Nine Inning Finance Guide

Where to Start With Money?

How to Think About Setting Up Your Finances

The Nine Inning Finance Money System

This guide is designed to be a ***starting point*** for young people to understand their money system and how to set up their system to be simple and efficient.

Before you set foot on the field, here is the biggest question you need to think about:

What balance should I have with funding my current life versus funding my future life?

Almost every decision around money comes back to this question. Most money issues I've seen come from people who ignore thinking about funding their future life. They only start to take money seriously in their 50s, and they have NO IDEA if they are on track to retire or fulfill what they want to accomplish.

Understanding this fundamental tradeoff early in your life can save you from a lifetime of financial stress and help you potentially accumulate millions of dollars.

Do you want to spend more money to improve your life now (better housing, fancier restaurants, more frequent trips) or delay gratification to save and invest for your future self (funding retirement accounts, investing in yourself, etc.).

To help you start, you should spend time thinking about your ***values*** and your ***goals***.

Why should you care about these?

They set the tone for everything else. They provide clarity and enable focus. They allow you to think with your future self in mind. They help you make better decisions in the present.

Here are some of the things I personally value: *time with friends and family, travel, learning/education, flexibility, and physical health.*

I created my own system to help me stay accountable in living out my values. It's helped me stay focused over the past few years.

From here, list goals you want to achieve. It could be going on an annual trip to explore new cultures, paying for your child's college tuition, or paying for a boutique fitness studio membership to keep you physically fit. In an ideal world, your goals will align with your values.

Inevitably, you'll face conflicting scenarios where you have two goals that align with your values, but it's tough to fund them both.

Let's say Leslie and Ben have a goal to buy a home in 5 years and are behind on saving for a down payment. Leslie and Ben value providing a safe home for their burgeoning family. Their (financially irresponsible) friends April, Andy, Donna and Tom are planning to go on an all-inclusive trip to the Caribbean together later this year and they want Leslie and Ben to join.

Spending meaningful time with close friends is ALSO something that Leslie and Ben value dearly. But the Caribbean trip will easily cost a few thousand dollars, which impacts their goal to buy a home.

Should Leslie and Ben:

- Not think twice about the few thousand dollars and spend time with friends exploring a new country, and delay the home purchase by 6-12 months? Treat yo' self!
- Decline going on the trip? They'd miss out on an adventure, but saving that money would keep them on track with the house purchase goal. And they can spend more time with their friend Ron, who has said, "America is the only country that matters. If you want to experience other cultures, use an atlas or a ham radio".
- Make the trip work and create a plan to save a little extra money each month towards the down payment instead? It might mean fewer trips to JJ's Diner, but they'll stay on track with their house purchase.

This is what financial planning is all about. And three different people might choose three different answers to this question!

So, take some time to ponder the question: ***what balance should I have with funding my current life versus funding my future life***?

In each section of this guide, I'll provide a brief overview of each financial planning position on the field. I'll include some ideas for how to think about that topic area, and provide resources for further exploration.

At the end of this guide I'll give you an inside look at how I have set up my own personal money system.

Also provided are lines to write out your answers to questions. Start here:

What do I value most in life? List a few “core values”:

What goals do I want to accomplish in the next 3 years? 10 years? 30 years?

What would I do in the “Leslie and Ben” scenario? Why?

Now we can move onto the positions on the field. They represent the ***tactical*** ways to implement a money system that is simple and efficient.

Income - Money Coming In

In order to spend, save or invest money, you have to earn money. There are a few ways most people earn money:

- Salaried employee, either full-time or part-time
- Independent contractor
- Business owner
- Rental real estate
- Investing
- Social Security/Pension

Just like a pitcher starts the action in baseball by throwing a pitch, earning income starts the action in your money system.

The current self vs. future self debate starts here. Start with knowing your current gross income (before taxes) and your take-home pay. This will let you know how much money you have to play with to spray around the rest of the field.

I am a big believer in paying your future self first. Why?

I've seen too many people box themselves in by structuring their life around their month to month expenses. They buy or rent housing that is too expensive for their income. They have a pricey monthly car payment. They don't have enough money left over to save for their future self.

So how do you avoid this?

Revisit your values and goals. What goals do you want to accomplish in the future that require a large amount of funding? Do you want to own a home? A car? Nice clothes? Do you want to retire one day?

Pay yourself in these areas first and live on whatever money is leftover (savings accounts, retirement accounts, etc.). This is a simple way to ensure balance between funding your current and future self.

Three financial metrics can help you determine your balance: **Savings Rate, Burn Rate and Debt Rate**.

Some questions to ask yourself about your income:

How much money am I making each month and year before taxes (gross)? What is my average monthly take-home pay (net) from the previous 12 months?

What is my Savings Rate? Burn Rate? Debt Rate?

How reliable and safe is my income? Could a downturn in the economy lead to layoffs in my field?

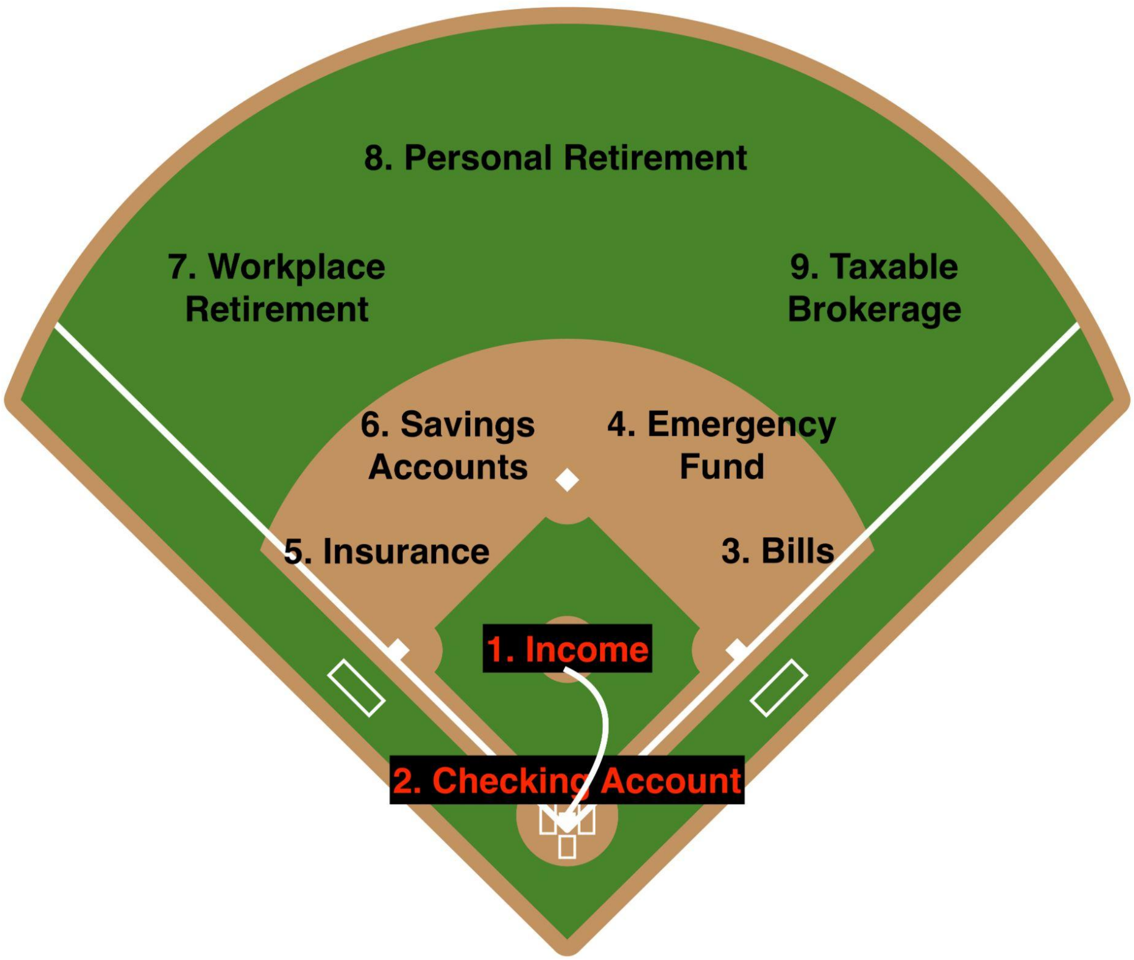
Am I content with how much money I am making? If I want to make more money, is that possible with my current situation?

Is my income consistent or more variable? How does that make me feel?

How many income streams do I have? What could I do to diversify my sources of income?

Thinking about your income and writing out these answers will help you make informed decisions and plan for the present AND future.

Checking Account - Income Gets Deposited



When you make money, where should it all go? Directly into your checking account. Think of your checking account like your "money home plate". From here, your money will be moved all over the rest of the field.

What should you look out for when setting up your checking account?

- That the **money in the account is insured** by the FDIC or NCUA (up to $250k per depositor, per bank or credit union).

- **Be aware of fees.** Some major ones are maintenance fees, ATM fees and overdraft fees. Some accounts require you maintain a certain dollar balance or you'll be charged extra. Read the fine print and understand when you might get an extra charge.
- **ATM network.** How easy and costly is it for you to access an ATM if you need to?
- **Interest and rewards.** These are almost immaterial for most checking accounts, as banks don't want you to keep your money in your checking account for long. They incentivize you to move your money into a savings account or investment account. Don't fight the incentives here.
- **Watch your balance**. You should make sure there is enough money in your checking account to cover your monthly bills. But you should not have too much more than that. Excess money should be moved to other positions on the field.

The purpose of your checking account is to easily move money in and out.

Set up monthly automatic transfers to move money from your checking account to other positions on the field. This helps your money system function smoothly.

Ask yourself these questions:

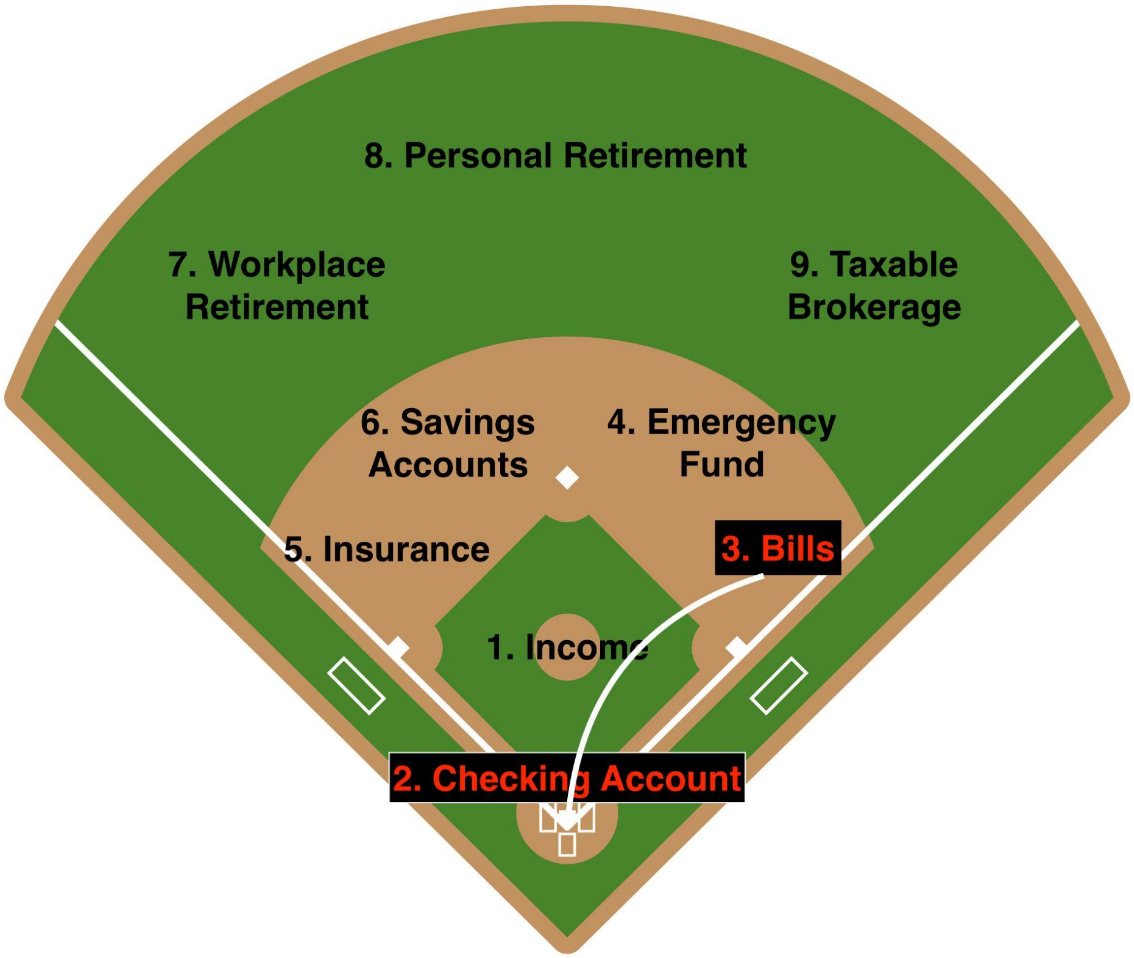
Are my checking account deposits insured? Am I aware of the fees associated with the account?

What is my checking account balance? Am I barely scraping by each month before another paycheck hits the account? Or is the balance growing consistently over time?

If my checking account is growing, have I automated money transfers to other accounts with the extra money?

Think of your checking account as your ***money home plate***.

Paying Bills - Methods



"I think, therefore I am" - Rene Descartes

"I spend, therefore I am" - Nick Booth

In modern society, you have to spend money to be able to exist.

There are two categories of things we spend money on: recurring things and one-time things.

These items should generally be paid for out of your checking account as much as possible.

Here are some things we pay for on a recurring basis, i.e. monthly bills:

- *Housing and utilities*
- *Food*
- *Transportation*
- *Internet, cable, phone*
- *Subscriptions/memberships*

And some one-time things:

- *Trips to Europe*
- *Sporting events*
- *Louis Vuitton bags*
- *Medical bills your insurance won't pay for (seemingly everything)*
- *New pickleball paddles*

Everyone has a different comfort level with expenses. Some people love budgeting and some people shudder with disgust at the mere mention of a spreadsheet.

The key is to figure out what works for you, and if you have a partner, to figure out what works for *BOTH* of you.

If your savings rate, burn rate and debt rate are in good shape and you have a **plan to pay yourself first**, then you don't *NEED* an extremely detailed budget spreadsheet if you don't want to.

If you or your partner like to know exactly what you are spending your money on or you need to figure out a way to increase your available cash flow each month, digging a little deeper into the numbers is a reasonable idea.

But wait, no one pays their bills directly from their checking account right? Right. There are four ways people pay for things: **cash, check, debit cards, and credit cards.**

Cash, checks and debit cards are all roughly the same thing but in different forms.

You give a convenience store employee cash in exchange for Powerball tickets and your money is gone immediately.

Your landlord cashes your rent check and your money is gone immediately.

You swipe your debit card at a gas station and your money is gone immediately.

You tap your credit card at Starbucks and your money....is still there in your account.

Credit cards are different. A credit card is like a bar tab. You only settle up at the end of the night (once a month).

You are incentivized to use a credit card to pay for things because in return:

1) You hold onto your cash longer.
2) You might earn rewards.
3) You build your credit score by paying your credit card bill on-time consistently.

Credit cards can get you into trouble for the opposite of these incentives:

1) You hold onto your cash longer. So you keep spending, until you spend more than you have in the account. Now you've overdrawn the account, which makes you "indebted." Adding insult to injury, you'll pay additional penalty fees for this.
2) You might earn rewards. In order to capture some of these rewards, you might spend more than you normally would.
3) You build your credit score by paying your credit card bill on-time consistently. You destroy your credit score by ***not*** paying your credit card bill on-time consistently. Now it's more difficult to get a mortgage or personal loan, because the bank doesn't trust you.

As long as you can pay off your credit card in full each month, it's by far the best option for paying all your bills. Just be aware of the downsides of credit cards. You can even automate paying your bill in full each month, depending on your provider.

If you can't use a credit card for something, like rent for example, another option is an ACH payment. This is an electronic bank transfer between your bank and the counterparty's bank. In effect, it's more like cash, checks and debit cards.

The reason a lot of merchants and landlords prefer bank transfers is because of credit card fees. Credit card providers usually take a 2-3% cut of all transactions, which is avoided with ACH.

Here are a few questions to ask yourself about how you pay your bills:

Which method am I currently using to pay my bills? (Cash, Check, Debit Card, Credit Card)

Am I fully paying off my credit card bill each month? On-time?

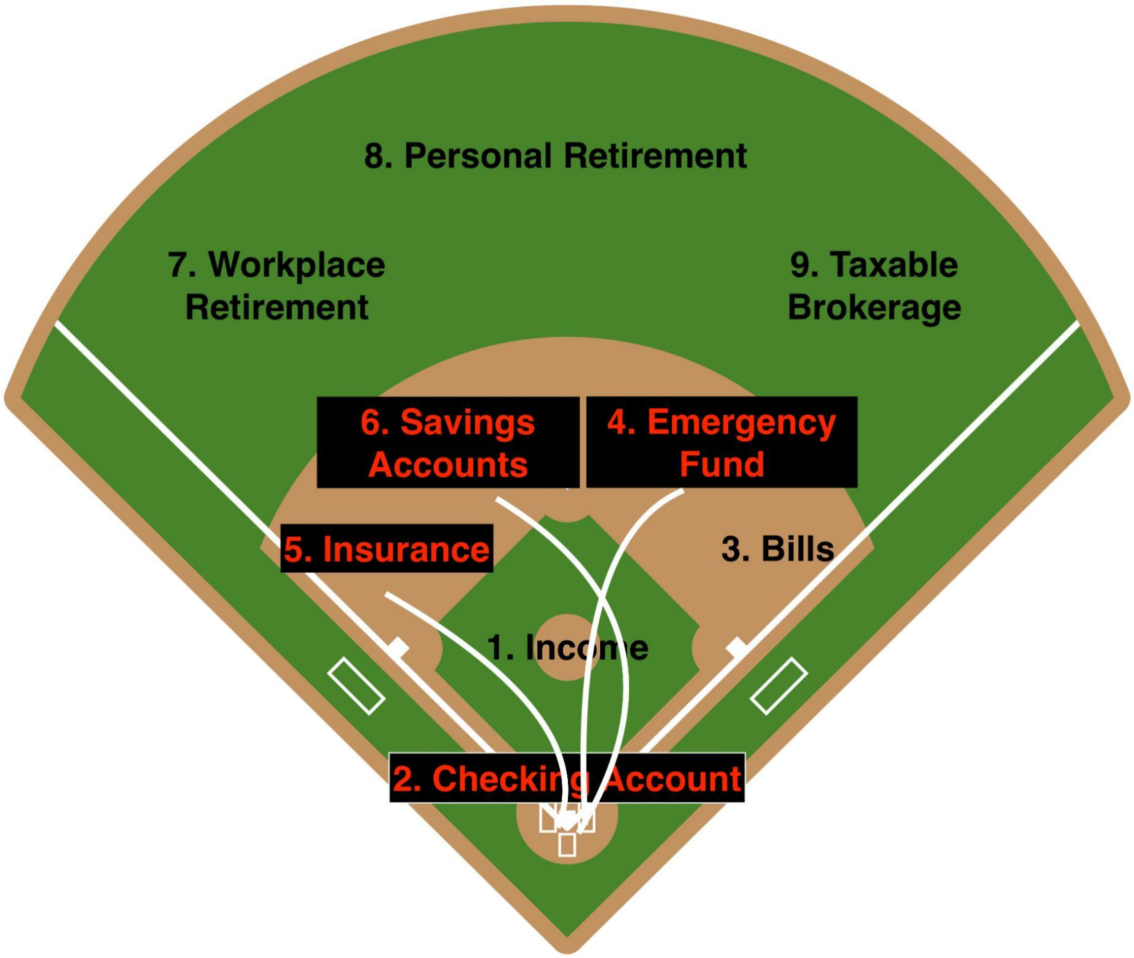
What are my credit card features and rewards? Am I maximizing my rewards without letting them lead my purchase decisions?

Am I happy with how easy my bill-pay process is? What could I do to make it easier?

Are there certain areas you love spending on more than others? Are there areas where you wish you could spend more?

A resource for researching credit cards and checking accounts is https://www.allcards.com/, and a great book for this is I Will Teach You To Be Rich by Ramit Sethi.

Protection - Short Term and Insurance



Emergency fund. Insurance. Savings accounts. Your next dollars out of your checking account should go here until these positions are solidified.

Having a plan to fund an account for emergencies, or "rainy day" fund should be your goal before you even start to think about investing in the accounts in the outfield. Why?

Life throws you curveballs. A surprise medical or car bill can really hurt if you are not prepared for it.

Your emergency fund should be money you can access quickly and easily. A savings account is your best bet, especially if it has a good interest rate. Just like your checking account, make sure the money is FDIC insured.

How much money should be in your emergency fund? There are rules of thumb like 3-6 months of living expenses, depending on if you are single or a couple. But rules of thumb only go so far. Ask yourself these questions:

If I lost my job, how long would I be able to survive living with my current expenses? What changes would I need to make? How do my answers make me feel?

The next position to focus on is insurance. Insurance needs vary greatly depending on your personal situation.

Here are the types of insurance you should know about:

Life insurance: You can't hedge against death, but you can protect your beneficiaries in case you die unexpectedly.

Health insurance: The number one cause of bankruptcy in the USA is from medical bills.

Disability insurance: If you get injured and can't perform your job, this is how you protect yourself against loss of income.

Auto/Homeowners/Renters insurance: You can recover if your favorite outfit gets ripped. You can't recover if your car or home gets severely damaged and you aren't insured properly.

Umbrella insurance: Extra liability insurance coverage providing an additional layer of security.

What do all of these insurance categories have in common? They are protecting you from things that are uncommon, but could ruin you financially if they happen.

Questions to ponder:

Do I need all of these types of insurance? Are there people who are depending on me? If I am not protecting myself with these types of insurance, why have I not acted yet?

Savings accounts outside of your emergency fund are where you build up your savings for your future financial expenses.

If you are within 1-2 years of buying a large item like a car, a house or an engagement ring, store the money in the savings account (high-interest accounts are better).

You don't want to add additional risk by investing this money right before buying, in case your investments decline. I've seen parents save up $200k for their child's college education, but have the money invested in 100% stocks. Then right before school payments started, the stock market declined 50% and the parents couldn't afford to pay for all four years, only two. NEVER DO THIS.

You can create one main savings account for all your financial goals or create several with specific savings purposes.

How am I currently saving for my short-term goals?

This wraps up the short-term, infield positions of your money system.

Workplace Retirement Accounts - Long Term

The outfield positions are for thinking about your future self. This is where *investing* happens. The one position that isn't distributed from your "money home plate" is workplace retirement accounts. Employers take money straight out of your paycheck and deposit it into a 401(k), 403(b), Thrift Savings Plan, or 457(b) plan.

If you are self-employed, you can contribute to a SEP IRA or Solo 401(k). If you have a high-deductible health care plan, you can contribute to a Health Savings Account (HSA).

These plans have special rules for how much you can contribute each year, what you can invest in, and when you can take the money out. You need to understand all of these rules and more when using these accounts. Click on the links above to explore further.

I'm going to highlight three key decisions to make when thinking about workplace 401(k) retirement plans.

1) **Type of contribution:** No tax now, tax me later (Pre-tax) vs. Tax me now, no tax later (After-tax)
2) **How much to contribute**
3) **What to invest in**

The first choice is whether you want your contributions to be made on a pre-tax or after-tax basis. "*Pre-tax*" means:

- Contributions are deducted from your paycheck before taxes are calculated
- Lowers the income you report on your taxes in the year you contribute
- This method is what happens with a "traditional 401(k)"

Once the money is in the account:

- You can buy and sell investments tax-free
- The caveat is that at a certain point you will be forced to take the money out of your account (called required minimum distributions or RMDs)
- You will have to pay income taxes on this money when you take out RMDs

You can also choose to contribute on an "*after-tax*" basis. This means:

- Contributions are included in your income during the year you contributed
- Contributions taxed at your marginal income tax rate
- This method is what happens within a "Roth 401(k)"

Once the money is in the account:

- You can buy and sell investments tax-free
- When you take money out of the account, it is tax-free (since you already paid income tax on it)

- You must meet several criteria for the money to be tax-free

Once you decide to contribute on a pre-tax or after-tax basis, ***you need to decide how much money you will be contributing to the account***.

There is a tradeoff between how much you contribute (for your future self) and how much money you have available now to live on (for your current self).

The biggest benefit many workplace retirement plans offer is a **company match.** They will, “match your contributions up to 5% dollar for dollar” or something like that. This means if you contribute 5% of your salary to your 401(k), the company will also contribute 5% into your account.

Let’s say your salary is $100,000 per year and your company offers a 5% 401(k) match dollar for dollar. If you contribute 5%, that means over the year you’ll contribute $5,000 into the account and your employer will also contribute $5,000, for $10,000 total.

If you started your career at age 25, worked at the same company for 40 years and had total contributions (including a company match) of $10,000 a year invested with 6% average annual return, you’d have around ~$1.7 million at age 65. A 7% average annual return bumps the total to ~$2.2 million.

This math doesn’t account for any increases in salary or contribution %. But it does show the power of contributing up to AT LEAST your company’s match %.

Over the 40-year career in our example, you only contribute $200k of your own money. Your employer also contributes $200k. The rest comes from investment returns. ***How cool is that?***

This leads to the third decision to make. ***What do you actually invest your money in with these accounts?***

Here are four areas to understand as a starting point for investing:

- Your *personal time horizon* and *what you are trying to achieve*
- The relationship between risk and return

- The *effect of fees* on portfolio performance (fund expense ratios, management fees, etc.) and incentives of financial services companies
- The historical and expected returns of different asset classes (stocks, bonds, commodities, real estate, etc.)

My two favorite books on investing are The Four Pillars of Investing by William Bernstein and Just Keep Buying by Nick Maggiuli. Both of these authors excel at explaining the four bullet points above (and much more) in an easily digestible way for non-finance people.

If interested, I wrote a shorter post on my investment principles.

Ask yourself:

Do I want my retirement nest egg to be taxed now or later? How much of my retirement accounts are after-tax vs. pre-tax?

How much am I currently contributing to my workplace retirement account? Does my company offer a matching contribution? How much do I estimate my account value will be when I retire?

What is my workplace retirement account invested in? What asset classes? What specific funds? What expenses am I paying?

Personal Retirement and Taxable Brokerage Accounts

Traditional and Roth IRAs are individual retirement accounts that can be opened at every major custodian (company that actually holds your money). They are not tied to employment. Therefore, there is no company matching contribution 😢.

These accounts are available as a retirement vehicle for people without access to a workplace retirement plan AND as an extra retirement vehicle for those with a workplace retirement plan.

Just like workplace retirement accounts, there are lots of rules you need to understand before opening an IRA.

There are contribution limits of $6500 per year in 2023, and an extra $1000 per year for those over age 50.

For traditional IRAs there are no income limits for contributions, but there ARE income limits for making deductible contributions, which reduces the utility of a traditional IRA.

For Roth IRAs there are income limits for contributions.

You can read more about Traditional and Roth IRAs and specific contribution and income limits here.

Am I funding a traditional or Roth IRA? Will my workplace retirement account be enough for my retirement?

Taxable brokerage accounts are the 5-tool player of investment accounts.

Biggest benefits of taxable brokerage accounts:

Easy to open - You can open an account with any brokerage or custodian in less than five minutes.

No contribution or income limits - Unlike a retirement account, you can contribute an unlimited amount of after-tax money to a brokerage account, no matter what your income is. It's common to see wealthy individuals with large taxable brokerage accounts for these reasons.

(Near) unlimited investment options - Almost all firms offer a wide variety of funds that covers the entire public investing universe.

Time horizon flexibility - You can create an account for long-term growth of 20+ years. Or for specific goals 3-15 years away. You have control over your asset allocation.

Liquidity - You can get access to your money quickly if you're investing in individual stocks, bonds, ETFs, or mutual funds. There are tax consequences when you sell, but unlike a retirement account, you can cash out of your investments without early withdrawal penalties if you need the money.

One of the greatest temptations in investing, especially starting out, is to use a taxable brokerage account as a ***"fun," "cowboy" or "mad money" account***. These accounts are mostly picking individual stocks and trying to hit monster home runs.

And I have no problem with this! As long as the total % of your fun account is less than 10% of your total portfolio, and you are able to achieve your financial goals with the other 90%, it is totally reasonable to scratch your stock-picking itch.

Folks get in trouble when they go all-in on certain stocks and they aren't basing their picks on anything. It is okay to make small bets with home run potential, but don't risk your whole financial future on these.

It's also important to know when you trade stocks, there is a buyer and a seller in the same transaction. Does the person/company on the other side of the trade know more than you do? Is it a hedge fund or someone who has been trading for 30+ years?

A Man For All Markets by Ed Thorp, explains this as vividly as I've seen. It's an eye-opening read and a cautionary tale for Average Joes who think they can beat the market. Coming from a literal genius who knew how to beat the market, his words speak volumes.

Let's finish up with these questions:

What is the purpose of my taxable brokerage account (if I have one)? Is it for short-term, medium-term, or long-term growth?

Am I using my brokerage account as a cowboy or a mad money account? How much time do I spend on investing in this account? Would I have been better off investing in index funds?

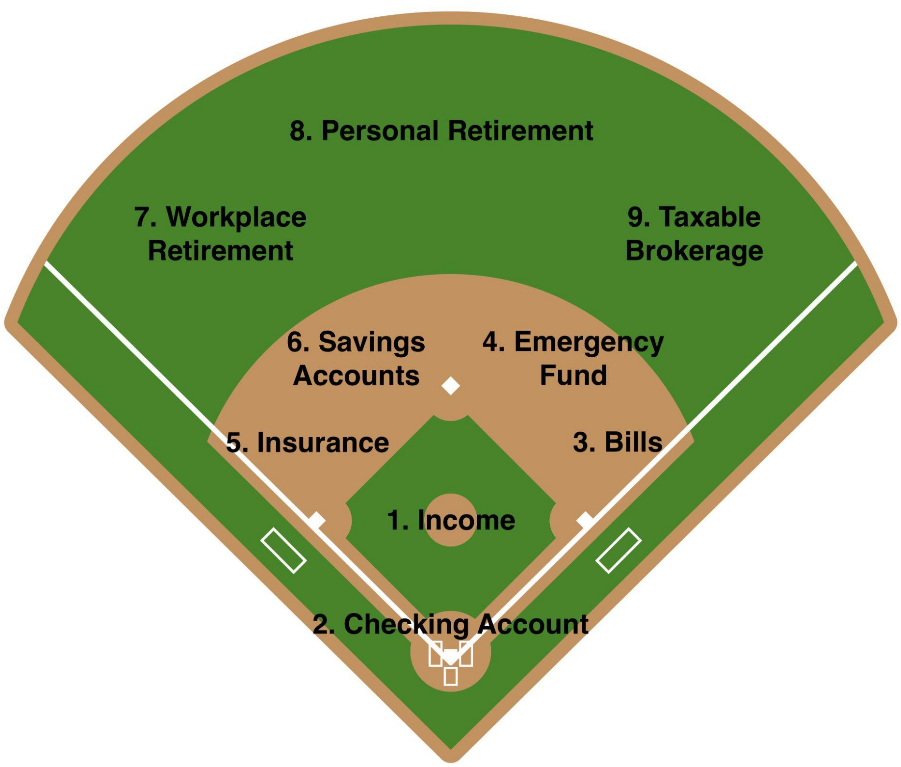
This guide represents a **starting point** for thinking about organizing your financial life. Once you can answer all the questions listed in this guide, you should revisit your answers at least annually (with your partner or spouse if you have one).

Start by thinking about the question:

What balance should I have with funding my current life versus funding my future life?

Then follow up by listing out what you value in life and what you are trying to accomplish.

Then you can focus on **tactically allocating** your money to the positions on the field:



My Personal Money System

So what does my personal money system look like? First, I am married. My wife and I sat down before we got married to discuss how we would be managing our finances moving forward.

We decided to combine our financial lives as much as possible. We decided to **pay our future selves first** (*automatically transferring a specific dollar amount into retirement accounts and a joint brokerage account each month*).

My wife asked to sit down on the 1st day of every month to review our previous month's income and expenses because it would make her comfortable. *Happy wife = happy life*, so I agreed. We also go over our investments each quarter and review our insurance and estate planning needs annually. ***These meetings don't take longer than 15 minutes.***

Here are the accounts we have:

- One **Business Checking Account** for my single-member LLC
- One **Business Credit Card**
- Two **Checking Accounts**: one joint account for our combined personal expenses, one is mine to transfer business cash in and out
- Two **Savings Accounts**: One joint high yield savings account and one joint account for our emergency fund
- One **Joint Taxable Brokerage Account**: automatically transfer $ in each month from joint checking account
- Two **Roth IRA Accounts:** Each contributing $6500 per year
- One **Thrift Savings Plan Account:** Automatically contributing $ to the match
- Four **Personal Credit Cards**: Two rewards cards that we use for monthly expenses, two backup cards that we only use in a pinch (identity theft or card not working)

Nothing fancy here! Implementing this system gave us confidence that our finances are in order and that we can achieve our future goals by sticking to the plan. Another benefit: ***We don't have to spend time and energy worrying about money.*** Isn't that what we all want?

Disclaimer

This information is provided to you as a resource for informational purposes only and should not be viewed as investment advice or recommendations.

The decisions on how and where to invest, when to retire and other financial planning topics are some of the most important financial decisions you will make in your life. I urge you to seek professional financial advice as you make this decision.

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