NARRATOR: Roth IRAs, CDs, stocks, insurance, your 401K – what are the right choices for your financial future? "***Your Money: Your Choices***" will clear up the confusion surrounding these concepts with clear and concise information. You'll get tips and tools that you can put into action right now to help save your hard-earned income in ways that will protect your future. Whether you're a single mom or a father of five, "***Your Money: Your Choices***" will put your money back in your control where it belongs!

Now here's your host, Hank Coleman.

HANK COLEMAN: From Main Street America, this is the "***Your Money: Your Choices***" podcast. I'm Hank Coleman. Thanks for joining us today. You can find me on my website, MoneyQandA.com discussing all things personal finance. That's also where you'll find the show notes for today's show. Be sure to email me: Hank@MoneyQandA.com with any comments or questions that you have from today's show.

Today on the show we're going to talk about the beginning of your financial life, and what you should do, questions you might have. And, we've got a great, great guest to talk about it with today. We're going to talk about starting your personal finances and what you should do immediately after graduating, either from high school or college, and just enjoying that first new job. You just started your career. So we're kind of focusing the show today on a little bit on the younger crowd and their parents as well, but we're going to hit those topics that those 20 and 30 year olds really care about. We're going to talk about student loans. Starting to invest in your employer's 401K. Are credit cards really as evil as everyone's making them out to be? What type of emergency fund you need;

how much should be in your emergency fund. Whether you should buy a house or you should just keep renting early on.

And, I've got a great guest with us today who's going to talk about all those things. Chris Smith is an author; he's the author of "***Securing Your Financial Future.***" You can find out about Chris on his website: SecuringYourFinancialFuture.com.

Chris has been around finance his entire life. He's got a Bachelors and a Masters Degree in Economics and Finance – like me – and he's also been a Senior Finance Executive with Hewlett Packard. After retiring from Hewlett Packard, he tackled the task of teaching Personal Finance – what to do with your money – to his two college-bound sons, and then he wrote about it. He wrote about it in his book "***Securing Your Financial Future.***" So I'm pleased and excited to get to talk with Chris Smith today on "***Your Money: Your Choices***." So Chris, welcome to the show. Thanks for being on with us. I really appreciate it. Let's just jump right into it. I've got several questions for you.

Your book, "***Securing Your Financial Future***," is aimed at people in their, early in their financial lives, about in their 20s and early 30s. And, I wanted to talk with you about building the solid foundation. Like looking at recent college graduates – graduation season is just upon us, and a lot of those graduates, hopefully have started a job, or about to wrap up their job-looking and start that first major job of their career. So I wanted to ask you, what's the most important piece of the financial equation when we're young and when we're just starting out? What do we tell that brand new college graduate?

CHRIS SMITH: One of my favorite sayings is, "Time was invented to prevent everything from happening all at once." In other words, sometimes it's easy to take a complex subject and break it up into distinct phases with particular goals for each phase.

So I advise people to look at their financial life in 3 distinct phases. And, I use the traffic light model – so it's Red phase, Yellow phase, and Green phase.

You start in the Red phase, and the sooner you can get out of the Red phase, the better. So your goals in the Red phase are to aggressively get rid of all the debt that you've got, including college loans, including car loans, including credit card debt if you've got any. Then it's to build up an emergency fund, and then it's either to save up for a house or make a decision that you're not a good candidate to buy a house. Once you've gotten rid of all those Red phase goals, you can move on to the Yellow phase where you begin investing.

HANK COLEMAN: Is that all that's in the Yellow phase? What else is in the Yellow phase? Is it just investing or…?

CHRIS SMITH: Yellow phase is usually the longest phase in your financial life, but it's simple. It's earn, save and invest. This is really when you're stockpiling shares in whatever kind of investments you're going to be making, and I've got specific recommendations about that, but you just stockpile away shares on a frequent, regular basis. And, when you've done that long enough, then you can move into the Green phase which is financial independence.

HANK COLEMAN: Okay. So I'm in the Red phase, am I paying off my student loans first, or is paying off all those student loans is first – is what you're saying, as opposed to starting to invest in my employer's 401K plan.

CHRIS SMITH: Well, there is one important exception and I'm glad you asked about it. The exception is, if your employer has a 401K plan that includes a match, absolutely. That is just too good of a deal to pass up.

HANK COLEMAN: It's like free money.

CHRIS SMITH: Yeah. It absolutely is free money. So let's say you've got some student debt, you don't have your emergency fund fully stocked, and you've got a matched 401K, I call that a 3-alarm fire. So you've got 3 equally important priorities. I would say save as much as you possibly can, and then divide your savings equally into those 3 categories.

HANK COLEMAN: Okay. You know, every time I get a financial expert on the show or on the phone, I always love to ask them, is there such thing as a good debt? Our education and homes, do you classify those as good debts, or am I avoiding all kind of debts? What do you think?

CHRIS SMITH: I see that terminology in the blogosphere all the time.

HANK COLEMAN: It's kind of dangerous, a little bit.

CHRIS SMITH: I absolutely think it's dangerous. I think debt, like student loans, has the potential to be good debt, but all student loans are not created equal.

HANK COLEMAN: What do you mean?

CHRIS SMITH: Just like our mortgages are not created equal.

HANK COLEMAN: How is a student loan a bad student loan? Is it poorly used for a poor major that didn't have the return on investment? Is that kind of what you mean?

CHRIS SMITH: Absolutely. I think when you're investing in a college education, you need to look for return on investment, just like you'd evaluate any other investment. So you need to carefully consider where you're going to get that degree, what kind of degree it is, how well that matches up with not only your interests and your passions, but also your skills and aptitude.

HANK COLEMAN: Early on, am I avoiding credit cards like the plague? Is that the best policy you think?

CHRIS SMITH: I'm actually a fan of credit cards.

HANK COLEMAN: Oh really? Okay.

CHRIS SMITH: With a big caveat. The caveat is: You have to prove to yourself that you're financially responsible with credit cards. Once you've passed that hurdle, then I'm a big fan of them.

HANK COLEMAN: Now, why do you say that? Why are you a fan?

CHRIS SMITH: I'm a fan because I think that the frequent use or the exclusive use, actually, of credit cards is the safest, smartest way to build up your credit score.

HANK COLEMAN: And, why build up the credit score, I guess, then? Leaning forward towards getting a house, is that the ultimate goal?

CHRIS SMITH: That's probably the most famous and the most common reason why you need a high credit score, but credit scores are increasingly being used by all kinds of other people to evaluate you as either a tenant if you're going to rent, a perspective employee – everybody from cell phone companies to insurance carriers -- all kinds of people now are looking at your credit score…

HANK COLEMAN: That's a great point. A lot of people aren't realizing just how prevalent people or companies are pinging everybody's credit score to evaluate on it. That's a great point.

CHRIS SMITH: Yeah. And, credit scores are not particularly intuitive to know what kinds of financial behavior make them go up and what kind of financial behavior make them go down. It's not rocket science, but it does take a little bit of study because it's not necessarily the things that you might think that would make them go up.

HANK COLEMAN: Sure. There's a whole lot of things that go into that algorithm, that the credit bureaus spit out. What about emergency funds, is that part of your Red phase, or is that bleeding into the Yellow phase? Where does emergency funds fall into?

CHRIS SMITH: Oh, that's right away in the Red phase, and you'll find me a little more stringent than most other financial authors on emergency funds.

I've got a special name for it, I call it the "Cash Bucket" because a bucket is either full or it's not. Emergency funds are a little bit ambiguous, whether you've got them fully stocked or not. So I'd like the term "Cash Bucket." And, I recommend a pretty big cash bucket.

HANK COLEMAN: What's the rule of thumb that you like to use?

CHRIS SMITH: I like to say you start out with 6 months income for most people. If you're a particularly low-risk, I think you can use as little as 4. If you're a particularly high-risk, I think you need as much as 8.

HANK COLEMAN: I find it interesting that you mentioned – you said income. Income or expenses? You know what I mean?

CHRIS SMITH: Absolutely.

HANK COLEMAN: I'm spending less than I earn, but should I be building up my emergency fund to 6 months of living expenses, or 6 months of my income? Because actually there's quite a bit of difference, because I maxed out my Roth IRA, I'm contributing heavily to my 401K. But I wouldn't do that if I had lost my job and I'm scraping by pinching my pennies, then I'm only worried about the mortgage, the lights, the car payments, and that's a lot smaller pool. So did you mean to say income? You really think it's income and not expenses.

CHRIS SMITH: Yes. So there's 2 parts of this, so let's break it down to the 2 different parts. The first part is, I choose to express it in terms of income as opposed to expenses, and that was a conscious decision because I think most people on the top of their head know their monthly income.

HANK COLEMAN: Yeah, that's true.

CHRIS SMITH: But they'd have to go back and do some calculating to figure out what their monthly expenses were, and I want this to be such a front and centered concept that you don't have to go do some figuring out to evaluate how much you need. So I say income so that people can figure it out the first time they hear it, and set a goal.

HANK COLEMAN: Okay.

CHRIS SMITH: Now, the second part of that you correctly have deduced, that I’m calling for a bigger emergency fund than most other authors do. And, partly that’s just because I’ve got a financial background than most financial people have seen. I’ve seen enough things go wrong but they like to be conservative.

HANK COLEMAN: I tell you what, that is almost the theme of the month. The more people, the more financial experts that I’ve been talking to this month, a lot of people are being more conservative than normal. Obviously everybody has really kind of been shell-shocked with the great recession. Then lately, Ben Bernanke… it’s kind of scaring the market. So it’s always influx, but I’m seeing a lot of more conservative estimates coming out of the financial community lately. What’s so different about the world that the graduates today are facing, than maybe what we faced 10 years ago? What’s different now in the financial world that they’re facing?

CHRIS SMITH: Well, I’ve got a particularly interesting way that I think about that. When I was a college graduate – it was the late 70s – and my Dad kind of showed me the financial ropes when it comes to personal finance. He was a financial professional himself, and he pulled me aside when I was a college senior and called me into his den. I said, “Uh oh, what did I do now?” And, like a typical young adult, I wasn’t too receptive until he really explained how important it was, then I started listening to him.

Well, a generation later, I pulled my own sons into my den to give them the same kind of talk. And, it wasn’t until I really sat down to think about what I was going to teach them that it hit me just how dramatically things have changed.

HANK COLEMAN: It's interesting that you kind of waited that long, and your father waited that long. Do you think it was almost too, like waiting too long when should we have those conversations earlier? I'm struggling with that – I've got little ones in the house, so I'm struggling how to teach them about the value of money, and then slowly incorporate financial lessons into them.

CHRIS SMITH: Oh listen, I'm all for beginning those discussions early and having them often; I'm also kind of a realist though, in that I think it's one of those things that it takes the student to be receptive for the lessons to really sink in. I think early discussions are great, let's have them, but don't really expect to have a Finance PhD in your hands by the time they're 18.

HANK COLEMAN: Sure. Probably not even the college graduate either, right?

CHRIS SMITH: Yeah. There's something about when you first enter financial responsibility for yourself where you're completely responsible for your own financial situation, where the reality of it just hits you hard.

HANK COLEMAN: Absolutely.

CHRIS SMITH: And, uniquely receptive to any advice.

HANK COLEMAN: Absolutely. I can remember my mother, we used to have a gas-charged card, and that's how I filled up my car – high school and into college. And, the day that I graduated from college, she stuck her hand out to me and I'm like, "What? What is it, what?" And, I had to hand them back, and she took out scissors right then and there and cut them up. I was on my own. Like I was one of the few though, that luckily had a job lined up right after college though.

CHRIS SMITH: I think as kids are growing up, the 2 best things you can do are: Number 1, be a good role model when it comes to your own financial behavior, and 2, be on the lookout for teachable moments. If you try and create lessons for somebody that's 8 or 15 or something and at a time when they're not receptive to it, I'm just not sure how well that's going to work.

HANK COLEMAN: That's a great point.

CHRIS SMITH: When they express some curiosity, that's your golden opportunity to launch into a discussion of it. But then, when that young adult is starting to handle things on their own, that's really when I think it's time to begin some kind of structured financial education. But the financial world is so different now than it was a generation ago, but most parents just don't feel that confident in their ability to teach it.

HANK COLEMAN: And, heaven knows we're not getting it in the schools either.

CHRIS SMITH: Well, yeah. There are some financial literacy movements that are in early forms, and there's even a few states that require it in high school now, but it's, for the most part, you're absolutely right, it's just not taught in schools.

HANK COLEMAN: We're talking today with Chris Smith who's the author of "***Securing Your Financial Future.***" The book is aimed at those who are in their early financial lives – in their 20s and 30s. You can find out more about his book on the show notes at MoneyQandA.com, and also at his website:

SecuringYourFinancialFuture.com.

Chris, let’s go back and talk a little bit more about what’s so different about this generation versus, or generations just from a few decades ago?

CHRIS SMITH: I mean, let’s start with college, and I know not everybody goes to college, but the people that do are facing this. I did a little research on this: In 1980, one year of college tuition and fees, room and board all that -- if you compared that to the median household income at the time -- one year of college costs, on average, about 2 months of median household income. Today it’s 5 months.

HANK COLEMAN: Wow. I’ve never seen the statistics lined up like that. Everybody’s quick to quote the average price of instate tuition, but against per capita income. That’s a great statistic, I really like that. I don’t like the numbers now, though. I’ve got a 9-year old and a 6-year old, and I went back to my college campus just a few weeks ago and learned from one of my old professors just how much my good old college just 10 years removed is going to cost now, let alone in 10 years when my oldest is ready to go. So I’m definitely dreading that, that’s for sure.

CHRIS SMITH: I mean, for parents that have 2 kids in college, and it’s 5 months of median household income for a year.

HANK COLEMAN: What about starting early? I think we all kind of know why it’s so important to start early. Are we seeing the statistics on saving and investing from day 1, but is that a challenge in this generation of today’s graduates as even opposed to 10 years ago? What do we tell those in their 20s, their early 20s that are hesitant to start saving and investing? What do we tell those guys?

CHRIS SMITH: Well, I think it's a good instinct for them to be gun-shy. I really do. I think one of the biggest mistakes you can make in investing is investing before you fully understand what your objective is and how to go about doing it.

Once you have learned that, you'll learn that most of what you hear in the financial media is not aimed at young, long-term investors, and it's likely to be really bad advice for you.

HANK COLEMAN: Do you think it's smart for somebody at their first job, now that they're tackling that debt and looking to invest, is that the time to seek professional help? Is that one thing that we should be advocating for these young folks? Go see a CFP, go find a planner.

CHRIS SMITH: Yeah. I think your first goal in the Red phase is to put all your attention on getting rid of the debt, establishing the emergency fund and saving up for a house if that's what you're going to do. If, like I said earlier, if you've got a 401K with a match though, you can't delay. You just really can't, so that's when you need to begin learning about it.

HANK COLEMAN: Do you think it's right to seek a financial planner as you start going into the Yellow phase?

CHRIS SMITH: Absolutely. I put a big asterisk by that though. I think the financial planners – and I'm talking about the explicit certification as a financial planner. So somebody who's got a CFP certification – they come in different categories. Not all CFPs subscribe to – well, I'm going to bring up the "F" word here, and that is Fiduciary – so not every certified financial planner is a Fiduciary.

HANK COLEMAN: Has your best interest at heart.

CHRIS SMITH: That's right. A fiduciary is somebody who has pledged to put the client's best interest at heart. If they have not made that pledge, it could be because they are doing other activities as a certified financial planner such as, selling financial instruments like life insurance. And, I've heard horror stories, and maybe you have too, where people go in seeking advice and they come out with some kind of whole life insurance plan that isn't a good fit for them.

So you've got to be really careful. And, the way to do that is to ask the certified financial planner that you're considering, whether or not they are fiduciary. Ask them how they get paid, ask them what their credentials are. Ask them if they routinely help clients that are just like you. And, ask for some references of clients that they have helped.

HANK COLEMAN: Okay. What is the biggest issue facing the new grads that you see?

CHRIS SMITH: Well, I think they're paralyzed.

HANK COLEMAN: What do you mean?

CHRIS SMITH: They're paralyzed in the sense that they're facing a tough job market; they're sitting on huge student loan balances. Many of them also have credit card balances. A generation ago, it was kind of hard for a new graduate to get a credit card. Today, even with all the recent reforms, college students, let alone graduates, but college students and recent graduates are aggressively targeted by credit card companies. And, that in itself isn't a bad thing, but if the credit card recipient hasn't been taught exactly how to safely handle a credit card, then it can become a bad thing. So that's what I mean by "they're paralyzed." They know enough to know that they're in a bad financial situation, but instead of getting financial education, they've been getting a barrage of misinformation and advertising and false promises, and they just don't know what to do next. That's exactly why I wrote the book, was to help clear it up for them.

HANK COLEMAN: It's definitely a lot of information hidden, not all good information all at once from a multitude of different directions. We've got time for just one more question; I want to ask you your number 1 tip -- your number one tip for recent college grads or those in their 20s and just starting out – first job, first career. What's your number one tip for those guys?

CHRIS SMITH: My number one tip is, adopt a long-term financial outlook. Your financial situation is a 40, 50, 60-year proposition. And, for a young adult, thinking in those kind of very long-term timeframes is a completely new kind of way of thinking. It takes some practice, and it definitely takes some education to learn what are the things that you need to take that long-term outlook for.

People who focus just on the current month – paying the current month's bills and just kind of staying afloat – are never going to really get ahead of the curve. If you start by thinking a year out, and then multiple years out, you can start to get ahead. So that would be my number 1 tip for new grads.

HANK COLEMAN: Okay. All right, well we'll leave it there. Chris, thank you so much for being on the show today. I really appreciate it. We've been talking with Chris Smith who is the author of "***Securing Your Financial Future.***" You can, I'll link to the book on Amazon on the show notes on MoneyQandA.com. And, also, you can check out

	Chris' website: SecuringYourFinancialFuture.com. Thanks again Chris.
CHRIS SMITH:	My pleasure Hank. Thanks very much for having me on.
HANK COLEMAN:	Be sure to check out MoneyQandA.com, as always for the show notes from today's show, and links to the guest's book and his website. You can also, like always, follow me on Facebook: Facebook.com/MoneyQandA, and you can find me in 2 places on Twitter: @HankColeman or @MoneyQandA.
NARRATOR:	Want to connect with Hank online? You can find him at: Facebook.com/MoneyQandA. On Twitter: @MoneyQandA or on his website MoneyQandA.com. Thanks for listening this week and don't forget to recommend this program to anyone you know who's thinking about their financial future.

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