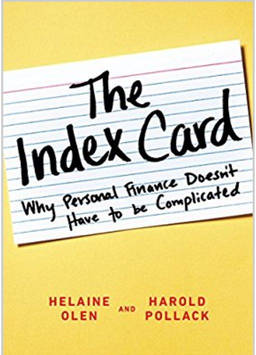

The Index Card: Why Personal Finance Doesn't Have to Be Complicated

By Helaine Olen, Harold Pollack

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They’re wrong.

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Now, Pollack teams up with Olen to explain why the ten simple rules of the index card outperform more complicated financial strategies. Inside is an easy-to-follow action plan that works in good times and bad, giving you the tools, knowledge, and confidence to seize control of your financial life.

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Editorial Review

Review
"The most important financial advice is stunningly simple and fits on an index card. The newbie investor will not find a better guide to personal finance."
—BURTON G. MALKIEL, author of ***A RANDOM WALK DOWN WALL STREET***

"Ten simple, amazingly effective rules unencumbered by the agendas of fee-sucking fund managers or reckless business-media pundits. Highly recommended."
—NOMI PRINS, author of ***ALL THE PRESIDENTS' BANKERS***

"*The Index Card* offers engaging stories, persuasive explanations, and fascinating data. It's realistic, honest, wise, and compassionate, as well as socially and politically astute."
—JOE CONASON, editor in chief at ***THE NATIONAL MEMO***

"All parents should buy *The Index Card* for their children. If they refuse to read it, consider disinheriting them."
—ROBERT H. FRANK, professor of economics, ***CORNELL UNIVERSITY***

"In a world of relentless financial noise, Helaine and Harold are here to help. This is the best and most important financial book of the year."
—ZAC BISSONNETTE, author of ***DEBT-FREE U*** and ***THE GREAT BEANIE BABY BUBBLE***

About the Author
HELAINE OLEN is the author of *Pound Foolish,* a contributing editor at Pacific Standard magazine, and the personal finance columnist at *Inc.* magazine. Her work has appeared in numerous publications, including The New York Times, Slate.com, Salon.com, Bloomberg News and the Los Angeles Times, where she wrote the popular "Money Makeover" feature. Business Insider has ranked her as one of the 50 Women Who Are Changing the World and MoneyTips.com recently named her one of the Top 30 Most Influential People in Personal Finance and Wealth. She lives in New York City with her family.

HAROLD POLLACK is the Helen Ross Professor of Social Service Administration at the University of Chicago. In addition to his academic work, he writes regularly for The Washington Post, The Nation, The New York Times, New Republic, Politico, and The Atlantic. He lives outside Chicago with his family.

INTRODUCTION

SAM'S STORY

A few years ago, Sam received an inheritance after his dad died. Grief stricken and overwhelmed by the demands of work, marriage, and raising children, he placed the money in a local bank's savings account. Every so often, Sam would make an effort to think about the money. He knew he should invest it in . . . well, something. A few times a year a very official-sounding officer from the bank, someone called a wealth officer, would contact him about it, suggesting a complimentary meeting.

So Sam would sit down at the bank, and an advisor would offer him coffee and muffins and talk to him about his children, his job, and where he next planned to go on vacation. Then he would offer a solution, the next-best thing to a guarantee, he said, as he started talking really fast about expected rates of return, risk, and the importance of the stock market.

The wealth officer, or wealth specialist, or whatever the heck he was called, wanted Sam to sign papers right there and then so the money could get to work, as he put it. But Sam held off. He knew there were unscrupulous money people out there, and he wanted to do his due diligence.

So Sam would call friends, and friends of those friends. Sometimes those friends were in finance or married to people in finance, and they would make suggestions based on what they had picked up from their jobs or their husbands or wives over the years. One offered to manage the money for him altogether but didn’t say how he would be compensated for his time and effort. Another said he should call Vanguard and put the money in something called index funds. Bonds, advised another. Others talked about allocating different percentages to different investments. Still another pal suggested a financial advisor named Kelly who had done amazing things for him.

Other people told Sam horror stories. There was the friend who had been persuaded to invest in tech stocks in 1999 and lost “a bundle,” as he put it. A coworker told him about the friend of the family who seemed so kind but put her mom in some sort of investment that didn’t do what it was supposed to and left her in a worse position than when she started out. Several people mentioned Bernie Madoff.

It was overwhelming. It seemed as if everyone contradicted one another. And they were all so sure . . . sure that they had the secret to how to make money grow or that it was all a rip-off. And Sam was scared. He needed that money. He wanted to send his children to college. He couldn’t bring himself to risk losing it.

So Sam ended up doing . . . *nothing*.

Not only did Sam’s nest egg end up losing a chunk of its value to inflation, but the stock market also did well during this period. Sam didn’t benefit from that run-up. He wasn’t running anywhere. He was stuck doing nothing because the combination of the myriad options and uncertainties of money, the economy, and the financial services industry had all but paralyzed him.

THE *POUND FOOLISH* STORY

Sam is hardly alone. Statistics and studies show that many of us choose not to deal or take a hands-on approach when it comes to our finances.

- Almost three out of four of us say our finances cause us stress on at least a monthly basis.
- One-third of those in relationships say money is a major source of conflict with their significant other.
- Fifty-five percent of people with investable assets worth between $50,000 and $250,000 say they fear outliving their retirement savings.
- Sixty-nine percent of us answered “never” when asked how often we balance our checking accounts.

The roller coaster that is our economy only makes us even more hesitant to take control of our financial lives. In her book *Pound Foolish: Exposing the Dark Side of the Personal Finance Industry,* Helaine told the story of how for all too many of us wages began to stagnate and fall, even as jobs and paychecks became less secure. At the same time, almost all the income and wealth gains since the end of the Great Recession have gone to the wealthiest.

We feel as if we are falling behind because, frankly, we are, often through no fault of our own.

We're convinced any financial mistake will send us on a downward spiral we won't be able to recover from. Many of us walk around with a constant and growing sense that financial doom can arrive at any moment.

So like Sam we fret about our finances but remain frozen. Money feels complicated, boring, scary, and overwhelming all at once. Who wants to wade through competing budget apps? We want to be careful financial stewards but instead get caught up playing a losing game of financial Whac-A-Mole.

Desperate, we tell ourselves that someone out there must have the answer. All too many people working in the financial services industry market themselves as our friends who have special insights into the world of finance and future events. Even as we don't trust many of the financial types we encounter, we are secretly convinced there is one person out there, one honest man or woman, who can identify exactly that magic investment for us, and guarantee that our money will grow, and that nothing will go wrong, not ever.

But as *Pound Foolish* showed, many of our financial problems were not the result of our financial missteps. They were caused by economic trends and recessions and then compounded by the failure of financial regulators to crack down on bad behavior by those who claimed to be offering us help.

Many of *Pound Foolish*'s readers contacted Helaine to thank her for not laying all the blame of their financial woes on their shoulders, and just as many had a simple follow-up question: If we all need to be wary of the financial services industry, and yet we also need to be proactive about our finances, what do we do?

For a long time, Helaine had no answer to that question.

Fortunately, Harold did.

HAROLD'S STORY

Like Helaine, Harold does not work in the financial services industry. A professor at the University of Chicago and a contributor to a number of media outlets and blogs, including the *Washington Post*'s *Wonkblog,* Harold came up with the concept of the index card not as some academic experiment but as a practical solution to the kinds of urgent financial problems many of us encounter at some point in our lives. As he explains,

For most of my life, I had no real savings to speak of. I didn't even own a home until I was forty years old. My wife, Veronica, and I were not poor by any means, but we were starting a family. Like many people our age, we never displayed much financial forward thinking or savvy. I was putting money in my retirement account but basically treading water otherwise. We rented (and subsequently missed out on a historic real estate run-up). I invested in dot-com stocks. You can guess how well that ended. We had child-care expenses. We let some costly debts accumulate. We overpaid for a nice new car when a nice used model would have worked fine.

Then, as so often is the case, life happened.

Around the time of my forty-first birthday, Veronica lost her mother quite suddenly. Veronica's brother Vincent, who lives with an intellectual disability known as fragile X syndrome, was living with Veronica's mom. The issues were sad and complicated, but the bottom line was simple. After this untimely death, Vincent needed to move in with us and our two young daughters. Vincent moved in with us and our two young daughters.

Immediately, we felt the financial strain. Veronica had to leave the workforce to address Vincent’s needs. Yet even as our income fell, our expenses mounted. And mounted. Vincent had multiple hospitalizations and medical challenges, many related to his morbid obesity. The La-Z-Boy chair we bought to support his 340-pound frame cost nearly $1,000. Not long after, Veronica developed a serious heart infection that landed her in the cardiac ICU. We weren’t in financial free fall, but things were tight, and we were living a fundamentally different kind of life than we had ever expected.

I needed to quickly find some real answers to right our financial life.

I didn’t have much financial knowledge. I did draw upon the tools of my academic trade to help guide me as I tried to distinguish the useful advice from the useless or worse. I consulted financial advisors and read books and academic papers on managing one’s finances.

Through trial and error, conversations with friends and other academics, I slowly pieced together a new financial regimen. Some was common sense. Some involved teaching myself insights that were actually well known to financial economists but underemphasized in the cacophony put out by the financial services industry. The most important advice was embarrassingly simple. It included the following:

- Save 10 to 20 percent of your money—or as much as you can, if you can’t put that much aside.
- Pay your credit card balance in full every month.
- Invest in low-cost index funds.

By following these rules and a handful more, we saw our financial picture begin to brighten. Life didn’t change overnight. But it did change. We had more money in the bank. We could afford to take a vacation without fearing what would become of us the next month if we encountered an unexpected home repair. We could exploit the various tax-advantaged savings offerings we could never use before. And putting money away allowed us to get lucky in the stock market; investment returns from the most recent bull market will help pay the college tuition for our daughters. We could refinance our mortgage on favorable terms. We found ourselves able to help out our relatives who were struggling. We felt financially secure, even though our house is still worth notably less than it was when we bought it in 2003.

THE INDEX CARD STORY

When *Pound Foolish* was published, Harold contacted Helaine and interviewed her on the *Reality-Based Community* blog. During their Internet chat, Harold offhandedly noted that the fundamental dilemma facing the financial services industry is that the correct advice for most people fits on a three-by-five-inch index card and is available for free at the library.

A surprising number of people wrote to Harold, asking for the card. Because he was speaking metaphorically, this was a problem. But he had promised. So he pulled one of his daughter’s index cards out of her backpack, picked up a pen, and in maybe three minutes wrote down some of the simple and basic financial rules he and Veronica had been living by for the past decade. He then snapped a crude picture with his smartphone. This is what it looked like:

Harold posted the photograph on his blog, and things quickly went viral. There were hundreds of thousands of hits around the Internet. A life coach copied it word for word and read it aloud in a YouTube video. The card was even translated into Romanian. There were also shout-outs from people who have deep knowledge about personal finance, economics, and investments.

“Pollack’s right. Follow these principles and you’ll be in much, much, much better shape than most Americans—or most anyone,” wrote Ezra Klein over at the *Washington Post*.

“Your new financial advisor is Harold Pollack’s index card,” declared the website *Boing Boing*.

Marketplace, *Forbes*, the *Huffington Post*, *Reddit*, and *Lifehacker* discussed it.

The MacArthur fellow Sendhil Mullainathan tweeted the card out. So did top economists like Justin Wolfers. Vanguard mentioned the index card on its blog and e-mailed a picture of it with accompanying information in a “MoneyWhys” New Year’s investment advice message to its subscribers. *Money* magazine called it one of the “best new money ideas” of 2013. The Minneapolis *Star Tribune* wrote, “The most notable personal finance writing of 2013 . . . was a handwritten 4 × 6 index card.”

There were thousands of comments and tweets, Facebook likes, and LinkedIn shares. Among the index card’s many fans? Helaine, who knew she finally had an answer for her readers. Rather than people relying on the so-called expert advice of the financial industry to dig them out of their money troubles and provide them with a magic bullet, she and Harold knew instinctively that the answer was much simpler and that it lay not with the experts but within ourselves.

One quick note: You’ll notice we made a few alterations to the original index card. Most of these changes were either organizational or for wording, but a few are more significant. Most important: Harold originally suggested that people save 20 percent of their pretax income. It’s a terrific goal. It’s also all but impossible for many of us. Aiming for 10 to 20 percent is a more realistic long-term strategy. We also eliminated the recommendation to use target-date funds—read on to find out why. Finally, we felt it was important to include insurance and housing, both of which didn’t make it onto the original card.

KEEP IT SIMPLE—THE ONLY STORY YOU NEED TO KNOW

So a question: If the rules are so simple, why do you need more than an index card—heck, a book—to explain them?

Most of us don’t want to follow rules unless we know why they are rules. This book explains how the rules work and why we chose them. They may be simple, but they aren’t always self-explanatory.

Simplicity—as anyone who has ever tried to perfect a golf swing knows—often takes work and insight to achieve. Just telling you financial rules to follow is not the same thing as showing you how to master them so that you can follow them with confidence. And you will need to because . . .

There is a whole industry of financial services advisors out there who make their living by convincing you that it’s naive to believe that simplicity, common sense, and restraint are potent enough weapons with which to deal with the whirlwind of financial chaos facing any of us on any given day. They make their money by convincing you that investing is so complicated, you need to turn it over to them. Or they convince you that they—as insiders, as “professionals”—have the ability to outsmart everyone else and know exactly what investment scheme will outperform the S&P 500.

The financial world offers an odd juxtaposition. The financial products we use in our day-to-day lives—credit cards, mutual funds, mortgages—are often quite complicated. But that doesn’t mean the way we lead our financial lives needs to be equally complicated.

Between Helaine’s experience covering the pitfalls and traps of the financial services industry and Harold’s proven practical solutions to his own financial problems, we can help you take control of your financial life.

So by following the nine simple rules as outlined on our index card, you will

- have the confidence to make your own financial decisions;
- discover basic financial truths such as that low-fee index funds outperform just about any more complicated investment you can buy and that simple fixed-rate mortgages remain the best way to borrow money to buy your house;
- be armed with a timeless set of guidelines that you can turn to no matter what financial issues you may face or how drastically the winds of financial change shift; and
- be sure you never make the same mistake Sam made and let your fears about the financial unknown prevent you from doing anything.

Ready to finally take action and begin the next phase of your financial life?

Good. Let’s get started.

LIFE HAPPENS: WHY YOU NEED TO SAVE MONEY

There comes a time when outside circumstances—what most people refer to as life—force us to take control.

For Harold, this moment came with the sudden arrival of his brother-in-law Vincent, which sent the household into fiscal chaos.

For most of us, however, it’s not that sudden. Money comes in, and money goes out. It seems to simply vanish, lost in a windstorm of expected and unexpected expenses. There’s rent or mortgage, car payments, and the grocery bill. And honestly, who can even make sense of the average cell phone bill?

And those are just the monthly bills and regular expenses.

Then there are what might be termed the unexpected expected expenses. Take car repairs. Do you know anyone who ever planned for a broken-down car? On the other hand, do you know anyone who has ever had a car that didn’t break down?

We want to be on top of our money, but instead we find ourselves avoiding thinking about it. It’s natural, in a way. It can be difficult and the opposite of fun. But our avoidance prevents us from doing the most commonsense, basic thing we can do to take control of our financial life: *Learn how to save*.

WHY IT’S SO HARD TO SAVE—PART 1

Why do so many of us seem to come up short when playing the financial long game?

Well, take a breath. We’re here to tell you that—wait for it . . .

It’s not totally your fault.

If you find yourself working long hours, not spending extravagantly, and still wondering why you're not saving a dime, you're not alone. There are lots of things out there that make it hard for all of us to save.

In her book *Pound Foolish*, Helaine told the story of how many of our financial lives collapsed. The most important takeaway: For all too many of us, wages began to stagnate and fall. Accounting for inflation, the annual median income of American households declined by about $3,000 between 1998 and 2013. At the same time, income inequality has increased. Almost all gains in household income and wealth in the past several years have gone to the top 1 percent of the population, even the top 0.1 percent.

But just because our salaries were all but frozen didn't mean our cost of living enjoyed a similar break. Not only did the cost of all those things you can't live without—think health care, housing, and education—go up, but they have generally gone up faster than our salary increases and the costs of less essential items.

And even as we faced all these hurdles, we don't exactly live in a society that encourages moderation. In America, most of us idealize living large. Luxury is marketed at us incessantly. It's easy to tell people—not to mention ourselves—to ignore the millions of social cues that encourage us to overspend. It's certainly good advice but hard for all too many of us to heed.

When Helaine's older son was born in 1999, you would have been hard-pressed to spend more than $400 for a stroller, and that would have been a bulky, less-than-practical European import. Yet by the time her younger son was born in 2003, the $1,000 Bugaboo was (for a surprising number of us) suddenly a must-have. A $400 stroller seemed like a bargain-basement item. It was a great feat of marketing.

Watch any play-off game. Halftime ads feature a parade of amazing cars. Reprising his look from *The Matrix*, Laurence Fishburne hawks the new Kia K900 (manufacturer's suggested retail price $59,500). He intones that viewers should "challenge the luxury you know." He wants them to think about "the way it makes you feel."

All this seems counterintuitive given our tough economic times. How could we become *more* addicted to luxury spending? Yet research says it's just what we should expect to happen. According to economists Marianne Bertrand and Adair Morse, authors of a paper called "Consumption Contagion," the more the wealthier people at the top of the income ladder spend on high-status luxury goods, the greater the pressure to keep up across the income spectrum. This "trickle-down consumption," as they call it, reduces the savings rates for all too many of us.

The result?

- Our national savings rate has been in the low single digits for twenty-five years.
- A little more than a quarter (27 percent) of American households have net worths of $5,000 or less.
- 47 percent of us report that we could not come up with $400 if we needed to without selling something, resorting to increased credit card debt, borrowing from a friend or relative, or taking out a payday loan.

That's the world we live in. It isn't easy to step out.

WHY IT'S SO HARD TO SAVE—PART 2

The harder it is to make it through to the next day financially—whatever the reason—the harder you will find it to make careful and disciplined decisions. That's not because you are a bad person who wastes money and, thus, lands in financial hot water time and time again. It has to do with how we human beings are hardwired, the way we react to scarcity.

Users Review

From reader reviews:

Carlos Wesley:

Do you considered one of people who can't read enjoyable if the sentence chained in the straightway, hold on guys that aren't like that. This The Index Card: Why Personal Finance Doesn't Have to Be Complicated book is readable through you who hate those straight word style. You will find the details here are arrange for enjoyable reading through experience without leaving possibly decrease the knowledge that want to supply to you. The writer of The Index Card: Why Personal Finance Doesn't Have to Be Complicated content conveys the idea easily to understand by many individuals. The printed and e-book are not different in the articles but it just different available as it. So , do you nevertheless thinking The Index Card: Why Personal Finance Doesn't Have to Be Complicated is not loveable to be your top collection reading book?

Carl White:

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Jack Jackson:

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