Book Reviews:
Your Money or Your Life by Dominguez & Robin (1992, 337 pages), and Getting a Life by Blix & Heitmiller (1997, 342 pages)

Begun March 2008 and finished January 2009 by Kris Freeberg,Economist
Making End$ Meet

Introduction. Whenever I read a book that has significant potential to improve my life, I write a review of it for my own edification, to lock what I've learned into my own memory, so that I might benefit from it. That is what this review is really about . It's a way of helping me remember what I've learned.

But as long as I'm going to the trouble, I might as well leverage the effort by sharing the same document with you. Please accept it with my best wishes for reaching your own Financial Independence.

The year before Blix and Heitmiller published Getting a Life, a first-hand account of their experience practicing the theories described in Your Money or Your Life, I began my Economics practice, Making End$ Meet (www.makinendsmeet.com). Both my practice and their books are based on theories. My theories have yielded mixed results. Always interested in improvement, I looked to theirs for opportunities to refine my own and improve my success rate – both for myself, and for my clients.

The Nine Steps. At the core of the Your Money or Your Life program are the following nine steps:

1. *Make peace with the past.*
   (a) *See how much you've earned in your life*
      i. *Financial statement review*
      ii. *Social Security Administration statement*
   (b) *See what you have to show for it.*

2. *Be in the present by tracking your "life energy."*
   (a) *Compute your net hourly rate, after all direct and indirect expenses*
   (b) *Keep track of every cent that comes in or out of your life.*

3. *Tabulate Earned Income, Investment Income, and Expenses (both categorized and in total) on a monthly basis. Learn where your money is going.*

4. *Ask yourself these three questions:*
   (a) *Did I receive fulfillment, satisfaction, and value in proportion to the life energy spent?*
   (b) *Is this expenditure of life energy in alignment with my values and life purpose?*
   (c) *How might this expenditure change if I didn't have to work for a living?*

5. *Make your "life energy" visible by tracking Earned Income, UnEarned Income, and Total Expenses on a wall chart.*

6. *Minimize Spending.*

7. *Maximize Income.*

8. *Recognize the "Crossover Point" - at which Investment Income = Total Expenses. This is Financial Independence (FI).*

9. *Manage Your Investments.*

An Immutable Thermodynamic Law? Before I launched my practice, finished my degree, or chose my major – a long time ago, somewhere between leaving the Marine Corps and beginning college, in the mid 1980's – I can remember marveling, just by looking around, at the general tendency of expenses to match or exceed income in so many people's lives. At the time, I was saving for my college education, and I had already established an Individual Retirement Account for myself with earnings from my paper route and from a very modest inheritance received from my grandmother.

We speak of expenses passively, as though they have minds and wills of their own. We say, "My expenses went up" instead of saying, "I increased my expenses." Likewise with prices . . . we say, "The price went up" instead of saying, "The vendor raised the price."

Why do we speak, think, and live so passively? Why do we so obstinately disregard our own choices, our own volition, our own sovereignty? Why do we weaken ourselves by ascribing false volition to inanimate abstractions like prices and expenses? We do we so readily abdicate our responsibility and our freedom? Why do we persistently invert subject and object, cause and effect? Why are we so fatalistic?

I don't know why, but we are . . . I see it all the time in both my professional and personal life . . . while there are some factors beyond our control, surely we choose our occupations, homes, spouses, possessions, behaviors, and most if not all long-term commitments that define our long-term economies. These two books show exactly how we do it, and how, by doing it differently, we can gain incredible freedom and happiness.

What Blix and Heitmiller Did. The authors of Getting a Life radically simplified their lives. They were Bellevue "yuppies" (according to them) who burned out on the rat race. By 1991 (the year before Your Money or Your Life was published), they had built a $351,000 investment portfolio. They moved out of their opulent house into a one-bedroom apartment – yes, that's right, they relinquished the so-called American Dream of "owning your own home" to become "mere renters." (Some of the most financially successful people I've ever known have rented.)

They exchanged their "yupmobile" Audi for an old Toyota and a couple of bicycles, and otherwise drove their total annual expenses down to $30,000 by 1995. You can see the details of their net worth on page 109, and their income and expenses on pages 320-22. They're amazingly candid. One would assume that between 1991 and 1995 they further grew their portfolio; at any rate, by 1995 they were financially independent: their portfolio produced more than a $30,000 return on investment.

Now one might say, "That's easy for them. During their yuppie years is when they accumulated most of their wealth." Fair enough. But they don't just write about themselves. They also document cases of others from around the country, from a wide range of incomes, occupations, educations, and ages, some of whom started from nothing or worse, to accomplish the same Financial Independence. Their point: anyone can do it, regardless where they start, if they're motivated and do the steps.

The numbers are simple enough. What is complex is the motivation that made them possible: how they, and others, managed to surmount what seems to be an almost immutable thermodynamic law, like nature abhorring a vacuum, preventing expenses from equaling income, producing a robust and sustainable surplus with which to accumulate their life's savings and attain the Crossover Point. Both books are devoted to unpacking this motivation, making it obvious, tangible, and attainable for all.

Concerning Inflation. In 1993, between publication of the first and second books, when Blix and Heitmiller were closing in on their own Financial Independence, at the age of 59, my mother died of brain cancer. No one knows for sure what causes brain cancer, but the brain is a thinking organ, and I know my mother was suffering with thoughts of financial anxiety. I believe she died because she was unsure how she

could afford to keep living.

Four years later, the author of Your Money or Your Life, Joe Dominguez, also died of cancer in his late fifties, not even six years after publishing his book. I don't know what caused his cancer, but I wonder. I find the similarity of his and my mother's fates striking. His biography indicates that he retired in his early 30's with a portfolio of $70,000, living on only $6,000/year together with his partner Vicki Robin, who also contributed another $6,000 of her own to their household.

I do know that the authors of both books minimize the effects of inflation. They say inflation is exaggerated, that one can strongly influence, if not control, one's own personal inflation rate through frugality.

But inflation happens; it especially affects energy, housing, education, and medical care – obviously an issue for cancer patients. And of course, the cost of energy affects everything else. In 2008, we're seeing that now with the cost of a gallon of gas threatening to cross the $4 mark by the summer.

When I write savings plans for my clients, I take inflation into account. We visualize the toll inflation will take on the cost of living looking over fifty years into the future. Consequently, we learn that the portfolio balance required to afford every thing they want to do in their lives, to live comfortably into a ripe old age (I presume 100) ranges between $1M and $4M in inflating dollars, and that the portfolio inevitably crashes when the compounding effect of year-over-year inflation takes its toll on the portfolio's purchasing power. The question is not whether it will crash, but when. I typically equip people to die broke at age 100. Of course, most probably will not live that long, so they get to visualize, for estate planning purposes, what the value of their estate might be before then.

But the pattern is always for the portfolio to crash. If one were to graph the balance over time, it's skewed to the left. It starts small, grows gradually, reaches a peak, then decreases abruptly as the compounding effect of inflation takes its toll.

I wonder whether inflation caught up with Mr. Dominguez.

On Planning and Budgeting. The Your Money or Your Life program is pragmatic. It eschews budgets. It doesn't get into long-term planning or projecting. It simply works with what is, and with what has recently been. It asks, “What are your actual expenses?” It does not ask, “What might they be fifteen years from now?” Thus the goal, Financial Independence, when Investment Income equals Expenses, is defined by the answer.

My experience, after twelve years of writing savings plans for a wide variety of people, has been that Investment Income must be significantly greater than Expenses, to sufficiently build and sustain the portfolio balance so that it can withstand inflation's cumulative, long-term purchasing power erosion.

Blix and Heitmiller also admit, in an admirably humble way that I personally found endearing, that they don't have it all figured out. According to the Your Money or Your Life model, they've arrived. Their return on investment covers their living expenses. Still, unexpected things occur. They were in their early fifties when they wrote the book. I wonder how they'll be doing in their seventies or eighties, after inflation has taken a cumulative toll.

While I appreciate their accomplishments, the reality of inflation and of the unexpected convince me that long-term planning and budgeting are still essential. Through budgeting and making allowances for the unexpected through an Emergency Fund replenishment plan, it's possible to recognize how predictable so-called unpredictable events can actually be.

On Accounting, and Accounting Software. I remember reading an article in a 1990 accounting professional journal called "The Ten Commandments of Accounting Software Installation." The first commandment was, "Don't computerize the accounting for a small business." Meanwhile Intuit had come on the scene, and over that decade had emerged as a leader in small business, and even home, accounting software.

Since it was written in 1992, Your Money or Your Life contains this anti-computer bias. It advocates carrying around a pocket notebook, writing down every penny that comes in or out of your life, in your own format, tabulating the results monthly, and charting monthly totals on a wall chart.

Getting a Life, written in 1997, is a little more computer-friendly.

Now, eleven years later, I believe the verdict is in: computerizing your accounting is definitely worthwhile. The key is, using the software properly so that it really does measure income and expenses, and does not confuse them with assets and liabilities. As I wrote in a previous piece, "Remedies for Deficit Living", the natural tendency is to cause confusion by over-using income and expense categories, and by under-using asset and liability accounts.

Another question is materiality. In Step 2b, both books insist on tracking every penny. I've found it's okay to overlook insignificant things like parking meters, etc. - things for which no receipt is issued – and instead track the cash on hand balance, categorizing unexplained spending as "Cash Over or Short" and be willing to tolerate a certain margin of error in that category. If it gets to be out of hand, one might want to pay closer attention, but I've found to-the-penny perfectionism in accounting for cash to be counter-productive. Better to just watch your margin of error in the Cash Over or Short account and make sure it's reasonable.

On the other hand, there's no reason why bank accounts shouldn't be reconciled to the penny, since all transactions in them are documented and clearly traceable.

On Work. Over time, I find my own attitudes about work have changed. As I've become more established in my profession, more experienced and confident, and as I've watched other people earn and develop, I've come to consider that perhaps it might not be "either/or" - "Either your money, or your life." I've come to appreciate that money is one of the many ways people connect with each other. After all, money is amoral; it is not a cause of evil; LOVE of money might cause evil, but the money itself is just an amoral medium of exchange, a convenient way to transfer energy and value.

Recently my wife was blessed with a great job teaching music at the local Catholic school. She loves it so much she'd volunteer to do it. I love my work so much, I'd volunteer to do it, too. But I've found people value what they pay for, and vice-versa. I've had extensive volunteering experiences in churches and in the Boy Scouts, and have often found that volunteers get taken for granted. Frankly, I regret a lot of the time I spent as a volunteer in my twenties and thirties, when I consider the time value of money, how I could have spent that time and energy earning and saving, then volunteer later in life when I'm older, wiser, more credible and effective. I'm afraid I did it backward, and will probably pay for my mistake over the rest of my life.

A lot of people resent work because they hate their jobs. But as David Allen points out in his book Getting Things Done, it all depends on your definition of "work", what you're doing, and how you feel about it. Dominguez, Robin, Blix, and Heitmiller all seem to resent "paid employment" and offer substantive, credible explanations why. While I sympathize with their points of view, having lived it until I launched my practice and re-defined work for myself, I now lean more in Allen's direction, defining work as "what I do."

Another book that made a lasting impression on me in the early part of this decade, Aging Well by George Vaillant, shows how retirees who live really well continue working for pay; they just work differently, doing work they really love, more on their own terms than they did when they were younger. By staying engaged

in commerce, they also stay engaged in life and in consequential relationships. For them, it isn't an either/or thing.

And as Thomas Friedman points out in his book The World is Flat, the offshoring and outsourcing of mundane work create opportunities to invent entirely new occupations and professions that can be quite satisfying and rewarding.

But none of these considerations negate the fact that there are important things to be done that will never be lucrative, like just spending time with friends and family, religious & philanthropic activities, the arts, playing, and so on. Here again Vaillant shows how people who age well manage to strike a healthy balance. Their lives are well-rounded, active, and rich – sometimes earning, and other times volunteering. The bottom line seems to be that they can choose.

I suppose I take the trouble to muse on these subtleties because I perceived a troubling tone throughout both Your Money or Your Life and Getting a Life: the notion that paid employment is something to resent and terminate as soon as possible; it's an outlook that strikes me as cynical and dreary, failing to recognize the dignity and worth of paid employment; after all, one reason people are willing to pay for paid employment is because they perceive it has real value worth buying.

At the core of this issue is the confusion, even terror, that many suffer at the thought of not having a job. It begs troubling questions about purpose, identity, priority, and so on; questions which require exceptional self-discipline, confidence, and candid introspection to answer; efforts which all too many are simply unwilling to undertake.

To surmount this terror, I've found it helpful to employ the advice of Anthony Robbins: design your life. Design your ideal day and your ideal environment. Doing so takes work, but it lays the necessary foundation to make Financial Independence (FI) possible. It seems to me that without this important step the apprehension, the fear of the unknown, is like a glass ceiling.

Fortunately professional help exists to make this life-designing process easier. One way is the Lifetime Savings Plan which I offer free of charge. To accept, please contact me, 360.224.4322 or kris@makinendsmeet.com.

Respectfully submitted,

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