1. **MEASURE - your starting point without judgment.**
    a. Prepare a list of your household's cash receipts and expenditures for the prior year (Use form 3.01). The first time through, do a rough estimate – spending no more than 20 minutes on the project. Once complete, review your W-2 and tax return, bank statements, and credit card bills to fine-tune.
    b. Prepare a forecast of your household's cash receipts and expenditures for the current year (Use form 3.01), using the prior year's list as a guide. Determine if you are cash-positive or cash-negative, excluding non-retirement savings.
    c. Prepare a Personal Financial Statement dated 12/31 of the prior year. List anything you own that can be turned into cash (Assets) and anything you owe (liabilities) as of the date of the statement. Indicate the interest rate next to each liability. The difference between your Assets and Liabilities is your Net Worth. Focus on that number.

    #1 is reviewed in the Money 101 FOUNDATION and LIFE CYCLES segments.

2. **SPEND LESS THAN YOU EARN (aka Live below your means)**
    You can only increase your net worth and achieve financial peace of mind if your household cash inflow exceeds the outflow.

    Once you understand your starting point, decide what to adjust to create and increase your net cash. Do not think exclusively about cutting expenses but focus on increasing income. Be strategic and realistic. Think of how you can become more valuable in the workplace and what new skills you might obtain. Consider whether there are areas where you could create supplemental income. Regarding expenses, consider what is necessary and what is ego-building. Are other people draining you of resources for which you do not benefit equally?

3. **BUILD AN EMERGENCY FUND - to equal 3-9 months of expenditures.** Where you fall between the three and nine months is based on your comfort level. Entrepreneurs, those lacking job stability, and seniors no longer working should lean towards having more emergency funds.

    Ensure that your emergency funds are in cash or cash equivalents (checking account, savings account, money market account, or Certificate of Deposit) and are FDIC-insured.

4. **CONTRIBUTE TO YOUR RETIREMENT PLAN – if you have access to an employer-sponsored retirement plan, aim to contribute enough to get your employer's maximum match.**
    a. Retirement savings are critical for building wealth. If your employer offers a match to your savings, ensure you contribute at least enough to maximize the match.
    b. Be sure that any retirement funds are invested in diversified stock/bond funds, whereby the diversification ratio is appropriate for when you intend to withdraw your money.

5. **PAY OFF HIGH-INTEREST DEBT —**All debt should be paid according to terms, but if you have debts or credit cards with interest rates greater than 8%, prepay them. Generally, pay off the highest-interest-rate debt first and then proceed to the next.

   If your debts include credit cards, keep them open even when the balance reaches zero. Closing the account will lower your credit utilization rate and negatively impact your credit score.

6. **INVEST IN APPRECIABLE ASSETS with an emphasis on income-producing assets.** Once your emergency fund is established, you are contributing towards your retirement plan AND your high-interest debt is paid - you can begin to invest.

   Many individuals choose to buy a home as their first investment. They want to
   - "Lock in" their housing costs,
   - Take advantage of leverage by getting a mortgage
   - Believe that the home value will rise over time more than other opportunities.

   All of these are good reasons to buy a home.

   However, if you
   - Will not be in that home for at least seven years,
   - Currently live in a below-market rental property or for free with someone else,
   - Do not have the skills and deep pockets necessary to maintain a house,

   You might be better off with other investments, such as Stocks and Bonds or a Real Estate Investment Trust.

   Consider each asset's income-producing potential and associated risk when considering other investments. The key to financial freedom in retirement is to have assets that consistently produce positive cash flow, such as stocks and bonds.

   Remember that purchases that decrease in value, such as a car, do not contribute to your net worth or financial security.