KIM: Simple map to financial freedom found on index card

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Are you paralyzed by the combination of the myriad options and uncertainties of money, the economy and the financial services industry? Instead of being a calm, careful financial steward following a plan, do you instead find yourself constantly fretting about money and getting caught up in a losing game of financial Whac-A-Mole?

If so, you're not alone. Fortunately, the directions to reaching the destination of financial freedom fit neatly on a 4-by-6 index card.

That's the message of ***The Index Card—Why Personal Finance Doesn't Have to Be Complicated***, by Helaine Olen and Harold Pollack.

The Index Card was an accidental collaboration. Back in 2013, University of Chicago public policy professor Pollack was conducting an online video interview with personal finance writer Olen, discussing ***Pound Foolish***, her book about how regular folks routinely get bad advice from financial experts. Pollack made the offhand comment most "expert advice" is needlessly complicated and, in fact, he could fit the basic rules on an index card.

Rule #1—Strive to save 10-20% of your income. The most fundamental step for taking control of our financial lives is *learning how to save*. If you're always worrying about your immediate cash flow, you are very likely to make costly mistakes. Try to develop a *flexible* and *realistic* spending and savings plan to create a cushion. Automate savings, if possible. Your first priority should be to set money aside for an emergency.

Rule #2—Pay your credit card balance in full every month. Eliminating high-interest debt is the smartest investment you can make. For example, if your credit card charges 24% interest, due to compound interest and the "Rule of 72," your debt will ***double every three years (72/24%=3 years)***, even if you don't charge another penny. Look at paying-off this debt the same as an ***investment earning 24%, guaranteed.***

Rule #3—Max-out your 401(K) and other tax-advantaged savings accounts. Start as young as possible and let the "miracle of compound interest" work for you. If your employer offers a match, grab the maximum.

Rule #4—Never buy or sell individual stocks. You're not Warren Buffett (and neither is the person with the hot tip).

Rule #5—Buy inexpensive index funds. Actively-managed funds have higher expenses and underperformed index funds in 2014-2015, but I could write a column on why I disagree with this one.

Rule #6—Make your financial advisor commit to the fiduciary standard. There is a confusing array of professional designations and titles for advisors. It is critically important to understand how your advisor is compensated and by whom. Some advisors are only required to recommend *"suitable"* products (i.e. even if there is a better/cheaper alternative). However, financial advisors who are *fiduciaries* have a legal duty to put your best interest ahead of their own.

Rule #7—Buy a home only when financially ready. Buying before you have sufficient resources in place can lead to devastating long-term consequences.

Rule #8—Insurance—make sure you're protected. As soon as someone else is financially dependent on you, you need life insurance. Term insurance is the most cost-effective coverage you can buy.

The ancient Chinese philosopher Lao Tzu said, "The journey of a thousand miles begins with one step." Start your journey to financial freedom today.
