

RECOMMIT TO WEALTH !

START OVER,  
FINISH RICH

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*10 Steps to Get You*

BACK ON TRACK IN

2010

Author of **7** NEW YORK TIMES Bestsellers

DAVID BACH

Dear Friend,

Welcome to the free download of my new book, *Start Over, Finish Rich!* You have taken the first step in putting your finances—and your dreams—back on track in 2010. As you'll see, this is a very powerful book. It's super short and super simple. You'll be able to read it in a couple of hours. But it's going to change your life and totally motivate you to join in the economic recovery that comes after a recession. The recovery is starting now—and you cannot afford to miss it! This book gives you your action plan for 2010. I'll show you how to:



- Get out of debt
- Fix your credit
- Rebuild your 401(k) plan
- Take SMART risks
- Make your financial recovery automatic
- Rebuild with real estate
- And much more

Whatever you may have lost in the last few years—that's behind you. Life is too short to stay down. So please take this book—take your dreams—and START OVER.

Thank you for reading this, and please know that I am honored and grateful that you spent this time with me. I want to hear about how 2010 works out for you so email me your success story at [success@finishrich.com](mailto:success@finishrich.com) and stay connected in the following ways:

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Now start reading—and take your first steps on the new road to wealth in 2010!

Your friend,

A handwritten signature in black ink that reads "David Bach". The signature is fluid and cursive, with a large loop at the end.

David Bach  
January 4, 2010



This book is designed to provide accurate and authoritative information on the subject of personal finances. While all of the stories and anecdotes described in the book are based on true experiences, most of the names are pseudonyms, and some situations have been changed slightly for educational purposes and to protect each individual's privacy. It is sold with the understanding that neither the Author nor the Publisher is engaged in rendering legal, accounting, or other professional services by publishing this book. As each individual situation is unique, questions relevant to personal finances and specific to the individual should be addressed to an appropriate professional to ensure that the situation has been evaluated carefully and appropriately. The Author and Publisher specifically disclaim any liability, loss, or risk which is incurred as a consequence, directly or indirectly, of the use and application of any of the contents of this work.

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# **FIND YOUR MONEY**

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I hope the first step motivated you to get ready to start over and get going on your 2010 financial action plan. Now the question is: Where to start?

The answer: **It's time to "find your money."**

Every day, I talk to people just like Georgia, whom we met in Step 1. They are worried about the economy and their own financial futures. Not surprisingly, they're filled with questions. "Is this a good time to invest in real estate?" they ask me. "What do you think about foreclosure properties?" "Should I buy mutual funds or individual stocks?" "What's the best way to get back all the money I lost in my 401(k)?"

These are all good questions, but for most people

they are the WRONG questions to ask first. That's because for most people—and maybe this includes you—there's one question that has to be answered BEFORE they can start dealing with all those other issues. And that is this:

**Where is your money now  
and where does it go every day?**

Do *you* know?

Here's the deal in a nutshell: If you don't know where your money is—and where your money is going—you can't start over financially. First you have to find your money. Then you can make a plan.

## **YOU HAVE TO FACE THE FACTS OF WHAT YOU HAVE AND DON'T HAVE**

Back in the winter of 2008–09, when the stock market was hitting bottom, a lot of people simply couldn't bear to watch what was happening to their savings and retirement accounts. So they stopped looking. I guess that's understandable, but when it comes to money, ignorance is definitely *not* bliss.

Getting your finances organized—understanding where your money is and where it is going—is the key to starting over. In order to make a financial plan that is based on reality (as opposed to wishful thinking), you need to do two things:

1. Determine what all your assets and obligations are.
2. Figure out where you spend your money, month by month, day by day.

In this step, I'm going to share with you how to do both of those things. First, I'll show you how to get organized with my painless "Start Over" File Folder System. Then I'll help you get a handle on your spending by figuring out your Latte Factor. Are you ready?

Then let's get started!

### **ALL YOUR BILLS IN A BOX— THE "START OVER" FILE FOLDER SYSTEM FOR 2010**

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Let's face it—organizing your finances can be a real chore. Every month, you get sent dozens of statements, bills, and other financial documents in the mail and online. It can be overwhelming. The good news is that there's a way to get organized that's amazingly easy and relatively painless—a system that allows you to find your bills and important documents quickly and without worry.

I first developed my file folder system back in the 1990s, and it's one of the top things my readers thank me for. That's probably because it is one of the few things you can do in less than an hour at home to fix

and secure your financial life. Many people—maybe you're one of them—waste literally hundreds and sometimes thousands of dollars a year paying late fees, interest fees, and penalty fees because they can't find their bills in a pile of other financial “stuff” and, as a result, miss their payment deadlines.

Of course, times change and our needs change with them. So I have taken the FinishRich File Folder system that I've described in my previous books and updated it for the current economic environment. What hasn't changed is that it is still simple and you can still set it up at home in less than an hour.

Here's what you do: First, get yourself 15 or so hanging folders and a box of at least 50 file folders to put inside them. Then label the hanging folders as follows:

## **THE FINISHRICH FILE FOLDER SYSTEM**

1. “Tax Returns.” This hanging folder should contain four file folders, one for each of the last three years plus one for the current year. Mark the year on each folder's tab and put into it all of that year's important tax documents, such as W-2 forms, 1099s, receipts to support deductions or credits, and (most important) a copy of all the tax returns you filed for that year. Generally speaking, you don't need to keep tax records for more than three years, although some

documents—such as records relating to a home purchase or sale, stock transactions, retirement accounts, and business or rental property—should be kept longer. I keep all my tax documents for at least seven years, but that’s an individual decision.

2. **“Retirement Accounts.”** All of your retirement-account statements go here. You should create a file for each retirement account that you and your partner have. If you have three IRAs and a 401(k) plan, then you should have a separate file for each. The most important documents to file are the quarterly statements. If you have a company retirement account, you should also definitely keep your sign-up package, because it lists the investment options you have—something you should review at least once a year. You *don’t* need to keep the prospectuses that the mutual-fund companies mail you each quarter.

3. **“Social Security.”** Keep your most recent Social Security Benefits Statement in this folder. If you haven’t received a statement in the mail in the last 12 months, request one by going online to [www.ssa.gov](http://www.ssa.gov) or telephoning the Social Security Administration toll-free at (800) 772–1213.

4. **“Investment Accounts.”** This folder is for every statement you receive related to any investments you

may have (mutual funds, stocks, bonds, etc.) that are *not* in a retirement account. Prepare a separate file folder for every brokerage account you maintain.

5. “Savings and Checking Accounts.” Keep your monthly bank statements here, with a separate file folder for each account. Generally speaking, you don’t need to keep bank statements for more than a few months—certainly not more than a year. If you get your statement online, print out a copy and stick it in the file.

6. “Household Accounts.” If you own your own home, this hanging folder should contain the following files:

“House Title,” for documents such as title reports and title insurance policies. (If you can’t find this stuff, call your real estate agent or title company.)

“Home Improvements,” for all your receipts for any home-improvement work you do. (Since home-improvement expenses can be added to the cost basis of your house when you sell it, which means a bigger tax deduction for you, you should keep these receipts for as long as you own your house.)

“Home Mortgage,” for all your mortgage statements. (Which you should check regularly, since mortgage companies often *don’t credit you properly*.)

If you’re a renter, this folder should contain your

lease, the receipt for your security deposit, and the receipts or canceled checks for your rental payments.

7. **“Credit Card DEBT.”** Make sure you capitalize the word “DEBT” so it stands out and bothers you every time you see it. I’m not kidding. In my view, credit card debt is the biggest problem facing American consumers today. In Step 3, I will lay out a detailed plan for how you can pay down your debt as responsibly and quickly as possible. Right now simply create the folders—a separate one for each credit account you have—and keep your monthly statements in them.

8. **“DOLP™ Worksheet.”** DOLP stands for “Dead On Last Payment.” This is the system for paying down debt that I have taught for nearly a decade. I will explain exactly how it works in Step 3. In the meantime, make a copy of the DOLP worksheet on page 44 and put it in this file. (You can also download the worksheet from [www.finishrich.com/DOLP](http://www.finishrich.com/DOLP).)

9. **“Credit Scores.”** This folder is for your most recent credit scores, along with the credit reports on which they are based. See Step 4 for details on what these are and how to get copies.

10. **“Other Liabilities.”** This is where you keep all your records dealing with debts other than your

mortgage and your credit card accounts. These would include college loans, car loans, personal loans, etc. Each debt should have its own file folder, which should contain the loan note and your payment records.

11. **“Insurance.”** Make separate file folders for each of your insurance policies, including health, life, automobile, homeowner’s or renter’s, disability, long-term care, and so on. Each of these folders should contain the appropriate policy and all the related payment records. If you have any employer-provided insurance (e.g., medical coverage), include all the brochures and other informational material you’ve received from your company.

12. **“Family Will or Trust.”** This should hold a copy of your most recent will or living trust, along with the business card of the attorney who drafted it.

13. **“Children’s Accounts.”** If you have children, create a folder for all statements and other records pertaining to college savings accounts and any other investments you may have made on their behalf.

14. **“Latte Factor®.”** Here is where you keep your Latte Factor worksheet. For some of you, this may be the most important folder you create.

## NOW YOU ARE ORGANIZED FINANCIALLY

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You did it. You now have 14 hanging files (13, if you don't have kids), organized in a box or a file cabinet that represents your entire financial life. You should already be feeling more empowered and more in control over your finances. In fact, you are. In getting your records organized, you have taken a major step toward getting your financial life back on track.

I'm not exaggerating when I say that this one exercise can have a huge impact on your life. Over the years, I have heard from countless readers who told me that simply setting up this filing system totally changed how they handled their finances. It has helped couples get on the same page and stop fighting about money. It has helped people who never had a plan get a plan. Please trust me and do this. You will feel better and it will only take an hour. So go do it now.

As you create your file folder system, you may find that you don't have any documents to put in some of the folders. Make them anyway. If you don't have, say, a will or living trust, the empty folder will remind you every time you open the file box or drawer that you still have "homework" to complete for your "Start Over" plan.

If you are missing documents, use the form below to list what is missing and what you need to do to fill in the gaps.

MISSING INFORMATION	DUE DATE	COMPLETED ✓
1. _____		<input type="checkbox"/>
2. _____		<input type="checkbox"/>
3. _____		<input type="checkbox"/>
4. _____		<input type="checkbox"/>
5. _____		<input type="checkbox"/>
6. _____		<input type="checkbox"/>

Fill in the “Due Date” so you have a specific goal and time frame to meet. Check off “Completed” when you’re done.

## **WHICH RECORDS SHOULD YOU KEEP AND WHICH CAN YOU DITCH?**

The reason I made the FinishRich File Folder System so specific is that many of us keep too much information for way too long. (I’m guilty of this myself.) The fact is, except in cases involving fraud, the statute of limitations on income-tax returns is only three years, so the Internal Revenue Service does not expect you to hang on to tax records and receipts for any longer than that. The main exceptions to this are if you’ve underreported your income (in which case you should keep your records for six years) or have claimed a loss from worthless securities (seven years).

Obviously, you should keep records documenting the cost basis of your home and all your other taxable

investments for as long as you own them. The same goes for the basic documents concerning your retirement accounts and insurance policies, not to mention all loans and mortgages.

But don't be shy about getting rid of old materials. Here's a list of items you should consider throwing away (or shredding if the documents contain personal information):

- Outdated warranties
- Outdated instruction manuals
- Outdated wills or trusts (provided you created a new one)
- Canceled insurance policies
- Credit card statements for closed tax years
- Canceled checks for closed tax years
- Old brokerage statements for closed tax years (unless they have cost-basis information you might eventually need)
- Old annual reports from stocks and/or mutual funds
- Old investment newsletters (some people keep these things for years because they paid for them—let them go)

## **ORGANIZE YOUR FINANCIAL LIFE ONLINE**

Setting up and maintaining the “Start Over” File Folder System is extremely easy. Nonetheless, all that

filing and storing of actual paper documents may strike some people as incredibly old-fashioned. If you're one of those people, don't worry. There is an entire new generation of extremely cool websites armed with powerful digital tools to help you track and manage your finances online. As one of these websites puts it, "We download, categorize, and graph all of your finances **automatically** every day. Know where you're spending, without spending any effort."

Is that cool or what?

Many of these sites are FREE. Two of the best are [www.mint.com](http://www.mint.com) and [www.wesabe.com](http://www.wesabe.com). Both offer personal budgeting tools that allow you to track your cash flow, checking and savings accounts, credit cards, loans, and investments—all in one place. They can also analyze your spending, helping you to identify where you can cut back. Mint.com will even send you email alerts to keep you from getting hit with penalty fees for late payments, going over your credit limit, and dropping below a minimum-balance requirement.

## **NOW THAT YOU KNOW WHERE YOUR MONEY IS, FIND OUT WHERE IT GOES**

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Okay—you've got yourself organized. You know where your money is, what you have, and what you owe. Now comes the real challenge—getting a handle

on your spending. You have to really work to keep what you work so hard to earn. Luckily, there's an easy, fun way to do that. You have to find what I have termed **The Latte Factor®**.

If you take only one piece of advice from this book, take this one. Even if you don't do anything else, simply finding your Latte Factor will make you financially stronger than you have ever been and stronger than almost everyone you know.

And thanks to the Internet and digital technology, finding your Latte Factor is easier today than it has ever been.

### **FIND YOUR LATTE FACTOR AND FIX IT—NOW AND FOREVER!**

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Chances are that you have already heard about the *Latte Factor*. If you Google it, nearly 200,000 hits come up. It's a phrase that has become synonymous with saving money by cutting out small expenses. But it is more than that. At its core, the Latte Factor is the ultimate metaphor for how we spend money. It shows us the way small amounts we spend daily, on little things like fancy coffees and bottled water, can literally add up to a fortune. It is NOT about giving up your favorite cup of morning coffee at your favorite coffee shop. It's about considering where your money really goes and asking yourself, "Is this spend-

ing really worth it? What else could this money be doing for me?”

I first came up with the concept back in the early 1990s when I was teaching an investment course in California. During my class one evening, a young woman named Kim raised her hand and announced she couldn't save any money because she was living paycheck to paycheck. At the time, she was sipping a latte from Starbucks.

I responded by asking her to walk me through every single purchase she made in the course of a typical day.

As Kim told it, her spending day started on her way to work with a stop at Starbucks, where she bought herself a double nonfat latte (\$3.50) and muffin (\$1.50). Her next purchases came during her 10 A.M. coffee break: a fruit smoothie (\$3.95) with a high-protein “juice boost” (50 cents), plus a power bar (\$1.75).

I stopped her at that point and wrote the following on the blackboard:

<i>Double nonfat latte</i>	<i>\$3.50</i>
<i>Nonfat muffin</i>	<i>\$1.50</i>
<i>Fruit smoothie</i>	<i>\$3.95</i>
<i>“Juice Boost”</i>	<i>0.50</i>
<i>Power bar</i>	<i>\$1.75</i>
	<hr/>
	<i>\$11.20</i>

“So we’re not even at lunch yet,” I said, “and you’ve already spent more than 10 dollars. And you haven’t even had any real food.”

Everyone in the class broke up laughing—including Kim.

“You know we’re not trying to make fun of you,” I said. “The only reason everyone is laughing is that we all know we’re just as bad with our money as you are. We may not like to admit it, but we all spend small amounts of money every day and never think of what it adds up to. But let me show you something that I think will amaze you.”

I pulled out my calculator. “Let’s say, for the sake of argument, that today, this very day, you started to save money. I’m not saying you cut out all your spending—just that you reduced it a little. Let’s say you realized you could save five dollars a day and, instead of spending it on another latte, you put it in your 401(k) account. Does that sound like something you could do? Just five dollars a day, okay?”

Kim nodded.

I asked Kim her age (she was 23) and punched a bunch of numbers into my calculator. Saving \$5 a day would net her \$150 a month, or almost \$2,000 a year. So how much did Kim think she would have in her 401(k) by the time she was 65?

She had no idea. “Maybe \$100,000?” she guessed.

In fact, the answer is many, many times that

amount. Back in the early 1990s, it was reasonable to assume she could earn a 10% annual return on her money over the next 42 years—which would have left her with a nest egg of nearly *\$1.2 million*. That may seem unrealistic these days, but even taking into account the recent stock market meltdown, the fact is that over the *past* 42 years (from May 1967 through April 2009) the S&P 500 has generated an average annual return of 8.76%. At this rate, Kim's \$5-a-day savings would balloon over the next 42 years into \$782,647!

And that's not counting the impact of the matching contributions that most U.S. companies make to employees' 401(k) accounts. As I told Kim, if her company matched just 50% of what she put in (which is what most companies still do today), she'd actually be saving close to \$3,000 a year. And even with today's lower rates of return, Kim would still have well over a million dollars in her account by the time she hit 65.

### **WHAT IF I DON'T DRINK COFFEE?**

Whenever I talk about the Latte Factor, someone always objects that they don't drink coffee and would never waste the money Kim did buying nonfat muffins and power bars. But that misses the point. What we're talking about here isn't just lattes. What we're talking about is that we don't realize how

much we spend on little things and how, if we thought about it and changed our habits just a little, we could change our destiny.

Take cigarettes. They aren't just a health risk; they are also a financial risk. In New York City, where I live, cigarettes are taxed so heavily that a pack now costs nearly \$11. Yet hundreds of thousands of people—particularly young adults—buy them every day.

How much money literally goes up in smoke this way? Here are the figures.

### **A PACK OF CIGARETTES A DAY KEEPS RETIREMENT AWAY**

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A pack a day = \$11

A pack a day for a month = \$330

A pack a day for a year = \$4,015

A pack a day for a decade = \$40,015

The point is that whether you waste money on fancy coffee, bottled water, dining out, cigarettes, soft drinks, candy bars, fast food, whatever it happens to be—we all have a Latte Factor. We all throw away too much of our hard-earned money on unnecessary “little” expenditures without realizing how much they can add up to. The sooner you figure out your Latte Factor—that is, identify those unnecessary expenditures—the sooner you can start elim-

inating them. And the sooner you do that, the more extra money you'll be able to put aside. And the more extra money you can put aside, the stronger your financial position will be.

### **USE THE POWER OF THE LATTE FACTOR**

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If you invested \$10 a day (or \$300/month) and earned a 10% annual return, you'd wind up with:

1 year =	\$3,770
2 years =	\$7,934
5 years =	\$23,231
10 years =	\$61,453
15 years =	\$124,341
30 years =	\$678,146
40 years =	\$1,897,224

### **TAKE THE “START OVER” LATTE FACTOR CHALLENGE**

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On the next page is a form I call THE “START OVER” LATTE FACTOR CHALLENGE. What I want you to do is make a copy and carry it with you everywhere for the next seven days, using the worksheet to track every dime you spend. Don't change anything about your behavior. Simply spend money the way you always do. The only thing that you

should do differently is to make sure you record all your spending on the form.

If you are married or in a committed relationship, get your partner to take the Challenge along with you. You can also enlist your kids or your friends. To download more of these worksheets, visit our website at [www.finishrich.com](http://www.finishrich.com) and click on “Latte Factor Challenge.”

THE “START OVER” LATTE FACTOR CHALLENGE		
DAY _____	DATE _____	
Item: What I Bought	Cost: What I Spent	Wasted Money? (✓ for Yes)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
My Latte Factor Total (Total Cost of Checked Items):		<input type="text"/>

You will be amazed how quickly you get into it. The fact is, it can be mind-boggling to learn where your money goes. If you have done this before, I strongly suggest you do it again. The fact is that your Latte Factor is constantly changing, and you will find new expenses you didn't have the last time you went through this exercise.

### **GO HIGH TECH— THREE MORE WAYS TO TRACK YOUR LATTE FACTOR**

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Using the worksheet to track your spending is the old-school method. For those of you who prefer the high-tech route, you've got three easy options:

1. Sign up (for free!) to use my new web-based Latte Factor calculator, available at [www.thelattefactor.com](http://www.thelattefactor.com). In addition to helping you track your spending, it also calculates what you could potentially save by cutting back on needless expenses. While you're visiting the Latte Factor website, you can also get a little inspiration by checking out all the success stories posted by readers just like you who simply didn't believe they could reduce their spending . . . until they took the Challenge. (You can also post your own story and enter the contest we have to win a free Latte Factor mug or similar prize.)

2. Access the Latte Factor calculator on my Facebook page at [www.facebook.com/DavidBach](http://www.facebook.com/DavidBach). It works just like the calculator on our website. And you can join others who are sharing what they have saved and how it has changed their lives.

3. If you have an iPhone, download my new Latte Factor iPhone application. You can get it at the iTunes store. Just like the calculator, this app is easy to use and will help you automatically track where your money is going and how much you might be saving.

## **NOW GO DO IT**

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At this point, I would like you to stop reading and do one of three things: make a copy of the “Start Over” Latte Factor Challenge form on page 34, register to use the Latte Factor calculator on my website or Facebook page, or download the Latte Factor iPhone app.

I’m serious. Stop reading and do this now.

Getting a handle on your spending is the start of starting over. It’s definitely NOT something you can afford to put off.

## **WHAT IS YOUR LATTE FACTOR?**

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Over the years, I have received thousands and thousands of emails and letters and thank-you cards from

people who have used the Latte Factor—and the Latte Factor Challenge—to change their lives by changing how they think about spending money and how they really spend it. Some saved \$5 a day by brown-bagging a sandwich from home instead of buying one at work. Others saved hundreds of dollars a month by giving up cabs for buses, dropping their premium cable channels, and forgoing regular manicures and massages.

Everybody's spending habits are different, and so are everyone's solutions. What we all have in common is that every one of us is capable of cutting back.

Below, fill in the first three blanks, then go to [www.thelattefactor.com](http://www.thelattefactor.com) and use the calculator there to see how much your Latte Factor is costing you.

My Latte Factor is \_\_\_\_\_.

My Latte Factor is costing me \$ \_\_\_\_\_ a day.

\$ \_\_\_\_\_ a month.

\$ \_\_\_\_\_ a year.

Over 30 years (use the calculator), at \_\_\_\_\_ % my Latte Factor is costing me \$ \_\_\_\_\_.

## WELL DONE!

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In the pages to come, I am going to challenge you to put aside money to pay down your debt, save for your retirement, build up your rainy-day fund, and more. I can hear your reaction now. “David,” you are

going to ask, “where on earth do you expect me to find the money to do that?” Well, here’s my answer. Just pull out your Latte Factor Worksheet. It’s the kick start to your “Start Over” plan.

If you truly do this one step, your financial life will be on a better track than it may ever have been on before. You will have organized your finances at home and you will have a better understanding of where your money really goes. You’ll be ready to deal with the monster that is strangling all too many Americans—credit card debt.

### TO DO IN 2010

- Organize your financial records using the “Start Over” File Folder System. This will show you what you have and what you owe. Throw away or shred your outdated documents.
- Track your spending for seven days using the Latte Factor Challenge worksheet. How much daily savings can you find? Remember that even \$5 a day means more than a million dollars at retirement.