

RECOMMIT TO WEALTH !

START OVER,  
FINISH RICH

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*10 Steps to Get You*

**BACK ON TRACK IN**

2010

Author of **7** NEW YORK TIMES Bestsellers

**DAVID BACH**

Dear Friend,

Welcome to the free download of my new book, *Start Over, Finish Rich!* You have taken the first step in putting your finances—and your dreams—back on track in 2010. As you'll see, this is a very powerful book. It's super short and super simple. You'll be able to read it in a couple of hours. But it's going to change your life and totally motivate you to join in the economic recovery that comes after a recession. The recovery is starting now—and you cannot afford to miss it! This book gives you your action plan for 2010. I'll show you how to:



- Get out of debt
- Fix your credit
- Rebuild your 401(k) plan
- Take SMART risks
- Make your financial recovery automatic
- Rebuild with real estate
- And much more

Whatever you may have lost in the last few years—that's behind you. Life is too short to stay down. So please take this book—take your dreams—and START OVER.

Thank you for reading this, and please know that I am honored and grateful that you spent this time with me. I want to hear about how 2010 works out for you so email me your success story at [success@finishrich.com](mailto:success@finishrich.com) and stay connected in the following ways:

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Now start reading—and take your first steps on the new road to wealth in 2010!

Your friend,

A handwritten signature in black ink that reads "David Bach". The signature is fluid and cursive, with a large initial 'D'.

David Bach  
January 4, 2010



This book is designed to provide accurate and authoritative information on the subject of personal finances. While all of the stories and anecdotes described in the book are based on true experiences, most of the names are pseudonyms, and some situations have been changed slightly for educational purposes and to protect each individual's privacy. It is sold with the understanding that neither the Author nor the Publisher is engaged in rendering legal, accounting, or other professional services by publishing this book. As each individual situation is unique, questions relevant to personal finances and specific to the individual should be addressed to an appropriate professional to ensure that the situation has been evaluated carefully and appropriately. The Author and Publisher specifically disclaim any liability, loss, or risk which is incurred as a consequence, directly or indirectly, of the use and application of any of the contents of this work.

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# **REBUILD YOUR EMERGENCY SAVINGS**

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My Grandma Rose Bach used to tell me, “David, when the going gets tough, the tough have cash.” In this, as in so many other things, she knew what she was talking about. Cash is king. Cash is security. Cash is protection. This is a lesson too many of us have learned the hard way in the recent downturn. It’s one thing to have your credit cards maxed out and your home-equity line closed down by the bank. But then add in losing your job and your income—and, well, it can get pretty darn bleak.

The fact is that without a cash cushion, we are only one job loss or one emergency medical expense

away from disaster. This is why we all need a rainy-day fund—a cushion of emergency money that can keep us afloat when times are tough. Unfortunately, in recent years, Americans have been really terrible about saving for a rainy day.

The good news is that there are signs millions of us have woken up to the need to increase our savings since the recession hit. After hovering around *zero* from 2005 through early 2008, the U.S. savings rate climbed past 5% in the spring of 2009. As the *Los Angeles Times* put it, “Given the economy’s crash, many people clearly have gotten religion about saving money.” And so should you—right now, this minute. Trust me, 2010 is the year to beef up your emergency money.

### **“WHERE DO I FIND THE MONEY?”**

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The biggest obstacle to setting up an emergency fund isn’t convincing yourself that you should but convincing yourself that you can. I can’t tell you how many students and clients of mine over the years have said to me something like this: “Come on, David, let’s get real. I can barely make ends meet as it is. How can you possibly expect me to scrape together several thousand dollars and just leave it sitting in a bank account somewhere?”

My answer is that it’s not as impossible as you think. To begin with, there’s the Latte Factor: As I

demonstrated in Step 2, you could easily be wasting 5 to 10 dollars a day—maybe a lot more—on unnecessary expenditures. This money would do you a lot more good in a rainy-day fund. Indeed, your first priority with any money you save by fixing your Latte Factor should be funding an emergency account.

Now, by themselves your Latte Factor savings may not be enough to build a big financial cushion very quickly. Especially if you're starting from zero, you're going to have to dig a bit deeper in order to get an emergency account fully funded anytime soon. This could mean temporarily giving up something that may be important to you but isn't actually essential—like premium cable or eating out or taking cabs instead of the bus. It may not be pleasant going without something you're used to, but, hey, this is a priority. And, anyway, the sacrifice won't go on forever. As soon as the balance in your rainy-day fund is where you need it to be, you can go back to watching HBO.

Again, I know what the objections to this approach are going to be. “But, David,” people say to me, “even if I could reduce my spending on paper, I just don't have the willpower to actually do this in real life, day in and day out. It sounds like going on a diet—and we all know how those end up.”

My answer to this is that there is a way to put aside money for your rainy-day account that doesn't involve willpower or discipline or stick-to-it-iveness.

What you do is make it automatic—that is, you arrange to have a portion of your pay automatically deducted from your paycheck and deposited in an account you’ve set up just for this purpose. (You could put your rainy-day money in the same account you use to pay your bills, but I don’t think that’s a good idea. When you keep your spending money and your emergency money in the same place, it’s too easy to dip into the rainy-day fund for monthly expenses—and before you know it, your emergency fund will be gone.)

The great thing about automating your rainy day fund is that once you’ve set up your automatic saving system, you no longer have to think about it. And if you don’t have to think about it, there’s no chance you’ll forget to do it—or, worse, change your mind and deliberately *not* do it.

## THE FOUR RULES OF EMERGENCY MONEY

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So how do you go about protecting yourself with a cushion of money? There are four basic rules.

**1. Set yourself a goal.** I’ve always said that every family should have a cash cushion of at least three months’ worth of expenses. In other words, estimate how much you spend each month on essentials (mortgage or rent, utilities, food, health insurance,

etc.), multiply it by three, and that's your minimum goal for emergency savings. If you typically spend \$3,000 a month, you want to have at least \$9,000 put away in a reserve account not to be touched unless there's an emergency. Should you try to save more? Absolutely. How much more depends on what you feel you'll need to be able to "sleep well at night." I know people who keep *two years'* worth of expenses in a special account. Anything more than that is probably excessive, but better too much than too little.

**2. Make it automatic.** In Step 3 I said you have to make your emergency fund automatic. That means every single time your paycheck is deposited, your checking account is set up to automatically sweep money into a separate savings account you've set up for your rainy-day fund. I suggest you start by moving 5% of each paycheck to your emergency account until you reach the goal you set for yourself above.

**3. Put it in the right place.** Once you've made the commitment to funding a rainy-day account, the next decision you have to make is where to park it. I used to emphasize the importance of finding a place that would give you a reasonable return on your money. But these days, with interest rates at rock-bottom levels and the stability of many financial institutions still in question, I worry more about security. Of course, interest rates won't stay in the

basement forever. But until they recover, which may not be for a long time, I'd focus less on the kind of return you're getting and more on making sure your emergency money is safe and accessible.

**4. Leave it alone.** The reason most people don't have any emergency money in the bank is that they have what they think is an emergency every month. What's a real emergency? It's *not* just having to buy a new dress for that special party. Or finding an amazing set of wheels for your car at a once-in-a-lifetime price. Or deciding you've got to get a new dishwasher because the old one is making noise. A real emergency is something that threatens your survival, not just your desire to be comfortable. So unless your family is about to go hungry or be thrown out into the street, you shouldn't be dipping into your emergency fund.

## **FIND YOUR "SLEEP WELL AT NIGHT" FACTOR**

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Here's a simple worksheet you can fill out right now to determine what amount of emergency savings you will need to sleep well at night.

Stop reading. Go and grab a pen or pencil and fill in the blanks on the next page to find out where you stand.

You don't need to pull out your checkbook to figure this out. Just estimate what you think you spend

**“SLEEP WELL AT NIGHT” TEST**

My monthly expenses currently total: \$\_\_\_\_\_

I currently have \$\_\_\_\_\_ saved in a money market or checking account.

This equals \_\_\_\_\_ [insert number] months' worth of expenses.

each month, what you know you have in the bank, and how many months' worth of expenses your current balance can cover.

Does the answer make you comfortable? If you're like most people, it probably doesn't. As I said before, most of us are literally living paycheck to paycheck. Actually, in most families, it's two paychecks to two paychecks. (Nearly three out of every four American homes are two-income households.) If one of those paychecks disappears, the family that depends on it can find itself upside down financially in a matter of weeks.

People used to find that hard to believe. But in the last year or two, how many heartbreaking stories have you seen on television or read in the newspaper about a family that went from a normal middle-class life to moving in with relatives in just a few months because Mom or Dad was laid off from work? I know I've seen too many. And what they all have in common is the fact that these newly homeless families didn't have any cash reserves to fall back on.

## **SO WHERE SHOULD YOU KEEP YOUR RAINY DAY MONEY?**

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There is no point in setting up a rainy-day account if you can't be sure that the money will be there for you when you need it. A few years ago, this wasn't much of a concern. You could stick your emergency funds in a savings or money-market account at pretty much any reputable bank or brokerage and not worry about it. The only real question was whether or not your money was earning a reasonable amount of interest.

But the world has changed. Over the past few years, the U.S. financial system has taken a real beating. Some of the biggest financial-service companies came perilously close to collapsing—and a few actually did. So before you go rate-shopping for the best return you can earn on your rainy-day money, think about whether the bank or brokerage making you the best offer is an outfit you can really trust.

## **LOOK FOR THE FDIC SEAL OF APPROVAL**

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There is one very easy way to know whether a bank can be trusted not to lose your money—check to see if it displays the official sign of the Federal Deposit Insurance Corporation.

The FDIC was originally created by the government during the Great Depression to restore confi-

dence at a time when the nation's banking system seemed awfully shaky. As its name indicated, the FDIC's job was to insure deposits—and thus allow banks to tell nervous customers that even if the bank failed, their money (or at least a good chunk of it) would be safe.

The uncertainty hasn't been nearly that bad this time around, but by the fall of 2008 a new rash of bank failures had created so much nervousness that the FDIC decided to boost the amount of insurance it offers. So now, instead of providing just \$100,000 worth of protection, FDIC insurance covers all deposit accounts at insured banks and savings associations—including checking, NOW, and savings accounts, money-market deposit accounts, and certificates of deposit (CDs)—up to a limit of \$250,000 per individual per bank. (What the FDIC doesn't cover are deposits that have been invested in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if they were purchased from an insured bank.)

The increase is technically a temporary one, but it has been extended through the end of 2013. Similar action was taken by the National Credit Union Share Insurance Fund, which protects deposits at the nation's 7,800 federally insured credit unions.

Don't drive yourself crazy trying to figure out the rules. As the FDIC says on its website, "If you and your family have \$250,000 or less in all of your

deposit accounts at the same insured bank or savings association, you do not need to worry about your insurance coverage—your deposits are fully insured.”

If you're lucky enough to have more than \$250,000 in the bank, you can figure out how much protection you have by going online to the FDIC's "EDIE the Estimator" website at [www.fdic.gov/edie/](http://www.fdic.gov/edie/). EDIE, which stands for Electronic Deposit Insurance Estimator, can help you determine which of your bank accounts are covered by FDIC insurance and for how much.

FDIC coverage is as close to a sure thing as you can get in the financial world. You can check whether a particular bank or savings association has FDIC coverage by calling the FDIC toll-free at (877) 275-3342 or by going online to the FDIC's website ([www.fdic.gov](http://www.fdic.gov)) and using its Bank Find tool. (From the home page, click the "Deposit Insurance" tab, then click the "Bank Find" link.)

## PICKING YOUR BANK

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As I write this in the summer of 2009, nobody—not regular banks, online institutions, credit unions, or brokerages—is paying more than 2% annual interest on a liquid account (whether savings or money market), and most are paying a lot less. At these low rates, on the modest amounts that you will be saving (maybe \$15,000), the difference between a pretty

good rate and a great rate may only amount to \$100 or so a year. So while you shouldn't settle for a rock-bottom rate, you shouldn't stress too much about getting absolute top dollar. There are other, more important attributes to consider, such as:

1. Does the account require a minimum opening deposit? (On the day I checked, 9 of the 10 highest-interest money, market and savings accounts listed by [Bankrate.com](http://Bankrate.com) had opening minimums ranging from \$100 to \$5,000.)
2. Does it allow you to set up a systematic program that automatically transfers money from your regular checking account on a regular basis?
3. Does the account come with check-writing privileges, and if so, what's the smallest check you can write? Does it come with an ATM card? (Even though you're not going to use your checks or ATM card except in an emergency, it's nice to have them in case you ever need quick access to your funds.)
4. Does the bank charge a low-balance fee? (Some accounts charge you a fee of as much as \$25 a month if your balance dips below a preset minimum.)

### **LET THE GOVERNMENT HELP YOU BUILD YOUR RAINY-DAY ACCOUNT**

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There is one other really safe and simple way to automatically create a rainy-day fund. If you are looking

for a safe place to put your money, you can't do better than U.S. savings bonds, which are guaranteed by the full faith and credit of the United States government. What's more, the government's TreasuryDirect website ([www.treasurydirect.gov](http://www.treasurydirect.gov)) provides an incredibly easy way to invest as much or as little as you like in a variety of savings bonds and treasury securities through an automatic payroll deduction that you can basically set up online.

To be sure, savings bonds don't pay very much interest—if they pay any at all. As I write this in the summer of 2009, the government's inflation-indexed I Bonds are paying zero interest. Then again, the new Series EE Bonds (also known as Patriot Bonds) are paying a fixed annual rate of 0.70%, which is actually better than the average money market fund. For more information, visit the TreasuryDirect site and search for “individual savings.”

## FIX IT AND FORGET IT

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Once you've made your rainy-day plan automatic, it will quietly add up. You can relax, breathe a little easier, and forget about it for a while. But keep an eye on the headlines for an upturn in interest rates. Eventually, the banks and the U.S. Treasury will start to pay competitive rates again. So check online and in the business section of your newspaper for the best rates possible. Use websites like [www.bankrate.com](http://www.bankrate.com),

[www.bankaholic.com](http://www.bankaholic.com), and [www.bankingmyway.com](http://www.bankingmyway.com) where you can compare what's being offered and make sure your rainy-day fund is growing as fast as it can.

### TO DO IN 2010 ✓

- Set a goal for your emergency fund that will let you sleep well at night—enough to cover a minimum of three months of basic expenses.
- In order to fund your emergency account, temporarily give up something you really like (like premium cable or eating out) but that isn't actually essential.
- Fund your emergency account automatically by having a portion of your pay direct-deposited from your paycheck or automatically transferred from your checking account into a separate account.
- Keep your emergency funds in an account that is FDIC-insured and accessible by check or ATM card—and then **LEAVE IT ALONE!**