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Financial Bliss

A Couple's Guide to Merging Money Styles and Building a Rich Life Together

THE SUMMARY IN BRIEF

As a financial planner and advisor, Bambi Holzer helps couples grapple with complicated financial issues, but often the real issue to deal with is a personal one lurking just below the surface of the couple's financial considerations. One partner is risk averse, for example, while the other wants to strike it rich. One partner might not want to give up their current lifestyle to chase the other's goal. Another couple might be identical financially, leading to blind spots and missed opportunities. Holzer's goal is for these couples to become aware of their differences and how they can work through them to make their financial life more successful.

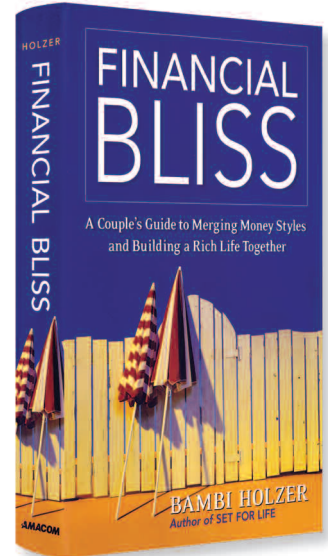
The premise is simple. If you can understand yourself and your relationship with money, understand your partner and his or her relationship with money, and understand the implications and facets of the many financial decisions you will face as a couple, then you will have planned safely for your financial future and the future of your relationship.

Specifically, this summary will show you how to marry your partner's tolerance for financial risk with your own, and to match your compromises with your individual and shared aspirations at critical life stages.

Holzer introduces her ideas with the following formula: Knowledge is Power. Power is Control. Control is Security. Security is Bliss. You utilize this knowledge and power through communication with your partner, with your experiences and with experts. Once you have power, you can control your environment. The control that knowledge-power provides lessens risk and makes you feel secure. Being free of worry about your finances is "financial bliss."

IN THIS SUMMARY, YOU WILL LEARN:

- How to have a better financial relationship with your partner.
- How to identify your own "money" personality and style.
- How to organize your financial life as a couple.
- How to prepare for and work through your financial life events.
- What you need to do to successfully invest now.



by Bambi Holzer

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THE COMPLETE SUMMARY: FINANCIAL BLISS

By Bambi Holzer

The author: Bambi Holzer, owner and president of Bambi Holzer Financial Group, provides investment advice to individuals and families, and is the author of *Retire Rich* and *Set for Life*.

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Love ... And Dead Ends ... Are Blind

Financial matters are highly charged with emotion, so it should come as little surprise that many couples are incapable of resolving their financial differences.

Because couplehood involves two human beings, it takes good communication skills for these unions to thrive and to survive. As the emotional charge rises, our ability to communicate effectively falls.

Is it any wonder that financial conflicts are responsible for a high number of divorces?

A burgeoning field of study called *behavioral finance* tries to track and make sense of the decisions we make with our minds and our money. For example, economists and stock-market theoreticians have long wondered why the efficient market theory doesn't seem to hold all the time in real life.

What these researchers found seems pretty obvious once brought to light, but has complicated economic forecasting by adding elements of psychology and probability that had not been previously factored into its calculus of the economic order of the world. For individuals, it means that we now have names for some of the economic decision-making maladies we carry around in our brains. Now that we can identify them, we can try to compensate for them. And that's the point — when you identify the tendencies and characteristics of your own economic decision-making, you can avoid the pitfalls, turn your weaknesses into strengths, and understand for yourself and explain to your partner why you made a particular financial decision.

Here's the good news: Just because you haven't been able to communicate effectively about finances, doesn't mean you can't. It simply means you haven't. "Haven't" implies yet. Your yet is today.

Making Assumptions

Which is the more likely cause of death in the United States — being killed by falling airplane parts or being killed by a shark?

Because the media sensationalizes fatal shark attacks, most people select shark attack as the more likely cause of death. The truth is that for approximately every one person killed by a shark, 30 people will die as a result of falling airplane parts. When given a choice we tend to select the familiar.

Making Assumptions About Ourselves

Where behavioral finance crosses the line from minutia to matter is when it helps us to understand how we perceive ourselves generally. It's important that you know upfront that you are biased. Like the vast majority of people, you will rate yourself more highly than an objective third party would. Repeat: It's important to recognize that you have this bias.

Are You Sure?

It is interesting to note that behavioral economists have discovered that as our self-expressed certainty goes up, the likelihood of our being right goes down. In other words, the more certain we are about something, the greater the chance that we will be wrong. When people are 99 percent sure of themselves, they are right about 70 percent of the time. What's important to note is the discrepancy between what we believe about ourselves, our abilities, and our answers and reality.



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Primacy, Recency and Frequency

Have you ever noticed that once you buy a certain car you see more and more of them on the street? Our consciousness becomes alert to things that have been already brought to our attention. In decision-making, we tend to be swayed by the viewpoint that gets the most hits. Supporting the old contention that even bad publicity is good publicity, we do create a bias for those things that are on the top of our mind.

We all overestimate our knowledge; as a result, our overconfidence can lead us to make mistakes. Because we think we know it all (or a large percentage of it all), we don't do enough research or we employ rules of thumb as shortcuts.

In addition, we often think that our individual experiences are representative of the wide possibilities actually obtainable. We trust our intuition or the intuition of experts without actually tracking how well that intuition has done in the past. It is important to realize that you don't have a corner on the market of financial acumen.

Finance is in the Eye of the Beholder

It is important to be honest with ourselves and our partners about our relationship with money — what tools and information we use to make money decisions. Without such self-knowledge and sharing, there will always be money fights and self-inflicted money problems.

Your money style consists of how and why you spend money, how you make decisions about it and what it means to you. You need to recognize your style and identify what your partner's style is in order to make better decisions together. Once you realize how each of you operates, you can work better as a team.

What do You Like About Money?

What does money mean to you — love, safety, happiness, power, freedom, self-worth? Why do you feel that way? How were your beliefs and values about money formed?

Separately, you and your partner should probe your values, goals and views on money. Digging a little under the surface might bring up thoughts or feelings that end up being very important both to you and your relationship. After some reflection, schedule time to talk about your thoughts.

- What are some of the “money messages” you live by?
- Where did they come from?

- Have you reexamined them lately to see if they still are, or ever were, valid?

The Financial First Date

Words carry an emotional weight, and just as it's important to think about your own money style, it is equally important to think about your own communication style. The point of a “financial first date” is to share information and stories so that you get a fresh portrait of what each person in the couplehood brings to the union. Then go for the good night kiss and ask for the next date.

Let the Negotiating Begin

After facts and feelings have been expressed, it's time to negotiate. Write down the mutually acceptable agreement you've arrived at so that you both ensure that you have understood each other. This is not a method to hold someone to a perceived contract but a way to ensure that you both understand what was said.

When you finish, share positive comments with each other, and celebrate a successful move forward in your partnership. ●

Conducting Your Financial State Of The Union Meeting

Before you hold your first State of the Union Meeting, you need to complete two tasks: Determine your net worth and track expenses for one month.

With your net worth and budget homework done, you can begin to assess where you have been, where you are now and to decide where you want to go next.

First, it's a good idea to look at your budget results. Remember, the point is not to make drastic across-the-board cuts or blame yourself or your partner. Instead do some soul-searching and some negotiating with your partner to figure out what can be cut, and where it should go. Look for places to downsize that have the least impact on your lifestyle.

Next it is time to set goals. This is a time for taking specific, manageable, daily, weekly and monthly steps toward a tangible, attainable goal like reducing credit card debt to zero in two years. To make certain that your goals aren't pie-in-the-sky platitudes, you have to:

- Be specific.
- Be realistic.
- Think action-oriented.
- Account for dual accountability.

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- Have consequences and rewards for meeting/not meeting deadlines.
 - Prioritize wisely. ●
-

Yours, Mine And Ours

Sharing is hard. It is a difficult concept to teach our children, and remains a difficult concept for us as adults.

Whether you choose, or are able to enter into, a legally recognized union or engage in some other type of merging of lives and finances, you need to address some fundamental questions.

Whether married or not, one of the biggest stumbling blocks is assets coming into the relationship that are unequal or if income is unequal. That's a pretty common experience. So regardless of the income divide that separates you, you have decisions to make:

- Do you split living expenses 50-50 or do you split them relative to income?
 - How much say does one partner have over how the other spends their money?
 - Who makes the investment decisions?
 - Do you pool your money or keep separate accounts?
 - Does one of you become the bookkeeper/accountant? ●
-

No Secrets: Keeping And Maintaining Good Financial Records

Managing your financial information and sharing it with your partner will ensure that your partner can run things if you should become disabled. This will also ensure that at your death, the estate will remain intact and be handled in the way you want. Unlike the decrees that affect a marriage, there is no default decree for unmarried couples. You need to delineate how your agreement with your partner was handled and should be handled at your death or disability. If you have previous unmarried partners, documents from those relationships should be included.

Keep your documents in a safe, secure place. But make sure that more than one person knows where to find the complete set of information. ●

Setting Up House

The pace of life is so great these days that even the milestones of buying a home to having children to

retiring and more can sneak up on you. More important, the costs associated with these life events have risen to such heights that the play-it-by-ear attitude now means that you could take it in the ear and suffer harsh consequences.

The Contractual Basis of Marriage

Financial matters are a relatively straightforward part of marriage because married persons enter into a contract with well-established legal ramifications. Unmarried couples aren't governed by these rules. Living together, in and of itself, does not create a contractual relationship. It does not entitle either party to a property settlement should you split up or one of you dies. As a result, all assets that were bought together, as well as commingled assets, are divided based on established contract law rather than on informal understandings. It is important for unmarried couples to write down contracts to clarify their wishes regarding property rights and to take actions to keep property rights consistent with the contracts.

Ever wonder why the prenuptial agreement became a necessity? It's because of the law's clarity with regard to property and marital assets. If you and your partner want to enter into an agreement that is not standard issue, the prenup is the way to go.

It should be noted that answers to legal and financial issues require experts who can examine all the aspects of your relationship and your unique needs as you form your version of couplehood.

Pitfalls to Watch for

Insurance and bad credit are two potential problems to be handled carefully. If one of you has bad credit, creating contracts or taking actions, which move property into that partner's ownership or even cosigning for that partner gives creditors the ability to attach that property to cover debts owed them. It might be better to leave assets out of creditors' reach by maintaining existing ownership. Moving assets out of the account of the debtor partner won't usually work, as creditors can go after assets transferred within a certain period prior to default.

A partner with no insurance also poses issues. Just as creditors can seize assets, judgments in civil cases can reach the property of the defendant. A car accident by an uninsured partner can put assets in the other's name at risk.

The experts at the Alternatives to Marriage Project suggest unmarried couples should at the very least create the following agreements:

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- Durable power of attorney for health care
- Durable power of attorney for financial management
- Will — By legal default, without a will only relatives have access to your assets
- A living-together (or domestic partnership) agreement that spells out the financial aspects of your relationship.

Knowledge is Power

Because so many laws and statutes vary from state to state with regard to marriage and other domestic arrangements, it behooves you to know before you enter into any kind of arrangement to learn as much as you can about the nature of the agreement — whether implied or stated — in the area in which you live.

Buying a Home

For most of us, buying a home is the American Dream, and the largest single outlay of cash in our lifetime. Today, given low interest rates, a proliferation of lenders, lower qualifying standards for loans, low- or no-down-payment loans and other market forces, purchasing a home is easier than ever.

The toughest hoop most couples have to leap through is the down payment. Ten-percent-down payment loans are becoming more common, but the tried-and-true 20 percent remains the gold standard, and could earn you a lower interest rate. Cash gifts from parents, friends, etc., are always possible, but lenders expect full disclosure, and can examine your financials to determine your suitability.

If you are unmarried, and you are mingling assets for a down payment, be especially careful of gifts. The IRS may view the money received by one partner as a gift to the other. For tax purposes, there are limits before a gift tax kicks in. In addition, make sure that if ownership interests are different from the ownership interests shown in the deed that you create a contract that specifies the terms.

How do we Finance It?

A few basics here illustrate the different instruments that exist to finance your purchase:

- **Fixed 30** — Best if you are staying awhile, rates are low and you prefer the security of an unchanging payment.
- **Fixed 15** — Same as Fixed 30, but paid off more quickly, and usually at a lower rate.

How Much Can We Afford?

Five to 10 times your combined annual income is the ballpark price-range to keep in mind when determining how much you can reasonably afford to pay for a home.

And as you are saving for that first home, live for a few months with the projected new mortgage cost as part of your budget to see how it feels.

- **ARM** — Great if rates are projected to fall and you don't plan to stay more than about seven years.
- **No Down** — Makes sense for those with good earning power but little money to contribute right now. Some risk of negative equity if home prices decline.

Forms of Ownership

How you legally own your home has lasting and consequential impact on your finances and legal obligations. Getting things settled beforehand makes things much simpler. Talk with your lawyer and financial planner first to ensure that how you own the property fits your situation:

- **You or your partner could own the property alone.** The other is merely a tenant or guest with no ownership rights. The non-owner partner is in a risky situation because the owning partner has complete control over the home.
- **You could own the property together.** Any two or more people can own property together. You don't need to be married or even a couple. Or you can be “tenants in common” and spell out ownership interests.
- **If you are married, you might be more likely to own the property in joint tenancy.** Joint tenancy means that you share equal ownership of the property and have equal right to its use. If one of you dies, the other automatically receives the deceased's share of the property.

In the interest of being prepared, it is a good idea to have a plan in place for the dissolution of your couplehood. A simple buyout contract that you and your partner draw up, spelling out the terms of this agreement (whether you are married or not) is a good idea.

Children and Couplehood

For purposes of this discussion, the term “family” is used to describe any household in which two adults reside with at least one minor.

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Courts don't care why people have children. If a child arrives, both biological parents (married or not) have a duty to support that child. That said, it is crucially important for a father to acknowledge paternity. If he's not certain that he's the father, he should register that uncertainty as well.

Laws vary from state to state regarding adopting your new spouse or partner's children, but those laws, and the process of adoption are usually pretty straightforward. Remember, both biological parents must agree to adoption unless one has abandoned or failed to establish a parent-child relationship.

Paying for Education

Given the skyrocketing cost of higher education, Uncle Sam has come up with some generous programs to help us pay for college.

- Qualified Tuition Programs, also named "Section 529" plans, allow you to either prepay a specified beneficiary's future education expenses or to establish a savings plan that will pay those expenses in the future. Anyone can establish one for the student — it is not limited to parents. Given how quickly college tuition rates rise, this is an attractive option.

- Coverdell education savings accounts, sometimes called Education IRAs, are another savings instrument with tax benefits. Coverdell's aren't limited to use for college; they can be used for elementary and secondary school, too. ●

Being Prepared For Emergencies

Sometimes life proves that we don't have absolute control over our destiny. Our only alternative is to plan ahead and develop some protection against things we can't control.

For unmarried couples, the situation can be a little more complex. Without the legal bonds of marriage, your commitment to each other is reliant on whatever domestic partnership agreement you've created, and your individual ethical beliefs.

Create a Rainy-Day Account

One of the most important steps you can take to prevent an emergency from becoming a catastrophe is creating a fund to cover living expenses in case of an interruption in your income or some catastrophic loss. Some advisers think a six-month cushion is sufficient.

You need to use an investment that is extremely liquid and extremely safe such as:

- Treasury bills
- Short-term government bonds
- Money-market mutual funds
- Bonds
- Bank savings accounts or Certificates of Deposit.

Insurance

Insurance should be a cornerstone of your rainy-day protection. Depending on your stage of life and financial health, insurance in its various forms can be helpful in getting you through some of the events that put a burden on your finances, but it could also be an expensive proposition. A study by the Insurance Research Council reports that couples spend about 16 percent of their annual incomes on insurance.

Your best bet is to consult with a certified public accountant. An expert can cut through the interference, and speed the process of evaluating your insurance needs. ●

Retirement

Married couples may have informal, unspoken contracts with each other, and unmarried couples may have established formal contracts about how to manage certain aspects of their relationships. With retirement, many of those contracts won't work anymore.

What Will the Assets You Already Own be Worth When You Retire?

Go back to your net-worth worksheet and, as a conservative estimate, use liquid assets, savings and investments less any assets you cannot sell as your funds to retire on.

What rate of return should you use to calculate the rate of appreciation? This is tricky, since we are trying, in a sense, to predict the future. As always, past returns are no guarantee of future performance. As a general estimate however, past performance gives some indication of the long-term returns. By starting with the asset's rate of return, and reducing it by the amount it will be taxed, you will have an estimate of what will finally end up in your pocket.

Unfortunately, inflation reduces the value of your savings and needs to be factored into your calculations. By subtracting inflation upfront in your calculations, you'll have a better estimate of the amount of money

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you'll need in the future. Use today's amounts to estimate an overall inflation rate over the period you're examining.

How long will your money last? That depends on two things – how much you spend each year and how long you live.

How Much Will You Need to Spend Each Year?

For many people, living expenses really don't decrease during retirement. And don't assume that your taxes will go down after you retire. Depending on how well you saved, your income may not decline that much. And deductions may go down if you pay off your mortgage, reduced some of the dependent and employment-related deductions that you relied on in the past.

How Long Can You Live on Your Accumulated Assets?

Some experts have looked at long-run returns, the outlook for the stock market, the cost of living, and increasing life spans, and have pronounced that spending 4 to 5 percent of your nest egg each year of your retirement is the correct number. Individual circumstances, especially health and your local cost of living, certainly affect that result. ●

Estate Planning

The basic steps in planning your estate are to determine:

- Who you want to have your assets — the beneficiaries
- What assets you have or will likely have
- Strategies to get those assets into the right hands and minimize the amount that the IRS gets.

Another piece of good advice for those going through the initial planning stage is to talk about it with the people involved. Involve your partner in your thoughts. Feel out your prospective beneficiaries to determine whether your ideas about their needs and wants match up with your wishes.

After You

If you think you will be the first to die, it's not a good idea to merely leave everything to your spouse, then let her figure out what to do with everything in her will. That's not estate planning.

If you are unmarried, it is even more vital to have estate-governing methods in place. State law does not include an unmarried partner as a default beneficiary of the estate.

Executor

Anyone can be the executor, and you should choose someone you trust. Some people choose an unbiased professional, such as an estate lawyer, bank trust officer or accountant. Choose wisely. Here are some suggestions:

- Don't choose someone your own age.
- Only choose a professional you know well and who is very clear about your wishes.
- Beneficiaries may not be good executors if you have complicated financial issues or family issues.
- Name more than one executor.

How Estates are Calculated

To determine your estate-tax burden, you should start by calculating your gross estate — everything you own minus everything you owe. Assets that you don't own at the time of your death are not part of your estate, so they are not taxable. The more you get rid of before you die, the less tax your estate will have to pay.

Ownership of the property is an important consideration in determining your taxable estate. If it is solely in your name it is part of the estate. If you hold something jointly, only your portion of the asset is considered part of your estate.

Hidden Assets

Be aware of hidden assets that need to be included. Life insurance proceeds are only includable if you've made your estate the beneficiary. Retirement benefits that are paid upon your death are generally included in your estate.

What is Probate?

Probate is a court procedure that makes sure your assets go where you want them to go after you're gone. During probate, the court will determine whether the will is valid. The court will then oversee the distribution of assets and final settlement of the estate. Probate involves filing an inventory of the deceased's assets and liabilities as well as the actual will, and these filings are open for public inspection. No wonder people try to avoid probate if at all possible.

How Property Passes to Heirs

You can pass property to your heirs through:

- Gift
- Contract
- Operation of law
- Will

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- Trust instrument
- Your state's laws of succession.

Popular Estate-Planning Strategies

If you want to avoid probate, if your estate is large enough that you will be facing tax consequences or if you want to put some controls on the distributions of your assets after you die, you will likely enter the world of trusts.

• **Credit-Shelter Trust for Married Couples with Over \$2M in Assets.** The credit-shelter trust is to fully use both spouses' unified credits — hence the name. It is set up so that when the first spouse dies, the amount that qualifies for the estate-tax credit goes into a trust instead of going directly to the surviving spouse. The trust owns the assets, but the surviving spouse receives income from the trust.

• **Living Trust to Avoid Probate** — It allows you to do the same basic job as a will while avoiding the probate process. However, unlike other trust vehicles, a living trust does not affect your estate-tax situation.

• **Testamentary Trust** — Controlling your estate from the grave. Testamentary trusts allow you to be more specific about who should get your assets — and when. Testamentary trusts don't exist until you die.

• **Charitable Remainder Trusts** — For giving and receiving. This trust allows you to donate assets to a non-profit organization, receive the tax breaks from the donation and still receive the income from the assets while you are alive. ●

What To Invest in Now

Which stock should you buy? A fundamental analysis of stocks will give you a list of what to invest in. The fundamentals to look for are:

- Do they operate in a good market with successful products?
- Are they well-managed?
- Do they have some protective competitive advantage?
- Do they have the financial wherewithal to operate successfully?
- Are they fundamentally sound?

You can rely on others for this analysis — brokerage houses and banks, Internet sources and independent research firms like Value Line and Morningstar provide such analysis. If you want to do it yourself, you can col-

lect the information from 10-Ks, the Internet, news services and other providers.

Fundamental analysis will give you a list of what to invest in. But just as importantly, you have to decide when to invest in the promising companies you've uncovered. Even the best stocks go through periods of over- and under-estimation of their prospects. Industries and sectors go through cycles of popularity and neglect. Rather than lament the inefficiency, randomness, and craziness of the market, use it to improve your returns. Many methods exist to time your investment purchases and sales more efficiently.

One method is to use point and figure technical analysis because it boils the supply and demand and emotional aspects of the market down to an understandable and time-tested charting system. You can use it to find entry points as well as to know when to sell.

You should find a method that fits your temperament, available time and abilities. Many great online and written resources are out there to explain each of the methods. Investors should read *The Wall Street Journal*, *Money magazine*, *Smart Money* and *Kiplinger's Personal Finance*. Online resources include Yahoo! Finance, Morningstar, Inc., TheStreet.com, and Bankrate.com.

Mutual Funds as Your Investment Vehicle

Consider mutual funds as the best method for investing in nearly every category of investment assets. They provide professional investment management and are easy to find and invest in. As situations change, moving from one fund to another within the same family is easy and nearly always free.

There are now more mutual funds than actual stocks on the major exchanges. It can get complicated deciding which funds to buy unless you're organized about it and have specific criteria. Services such as Morningstar exist to rate the return and risk performance of funds.

The size of your portfolio and your income also bear upon how much risk you should take. The more money you have invested relative to your needs, both current funds and those set aside for retirement, the more risk you can take on.

Your task now is to find your financial bliss. As you begin, keep in mind the principles of good communication and honest negotiating. With more information at your fingertips, these conversations are less likely to be chats and more likely to be work sessions in which you can make important and informed decisions. ●