T

The New York Times
January 9, 2005

Many Maps to Your Financial Future

By PAUL B. BROWN

HERE is good news for people who vow that this will be the year they put their investing lives in order. A number of new books promise to tell you how to have a better financial future.

The bad news is that not all advice is created equal.

While the latest from David Bach, author of "The Automatic Millionaire," and Andrew Tobias's updated version of "The Only Investment Guide You'll Ever Need" are well worth your time, some advice in other new works seems superficial - or could make your financial situation worse, unless you are extremely careful.

Probably the biggest factor keeping people from having financial peace of mind is a four-letter word: debt. So Jon Hanson was on the right track when he decided to write "Good Debt, Bad Debt: Knowing the Difference Can Save Your Financial Life" (Portfolio, $21.95).

Mr. Hanson correctly writes that not all debt is bad. Getting a reasonable mortgage for a home, borrowing to open a business you are competent to run and educational loans can all make sense. And the book is full of entertaining stories and cute maxims like, "Buy less and drive it longer."

But Mr. Hanson never shows just how insidious bad debt can be. For example, a quick trip to Bankrate.com reveals that if you have a $10,000 balance on a credit card that charges you 18 percent annual interest, and you make only the minimum payment of $250 a month, it will take nearly 32 years to pay off the card - assuming that you never charge anything else. The interest cost will be $14,615.

Conversely, he never fully explains the true benefit of good debt like mortgages. Interest on a mortgage is usually tax-deductible; each payment increases your equity; and, of course, your equity increases even more if home prices rise. In addition, if you have a fixed-rate mortgage, your payments don't increase. That isn't true if you are a renter, because your landlord is likely to raise your rent over time.

Instead of exploring this in detail, the book spends lots of time quoting aphorisms from financial experts and outlining financial mistakes the author once made - like buying things on credit he didn't truly need.

But if Mr. Hanson's book is an entertaining disappointment, some ideas in "Missed Fortune 101: A Starter Kit to Becoming a Millionaire," by Douglas R. Andrew, a financial consultant (Warner Business Books, $23.95), could end up costing you money.

Saying that the tax bite when you finally withdraw money from tax-deferred investment vehicles like 401(k)'s may be greater than you think, Mr. Andrew opposes investing in them unless your company matches at least part of your contributions. He would prefer that you pay the taxes on whatever your investments earn as you go along, to avoid a big unknown: tax rates after you retire. But that means forgoing the potential benefit that comes from letting investments grow tax deferred as long as possible.

Mr. Andrew is also a big believer in keeping a mortgage outstanding on your home, because of the interest deduction it provides. But having your investment decisions driven by taxes can be costly. For example, on a $200,000 mortgage, at 7 percent, you pay about $279,000 in interest over the 30-year life of the loan. With a 15-year mortgage, at the same rate, you pay $123,500 in interest, according to www.mortgages -loans-calculators.com. That means a savings of more than $155,000.

Even if you were in the 33 percent tax bracket - meaning that you could deduct $51,666 of that additional $155,000 of mortgage interest from your income - you would still be more than $100,000 behind a person who took the 15-year mortgage.

Of course, the monthly payment on a 15-year mortgage is greater than it is for a 30-year mortgage. In our example, it would cost you an additional $467 a month. Mr. Andrew asserts that you could more than make up that $100,000 shortfall by, in essence, investing that $467 a month wisely.

There is nothing wrong with the theory. But there are several potential problems: First, it assumes that you will actually invest that $467 a month and not spend it. Second, it assumes that you will make profitable investments. And third, it locks you into a mortgage for 30 full years, which could take you well into retirement.

Mr. Bach, whose latest book is called "Start Late, Finish Rich," (Broadway, $25) understands that the higher monthly cost is one reason people don't take 15-year mortgages instead of 30-year ones.

His solution is to take out a 30-year mortgage and make half the mortgage payment every two weeks. Those 26 half-monthly payments mean that you end up paying the equivalent of 13 mortgage payments a year instead of 12. That doesn't sound like much, but it results in paying off the mortgage seven years early, saving more than $71,000 in interest.

The advice is typical of what Mr. Bach has to offer. It isn't new, but it is simple to understand and effective. For example, he suggests that you have money taken out of your paycheck automatically and deposited into a mutual fund account. That will force you to save.

His method for dealing with credit card debt is equally straightforward. First, stop adding to outstanding balances. Then call your credit card company to negotiate a lower interest rate. If they won't give you one, switch the balance to a credit card that will.

These moves free up money to invest. Where do you put it? Mr. Bach again sticks to a tried-and-true approach. He recommends a portfolio made up of one-third stock mutual funds, one-third bond funds and one-third real estate - either the equity in your home, or in real estate investment trusts.

The book does occasionally go off track. It suggests that you take up selling part time, either consumer products like Avon or Tupperware or by selling whatever you can on eBay. In addition, it recommends dabbling in buying investment rental properties in an attempt to bolster investment returns. Both strategies require much more commitment than Mr. Bach suggests, if you are to make much money.

In general, though, the book's advice is overwhelmingly sound, and the tone is engaging.

Andrew Tobias is a master when it comes to entertaining while educating. Some 27 years ago, he offered his first version of "The Only Investment Guide You'll Ever Need." It was unlike investment books that had come before it. The book's ideas - live at or below your means; save as much as you can; invest for the long term - were clear and easy to understand, and perhaps most important, fun to read.

Mr. Tobias has updated the book periodically. The latest version, just published in paperback (Harcourt, $14), remains true to the original.

In talking about budgeting, for example, he writes: "Set goals. Where would you like to be a year from now? 'Out of debt' might be an appropriate goal. And two years from now? 'Out of debt, with $4,000 in an I.R.A., $2,000 in the bank and a stereo system that will wake up the dead.' "

His advice has remained consistent over the last quarter-century, and that is the way it should be.

"The basics of personal finance haven't changed - they never do," he says. "There are just a relatively few common sense things you need to know about your money."

If you carry them out, it will be a more profitable new year.