Preface

There's an old saying about money: With it you're a dragon. Without it, you're a worm. Somewhere in between, you're human. Being human, we're filled with a swirl of sometimes contradictory emotions and impulses that often get in the way of personal financial success. Some of these incongruities can be quite amusing. For instance, we tend to overestimate our neighbors' wealth while underestimating our own odds of financial success. Some of us underestimate the importance of investing for retirement, yet overestimate the difficulties of retiring comfortably. Meanwhile, we fixate on the "big" things, like trying to beat the market (which is a lot harder to do than many of us think) while overlooking the "little" things, like saving money and lowering our expenses (which are easier to accomplish than we think).

The ten common mistakes we've made with our money in recent years—which is the focus of this book—are rooted in these jumbled emotions. Hopefully, there are some lessons we can all draw from our experiences in the recent bull and bear markets. Once you come to understand these human foibles and find ways to overcome them, managing money doesn't have to be nearly as difficult or stressful as we sometimes make it out to be. Jack Bogle, who founded the mutual fund company Vanguard (and to whom I refer often), likes to say that "simplicity is the master key to financial success." He's right. And that's what I hope to convey in this book. In fact, throughout these ten chapters, I stress the importance of keeping things simple, playing the averages, and automating various aspects of your financial life. I hope you pick up on that.

While the book isn't divided into formal sections, there are general themes. Each chapter, or "mistake" as we term it, focuses on one of the ten common types of money mistakes that people make. **Chapters 1** and **2** focus on a topic that we're far too gloomy about: saving money. It's a lot easier to save than we think, especially over long periods of time.

Chapters 3 and **4** address another human foible: our tendency to overlook key elements of finances altogether. In **Chapter 3**, I talk about the importance of knowing and improving your credit score, since this could save you tens of thousands of dollars in interest payments over your lifetime. And **Chapter 4** addresses the *risks* we largely ignore when it comes to our investments. The chapters that follow are about investing, in particular the common mistakes we have made and continue to make with our portfolios. You'll notice a common theme running through **Chapters 5** through **8**: the danger of overconfident investing. I apologize in advance for repeating this theme over and over in several chapters. I just think it's that important. Finally, in **Chapters 9** and **10**, I'll address a few issues specific to retirement investors.

I hope you'll come away from this book with a basic understanding: When it comes to money, it's a lot harder to do the things we think we're good at, but it's a lot easier to overcome the things we fear. Though parts of the book may depress you (I've included a bunch of statistics that show that we're not really doing that well when it comes to saving and investing), I hope that by the time you're done, you'll realize things aren't as bad as they may seem. The truth is, many of us did make a lot of mistakes with our money in the 1990s. But there's a whole new decade—and era—ahead of us.

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Before I begin, I want to be clear about something. I'm not a financial planner. I'm not a money manager. Nor am I a stockbroker or certified public accountant. I'm a journalist who talks to financial planners, mutual fund managers, stockbrokers, and CPAs routinely in the course of my work. For the past decade, I've covered the markets, mutual funds, 401(k)s. and other personal financial issues for a variety of publications, including *Money*, the *Los Angeles Times*, and most recently *U.S. News & World Report*.

So take this book for what it is: a journalist's observations. We could all benefit by observing patterns in our own lives when it comes to handling money, though this is something many of us are loathe to do. It's bad enough that we have to make myriad financial decisions in our busy livesit's worse to have to analyze how good we are (or aren't) at managing our personal finances. And it's even more unpleasant to have to make this assessment after the greatest bear market since the Great Depression. But it's something we all must do.

While it is true that the so-called "do it yourself" era of investing—symbolized by day-traders and online brokers—is over, the fact of the matter isthat more of us are responsible for managing our own finances than ever before. And more of us are responsible for more aspects of our finances than ever before. No matter how much we pine for the days when employers took care of our retirement needs, traditional pensions aren't coming back. Self-directed plans like the 401(k)—whether they go by that name in the future or not—are likely to be the dominant retirement accounts for at least another generation. Plans like this may evolve over time (the government is already talking about simplifying the alphabet soup of 401(k)s and IRAs). But self-directed, tax-deferred savings and investing will be with us for a very long time. That means more of us will have to save for our own futures. More of us will have to invest for our own futures. And more of us will have to retire on our own terms. And that's what this book addresses: saving money, investing money, and retiring with money.

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