- Each state has different requirements, so when you create a will, whether on-line or through an estate lawyer, make sure it meets the requirements of your state of residence.

Some responsibilities of the executor
- Meet with an estate attorney and file the will and petition at probate court.
- Determine the contents of any safe deposit boxes and submit paperwork to remove contents.
- Pay final bills from estate assets and close accounts in the decedent's name.
- File final federal and state estate tax returns.
- Distribute property to the heirs of the estate.
- Change the registration of accounts in the decedent's name to the beneficiaries'.

Guardian Assignment
- The laws of your state will appoint guardians for your minor children if you don't appoint guardians for them.
- If you have minor children, who do you have listed as guardian in the event of the death or incapacitation of both parents?
- Did you list alternate guardians if the first choice for guardians isn't able to serve?
- Have you had any babies or adopted any other children since you last assigned guardianship?
- You should also list someone to act as custodian of the minor's assets.

Beneficiary Designations
- If an account, such as an IRA, allows you to list a beneficiary, the assets will transfer to this individual regardless of what is listed in the will. So, beneficiary designations on accounts take precedence over the will. Listing a beneficiary (when allowed for the type of account) allows you to avoid probate for that account.
- When did you last update the beneficiaries?
- Are all beneficiaries still living?
- Are there any new children that you should add?
- Have any of the beneficiaries' names changed due to marriage or divorce?

* *Probate* is a legal process where the decedent's estate (with or without a will) is presented before a court.

Power of Attorney, Living Will, & Living Trusts

No plan is foolproof if the people involved don't understand what you are doing and why. Organize, document, and communicate to spouse, executor, heirs, etc.

—Tony Muhlenkamp

FOR THE RUNNER

Don't wear anything brand new for a long race, especially new shoes. Test your clothing on long practice runs to make sure it doesn't rub. What may start out as uncomfortable chafing could become painful by the end of the race.
Go with what you know works.

Power of Attorney (POA)

A POA is a legal document created by an individual (known as the principal, grantor, or donor) to give authorization to another individual (known as the agent) to act on the principal's behalf in personal, legal, and business matters. The POA document is usually signed and/or stamped by a notary public.

- To create a POA, you must be at least 18 years old and have the mental and physical capacity to sign the document.
- A POA appointment can be limited to handle specific transactions or issues, limited for a period of time, or a general appointment. An example of a limited POA is you appointing your friend as agent to sell a boat for you while you're out of town on business. An example of a general POA is you appointing your adult daughter to handle paying bills and managing your finances because you have had some health problems.
- A Durable Power of Attorney stays in effect even if you become mentally incapacitated. An ordinary POA is no longer in effect if the principal loses mental capacity. Both types of POA become void upon your death.
- You can get a POA form through an attorney, online, or some organizations and businesses have standard POA available for their clients, patients, employees, or members.
- If you have the need for a POA, appoint only someone you trust to legally act on your behalf.
- If you change your mind, you can revoke a POA and appoint a different agent.
- It is the agent's duty to act in the principal's best interest.

Durable Power of Attorney for Healthcare

(Healthcare Proxy or Medical Power of Attorney)

A durable power of attorney for healthcare is a legal document that allows you to appoint someone to make healthcare decisions for you if you become unable to, or are unable to communicate your wishes.

- You can get a durable POA for healthcare through an attorney, online, or through your medical provider.
- Appoint someone who knows you well and you believe would make medical decisions on your behalf in accordance with what you would want.
- After children turn 18, parents no longer are legally allowed to make medical decisions for them without their permission unless they have a healthcare proxy appointing them.
- If you are over 18 and become incapacitated and don't have a durable POA or healthcare proxy, a guardian or conservator will be appointed for you. If you want someone specific to act as your proxy, appoint them.

Living Will
(also known as Advance Healthcare Directive)

- Is a legal document that allows you to specify your wishes regarding what type of medical treatment should or should not be used to prolong your life, if you become permanently incapacitated and you are no longer able to make medical decisions.
- Is only used if you are unable to give consent or refusal. If you are mentally competent and able to communicate, it is not in effect.
- Is different from a Durable POA for Healthcare (Healthcare Proxy) because it doesn't appoint anyone (an agent) to act on your behalf to make medical decisions.

Revocable Living Trust

- Is a written agreement that you (creator or benefactor) establish while you're alive (living) and can change (revocable) as long as you're mentally competent. This agreement lists trustees (you can be a trustee) who manage (according to the specific terms of the trust) the property (assets) registered in the trust, who the beneficiaries are, and when the beneficiaries will receive the property.
- Assets registered in a trust don't have to be probated. Avoiding probate* keeps information about your estate from becoming public record.
- There are costs involved with probating your estate, the more assets registered in the name of your trust, the less that have to go through probate.
- Assets registered in the name of your trust can even be managed by a co-trustee while you are alive. If you become incapacitated or you are just unavailable, your co-trustee can take care of items registered in your trust. Another method is by using a POA.
- Once you have created a trust, you have to change the registration of your accounts to the name of your trust for those assets to be included in your trust.
- Your IRA cannot be registered in the name of a trust, but you may want to name a trust as the beneficiary or secondary beneficiary. If you have a spouse, your spouse has more options if named as primary beneficiary.
- Placing the title of your house in the name of your trust may make it more difficult to obtain a home equity loan.
- Find out the amount of your state's transfer tax before requesting a re-title of your property to your trust account.
- If you have property in several states, if not registered in a trust, those properties will have to be probated in each state in which they are located.
- You can designate when (at what age) the beneficiaries of the trust should receive the assets in the trust. (Maybe you would like your children to reach a certain age before receiving full control of the assets.)
- Physical, non-titled, items, and those assets still registered in your name will still need to be distributed to heirs through a will.

* *Probate* is a legal process where the decedent's estate (with or without a will) is presented before a court.

Learn More at Muhlenkamp.com

Insurance - Health, Disability, & Long-term Care

> *The purpose of insurance is to protect against financial disaster. Any loss that is nonfinancial cannot be remedied by insurance. Any loss that is not a disaster does not require insurance.*
>
> **—Ron Muhlenkamp**

FOR THE RUNNER

Heat and humidity can lead to hyperthermia (elevated body temperature). Cold temperatures, wind, and/or rain can cause hypothermia. Dehydration can cause nausea, dizziness, headaches, and fainting. Seek medical attention immediately if you feel ill or experience severe pain. If medical volunteers suggest that you drop out to prevent further injury, consider their professional advice. After a long race or tough training, give your body a day or two to recover. Get a good night's rest.

What is Insurance?
Insurance is protection from financial loss by the pooling of funds of many (insured or policy holders) in the form of payments (premiums) to the insurance company (carrier) for the promise of payment for covered losses (up to an agreed limit), even if the losses exceed the total premiums paid by the insured. It is a method for transferring risk by paying premiums which are small amounts (relative to the potential loss) to eliminate ever having to pay a large amount, which could cause financial disaster.

Any time you have to consider whether you should buy a particular type of insurance, always ask yourself these questions:

1) *Do I risk financial disaster if I don't buy the particular insurance?*
2) *Could the loss be greater than what my available assets would cover?*

For the majority of people, the lack of health insurance could jeopardize their financial well-being. One major illness or accident could cost you tens of thousands of dollars or more in medical expenses.

The lack of short-term disability insurance may cause financial hardships for some who don't have a cash reserve (Mile 17), but might not be a financial disaster for others who are prepared. Setting aside funds to cover the unexpected allows you to self insure, so the lack of insurance will *not* be a financial disaster for you.

Insurance for appliances such as televisions, cell phones, and refrigerators are probably unnecessary since the loss of the appliance would not equal financial disaster, but only a financial setback. In addition to paying the premium, many appliance insurance contracts require that you pay a deductible when you file a claim. Consider adding the amount that you would have spent to buy appliance insurance to your emergency/cash reserve fund instead. The money will go into your pocket and accumulate until you need it.

Health Insurance

Health insurance is coverage for medical expenses such as doctor's visits and emergency care. You pay premiums to the insurance company whether you use it or not. Even healthy people may someday need medical care, and without insurance, the expenses could lead them to bankruptcy.

- Your employer may offer health insurance as a benefit to you. If there are multiple options, select the one that best suits you and your family.
- Your policy includes the details of what's covered and what's not covered. It may require copays (a set fee that you pay for each office visit or prescription) or deductibles (a dollar amount that you have to pay before the insurance company starts paying) for your covered medical expenses.
- If you seldom use health insurance, select a high deductible policy to keep premiums low.
- Annual medical screenings by your primary medical doctor can help you detect health problems early, potentially reducing treatment expenses for you and your insurer.
- Young adults, up to age 26, may be eligible for coverage under their parent's insurance.
- After children turn 18, their parents no longer are legally allowed to make medical decisions for them without their permission. They should obtain a Healthcare Proxy (Mile 12).

Health Savings Account (HSA)

- HSAs are tax-advantaged savings accounts for saving for qualified medical expenses like high deductibles. Income used towards contributions is not subject to federal income tax.
- Contributions can reduce taxable income.

Health Care Loans (HCL)

- Are similar to a home mortgage. They allow patients to pay for the cost of drugs or therapies over many years.

Disability Insurance

- Provides payments to the policy holder in the event that they are unable to work due to illness or injury.
- Might be available through your employer.
- Includes short-term and long-term disability insurance.
- If shopping for disability insurance, consider your ability to pay premiums, and the rating of the insurance company. Be aware of the exclusions, limitations, waiting periods, and benefit period when deciding if a short- and/or long-term disability policy is right for you.

Long-term Care (LTC) Insurance

- Covers the costs of long-term care such as nursing home, at-home, or assisted living care.
- Your level of health greatly affects the cost of the premiums. You can usually lock in lower rates if you purchase LTC insurance when you are younger since there is a better chance that you are healthier and not on any medication.
- If you have LTC insurance and you start to show signs of cognitive decline, be sure to ask for help with paying your bills and other paperwork. You don't want to miss paying your premiums and have your policy lapse at a time when you might need it the most.
- When shopping for LTC policies, look at your ability to pay premiums, the elimination period, your coverage, exclusions, the rating of the insurance company, and the benefit trigger.

Choose a Healthy Lifestyle

- Prevention is the best medicine.
- Visit your doctor for annual check ups.
- Don't wait to make an appointment with a doctor if you feel that something is amiss.
- If you struggle in any area, grab a friend or join a support group for help.
- Exercise at least a few times per week to get your heart rate up. Maybe train for a marathon. (wink, wink!)

Learn More at Muhlenkamp.com

Reduce Outflows

> *A good product can be a bad deal if the price is wrong. How do you know a good price? Shop around and be willing to walk away from any 'deal'.*
>
> **—Ron Muhlenkamp**

FOR THE RUNNER

Many races offer a discount if you register before a certain date. If you know that you definitely want to run an upcoming race, take advantage of the discount by registering early. You usually pay the most if you register the day of the event, plus you might not get a T-shirt.

Unless you have an inheritance coming your way, if you don't accumulate assets, you won't become financially independent. You must spend less than you make and save the difference. Aim to reduce outflows by cutting your costs and reducing your spending. You don't have to reduce all costs, just find ways that make sense for you. Some ideas:

Some ideas to cut your costs

- When paying bills, pay them on time so you don't incur late fees and pay them early if you can get a discount. Late payments can also have a negative effect on your credit score.
- Balance your checkbook to avoid bouncing checks. Non-sufficient funds (NSF) not only result in a penalty fee and interest from your bank, but the business that you wrote the bad check to may charge you a fee as well.
- Overdraft insurance is expensive and unnecessary if you balance your checkbook and control your spending.
- Hand-me-down clothes can save a bundle (especially when kids go through growth spurts) compared to new items, plus they are already broken in.
- Do you have room for a garden? Container or community garden? Growing your own food can be an enjoyable and healthy way to save money.
- There are usually several ways to do things. Use your imagination to see if you can come up with a less expensive way.
- Do-it-yourself with the help of the Internet and on-line videos. You can see how to tackle many jobs that you would otherwise pay someone else to do. Watch the video a few times, purchase needed supplies, then watch again as you attempt each step, pausing when needed. Do not attempt anything that the cost to repair it would be more than if you had hired a professional.
- Pay others to do jobs that would cost you more to do yourself due to lack of time, correct equipment, and/or knowledge. Hire professionals for jobs that require a licensed individual to complete.
- If you stop smoking/chewing, you would not only save on the cost of buying the cigarettes or tobacco, but you may also save on health insurance and life insurance. Quitting bad habits like these could help you save your life *and* save for retirement.
- Major cost cutting is to purchase used cars with cash instead of a new car with a loan or leasing a car. (See Mile 18.)
- Defer or lower your taxes by using qualified retirement plans (Roth IRA, Traditional IRA, 401(k)) when saving for retirement. For taxable accounts, aim for long-term capital gains rather than short-term capital gains, which are typically taxed at a higher rate.
- If you have a mortgage, make extra payments towards the principal. Always check your records to make sure the extra payments are applied correctly. You will pay off your loan sooner and you'll save on total interest.
- Avoid gambling and playing the lotto. If we thought they were a good way to make money, we'd list them in Mile 15, and they are not in there.

What does an item cost you in time?
Sometimes it's a good exercise to think of the cost of an item in what it cost in time rather than in dollars. This is another way to determine if you want to spend your valuable money (time) on it. Figure out how much you bring home per hour after taxes, then determine how many hours of your time an item costs. If your after-tax take-home pay is $20.00 per hour and an item is $10.00, then it costs you 30 minutes of your time to pay for that item. If the item is $60, you would have to work three hours to pay for it.

$10 per item / $20 per hour income = 1/2 hour = 30 minutes
$60 per item / $20 per hour income = 3 hours = 180 minutes

Some things to think about when shopping

- Understand that price and value are not always one and the same. Items priced ten times as much as another item aren't always ten times better and may not be a good investment. A $50.00 pair of sunglasses and a $500 pair both protect your eyes from the sun and they both could get scratched or get misplaced.
- Practice discipline - Set a limit on how much you are willing to pay for any item, and stick to it. Think about your needs vs. your desires. If you have determined that you "need" an item, what is your upper limit? An interesting aspect of the current U.S. economy is that many of the goods and services we now consume were unheard of just a generation ago. We use the word "need" to describe goods and services our parents viewed as luxuries and our grandparents never imagined.
- Be frugal not cheap. There is a lot of junk out there and buying junk is a waste of money if it breaks right away. Check the quality by examining the store model, read the ratings on an item, ask friends if they own the item and their opinion of it. How long do you plan on using the item? How reliable does it need to be?
- Some people decide that using only cash is better for them verses using a credit card. By using cash you can physically see how much money you have left. If it's not there, you can't spend it. This method definitely keeps you from overspending. Plus, sellers may offer you a better price if you pay in cash.
- Impulse products (items near the cash register that you have to look at while you wait for your turn) are usually priced significantly higher than the same item in a multi-pack in the back of the store. Would you pay $9.00 for a six-pack of something that normally costs $5.00? That's what you do after six visits to a store when you impulse shop. Buy the multi-pack if you like the item and save some money. Buy in bulk items that you use a lot.
- Quit shopping. Take a break from it and use what you already have for a while longer. Just say no.

Small Expenses Add Up
Think about the "small" expense of a pack of cigarettes, a bottle of water, or a cup of served coffee.

A cup of coffee at the local shop may *only* be $4.00 per day, but that adds up to $1,460 over the course of a year.
($4.00 x 365 = $1,460)
Over ten years, you'll spend $14,600 (probably more due to inflation)
($1,460 x 10 years = $14,600)

Future Value of Money
Put off today to be better off in the future. By denying yourself pleasure in the short-term, you may be able to increase your long-term success. You can still drink your coffee, but consider the following.

From the coffee example above:
If you brew at home for $1.00 per day, your coffee costs would be $365 per year rather than $1,460 per year at the coffee shop.
($1.00 x 365 = 365)
If you invest your savings of $1,095
($1,460 - $365 = $1,095)
at the beginning of every year for 10 years at a 5% annual return, you will end up with $14,461.43 at the end of the 10 years.

If you invested this way for 20 years, it would be
$38,017.58
($1,095 invested at the beginning of every year for 20 years at a 5% annual return = $38,017.58)

This is what you could end up with by saving $3.00 per day and investing $1,095 annually at 5% annual returns and allowing time and compound interest to grow your assets. Long-term vs. short-term pleasures.

Learn More at Muhlenkamp.com

– Personal Finances (Maxims Part II)
– Fund Your IRA or How to Retire Wealthy by Driving Used Cars

Increase Income

There is NO free lunch.
—Milton Friedman

There's no free income either.
—Ron Muhlenkamp

FOR THE RUNNER

Regarding hydration, begin increasing your fluids the week before the race. During the race, take water *and* sports drink when offered. You may not realize how much fluid you are loosing when sweating and you don't want to become dehydrated. Water is provided so you stay hydrated and sports drink to hydrate and replace electrolytes. Way too much water could be bad, as well. The amount to drink depends on your body size, the weather, and how hydrated you were before you started the race. It's tough to know the perfect intake...waiting in line for the bathroom can slow you down, but getting an IV at the medical tent will put you out of the race. Usually bathroom lines are shorter further into the course.

Earning an Income—Have a Plan
When deciding on a career or changing careers, find something that you enjoy doing and that will benefit someone else in some way that they are willing to pay you for doing it. If you are an entrepreneur, offer a product or service that consumers would benefit from buying. Whatever you choose, do it well. Find ways to be more efficient, provide better service, increase the quality, reduce the expenses, and/or create more demand. Chances are you will be successful in your efforts.

Be a Profit Center
Before you can save a nickel you have to make a buck, and that is probably going to mean working for someone else initially. You need to make more for that person than it costs that person to hire you. That's what it means to be a "profit center." How much do you cost your employer? When you look at your pay, don't forget what your employer pays in taxes, cost of medical insurance, and retirement matching for you. How much do you make for your employer? That's not always easy to measure, but you should try to have some idea and make sure that you make him or her 5% more than you cost to be employed. Every employer needs that nickel for it to be worth staying in business.

Increase Income
In many cases, wages are set by skill level and supply and demand. The more skilled you are at something and the lower the number of others that can do the same job, the greater your wage will be. If you want to make more money, work harder and ask for more responsibilities. You will expand your skills and can ask for an increase in pay. If your current employer can't afford to provide an increase or won't, look elsewhere now that you have a stronger resume. However, don't quit your current job until you have found another one.

Earned Income—Words of Wisdom
- "Get rich" schemes rarely work. They usually end up costing you money.
- Consumer is King. Make a product that the consumer wants/needs and sell it for the right price.
- Don't assume that your income will always go up.
- Be aware of advances in technology and how it might impact your industry, for better or worse. Try to stay ahead of the curve.
- Are you juggling too much? Do you need to drop some activities or narrow your focus to those that will help the most financially? Sometimes focusing now can help you expand in the future.

Second job to increase income

If you are stuck in the cycle of unending debt, and are motivated to break it or just want to increase your savings faster, a second job will give you the boost.

What are some other skills that you have or are interested in developing? If you are in a situation where you need to increase your income and you can't do it at your current job (such as working overtime or by a raise), maybe look for a second job doing something that you really enjoy. Even if the starting pay isn't that high because you are at entry level, you are gaining experience. After testing out the new area, you may find that you don't enjoy it as much as you thought you would, try again. However, if you find you can't wait to get to this job everyday, figure out how you can move up this new ladder. Will you need to further your education? Act as an apprentice? Or maybe it will just take time to build up a new client base.

Search the Internet for ideas and guidance on flexible second jobs. Beware of websites that make you pay for contact/job information.

What ideas can you come up with to earn some extra cash? Think of jobs where you can control the hours and set your schedule so it doesn't interfere with your full-time career. Jobs that can be done in your home or the home of your client should keep your costs down. Following is a list of some flexible jobs that have a low barrier to entry and don't require you to rent retail space to operate.

Don't forget to vote

The people that we vote into political office make decisions that affect our future. Learn who is running for office (local, state, and federal), what their job is, and what they stand for. You have the right to vote and should utilize it.

Stocks and bonds are driven by economics, and economics is driven by people. People are the consumers, the workers, the business owners, the voters, the taxpayers, the borrowers, and the lenders. The economy (and the market) is just the aggregate result of everyone's economic decisions.

Tax rates are set by the politicians that we elect. These rates not only affect what income we get to keep, and, therefore, what we have left to spend, but they can also affect our job opportunities. If we raise taxes too much on employers, there may be a point where they're likely to quit hiring because it may not be worth staying in business.

Be sure to look beyond the surface when politicians make promises. What ripple effect will their policy changes make to the economy? To your job opportunities? To your future?

Some flexible part-time job ideas

- Art instructor
- Author
- Auto detailer
- Babysitting
- Blogger
- Bookkeeping
- Caregiver/Companion
- Consulting
- Crafter
- Delivery driver
- Fitness instructor
- Freelance writer
- Grass cutting
- Landscaping
- Hairdresser
- Handyman
- House cleaning
- House sitting
- Make-up artist
- Marketing
- Music lessons
- Online business
- Organizer
- Pet-sitting
- Photographer
- Retail worker
- Shopper
- Shuttle driver
- Tax preparer
- Tutoring
- Waiter/Waitress
- Wedding planner

Learn More at Muhlenkamp.com

– Competition for the Consumer
– Prosperity
– Ecomomics and Why the Election is Important
– Muhlenkamp Musings on Economics

Reduce Debt

Work to move your assets toward the areas where returns are high and pay off debts where the costs are high.

—Ron Muhlenkamp

FOR THE RUNNER

The night before an early race, lay out your clothes, race bib, and anything else you will need so that you can sleep better. You don't want to have nightmares that you forgot something, and not get a good night's sleep.

Pay off Debt

Eliminating debt helps you sleep at night. We all know that a good night's sleep helps you stay healthy and feel better. When you feel good, it is easier to achieve more. Don't let the weight of debt wear you down.

- Focus on paying off the debt with the highest interest rate first since it costs you the most.
- Consolidate payments *if* it can lower the average interest rate.
- If you can't pay the entire amount owed, try to pay more than the minimum. Look at the payment schedule.
- Pay by the due date so you never pay a late fee.
- Don't take on new debt.
- Spend less; remember your goals.
- Don't forget any personal debt (loans). If you borrowed from family or friends, pay them back.
- Aim for your credit card statement to read: "Total Fees Charged for the year = $0.00" and "Total Interest charged for the year = $0.00"
- We are offered borrowed money for almost everything: furniture, cars, houses, clothes, cosmetic procedures, even to get our paycheck earlier. These always come with costs. Don't do it.
- You should avoid debt for items that depreciate such as automobiles.
- Over and above your emergency fund, if you have started investing but you still have debt, you may want to use your money to pay off your debt. However, if your assets are in a tax-deferred account such as a 401(k) plan or IRA, liquidating those funds can result in a penalty and income taxes. We do NOT recommend this. But if you have money in a non-qualified money market account or brokerage account and, on average, you are paying more in interest on your debt than you are receiving on your investment, pay off the high-cost debts. If you have completed a Balance Sheet (Mile 5), you can use it to analyze your assets and liabilities.
- The more credit cards you have, the more chance you have to forget to pay one on time. By missing a payment, you incur a late fee, pay interest, and may get an increase on the Annual Percentage Rate (APR) charged on the account. It's simpler to only have one or two credit cards and pay each in full every month.
- Keep a tally of your receipts throughout the month so you know what your total will be on your credit card bill (or monitor it on your credit card's website/account app). Remember to keep your spending in line with your budget.

Cycle of Debt
The cycle of debt is when you get stuck in a debt trap. It's when the amount that you have available to pay your debt only goes towards the interest and you don't have enough to pay down the balance. If you continue to borrow, your balance grows too, as well as the amount of interest owed. It's a vicious cycle until you stop borrowing, pay the interest, start attacking the balance, and continue until the debt is wiped out.

The larger your debt, the harder it is to break free. Escape it by reducing your outflow (Mile 14) as much as you can and increasing your income (Mile 15) if possible. Make it a habit to pay off your credit cards monthly and limit other debt. Don't let it get out of control.

Once you have eliminated your debt (besides your mortgage), use the amount that you had been using to pay down your debt to save for your long-term goals.

Credit Reports
Credit reports show whether you pay your bills on time and how many accounts you have, your outstanding debt, and your credit limit with each account. A credit score is a number generated with information in your credit report. It indicates your creditworthiness.

Lenders such as credit card and mortgage companies use credit scores to gauge your credit worthiness. Even potential employers or landlords may check it to see how responsible you are.

The better your credit score, the better the interest rates you will be eligible for if you need to borrow money for something like a mortgage. So maintaining a high credit score can save you money in interest.

You should check your credit report annually to identify any fraudulent activity.

Learn More at Muhlenkamp.com
– Personal Finances (Maxims Part II)

Mile 17

Build Up Cash Reserves

We cannot spend ourselves rich. We can only earn and invest to become rich.

—Ron Muhlenkamp

FOR THE RUNNER

If you are racing on a hilly course, then train on hills. If you only train on a flat course, you might not be ready for the race. Your "hill climbing muscles" won't be ready.

Why do you need cash reserves?

If you have climbed the ladder of success and are now "doing well," don't take that for granted. Some businesses are cyclical and their demand changes with changes in the economy. Some products are trendy now, but may soon be the fads of yesterday. Innovations in technology have had drastic effects on businesses over the years. Generations ago, you may have been the quickest and most accurate telegraph operator around, but once the telephone became a common household item, you wouldn't have a job.

More recently, if you owned a film developing and photo printing machine, there may have been a period of time when you were doing more business than you could keep up with. Competitors saw your success then entered the market and took some business away. The laws of supply and demand forced you to lower your prices as well as your profit. Not long after that, digital cameras and home color printers may have put you out of business. These are just two examples of jobs that have come and gone. What will your life be like ten years from now? Changes might be gradual or immediate, but you must always be prepared. Building up your cash reserves during the good times allows you to survive when things are not so good in your industry. This extra cushion will give you time to adapt or to find another niche in the market or develop your skills to climb the next ladder.

Even if your job is fairly secure, what about your health? A sudden illness or injury could keep you from working. Take steps to build up your cash reserves no matter what may cause you to have to use it. Hopefully you never do need it; in the meantime, the money that you set aside will help you sleep at night.

The size of your "cushion" depends on you. We suggest working to build up to at least six months or more in living expenses to be prepared if situations arise that keep you from working. If you use your reserves, make it a priority to rebuild them when you are able to. Use a Cash Flow Statement (Mile 6) to determine your monthly living expenses. Are you prepared if you stop receiving your paycheck?

How can you build up your cash reserves?

- Try to find ways to cut costs and spend less, thus reduce your outflow (Mile 14).
- Find ways to increase your income (Mile 15).
- Work on eliminating your debt (Mile 16) so that less of your money goes to interest (lender) and more of it can go to you to buy goods, services, save, or invest.
- Pay yourself first: utilize a systematic investment plan where a set amount is withdrawn from your bank account monthly to your cash reserve account.
- Live below your means so that you can accumulate wealth.
- Discipline yourself and put a percentage of any raise into savings immediately instead of spending it. If you never get accustomed to the increased amount, you won't miss it.
- Don't be tempted to make your retirement account your rainy day fund. Making withdrawals from it before age $59^{1/2}$ could require you to pay a penalty on top of any income tax owed on the amount of the withdrawal. Also, if your retirement account is invested in equities and there is a downturn in the market, you would be selling when stocks are low.
- Self-insure when it would not be a financial disaster. You are offered insurance for almost everything (e.g. appliance insurance, travel insurance, water line repair insurance). Think about how often you bought this type of insurance and how often you used it. If you find that you have never used the insurance, putting the money that you would have spent on the insurance into your cash reserve account will allow you to grow your assets. Then if something breaks and needs to be repaired, you will probably have the money to fix it. You have to decide case by case whether you think the insurance (Mile 13) is worth it. If your anxiety is high without it, then it's worth more than the dollar amount and probably a suitable purchase for you.

Where should you put your cash reserves?
The checking account that you opened for your mini emergency fund (Mile 9) could be the same account that you use to build up your cash reserves. It should not be the checking account that you use daily because you might be tempted to use the funds for day-to-day spending.

Since your cash reserve account is a cushion to help protect you financially if your income stops or decreases for any reason, it should not be invested in equities or other highly volatile investments. It is your expanded mini emergency fund. It should be in a liquid, low-volatility account and used only when you encounter financial hardships. It will keep you from resorting to debt as a lifesaver.

If you need to use your cash reserves, build them back up as soon as you can.

Automobiles - Ownership & Insurance

The price of borrowing money is interest—and worry. Keep all borrowing below the worry point and don't borrow to buy things that depreciate; you will lose on both ends.

—Ron Muhlenkamp

FOR THE RUNNER

On the night before the race, eat healthy foods high in carbohydrates and protein so you don't run out of gas. Avoid extra fiber.

Do you need an automobile?

You might not need an automobile if you live in or near a city. If public transportation, taxis, or other vehicle-for-hire services are available to get you where you need to go on a regular basis, you can eliminate a huge expense. Consider all the the costs involved with owning or leasing an automobile.

Costs of automobiles

- Cost of the car (cash, loan, or lease)
- Auto insurance
- Maintenance (new tires, inspection, repairs)
- Operating costs (fuel, oil)
- Parking fees and toll roads (if applicable)

Owning or leasing an automobile

- Houses and automobiles are typically two of the largest purchases most people make. Buying or leasing over the recommended guidelines can leave you struggling to pay for other items such as vacations and retirement.
- Rule-of-thumb guideline for total transportation expenses (see "costs of automobiles" above) should be 15% or less of your after-tax income.
- Consider the fuel efficiency and type of fuel required for the vehicle when determining your annual costs, as well as, the typical cost of upkeep for the model in which you're interested.
- Do your homework before you buy or lease. Read the fine print of all lease, loan, or purchase agreements.
- When shopping for cars, paying cash is usually the least expensive and leasing is usually the most expensive way to get a car. Leasing might look like the most affordable method because the monthly payments are smaller than if you purchase. But, if you buy a car with cash, you pay no interest and, after the transaction is made, you own the car. If you finance the purchase of your car, your cost of the car is increased by the amount of interest you pay, but, when the loan is paid in full, you own the car. When you lease, you make payments for a few years, but you end up with no car. Consider the total costs (purchase price, total lease payments, interest paid, depreciation, and residual value) when deciding how to get your next car.
- Unlike houses that usually increase with the rate of inflation, cars depreciate after you drive them off the lot. You could save thousands of dollars by buying used rather than new cars.
- Pay with cash to avoid the cost of interest.
- Decreasing the frequency of your car purchases can also reduce your costs.
- Start looking well in advance of when you will need the car so you don't feel pressured or forced to buy before you are ready.

Buying Used Cars

Buying a used car can be a costly lesson if you don't know what you are doing. Doing your homework and some investigation will allow you to make an intelligent used-car purchase and possibly save thousands of dollars over buying a new car.

- Know how much you can spend and stick to it. Don't forget about the cost of auto insurance, sales tax, and title fees.
- Start with *Consumer Reports* to find a vehicle you like and the price range of what you can expect. *Consumer Reports* spends a great deal of time investigating repair records, user experiences, and safety records to build their Buying Guide for used cars.
- Use *Kelley Blue Book* to find the fair market value within your zip code for that vehicle.
- Search online databases and newspapers for the vehicle that meets your criteria.
- When you find a car you'd like to own (whether via private seller or dealer), meet the seller during daylight hours (so you can spot any damage) and take the car for a drive. Look for obvious rust (under the hood and under the body).
- Ask for a Carfax or AutoCheck report using the car's VIN (Vehicle Identification Number) or obtain one yourself.
- If you're satisfied that this vehicle might be worth your time, ask to take the car to your mechanic for inspection. If the answer is 'no,' move on. If the answer is 'yes,' be willing to compensate the seller for the few hours they will be without their vehicle.
- Be reasonable when you receive the mechanic's report. Have the *Consumer Reports* notes on the vehicle's trouble spots, so that you have some idea of what might be found.
- If the car needs to be repaired to pass inspection, see if the seller will negotiate on the price.
- Remember you're buying a used car. It won't be perfect.

Automobile Insurance

It is against the law to not have liability insurance if you drive a car. When you are at fault, your liability insurance pays for bodily injury and property damage that you do to others. Collision and comprehensive insurance covers damage to your vehicle.

Auto insurance is there to protect you against financial disaster. Work with an insurance agent to find the best policy for you. Shop around to find the best rates, but make sure you are comparing the same coverage.

Traffic violations and increased insurance rates

Some traffic violations will increase the cost of your auto insurance. It depends on your insurance carrier, type of violation, your driving record, and your state laws.

Typically fleeing from police, driving under the influence, refusing a breath or blood test, leaving the scene of an accident in which your were involved, racing, and reckless driving will cause your insurance premiums to increase.

Be responsible when you're behind the wheel. Unwise decisions could lead to injury to you, your passengers, or to others and can have a negative effect on your assets as well.

Learn More at Muhlenkamp.com

– Fund Your IRA or How to Retire Wealthy by Driving Used Cars

From Renting to Owning a Home

A bad product is always a bad deal. Don't buy a car or appliance with a poor service record. Don't buy a house with a cracked foundation.

—**Ron Muhlenkamp**

FOR THE RUNNER

Run with good form. If you lift your sternum up and put your chest out, it puts your head in the proper position over your spine (you're not hunched over). Try to suck your ribs into your back while you run to strengthen your stomach muscles and your core. Don't waste energy by bouncing too much—take low smooth strides.

From Renting to Owning a Home

Independent living isn't something you can do without planning and saving. Do your homework before you move out on your own. Not only will you have the cost of rent or a mortgage, but you will need furniture and have to pay for utilities and insurance as well as continual upkeep.

For Renters

- The rule-of-thumb is to not pay more than 30% of your after-tax income in rent.
- Remember to save for the security deposit as well as the first few months' rent.
- Purchase renter's insurance to cover the costs of your personal belongings and liability insurance to protect your assets. Your landlord's insurance policy will not cover your items.

How much house can you buy?

- Look for a home in the right price range. The rule-of-thumb is your housing costs (mortgage, insurance, taxes) should be no more than 25% of your after-tax income.
- You shouldn't buy a home until you have saved 20% of the value of the home for a down-payment. You should also have assets in your cash reserves account and have your debt under control.
- Just because the banker (or real estate agent) says that you *can* afford more house, doesn't mean that you *should* get more house. Being "house poor" isn't fun because there usually isn't room in the budget for fun stuff. Many people assume that the bigger your house, the more money you have. Sometimes this isn't true—your money may be used up by housing expenses. Living in a moderate house for your income can allow you to have the financial freedom to do other things.
- You should be able to avoid the cost of private mortgage insurance (PMI) by having a down-payment of 20% or more.
- When deciding what mortgage to get, it helps to look at the total amount you will pay. Choosing a 30-year versus a 15-year mortgage will increase the total amount of interest paid over the life of the loan (monthly payments will be less with the 30-year because you are spreading it out over twice the time). If you can afford the higher monthly payment by going with the 15-year, you will save on total interest.
- Be wary of adjustable rate mortgages (ARMs) because you can't control the future interest rates. If rates go up, you will be stuck since mortgage rates across the board will be up (you won't have any good alternatives). If you purchase a fixed-rate mortgage, and rates go down, you can always re-mortgage to the lower rate if it makes sense.
- Don't forget about property taxes and homeowner's insurance when determining your annual expenses. Is there a homeowner's association fee for the community? Find out the approximate amount of each and use the figures to calculate what amount of house fits your budget.

Things to think about when looking at houses

- Always get the house inspected by a certified inspector before you purchase it. If there is something wrong, consider the cost to fix it and you may be able to negotiate with the seller; (sometimes the findings are a clue to pass on the house).
- Walls can be painted, wallpaper can be removed, carpets or other flooring can be updated. You have to look beyond the decor to see the quality of the actual house. You could pass up a well-built home that needs some updating for a shack that has a fresh coat of paint and new hardwood floors.
- Will you have a longer or shorter commute than you currently do? If longer, how much more will you spend on gas annually? Tolls?
- Is the driveway steep? Will it be hard to get up or down in icy weather?
- Does the house sit lower than the road? Will it be prone to flooding in heavy rains?
- How is the noise level? Are you on or near a busy road?
- How is the school district rated compared to other districts in the area? If you have children (or plan to) this is something to consider. An identical home will have a higher value in a higher quality school district than in a lower one.
- Older homes may contain lead paint or asbestos that, for safety reasons, may require professional help when doing remodeling projects.

The Home Owner

- Sometimes you will ask yourself, "Do I own my home or does my home own me?" It will get cold and you may need a new furnace. It will need new shingles and you will be calling roofers for bids.
- When getting bids, remember to get at least three for major purchases/repairs for your home. You would be amazed at some of the price differences. Make sure you are comparing apples to apples. Ask for references.
- If you have a big project to do, get estimates on what it will cost and make sure you have enough money to complete the project.
- Preventive maintenance - It's usually cheaper to prevent than to repair. (Example - Turn off the outside spigot before winter if you live in a cold climate. Frozen pipes can burst and make a mess.) Add maintenance jobs to your personal calendar as reminders.
- Keep your homeowner insurance policy up-to-date. (See Mile 20.)
- If you didn't start with, but have now reached 20% or more in equity in your home, you may be able to drop the private mortgage insurance (PMI).
- Keep receipts for home improvement projects. You can use these to document your cost if you ever need to pay capital gains on the sale of your home. (Check current tax laws.)
- You may be able to deduct your mortgage interest from you taxable income. (Check current tax laws.)

Learn More at Muhlenkamp.com

– Consumer Spending

Property & Personal Liability Insurance

There are no guarantees,
there are only guarantors.
The phrase 'It's guaranteed'
requires the response:
'By whom?'

—Ron Muhlenkamp

FOR THE RUNNER

Take steps to prevent injury. Wear sunscreen if needed. Stretch your muscles the night before your race and the day of the race. If you start to cramp up during the race, stretch again. Try adjusting your stride occasionally to loosen up cramping muscles.

Homeowner's Insurance

- Buy homeowner's insurance to protect you from financial disaster. Your home is probably your biggest physical asset. If something were to happen to it, without insurance, you would take a huge financial hit. Because it is also where you live, you would have additional expenses for temporary housing if your home was uninhabitable.
- Your home should be insured for at least 100% of the estimated replacement cost in your local area. Replacement cost is the amount necessary to repair or replace your home, it's different than market value.
- Did you add on? Finish your basement? Upgrade the kitchen or bathrooms? If you have done major improvements on your home and haven't notified your insurance agency, you might want to have them appraise your home and increase the covered amount to the new estimated replacement cost of your home.
- If you have an additional structure on your property that is worth more than 10% (varies by policy) of the value of your home, you may want to increase coverage on this outbuilding. For example: If you have a detached garage that cost $40,000 to build, and your home is worth $250,000, if the garage burns down, the insurance may only pay you $25,000 to rebuild the structure. Ask your agent about adequate coverage for outbuildings.
- Trees and shrubs may be covered under your homeowner's policy. You may need to hire an arborist to appraise any trees destroyed or damaged due to an insurable event.
- Do you live in an area that was undermined? See if your insurance company has additional mine subsidence coverage. You may be able to get coverage through your state.
- Do you live in a flood plain? If so, your mortgage company may require that you carry flood insurance.
- Could you reduce your insurance costs by installing a security system? Check with your insurance agent.
- Insurance might not cover pest damage, mold problems, or other issues caused by neglect. Take steps to prevent damage to your home that could lead to costly repairs.

Personal Property Insurance

- Personal property insurance covers the repair or replacement costs of the contents of your home (the items that you own that aren't part of your house), if they are damaged, destroyed, lost, or stolen according to the terms of your policy.
- If you have any high-net worth items such as jewelry or fine artwork, you may want to purchase a separate personal articles policy or increase the sublimits on certain categories of valuables on your homeowner's policy. Check with your insurance agent.

Take steps to prevent damage to your home

- [ ] Check gutters and downspouts for damage; repair if needed, keep clear of debris.
- [ ] Check electric wires for cracks or frays.
- [ ] Check plumbing and fix leaks before they get bigger or cause mold problems.
- [ ] If you notice termites or carpenters ants or bees, they may be doing structural damage and may be a sign of a moisture problem. Contact a pest control service.
- [ ] Change furnace filter on a regular basis. Check your owner's manual for frequency and safety steps.
- [ ] Drain the residue from the bottom of your water heater tank on a regular basis. Check your owner's manual for frequency and safety steps.
- [ ] Check smoke detectors. If not hard-wired, change the batteries twice a year.
- [ ] Keep a fire extinguisher on each floor—the bigger, the better.
- [ ] Grading should slope away from your house to prevent water damage.
- [ ] Stain or seal wood structures.
- [ ] Repair roofs or replace missing shingles.

What additional damage prevention steps do you need to take in your climate/region?

- [ ] ____________________
- [ ] ____________________
- [ ] ____________________
- [ ] ____________________

Personal Liability Insurance
Personal liability insurance is a type of insurance usually bought along with your homeowners and personal property insurance. It protects you financially for the expenses incurred if someone is injured on your property. It also covers your legal costs if you are sued due to the injury. It covers claims against you and eligible family members.

Personal Umbrella Policy
A personal umbrella policy is a type of insurance policy that provides liability insurance beyond the limits of the liability portion of your auto and homeowner's or renter's insurance policies. If your auto or homeowner's policies are covering a claim, but the claim is greater than the policy's upper limit, the personal umbrella policy would kick in and would pay up to its upper limit.

Learn More at Muhlenkamp.com

– Consumer Spending

Learn About Money & Investments

Financial products are simply agreements written on paper. Although written in English, they are written by lawyers and designed so you won't read them. Read them anyway, and read them again, and again, until you understand them.

—Ron Muhlenkamp

FOR THE RUNNER

When training for a marathon, you can do more than just run. Ride a bike, use an elliptical, use a rowing machine, or go swimming. All of these exercises will help build endurance and muscle. They will give you some variety, some diversification.

Understanding Financial Products

Stick with investments that you understand. If you don't understand it, learn about it or don't buy it. A salesperson can sell you a "fantastic deal" if you don't know what you're buying. Learn about mutual funds if you're are beginning to invest. Learn about mortgages if you are buying a house. Learn about life insurance if you are in the market.

Learning about money

Knowledge about money is more than learning to balance your checkbook. It includes learning to:

- Establish goals;
- Prioritize your spending;
- Spend within your means;
- Begin saving early;
- Be realistic about your income;
- Don't try to keep up with the spending of others;
- Be confident in who you are, not what you own;
- Recognize what could lead to financial disaster and insure against it; and
- Learn from your financial mistakes and those of others and don't repeat them.

Knowledge vs. Behavior

Knowing what to do and actually doing the right thing takes great discipline and action. Sometimes you have to tell yourself "no" today, so that you can have better in the future.

For example, if you are leasing a luxury foreign car, but don't have a fully funded cash reserve account (Mile 17) and can't pay the balance off on all your credit cards (Mile 16), you need to examine your behavior. Continuing down poorly chosen financial paths can lead to situations that are hard to get out of. Getting trapped in the cycle of debt is one of them. Spending all of your money now and not investing for your future is another. Recognize when you make financial mistakes and correct the problem as soon as you can.

Suggested Reading list:

- *Ron's Road to Wealth: Insights for the Curious Investor* by Ron Muhlenkamp, outlines the fundamental principles that govern intelligent investing.
- *The Millionaire Next Door* by Thomas J. Stanley and William D. Danko, reveals the surprising secrets of America's wealthy.
- *Economics in One Lesson* by Henry Hazlitt, demonstrates that many economic beliefs are fallacies and explains the consequences of policies based on these myths and their effect on different groups of individuals.

Account Registration vs. Investment Vehicle
When it comes to opening a financial account, one basic area where people get confused is between the registration of your account versus the investment vehicle(s) that your account is using. The *account registration* shows who owns the assets (individually, jointly, custodian for a minor, or in a trust) and whether the account is qualified as tax-favorable or not. The *investment vehicle* is how the assets are invested or what they're invested in (the investment type).

The way an account is registered can make a big difference, and where the assets are invested can, too.

Some Examples of Investment Vehicles
- Cash
- Savings Account
- Checking Account
- Savings Bond
- U.S. Treasury Bills
- U.S. Treasury Bonds
- Money Market Fund Account
- Certificate of Deposit (CD)
- Municipal Bonds
- Corporate Bonds
- Stocks
- Mutual Funds
- ETFs (exchange traded funds)
- Real Estate
- Annuities
- Warrants

Types of Account Registration and What Happens if the Owner Dies
- *Individual* - Assets go to the estate of the individual owner.
- *Jointly* (Joint Tenants or Tenants in Common)- If registered as "Jt. Ten. WROS" (with rights of survivorship), when one person dies, the assets belong to the surviving owner. If registered as "Jt. Tenants in Common," a percentage of the assets goes to the estate of the deceased.
- *Transfer on Death Registration (TOD)* - A way to add beneficiaries to Individual or Joint Tenancy registrations. Assets will pass to beneficiaries listed on the account if all owners die.
- *Trust Account* - Assets go to the beneficiary(ies) of the trust according to the terms of the trust.
- *Individual Retirement Accounts* (Traditional IRA, Roth IRA, SEP IRA, SIMPLE IRA) - Accounts set up to save for retirement. Penalties and fees are charged for early withdrawals, etc. If the IRA owner dies, the account goes to the beneficiaries listed on the account.
- *Tax-Deferred Accounts* (401k, 403B) - Accounts offered through an employer, which are set up to save for retirement. Assets in the account go to listed beneficiaries.
- *Uniform Gifts/Transfers to Minors Act (UGMA or UTMA)* - Accounts for minors that list a custodian to manage them until the minor reaches the age of majority in his/her state. Assets registered in these accounts must always be used for the benefit of the minor. If the minor dies, assets go to the estate of the minor.
- *Educational Savings Accounts* (Coverdell Education Savings Accounts "CESA" and 529 Plans) - Accounts which are set up to save for the qualified educational expenses of the beneficiary. See IRS Publication 970 for details on successor beneficiaries.

Learn More at Muhlenkamp.com

– Back to Basics
– Ron's Reading List
– The Investing Choices
– Problems With Investing for Income

Statement of Investment Policy

Retirees don't need income from their principal; they need spending money from their assets.

—Ron Muhlenkamp

FOR THE RUNNER

Eat something for breakfast to avoid low blood sugar levels. Your body needs fuel, so even if you are nervous or aren't hungry, try to eat easily digestible carbohydrates and small amounts of protein. Avoid fat and fiber. You might think you can get away without eating, but it's better to have some fuel to burn. Just like you shouldn't wear brand new clothing on race day, don't try new foods. Go with what you know works.

What does retirement look like?

We understand contemplating retirement can be daunting. It's a question similar to "What do you want to be when you grow up?" In essence, retirement is like a new beginning, so the question must be answered. Without planning and increased personal savings, an independent retirement at age 65 is uncertain, and you may wind up working until your last decade of life. Your financial independence and material comfort will depend entirely on how much you earn, spend, save, and invest. You are not too young to start earning more, spending less, and saving the difference. A Statement of Investment Policy can help you on your way.

What is a Statement of Investment Policy?

A Statement of Investment Policy is a document of financial guidelines for you (if you are doing it yourself) or for your investment advisor (if you have one or are going to hire one) to follow to help reach your financial goals. If you aren't comfortable creating one on your own, you can work with a financial planner or an investment advisor.

Creating a legacy of financial freedom, just like being able to run a marathon, doesn't happen overnight. If your ultimate financial goal is achieving financial freedom, it's critical to remember two things:

1. **Start saving and investing as early as possible.**
   John Templeton, a legendary investor, said that the way he became wealthy was to save 50 cents out of every dollar he made for the first twenty years after college.

   People who are financially free never spend a nickel without getting a dime's worth of value from it. They'll spend money, but they save first, spend second, and always make sure they spend less than they make. There are people who never made more than $35,000 a year, but they spent less than that and are financially free. Conversely, we know people who make a million dollars a year, but find a way to spend it all, plus some. They are not free.

2. **Compound interest takes time to work.**
   Get a "Compound Interest Table" and pick any interest rate you like: 3%, 5%, or 8%... Look at how $1 a year grows for 10 years, then 20, then 40. Even at low interest rates, the compound effect is powerful if you start early enough to have your money working for 40 years. Imagine what that does if you can save $5,000 or $10,000 a year starting in your early 20s. That's why not spending everything you make and having money to save is so important.

With these tenets top of mind, go back and study your balance sheet (Mile 5) and cash flow statement (Mile 6). With a clear picture of your "here and now," revisit your long-term SMART goals (Mile 2), which should include dollar amounts and target dates for accomplishing each desired outcome. If you haven't already addressed retirement as a SMART goal, now's the time to lay it out.

Statement of Investment Policy
Creating a **Statement of Investment Policy** establishes parameters for how you invest and/or to evaluate who you hire to invest your money:

SAMPLE
STATEMENT OF INVESTMENT POLICY
As of mm/dd/yyyy

Part A (Long-Term Goal and Considerations)

My long-term goal is to have financial security in retirement. To achieve this outcome, the following considerations must be taken into account:

- I desire to protect my investment assets and to obtain an average annual rate of return of "inflation, plus 1-3%." (It is not to attempt to obtain extremely high rates of return by subjecting my investments to high risk.)
- My time span is quite long, encompassing the investment and distribution of assets for my life expectancy, which exceeds 60 years. (My relevant time is assumed to be until age 100, to provide ample cushion for emergencies.)

Part B (Investment Objectives)

Thus, my investment objectives are:

1. To avoid extreme and unnecessary risks;
2. Best measured in terms of purchasing power (i.e. the required asset levels and investment returns must be adjusted for inflation); and
3. Long-term in nature.

Part C (Investment Caveats)

Recognizing that an average annual return of "inflation, plus 1-3%" requires the use of stocks and long-term bonds—which can be volatile over short-term periods—I have established the following minimum downside performance limits:

- No more than three down years within a 10-year period; and
- No year which should exceed a negative 20% total return.

Furthermore, I have established that my assets will be invested only in liquid securities of established companies and/or government agencies. Therefore, I will not:

- Invest or deal in securities that do not have a quoted market price;
- Invest 25% or more of my total assets (valued at the time of purchase) in any one industry or similar group of companies, except U.S. Government securities; and
- Sell securities short.

Save For Retirement

Fund your IRA every year—early if possible. Invest in an equity or total-return mutual fund. Equity returns compounded over long periods can be truly amazing.

—Ron Muhlenkamp

FOR THE RUNNER

If you're not ready to run, just walk. Nobody said that you have to run; you won't win the race, but a speed-walk can get you to the finish line. Most races have cut-off times, so try to keep a decent pace so the sweeper bus doesn't have to pick you up.

Saving for Retirement

Saving for retirement is important if you want to retire. If you haven't started, begin now so that you will have assets to sustain you during your retirement.

- Think about your retirement. At what age would you like to retire? What do you want your retirement to look like? Do you think you will spend more or less than you do today? What is your life expectancy? How many years will you live in retirement?
- Rule-of-thumb: you should have 10-20 times your annual income saved by the time you want to retire. Your expected investment returns, your withdrawal rate, your life span, and the age that you retire, all determine the amount needed.
- The Social Security Administration has a life expectancy calculator on their website. Go to www.ssa.gov and search "life expectancy calculator" if you want to see the statistics.
- The statistics are no guarantee; plan to live to 100. If you save enough to last you until you are 100, then you reduce the risk of running out of assets in retirement (longevity risk).
- Use your Cash Flow Statement (Mile 6) to review your annual income and expenses. Assume cost of living increases as measured by CPI.*
- Make saving for retirement a priority over saving for your childrens' education. They can always get student loans. You can't get a retirement loan.
- If you start saving for retirement in your 20s and 30s, you should be saving around 15% of your income. If you start later, then you will need to save a larger amount to catch up. (See the table on following page.)
- In order to maintain purchasing power, retirement assets not needed for 5 years or longer should be invested in investment vehicles that have the potential to keep up with or beat inflation.
- If your employer offers a matching program for the company retirement plan, take maximum advantage of it.
- If eligible, utilize other retirement plans to take advantage of their favorable tax treatment. Check with your investment adviser to determine the plan or plans that are best suited for your situation and the investment vehicle that will allow you to reach your retirement goals.

Types of Retirement Plans

There are several plans available with favorable tax treatment that exist specifically for saving for retirement. Your employer may offer a plan and/or you may also be able to open one on your own. The IRS provides publications (numbers indicated below) on their website (www.irs.gov), which include the specifics for each type of qualified retirement plan

- **Traditional IRA** - IRS Pub. 590A & Pub 590B
- **Roth IRA** - Pub 590A & Pub 590B
- **401(k)** - IRS Pub 560
- **SEP IRA** - IRS Pub 560
- **SIMPLE IRA** - IRS Pub 560
- **403(b)** - IRS Pub 571
- **Roth 401(k)** - IRS Pub 575
- **Pensions** - IRS Pub 575
- **Annuities** - IRS Pub 575

* *Consumer Price Index* (CPI) measures the prices of consumer goods and services purchased by households. CPI is used as a measure of price inflation.

Power of Compound Interest & Saving Early

The table below shows the benefit of beginning to save and invest when you are young. The longer you wait, the harder it will be to catch up. If you wish to someday reach financial independence (Mile 26.2), begin to save now, don't wait.

"Dave who Saves Early" vs. "Nate who Contributes Late"

(Assumes deposits made at the beginning of the year, 5% annual return, compounded annually.)

Dave started investing $5,000 per year at age 21 and continued for a total of 20 years. By age 70, Dave has over $750,000. Nate didn't start investing until he was 46 years old. He invested $5,000 per year for 24 years and has over $245,000. Dave has over three times as much as Nate and contributed $20,000 less. That's the effect of time and compound interest.

Age	Dave's Retirement Contributions on 1/1/####	Dave's Retirement Assets at end of each year	Nate's Retirement Contributions on 1/1/####	Nate's Retirement Assets at end of each year
21	$5,000	$5,250.00	$0	$0.00
22	$5,000	$10,762.50	$0	$0.00
23	$5,000	$16,550.63	$0	$0.00
24	$5,000	$22,628.16	$0	$0.00
25	$5,000	$29,009.56	$0	$0.00
26	$5,000	$35,710.04	$0	$0.00
27	$5,000	$42,745.54	$0	$0.00
28	$5,000	$50,132.82	$0	$0.00
29	$5,000	$57,889.46	$0	$0.00
30	$5,000	$66,033.94	$0	$0.00
31	$5,000	$74,585.63	$0	$0.00
32	$5,000	$83,564.91	$0	$0.00
33	$5,000	$92,993.16	$0	$0.00
34	$5,000	$102,892.82	$0	$0.00
35	$5,000	$113,287.46	$0	$0.00
36	$5,000	$124,201.83	$0	$0.00
37	$5,000	$135,661.92	$0	$0.00
38	$5,000	$147,695.02	$0	$0.00
39	$5,000	$160,329.77	$0	$0.00
40	$5,000	$173,596.26	$0	$0.00
41	$0	$182,276.07	$0	$0.00
42	$0	$191,389.88	$0	$0.00
43	$0	$200,959.37	$0	$0.00
44	$0	$211,007.34	$0	$0.00
45	$0	$221,557.70	$0	$0.00

Age	Dave's Retirement Contribution on 1/1/####	Dave's Retirement Assets at end of each year	Nate's Retirement Contributions on 1/1/####	Nate's Retirement Assets at end of each year
46	$0	$232,635.59	$5,000	$5,250.00
47	$0	$244,267.37	$5,000	$10,762.50
48	$0	$256,480.74	$5,000	$16,550.63
49	$0	$269,304.77	$5,000	$22,628.16
50	$0	$282,770.01	$5,000	$29,009.56
51	$0	$296,908.51	$5,000	$35,710.04
52	$0	$311,753.94	$5,000	$42,745.54
53	$0	$327,341.64	$5,000	$50,132.82
54	$0	$343,708.72	$5,000	$57,889.46
55	$0	$360,894.15	$5,000	$66,033.94
56	$0	$378,938.86	$5,000	$74,585.63
57	$0	$397,885.81	$5,000	$83,564.91
58	$0	$417,780.10	$5,000	$92,993.16
59	$0	$438,669.10	$5,000	$102,892.82
60	$0	$460,602.56	$5,000	$113,287.46
61	$0	$483,632.68	$5,000	$124,201.83
62	$0	$507,814.32	$5,000	$135,661.92
63	$0	$533,205.03	$5,000	$147,695.02
64	$0	$559,865.29	$5,000	$160,329.77
65	$0	$587,858.55	$5,000	$173,596.26
66	$0	$617,251.48	$5,000	$187,526.07
67	$0	$648,114.05	$5,000	$202,152.38
68	$0	$680,519.75	$5,000	$217,509.99
69	$0	$714,545.74	$5,000	$233,635.49
70	Dave's Total Contributions $100,000	$750,273.03	Nate's Total Contributions $120,000	$245,317.20

You also have to remember the effects of inflation. It reduces the purchasing power of money which means you'll have to pay more for things in the future. You can look at it as the costs of things going up or the value of your dollar shrinking.

Learn More at Muhlenkamp.com

- Social Security By the Numbers
- Social Security Revisited: A Plan to Fix It

Save For Education

An investment in knowledge pays the best interest.

—Benjamin Franklin

FOR THE RUNNER

Schedule a massage a day or two after the marathon. Your legs will probably be sore from the long run and a massage may help relieve the pain.

For the parent

- Typically, the earlier you begin investing for your child's education, the less you will have to contribute altogether (assuming positive long-term returns). For example, if you start investing for your child when they are still a baby and let compound interest help you out, you will have to save less than if you start saving when your child is ten, or worse, have to borrow and pay interest on the debt. How early you start saving for you child's education also determines *where* you should put the assets. If you start when they are young, investing in equities can help grow the assets to keep up with and surpass inflation. If you begin to save less than five years before you will need to use the assets, a less volatile investment such as a money market is probably a better move.
- Co-signing on student loans commits you to a long-term financial obligation. If the student fails to make payments, you are responsible. Your credit rating can be damaged by late or non-payments.
- Do NOT use retirement money to fund college. Your child can get student loans, but there are no retirement loans. Once your retirement is fully funded, then you can always help him pay off his student loans.
- Expected Family Contribution (EFC) - This term is used frequently when examining financial aid availability. It's a calculated number based on family size, income, assets, benefits, etc., to determine your family's ability to pay for college and obtain financial aid.
- 529 Plans and Coverdell Education Savings Accounts are designed specifically for saving for education; thus, they offer favorable tax treatment as long as assets are used for qualified educational expenses.

529 Plans (Qualified Tuition Program)

- A 529 Plan is a tax-advantaged savings plan or pre-payment plan operated by a state or educational institution created to pay for the qualified education and related expenses such as books, fees, and room and board for the designated beneficiary.
- Contributions are not tax deductible, but assets in the account can grow tax free until distributed and then earnings are not subject to federal tax and are typically not subject to state tax if used for qualified educational expenses. Total contribution limits can not exceed the amount of qualified educational expenses for each qualified beneficiary.
- If the designated beneficiary of the account doesn't use all of the funds, you can change the beneficiary on the account to another family member.
- You don't have to buy the 529 plan of your state, you have the option to shop around.
- 529 Plan details are available on www.irs.gov in Publication 970. Referred to as Qualified Tuition Plans (QTP) in the publication.

Coverdell Education Savings Account (CESA)

- CESA is a savings account with special tax treatment created to pay for the qualified educational expenses of the beneficiary.
- Contributions to a CESA are not tax deductible, but assets in the account grow tax free until distributed and, then, the distribution is tax free if it is not more than the beneficiary's adjusted qualified educational expenses for the year. There are maximum annual contribution limits per qualified beneficiary and maximum income levels to be eligible to contribute.
- Details available on www.irs.gov in Publication 970.

Other means for funding educational expenses

IRAs

- Though IRAs are to save for retirement, the IRS states in Publication 970 that you can take a distribution from your IRA before you reach age 59 $^{1/2}$ and not have to pay the 10% tax on early IRA distributions if, for the year of the distribution, you pay qualified education expenses for: yourself; your spouse; or your or your spouse's child, foster child, adopted child, or descendant of any of them.
- As stated earlier, it's not wise for parents to take funds from their IRA or other retirement assets to pay for their children's educational expenses, but if the child has an IRA, he or she can use their account for their college expenses if other options are unavailable.

Uniform Gifts/Transfer to Minors Act (UGMA/UTMA)

- These accounts are more flexible as to where funds can be used since they are not restricted to educational expenses. Since the accounts are owned by the minor, the funds must always be used for the minor's benefit.
- Deposits into these accounts are not tax deductible and earnings are not tax free. Earnings up to a certain amount are taxed at the minor's tax rate. Amounts over the limit are taxed at the parent's tax rate.
- Since the account is owned by the minor, it would have an affect on the amount of financial aid for which they are eligible. The child may have to contribute a specific percentage of their assets towards educational expenses each year to become eligible for financial aid.

Cash flow

Cash flowing educational expenses is when you use current income to pay. Maybe you make enough to afford your child's educational expenses on your current income. Maybe the student works part-time while enrolled in an educational program and works full-time during summers; their income can cash flow some or all of the educational expenses.

Scholarship

Is free money that doesn't need to be paid back. Take the time to search and apply for any scholarship for which you are eligible.

Grant

Is free money usually from the federal or state governments that you must spend on qualified educational expenses and doesn't require repayment. Take time to search and apply for grants for which you are eligible.

Student Loan

Agreement to borrow money according to specific terms. The amount borrowed, plus interest, must be paid back according to the terms of the loan. May be obtained through the government or private lenders.

Employer Education Benefit

Some employers provide partial or full assistance to their employees for educational expenses.

For the student

- When determining what to study and where to attend, look at your projected return on investment. What is the typical salary for someone graduating with your degree. How many years will you need to recoup your (or your parent's) investment?
- Look at the cost of private vs. public schools and in-state vs. out-of-state schools. Would you consider attending a community college and living at home for the first year or two?
- Make it your goal to graduate on time.
- Is a trade or technical school right for you? Almost everyone needs their hair to be cut, car to be fixed, roof shingled, pipes plumbed, wiring done, and heater and air conditioner fixed at some point.
- Is a military career right for you? Each branch of the military has hundreds of careers available (e.g. officers, mechanics, engineers, linguists, cooks, medics). Visit the websites of each branch to see if there is anything that matches your interests. U.S. Military branches include: Army, Navy, Air Force, Marine Corps, Coast Guard, and the National Guard.

Learn More at Muhlenkamp.com

– The Inflation Time Bomb

Hire an Investment Manager

Some people selling investment advice speak or write of "diversity" as if it were the goal of investing. It's not! The goal of investing is to make you money.

—Ron Muhlenkamp

FOR THE RUNNER

Some runners are independent and can excel on their own. Others need some coaching to keep them on track. What type of runner are you? If you set goals, can you stick to them on your own? Would you be better off to have an experienced running coach guide you and give you tips along the way?

What is an Investment Manager?
An individual or firm that researches and monitors companies, and purchases and sells securities to create portfolios based on established objectives, strategies, and processes.

Other research within an investment management firm might include monitoring indicators such as: commodity price trends; foreign market activity; economic news; treasury bond activity; analyst commentary; regulatory and political activity; and international events.

When to hire an Investment Manager
After you have paid off high interest debt (credit cards, personal loans) and accumulated at least six months worth of expenses as cash reserves, you might consider hiring an investment manager.

Investing, rather than saving, is necessary to keep up with the negative effects of inflation for those assets you are accumulating to reach your long-term goals, such as retirement or other events more than five years away. You don't want to put all of your money into one security, so you diversify. Diversification* is when you own more than one thing, when you create a portfolio of securities. You may already own a portfolio if you participate in a 401(k) or 403(b) plan of your employer. The money in the plan is probably invested in mutual funds or similar investments that hold a portfolio of stocks, bonds, and/or other securities. These portfolios are managed by investment management firms.

Besides managing the portfolios of mutual funds or other pooled investments, investment management firms may manage separate (private) accounts for individuals, pension plans, profit sharing plans, etc.

Building a diversified portfolio is just one step in managing your investments. You not only have to decide what to buy and when, but, at some point, you have to decide when to sell it.

Many people buy securities after the stock market has gone up and sell them after it takes a plunge. You should establish an objective and strategy to manage your portfolio for the long term rather than base it on short-term volitility. Otherwise, you may be consistently buying securities when they are high, and selling them when they are low.

Why hire an Investment Manager
- If you don't know how to create a portfolio for yourself;
- If you don't have the time to create and manage a portfolio; and/or
- You lack discipline in following your investment strategy.

**Diversification* is used to spread risk, or reduce volatility of investment prices. Diversification does not assure a profit or prevent against a loss in a declining market

Intelligent Investment Management

Intelligent investing in the securities market is a business. Like any other business, it is both a science and an art. Sound investing must rely on a basic understanding of the sciences of economics, finance, and accounting. It also requires an artful understanding of people, ideas and concepts, and of their potential for fulfillment.

The business of investing has always been and will continue to be complex. Utilizing a qualified investment professional is as important as obtaining the services of highly trained professionals in other areas. Investment management requires full-time attention.

Can we serve you? Is the fit right?

We believe continuous portfolio supervision, based on a thorough knowledge of investment fundamentals, economic value and a sense of timing, is the key to successful investing.

Muhlenkamp & Company works closely with clients throughout the planning and portfolio management process. We review each client's financial situation to determine and clarify investment objectives and goals. We review the risks and rewards that exist in securities investing. When there is a mutual understanding, Muhlenkamp & Company can begin to construct a portfolio to meet the client's objectives. Each client's portfolio is then managed on a continuous basis. Our policy is to ensure that clients are kept fully informed about their portfolios; periodic reviews are held with each client. Each client is urged to keep us informed of any change in his/her financial situation so that it may be reflected in our portfolio management.

Learn More at Muhlenkamp.com

– How to Choose a Money Manager
– Are Stocks Too High
– Diversification—Too Much of a Good Thing

Charitable Giving

We can't help everyone, but everyone can help someone.
—**Ronald Reagan**

We make a living by what we get, but we make a life by what we give.
—**Winston Churchill**

FOR THE RUNNER

Wear layers that you can shed as you warm up during the race or as the temperature increases during the day. Toss your jacket and lighten up your load. Many times there are individuals that collect the discarded clothing at races to give to the less fortunate.

Charitable giving

Giving to charities can be one of the best things you can do with your money. The funds help the organization to operate and you get a sense of fulfillment giving to a mission in which you believe.

Since it is unreasonable to make donations to every charitable organization you come across, you must be selective in your giving. Find a few organizations that support your beliefs and learn more about them. If they are local, they may have fundraising events in which you can participate. Attending could be a great way to meet others that share your values.

If the organization utilizes a paid fund-raising company, find out if there is a way to donate directly, so that more money goes to support their cause.

To receive a tax deduction (check current tax laws) on any donation, you must be giving to a qualified organization. Refer to IRS Charitable Contributions Publication 526 (www.irs.gov), to learn what constitutes a qualified organization as well as other charitable giving guidelines.

The IRS describes a charitable contribution as a "donation or gift to, or for the use of, a qualified organization. It is voluntary and is made without getting, or expecting to get, anything of equal value." Therefore, if you receive a benefit as a result of your contribution, only the amount in excess of the fair market value of the benefit received can be deducted. The receipt issued from the organization should indicate the amount that you may deduct. Keep receipts for all of your donations to make it easier when preparing tax returns.

The amount that you give is up to you, unlike paying taxes, it's your choice. Some people make it a practice to donate ten percent or more of their income on a regular basis and they include this amount in their monthly budget. If you are unable to give monetarily, volunteering is another way to give of your time and talents.

In-kind donations

You can donate material goods as long as they are in good condition. The amount that you may deduct (if eligible, check current tax laws) would be the fair market value (FMV) of the item.

Learn More at Muhlenkamp.com

– The Trouble with Government Spending

Financial Independence

Only those returns in excess of inflation can be spent if purchasing power is to be maintained over long periods of time.

—Ron Muhlenkamp

FOR THE RUNNER

You can see the finish line. Give it all you can and enjoy the feeling of accomplishment you get as you cross the finish line and receive a runner's medal.

Retire if you want, because you can!
Financial independence (freedom) is when you don't *"need"* to bring in any additional earned income. It doesn't mean that you *don't* work anymore, but it's not essential. You can *choose* to work if you like.

It wasn't what you made, it's what you saved!
There is no set dollar amount that you have to reach to become financially free. It depends on your way of life. It can be humble and relaxed or extravagant and eventful. Accordingly, the spectrum of the net worths of those who are financially free is extensive.

As long as your total assets are over and above your total liabilities (you have a positive net worth) and your current unearned income (inflow) is greater than your current expenses (outflow), you are financially free.

Money can't buy happiness, but it can make life easier, and if you have enough saved, allow you to retire. Enjoy the freedom, stay disciplined, and keep on the right path. Keep insurance where there is risk of financial loss that could jeopardize your freedom.

What will you do now?
If you have reached financial freedom and don't have to bring in an earned income, what will you do? If you enjoy your job, will you continue to work? As long as you are mentally and physically healthy, it's your choice.

Continuing to work or volunteering can help you to feel useful and keep you mentally and socially active. Would your employer allow you to work part-time? Is it time to retire and focus on your family, hobbies, and/or traveling?

A Look Back

Whether you think that you can, or that you can't, you are usually right.

—Henry Ford

Everything comes to us that belongs to us if we create the capacity to receive it.

—Rabindranath Tagore

FOR THE RUNNER

Enjoy the race—the people cheering for you, their crazy signs, the volunteers, the water stations, the music, the weather, the buildings, the architecture, the trees, the flowers, the fresh air, the pavement, your fellow runners, their words of support, the entire experience.

Congratulations!
How did you do? Did you reach your goals? If you had the opportunity, did you help those who needed it along the way? Think back to the beginning and the hurdles you had throughout the course. Sometimes it was painful, sometimes it was a waiting game, sometimes others helped you, and sometimes you helped others.

In life we all only really have one "race." We hope you make the most of it. If you need assistance on the financial portion, let us know and we'll see if we can help. We are here to serve you.

Teaching others
Not everyone will achieve financial independence. If you have reached it, share your knowledge with family and friends. Sometimes others just need guidance to show them how it can be done. The lessons aren't complex. The road to financial freedom has more to do with your behavior than your knowledge of investing. Being consistent with your savings, disciplined in your spending, patient with your investing, and insuring when necessary, keeps you on the path to financial freedom.

If you feel that this workbook helped you or would be useful for others, let us know.

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The content of this workbook does not constitute a recommendation to buy or sell a security or other investment. Past performance does not guarantee future results, and the value of an investment at redemption may be worth more or less than the purchase price.

While our mutual fund is no-load, management fees and other expenses will apply. Please refer to the prospectus for further details, available at www.muhlenkamp.com. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Mutual funds may invest in foreign securities which involves political, economic and currency risks, greater volatility and differences in accounting methods. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Mutual funds may invest in small- or mid-cap companies, which involve additional risks such as limited liquidity and greater volatility.