

How To Manage Your Money

Baby Steps to Financial Freedom

Here are the 7 baby steps from the book called *Financial Peace* by Dave Ramsey.

1. The first step is to pay minimum on everything until you get \$1000 in savings. Go crazy and get this money in the first few months of your plan. This savings is the first level of emergency funds to protect you from little emergencies. If your income is very low you may settle for \$500 [...]. Remember this first level fund is only for emergencies.
2. Now is the time for killing all debt. Implement the debt snowball, and pay off all personal debt except your home. Get mad and stay mad until you get out. Remember, there is no energy in logic, only in emotion.
3. At this point the only debt you have is your home. So now it should be easy to save the rest of your emergency fund. The correct amount is three to six months of your expenses. Keep this money in a simple money market fund or bank account, but do no investing with this money. It is only to protect.
4. Fully fund all pretax retirement savings that you possibly can, using stock mutual funds [...]. All 401(k) plans, deductible IRAs, SEPPs, and 403(b)s should be maxed out. At this [...] Step you should also review all your insurance to make sure you have enough coverage of all types. Also, with that emergency fund in place, it is easy to have \$500 or \$1000 deductibles, which will drastically lower your payments.
5. Now and only now is it time to start college funds. You feel guilty - I know - but don't you dare do college funding until you get the first four steps completed. I know those little brown eyes make your blood run cold when you know that the college fund isn't there, but the only way to build a strong house is to lay the foundation first, and guilt is not a building block. Just let those little brown eyes be a motivator to run - I mean, sprint - to this step.
6. I love this one. It is now time to pay all the extra you can scrape together to pay your house off early. It may be two, three, even four years to get to this step, but when you do you will be able to knock that house debt off very quickly.
7. Let's get rich, so rich that we spend our time trying to give it all away. With no payments and great basic savings plans in place, there is nothing left to do but build wealth and give it away. Using real estate, more mutual funds, [...], and opportunity money, you can now be the rich getting richer. When that \$100,000 deal can be bought for \$50,000, you will be there with the cash. Welcome aboard.