Major Personal Finance FAQ

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1) What’s the ideal portfolio strategy for a young investor? How much should be allocated to equities versus other asset classes?

There are big differences between young investors. A 25 year old may have a masters in electrical engineering, or work at Walmart; be married with two kids, or not likely to get married until at least his late 30's.

What I would say that's good advice for most young people is that they should divide their savings into short-term and long-term, with long-term money being money that they want to put away for 10-50+ years.

For short-term money, it's a grey area, not simple. You might need all of your money in the next three years if you lose your job, but that may be pretty unlikely. So short-term money is really money that you think there's a very good chance you'll need within ten years for something very important. An example is you are pretty sure that you will purchase a house in the next year, and so you put away, in a safe place, enough to comfortably make a 20% downpayment (because this lowers your mortgage cost a lot). Or, you are sure you will be going to graduate school in the next year, so you put away any necessary money safely, like in a money market fund. Short-term money also includes basic liquidity money to keep things running smoothly, like to pay for a car repair, to make sure your credit card is paid down to zero each month, and so on.

The distinction between short-term and long-term money is important because you want to be careful not to put too much money into short-term investment. It pays a lot lower return on average. The average historical return on a well-diversified stock portfolio, the go-to long-term investment, is about 7% in real terms, that is inflation-adjusted. By contrast, short-term government bonds, the go-to short-term investment, today pay about zero, or negative, in real terms, that is the interest is about equal to the expected inflation rate, or less.

But first let's talk about how much to save. During stable normal times, like after you have finished your education and have a stable career job, I advise that your fixed, regular, minimal expenses, what Harvard professor Elizabeth Warren calls "Must-Haves", be less than 50% of your after-tax income. And your savings be at least 20%. This is what Warren calls the Balanced Money Plan in her seminal personal finance book, "All Your Worth". I believe this is by far the best personal finance book today, and have assigned it cover-to-cover in my personal finance I course at the University of Arizona since it came out in 2005.
You can get a used copy online for under $10. I advise everyone do so. I also have a beta version of a free online personal finance course that expands on Professor Warren's work, "Not your Father's Personal Finance".

That said, how to invest your savings? I'm a believer in stocks for the long run. I've studied the academic literature in-depth for many years. I know well the pros and cons, models, arguments, and evidence, and my conclusion is that I'm still stunned by the long run power of stocks. There's a big issue in academic finance called "The Equity Premium Puzzle", and it's basically a puzzle as to how stocks have been so good for so long! How can their average return be so high, given that, yes, there is some risk and volatility, but it appears not that high over the long run given that on average they double your money, even inflation adjusted, about every 10 years. This has been a pretty stable phenomenon over major long sub-periods for American stocks for more than 200 years. For an in-depth exposition, see the book, "Stocks for the Long Run", 5th edition, by Wharton finance professor, Jeremy Siegel.

Over 200 years, stocks have averaged a real, inflation-adjusted return of almost 7%. This may not seem that much, but with the immense power of compound return over long periods, it is. Suppose bonds paid 2.3% real. It seems like you would get about 1/3rd of the return. But, in fact, you'd get vastly less over the long run. At 2.3% money doubles about every 30 years. At 7% it's every 10 years. So over 60 years with the bond, it doubles two times, and increases 4 fold. But with the stocks, it doubles 6 times: 2x, 4x, 8x, 16x, 32x, 64x, a 64-fold increase over 60 years. It's 64-fold versus 4-fold. The bond pays 1/16th as much, not 1/3rd as much.

That's the math of exponential growth over long periods of time. $100/week invested at 7% over 60 years grows to $4.4 million, and that's in inflation adjusted today dollars!

Now, as a 25-year-old you may think I don't care what happens in 60 years when I'm 85. But you'll at least care for your children, who you'll want to help and protect, and won't want to be a burden to. I can tell you as a father, you'll never love anyone like you love your kids. Moreover, even over 10, 20, 30 years, a high return like that is quite powerful.

So, for money that you are reasonably sure you won't need for 10-50+ years, I recommend a well-diversified stock portfolio, with the emphasis on well-diversified. Don't put all your eggs in one basket as they say. Even the biggest, most stable, single stocks can go bankrupt, or tank. No one was bigger and more stable-looking than General Motors, and they went bankrupt. Amazon.com? So big, so high tech, and avant-garde looking, especially in the days of the new internet and dotcoms? They went from $94 at the end of 1999 to $8 in the spring of 2001.

So, lesson: Laypeople should never invest in single stocks, or single industries or sectors either, only extremely diversified market portfolios. Without great, professional level, expertise, it's too
easy to mess up badly. And even with the expertise, you need to spend a great deal of time studying the single company or sector – time few people have.

The new exchange traded funds (ETFs) have a tax advantage over the old mutual funds, but contain the same types of products. An example of a good well-diversified ETF is Vanguard's Total Stock Market index ETF (ticker symbol: VTI). It tracks the CRSP US Total Market Index. This contains almost every stock on every major US exchange. So the index is diversified across thousands of stocks, small to large, and it's diversified across every industry, or sector.

It's preferable to the old favorite, the S&P 500, in that the S&P 500 only contains large stocks. There is, in fact, substantial research showing that small and medium stocks have better risk-adjusted returns, and give added diversification to large stocks. For more, see the book, "The New Finance", by the late University of California, Irvine finance professor Robert Haugen.

Because it's an index fund, and run by the highly efficient Vanguard, the annual cost to the investor to run the fund (the "expense ratio") is just 0.05%. An index fund, like Vanguard's Total Stock Market ETF, doesn't spend money to hire skilled managers to pick stocks, like in an "actively managed" fund. It simply buys stocks to mimic the index it's tracking. As a result, its expenses – that you pay – are much less. By contrast, it's not unusual for actively managed funds to charge 1%, 2%, or more, per year, which really adds up over time, and with a lot of money invested. The research shows that it's usually not worth it.

Of course, if you find a particularly good actively managed fund... But this is analogous to finding particularly good single stocks. It should not be attempted by laypeople. It's too risky without high expertise. Laypeople should just stick to a super-diversified market-wide index fund, like VTI. And because it's sold on a stock exchange, it can be purchased from any brokerage, not just Vanguard.

A note to novices: The telephone customer service at brokerages like Vanguard and Fidelity is just amazing. If you have no idea where to start, just get them on the phone. They'll walk you through it beautifully and easily.

Now, I have talked about the wonders of stocks for your long-term money, but there is risk. The higher the percentage of your money in stocks, the higher the risk. Thus, for most people, even young people, 100% of your investment shouldn't be in stocks. So, what else? Usually, you really want to pay any debt down to zero, especially high interest debt. If you have credit card debt that's 7%, that's a sure 7% you can save, versus an, at least moderately risky and volatile about 7% average with stocks. You should pay it off before buying stocks (except for 401k money, where you get free matching funds from your employer, a tax spiff, and protection in bankruptcy or a civil suit – very safe money).
However, *like usual in life, there are exceptions.* If you owe so much debt that it will be a losing battle, or endanger your family, don't waste your money. Move quickly to bankruptcy.

Paying your mortgage off faster, getting to zero mortgage as quickly as possible, is fantastic for financial security in today's far more financially dangerous world. In general, a key goal is to get your Must-Haves as low as possible. That way, if there's a job loss, illness, etc., you can weather the storm without quickly destroying your savings and going into ruin. So, get to zero mortgage, get debt free, and you lower your Must-Haves greatly. It's huge.

And, the less you spend on your house, the easier and quicker it will be to get to zero mortgage. A house you live in is actually a horrible investment. It's really more of an expense than an investment. The historical average price appreciation, after the ups and downs, is only about one-quarter of one percent above inflation (for details, see the book, "Irrational Exuberance", second edition, by Nobel Prize winning economist Robert Shiller). This is compared to about 7% for stocks. And, after considerable expenses, like maintenance, modernization, property taxes, and insurance, the real, inflation-adjusted return on a home you live in (as opposed to an investment home you get rent from) is negative. It can, nonetheless, make financial sense because you save on rent, but you save just as much on rent with a $200,000 house as with a $400,000 house. So if you spend less on your home, and put the savings in stocks, you'll be much wealthier over the long run.

And, don't worry about losing the tax deduction if you pay off your mortgage. You're still getting a much better return than if you put your money into bonds that are just as safe instead. Paying off your mortgage is a great way to invest your money in something that's really safe, that plunges your Must-Haves, and makes you and your family a lot more secure.

And, at this age especially, I must note the importance of the best investment – your education and skills. Certainly something you want to secure. And be careful that it's a good respectable school and program that will pay off. So many for-profit schools are devastating rip-offs that ruin lives. If it's not government or non-profit, be *extremely* cautious.

And never take out *private* student loans. This is the most dangerous debt today. Due to a 2005 bankruptcy law (BAPCPA), it is inescapable in bankruptcy, with extremely rare exception. And, it has no income based repayment or loan forgiveness options. Federal government student loans, on the other hand, are very safe, as they have awesome income based repayment and loan forgiveness options. For example, the **pay-as-you-earn** option limits your monthly payments to no more than 10% of your *discretionary* income, which can easily be 5% of your total after-tax income, or less. And this is no matter how much you owe. These payments are always very
affordable, even zero if your income is low enough, or you're unemployed. Yet, after 20 years of payments, if you still owe any money, even if it's $200,000, it's completely forgiven.

What about your short-term money, money you think you might need relatively soon, or that it's really important that you have? You want to put it somewhere very safe, like federal government insured. A good choice is CD's (Certificates of Deposit). They are insured by the federal government up to $250,000 per person, per bank, but they tend to pay more interest than comparable government bonds. CDs are easy to buy online at a brokerage like Vanguard or Fidelity.

It's important to keep the term of the CD, or any fixed-interest bond, at no more than three years. The risk is that if you lock in an interest rate of, say, 3% for 10 years, what if inflation goes up to 5%, and the going rate on such bonds goes up to 8%? You are going to get a negative real return, and will be locked into it for a long time. Long-term fixed bonds are very risky, something laypeople shouldn't mess with. Keep the term to no longer than three years.

You can go longer term, and protect yourself against inflation, with TIPS (Treasury Inflation Protected Securities), but the market for these is shallow, so that lately the interest is ultra low – even negative! Note that stocks are a nice hedge against inflation in that you own companies that own real assets. If inflation goes up, so does the value of those assets, and so do the prices those companies can charge, and thus their profits – profits that you own.

And to really play it safe, for money you might need very soon, there are money market funds, which invest in very safe bonds maturing in a matter of months. Or, just a savings account at your bank, which is insured by the government up to $250,000 (through a program called FDIC, Federal Deposit Insurance Corp).

Finally, I should note that stocks have done amazingly well in recent years (2009-2013), much more than doubling from their nadir in 2009. Currently, values are on the high side – high P-E ratios, for the more technical. Nonetheless, returns on safe bonds, are near zero in real terms (when subtracting out expected inflation), or even negative. There is a good argument that over the next ten years stocks will do worse than their historical average. But, over the long run, I think they will still beat bonds handily, and I still consider a well-diversified stock portfolio to be the primary long-term investment for most people, especially over 20+ years.

2) What's the ideal portfolio strategy for a middle-aged investor?

Most of what I've said for young investors above applies here too. What changes throughout life is the portion of your money you consider for long-term savings, and the portion you think there's a good chance you will need in the short-term, at least in less than 10 years.
I can't give really strict percentages, like in middle age it's 25% short-term, and 75% long-term, because this varies a lot from person to person. But whatever these proportions are for you, as I said above, for long-term money I like a well-diversified stock fund, and paying debt and the mortgage down to zero as fast as possible, and really driving down your Must-Haves. For short-term money I like CD's (maturity of three years or less), money market fund, and just the bank.

Your horizons are still usually quite long in middle age, especially if some of your money is to help your children throughout their lives in a very risky, dangerous, America today, that may only get more so in coming decades.

It's also important, of course, to invest in the health, education, and success of your children. Things like a high quality preschool, nutritious fruits and vegetables (and especially breastfeeding, a definite cost in time and effort), physical fitness, an SAT prep course, and much more, are not cheap, but the return is very high. If your children are successful and secure, that makes you a lot more secure.

And, as you get older it becomes more and more valuable and high return to invest in your own health. Good health greatly improves job performance, security, and career longevity. Poor health can devastate it. Partly, this is a time and effort investment, but it's money too. Unrefined plant foods are much more expensive than cheap refined foods. In my personal finance courses I include material on health, fitness, nutrition, and safety.

In middle age especially, I'd like to stress the importance of not overspending on your home. This is crucial for financial security and wealth accumulation as I noted in the first question in some detail. So much of this is related to prestige/position/rank, as what's considered a "nice" house, or what seems to you like one, depends on what are the houses of your neighbors, or peers, or reference group. Positional/Context/Prestige Externalities are a huge issue in personal finance and economics. It's important to handle this well, and to try to think that even if your house is not as big and fancy as your reference group, it's still far better than what many people have.

By purchasing a less expensive and fancy house, you not only increase your wealth greatly long-term, if you put the savings in a well diversified stock portfolio and don't just consume it, you also help your children's financial security in that you make it a lot easier for them to afford a house that they can feel good about when they're adults. If they grow up in a 1,800 square foot house, anything as big will seem nice to them. If they grow up in a 3,000 square foot house, they are a lot more likely to feel bad about living in one that's 1,800. Here is a nice brief article on positional externalities by Cornell economist Robert Frank.
A word about real estate: Investing in a rental home, or other rental property, can be a very good long-term investment, but only if done smart and well. It doesn't take a lot of expertise, or time, to throw your long-term money into a total stock market index fund and let it gather dust. It does take a lot of reading and expertise to purchase, maintain, and run well, rental properties. Nonetheless, if this is the kind of thing you enjoy, and have time, temperament, and skills for, it can be a good idea to start reading up, and eventually get into the business. But read up very thoroughly first, and be very cautious about buying in a real estate bubble.

As far as REITs (Real Estate Investment Trusts), they're highly varied, and it can be very hard for a layperson to select them well, and even an index fund of REITs can be highly volatile. So I think it's too risky to recommend them for laypeople. For experts, they can be very good, especially since sometimes in the past they have been a good value when the stock market was bubbled very high, and so a good alternative to escape to (However, right now they don't look like a good value to me; they've risen in value much more dramatically even than stocks.)

3) How about the investor who is approaching retirement?

Again, like middle age and youth, it's a matter of what portion of your money you consider long-term, and what portion you consider short-term, so please see those answers above.

An important issue that starts to come up here is when to start taking Social Security. The general rule is that it's normally a tremendous deal to wait as long as possible, up to age 70 when the benefit maxes out. For someone born after 1960, if you wait until you are 70 to collect Social Security, you will get a 77% higher payment for life, and that's indexed to inflation! $25,000/year becomes $44,250, inflation indexed, and invulnerable to bankruptcy or civil suits! Add in a paid for condo, that's not too big or expensive, so property taxes, condo fees, utilities, etc. are moderate, and you can really do a lot to insure you'll be able to live nicely and not be a burden until an advanced age.

If, sadly, your health is very bad, and you think it is unlikely that you will live until 70, or much past, then you should collect early – unless you have a healthy spouse who will be taking over your benefit. Then you still want to grow that benefit as long as possible.

In fact, for the average couple aged 65, there is a better than 50% chance that at least one spouse will make it into the early 90s or beyond. All in all, with decent health for at least one spouse, the return on waiting to collect Social Security is just tremendous for a U.S. government guaranteed and inflation-indexed lifetime annuity. A top goal should usually be trying to make it to 70 without collecting Social Security. In fact, if there's no other way, it's usually better to use up almost all assets so that you can last until 70 before taking the Social Security checks. Here is a
good article on this from the personal finance site of Boston University economist Laurence Kotlikoff.

Many people at this age think, my savings are low, but I'll just keep working until I'm 70, or beyond. I'm sorry, but that's usually wishful thinking. People underestimate how much the average person's health and endurance deteriorates even by 65, let alone 70 or beyond. Moreover, skills get antiquated, and job discrimination at that age is fearsome. You may want to work, but being able to, and having someone hire you, and keep you, is another matter. Only 18.5% of Americans over age 65 were working in 2012. So, it's important to cut your expenses now, especially expensive Must-Haves (see my first answer), and to really invest in keeping your health up so that you can remain employed longer.

4) And what about the investor who is in retirement? Is there a rule of thumb that should be followed?

Much of what I've said in the questions above applies for investors in retirement, so please read those answers.

What I'll add is that it's very valuable, if possible, to try to create some kind of insurance, worst case scenario, investment protection. For example, if you own your own condo, paid in full, and its expenses are relatively low; it's not too big, and utilities, taxes, condo fees, etc. aren't too high. And you pay to zero all debt, and you wait until 70 to collect Social Security, so you really jack up the guaranteed-for-life, inflation-indexed payment. Then, for most people, even if other investments go badly, you can still live pretty well, at least not bad.

When you're this old, there's no completely escaping substantial risk. Even if you're a billionaire, you could still, probably with significant probability, die of a heart attack or cancer before you see the 2020's. But if you do what I just mentioned, with the no-debt, no mortgage, reasonably low Must-Haves, and waiting until 70 to collect Social Security, then unless you have unusually high standards financially you'll still always be able to live at least not bad, at least if you can still take care of yourself.

Health is a big issue, not just to your life, but to your money. Investing in your health can really lower your risk of very costly illness, or needing expensive long-term care or assisted living. This is an individual issue as to how much effort and sacrifice is worth it, but I will say that for most people when you eat a healthy diet with a lot more unrefined plant food, your taste buds eventually adapt a lot, and you can cook it very well if you have the time, which most seniors do.

So it turns out to be a lot less of a sacrifice of taste pleasure than people think. And you're never hungry with fruit and vegetable dishes. They're very filling with all the fiber, and you can eat all
you want of them and not gain weight. In fact, the more you eat them, the more you'll lose
weight. See the book, "Eat to Live", by Joel Fuhrman, M.D. for details.

I'll also add that the time horizons for a lot of seniors' money is longer than people think. A 65
year old couple will probably have one spouse live at least 25 more years, so there should usually
be significant stock investment. Moreover, if you want to leave money to your children and
grandchildren, their horizon is decades, so the money should typically by invested in a well-
diversified stock index fund, at least for money you're pretty sure will go to them. See my
answers above for details.

As I noted above, long-term bonds, or other fixed-income investment, is too risky. Don't lock in
an interest rate for more than three years. But aside from that caveat, a big issue with safe, short
term, fixed-interest government-guaranteed bonds is that right now interest rates are about no
higher than expected inflation, even lower for shorter term.

If you throw all or most of your money in there, you have to ask how long can I live off of my
savings when there's no real return, and I just deplete them each year. So it may be especially
important to really try to wait until 70 to collect Social Security, and get that much bigger, for
ever, inflation-adjusting annuity. And it may make sense to also put a substantial amount of
money into stocks, especially since a 65 year old in decent health has a good chance of living
another 25+ years.

5) What sectors of the market are poised to outperform now?

As I said above, I advise that laypeople never try to pick individual sectors or stocks. It's takes a
very high level of expertise to do this well, and it's just way too risky for a layperson to mess
with. Things could go horribly wrong. Even for someone with a high level of expertise, you
usually have to spend a great deal of time researching and analyzing to do this safely and well,
time most people don't have. A layperson should just stick to a super-diversified whole market
index fund, like the Vanguard Total Stock Market index exchange traded fund (VTI).

That said, as an expert myself, and for other experts, I weight more toward value and small
stocks. I think there's a lot of evidence that they have, and at least for a while, will have, better
risk-adjusted returns. You can see the case laid out in the book, "The New Finance", by the late
University of California, Irvine finance professor Robert Haugen.

Currently, no business sector really stands out to me. I have some concern with the market P-E
ratio getting high, but what's the alternative? bonds paying a zero, or negative, real return? See
here for more. Plus, there are scenarios where the economy could recover strongly, depending on
future fiscal or monetary stimulus. I'm hopeful for Yellen. Fiscal stimulus, or increased high
social return public investment, is impossible while the Republicans control the House, but that might end in 2014 or 2016, which would also end the constant series of manufactured crises and monkey wrenches.

Nonetheless, I'm looking for an exit place in case P-E's keep rising. Currently, all I can recommend is some residential and commercial real estate. There are some good deals to be had in some areas (but in other areas it's over priced; be careful), if you look, and have the expertise. Sometimes, if you're good at dealing with banks, you can get a nice short sale. But run the numbers very carefully with a long-term buy-and-hold mentality. Make sure the long run buy-and-hold return looks good relative to the risk. I keep my eyes open.

Now, I talk about exiting the stock market for experts when P-E ratios get "too high", but I really advocate long-term buy-and-hold for laypeople. Let it gather dust for decades. It's just that it takes some expertise to know when to leave and come back, and laypeople tend to do this very badly, fleeing when the market plunges and stocks are now a great value, like in the spring of 2009, and piling in at the height of a bubble, like in 1999, when they're way overpriced.

It's usually very profitable and safer for a layperson to just buy, hold, and let it gather dust for decades. I think Wharton finance professor Jeremy Siegel makes the case for buy and hold well in his book, "Stocks for the Long Run". In particular, he notes that even if you invested in the stock market just before the crash of 1929, twenty years later you would have had an average annual return of 7.86%, more than double the return of government bonds, and after 30 years the average annual return would be 12.72%, for 8 times the wealth accumulation of government bonds (page 4, 4th edition).

6) Emerging markets have lost some steam recently. Are they a good buy, or are they still too expensive?

Like with single stocks, sectors, gold, and so many things, this is something laypeople should not dabble in, only investors with a high level of expertise (My investing advice for laypeople is in the questions above.) In fact, even though I have decades of education and study in finance and economics, I've never studied emerging markets well enough that I've been comfortable investing in them. There's not a long stable empirical track record like there is with American and other advanced economy stocks. There's a lot to know, including expertise on the governments, corruption, and protections, or lack thereof, for minority shareholders. It's definitely too risky for laypeople, and for experts I don't have the specialized knowledge to offer an opinion.
7) How do you think people should plan for, and deal with, crises, like a job loss?

This is, unfortunately, a very important subject in this day and age in America. Top social scientists Mark Rank, Thomas Hirschl, and Kirk Foster estimate that nearly 80 percent of Americans will experience significant economic insecurity at some point between the ages of 25 and 60. This is from their 2014 book, "Chasing the American Dream: Understanding What Shapes Our Fortunes".

Now that a family has two earners, that alone can double the odds of a job loss. And in the old days if there was a job loss, the stay-at-home wife could enter the workforce to help take up the slack (In the old days families typically were able to cover their expenses on just one income, and this is largely because they spent a lot less, no McMansions with granite everything. Something to think about.)

So how do you prepare for and deal with that?

It's common to think, I'll save a lot, and invest it very safely. I'll keep it in 100% government guaranteed CDs, or the bank, not stocks, and then I'll have that safety. If I lose my job, or my spouse does, then we'll live off of our savings until we find another one. Problem solved!

From the evidence I've seen, typically, this alone just doesn't work, without at least measures on the spending side, especially Must-Haves. It so often ends in disaster. The savings just don't end up being enough. They get destroyed down to zero, and then the borrowing starts, which can lead to a debt spiral and ruin.

You really have to do multiple things to protect yourself against crises in today's America, and survive them well when they happen, but the biggest one is to keep your Must-Haves below 50% of your after-tax income. I talk about this in the questions above, starting with the first, so if possible please read those first. But basically, Must-Haves are your must pay necessities, that you have to pay for, even in a crisis. These are things that it's very hard or impossible to cut back any further. This includes fixed costs like the mortgage, health insurance, and preschool for the kids, as well as basic food and transportation.

You cut your Must-Haves, and keep them low, by keeping reasonable the big fixed expenses, and the material standard of living that you become used to. So, the biggest thing is to not get too large and expensive a home relative to your income. Also very important: Buying less expensive and especially used cars, and getting debt payments as low as possible, and hopefully to zero. And there's more, including not neccesserily having the ultra-deluxe data package on every phone, and shopping smart for insurance, and any large item. The lower your Must-Haves are, the better you can resist a crisis. And as well, the more money you can put into savings.
Harvard professor Elizabeth Warren advocates that Must-Haves be at least under 50% of your after-tax income, in her seminal personal finance book, "All Your Worth" (recommended for everyone). And the lower your Must-Haves are, the more secure you are.

With Must-Haves of 50%, this means that in a crisis, like a job loss, you can cut back your expenses, if necessary, to only your Must-Haves, which are 50% of your previous family income. Then, with the income of your spouse's job, plus unemployment insurance, that's usually good enough that you can survive until you find another job, just on that. No having to eat into your savings at all, let alone quickly destroying them.

So, you can see how powerful it is for a family's financial security, and to weather crises, to cut your Must-Haves below 50%. This is much more powerful than spending the way most families spend (typical Must-Haves about 75%), and then squirreling away what you can in "safe" bonds or a bank account to help you weather a crisis.

And this gets at another big issue I discuss above, what proportion of your savings to put in short-term investments (very safe), and what proportion to put into long-term investments (principally a highly-diversified stock fund). Because, while some money should go to short-term very safe investments, like CDs and a bank account, you really want to keep this as little as is reasonable. The reason is that you pay such a big price for this investment safety. As I wrote above, the historical average return on stocks is just stunning. So, on average, you're really going to lose a tremendous amount of money long-term putting the bulk of your money into short-term bond-like instruments, instead of stocks. It's just very hard to create a high degree of long-term security that way because the money grows so very slowly.

And even after just 10-15 years, you're probably going to really see it. Thus, the idea is that if you can cut your Must-Haves to 50%, or even a lot less, then this gives you a lot of security, and the luxury to put a lot more of your money into a highly diversified stock fund. And because you are spending so much less, you simply will have a lot more money to put into savings in the first place.

8) How do you think your advice should vary from person to person? Should there be exceptions?

It is common for people to overestimate how different we all are. And it is also common for people to underestimate how different we all are. Neither extreme is true. We are all unique, and people are quite varied, but clearly we do have a lot of general things in common. There are many things that are generally true of the vast majority of us, so it can be very valuable to give general advice and rules. But there are usually some exceptions, even if they may be rare.
For example, the most important rule in personal finance, especially in today's world, is that during stable normal times you should keep your Must-Haves to under 50% of your after-tax income. And by stable normal times, I mean, for example, not when you’re a student, or unemployed, but when you have a good steady career job.

Now, this is the fundamental rule of personal finance. Both Harvard professor Warren and I think this is the most important rule. Yet, I can imagine some exceptions. Take for example a physician. Their income is so high, and so stable, with unemployment virtually impossible for longer than a short period, that I could see it being ok for some of them to have Must-Haves of 60%, if there was some spending that really added to their happiness.

After all, the key reason to have low Must-Haves is for security, so that if there is a job loss or other crisis you can weather it just on your spouse's income and unemployment benefits, say, without destroying your savings and going into a debt spiral. But it's virtually impossible for a physician to become unemployed. And if he has strong disability and life insurance, it's very hard for a financial crisis to ever occur.

And even with 60% Must-Haves, a physician's income is so high, especially a specialist's, she can still accumulate a huge amount of savings. So over 50% must-haves can make sense for a physician, perhaps in some instances (but still not in most cases). So there can be exceptions.

But exceptions that make sense for this rule are extremely rare today. So think carefully about whether you really are an exception, or you just want to be one. Does it really make sense to make an exception, or is that just what you'd really like, even if it isn't best, all things considered, short-run and long-run.

And the same is true of most of my advice. There can be exceptions, but think carefully about whether it really makes sense in your case. Is it really best to deviate from this good general advice when smartly considering all things, all benefits and costs, over the short and long run.

9) Why is paying down debt usually so good as an investment?

Ok, there's a lot to this question. This is going to be a very long FAQ, and I'm going to go off on some long tangents in answering it. And, in general, I go off on tangents often. Why is this? Basically, I think so much misunderstanding and poor understanding comes from the desire to overcompartmentalize, to make things really separate and simple. But the world is not like that. It's very interrelated. If you try to put a false simplicity and separateness into your explanation, it may sound better, and be "good writing style", but it will so often not be accurate, and will
mislead, and/or it will miss great learning opportunities, and the opportunity to valuably show how things interrelate.

So, just a warning, if you read my writing, there's likely going to be tangents, and maybe a lot. The good news is that I will eventually get back on track, and fully answer the direct question in the end. And, based on my teaching reviews, readers are usually happy with what they've learned.

Ok, let's start by noting the word "usually" in the question, as in most of the time but not always. Sometimes, for some debt, it is not a good idea to pay it down.

The big issue, especially in today's America, is that sometimes people are so in debt, and/or at such predatory interest rates and fees, that it's best to not even try to pay it down. You just move quickly to bankruptcy. It is my strong belief that people, and especially families, come way before creditors, especially with how predatory, deceptive, and entrapping creditors have become over the last generation.

And in general, the founding fathers put bankruptcy in the constitution for good reason. Sadly however, this has been eroded in recently years. In 2005, for example, private student loans were made inescapable in bankruptcy, except for extremely rare complete and total lifetime disability. So, first off, this most dangerous of all debt, private student loans, should never be taken out.

Federal government student loans, however, are very safe due to generous income based repayment and loan forgiveness programs. They are well worth taking out for quality education, and vocational training.

But, be extremely careful about any for-profit programs; they are rife with the most devastating predators and rip-offs and destroy many lives. If it's not a government school, like a community college or public university, or a non-profit private school, tread with extreme care. Research it up, down, and sideways, and shop extensively to compare it to government and non-profit schools, which may be vastly cheaper, better, and more income enhancing.

Also in 2005 bankruptcy, sadly, was made much more difficult and costly. The legal costs and government fees now typically sum to over $1,000. But if you're in too deep, especially to the worst of the predators, it's absolutely crucial that you escape. Stop paying all creditors a penny (with perhaps some exceptions like your mortgage holder, depending), and cut back on spending as much as you possibly can to save up the money for bankruptcy. You should also shop around for the best deal for legal aid (just like you should shop around smartly for any expensive item).

In addition, you can save several hundred dollars in bankruptcy fees by successfully claiming financial hardship. And, if you really can't come up with much money to do a bankruptcy, and
there's no other way, you should try to file yourself, without a lawyer. This will require substantial effort on your part. You will have to do a lot of reading, but it is doable, and not that hard to understand. The place to start is at the website of the premier public legal organization, NOLO, and you should buy NOLO's guidebook on filing for bankruptcy. All of their materials are very well written to be easy to understand for laypeople. But at the same time, they are very authoritative, written by expert lawyers.

In fact, even if you hire a lawyer to handle your bankruptcy, you should still buy NOLO's bankruptcy book and read up as much as possible. Your lawyer won't spend much time with you (unless you really pay a fortune), and so won't have time to really go over everything beneficial you can do to come away with as much as possible after a bankruptcy, and to make it go as well as possible.

Especially today, and this is very true in general, knowledge is money, and power. The more you can read up, the better you will be able to work with your lawyer, and understand her well. And the more you will know valuable things that your lawyer didn't spend time on. You should do this reading as early as possible if bankruptcy looks probable. Certain ways of shielding assets in bankruptcy must be done months, or even a year or more before you file.

Ok, now let's move on to the case where your debt is manageable. It's not impossible to pay off with reasonable effort, and without undue risk to your family. In this case, paying down your debt can be a great investment.

Lowering your debt is a form of investment, or saving. Saving is increasing your net wealth. When you lower your debt, you increase your net wealth. If you have $100,000, but you owe $90,000, then your savings are really $10,000 (basically, with some caveats). Your net wealth, or net worth, is $10,000. But pay your debt down to zero, and your net worth soars to $100,000.

If you have $10,000 in credit card debt at 12% interest, then if you take $10,000 and pay it to zero, this is basically equivalent to investing $10,000 at a 12% return. And it's a zero-risk 12% return, because for sure you save the 12% interest that you would have paid – But, this is with the important caveat that you really would have, for sure, eventually paid off that debt anyway, like it would not eventually have gotten wiped out in a bankruptcy.

If you invested the $10,000 instead in a well diversified stock fund, the average return is less, 7%, plus the inflation rate. That is, it's a real 7% return. So, for example, if the inflation rate is 1%, about where it's been lately, then stocks would be expected to average approximately 7% + 1% = 8%. And importantly, it's a relatively risky 7% average real return. It might be 20%. It might be a 10% loss. On average, the stock market pays about 7% real, but sometimes it pays more, sometimes less, and there is even the risk of a big loss.
In finance, the most fundamental concept is the risk-return tradeoff. The riskier an investment is, the higher its average return must be to make it worth taking. Stocks are widely considered a great investment because their historical average real return, about 7%, is very high relative to a risk level that, although substantial, is not that high, especially over the long run. We say that stocks have a very good risk-adjusted average return.

Now, with our credit card example, we have the opportunity for an awesome risk-adjusted average return. We save, and therefore get, 12%, in an environment where inflation is only about 1% (at time of writing), for a real return of about 11%! much higher than the already impressive benchmark of stocks at 7% real.

So, the average return of paying down this credit card is higher than even stocks! Actually much higher. And, at the same time, the risk is much lower than stocks! The risk is zero. For sure we save this 12% (11% real).

By paying this $10,000 in credit card debt down to zero, we get a return of an extra 12% of $10,000 in our pockets every year. Every year we are 12% richer. It's just like if we invested the $10,000 in a government guaranteed bond that paid 12%. That bond would put $1,200 in interest in our pockets every year. But by paying down this credit card debt we get the same extra $1,200 in our pockets every year, because now this money doesn’t have to go out to the credit card company.

The key thing is, though, a government bond doesn't pay close to 12%. Right now, they pay about 1/10th as much! So paying off this high interest credit card is a fabulous deal, a fabulous investment – 12% interest, risk-free, an awesome risk-adjusted return!

So, you can see that paying off expensive high interest debt is a great investment, and a great idea. But once again, this does assume that you can reasonably pay it down to zero. You're not just going to eventually have to go to bankruptcy anyway, in which case it's a waste to throw any money at it.

Next, here's another great example, paying your mortgage down to zero as quickly as possible. At time of writing a 30-year mortgage for someone with excellent credit and a 20% downpayment is about 4.5% (when averaging providers nationwide), plus fees. Now, suppose you save and invest such that you make extra payments to pay off this mortgage in only 10 years (never get a mortgage with pre-payment penalties).
A comparison of what you could do with this money is U.S. government guaranteed, fixed-interest bonds, with maturities of up to 10 years. These are averaging about 1.5% interest (depending on the term).

So, if you put the money into paying down your mortgage you're getting a return of 4.5%. With the similar investment in U.S. government guaranteed fixed interest bonds you're only getting 1.5% – an enormous difference.

You will often hear, but hey, the mortgage payments come with a tax deduction, so don't pay off your mortgage faster! Maybe even keep taking out new home equity loans to keep that mortgage high, to keep that tax deduction high! This is wrong, and extremely dangerous, advice.

One of the most powerful things you can do for your family's financial security is to pay your mortgage down to zero, and become completely debt free, from the credit card to the car loans – everything.

And in fact, there really is little or no advantage from the tax deduction when comparing our two investment options.

With the mortgage you pay 4.5% interest (and maybe much higher if you don't have excellent credit, and a 20% downpayment). Suppose you are in the 25% tax bracket, which is upper middle class. Then, you pay 4.5% interest, but you save 25% of that in taxes. So you actually only pay 75% of that 4.5% interest. And 75% of 4.5% is 3.38%.

But saving, and thus getting, 3.38% is still a lot better than the alternative of 1.5% that U.S. government bonds are paying. And here's a kicker, the 1.5% is really less too due to taxes. You do pay taxes (with possible exception) on interest that you earn. It's taxed just like ordinary income. So that same 25% applies to it too, wiping out the interest deduction advantage that mortgage interest has.

You don't get the 1.5% interest, because you pay 25% of that in taxes. So you only get 75% of that 1.5%, which is 1.13%.

So, including all of the tax issues, paying off your mortgage fast still beats handily putting that money into the alternative, U.S. government bonds. It's 3.38% to just 1.13%. The tax issues didn't make much difference; paying off your mortgage was still just as good a deal, just as good an investment.

Now, there are some caveats. It is possible to avoid the interest tax on your bonds, at least temporarily, by putting them in an IRA (Individual Retirement Account). But there are relatively
small limits to how much can be put in an IRA. And, the taxes are deferred, not canceled. That's certainly better than paying them immediately, but they do have to be paid eventually when the money is taken out.

The bottom line is that you certainly get a better return paying off your mortgage than with government bonds. And, it's not just a better return, it's lower risk, or it does more to decrease financial risk in your life.

Paying off your mortgage is a huge leap forward in lowering your Must-Haves (Please see the FAQ's above for more on Must-Haves, if you haven't already). And lower Must-Haves is the foundation of personal financial security today.

Suppose your family gets its must-haves down to 40%. That means that you can survive, at least ok, with the basic basics, and nothing falling apart, with just 40% of your current income. That's a nice position to be in.

If there's a crisis like a job loss, all you need to cover is 40% of your previous family income until another job is found. With your spouse's income, and government unemployment benefits, that alone is usually easily enough to cover that 40% so you don't destroy your savings, and after that go into a debt spiral, maybe lose your house, and possibly much worse.

It's so common today for families to be decimated by financial crises because average Must-Haves are about 75%! You just can't cut back enough in a financial crisis; 25% is the most. So when things go wrong, which is vastly more common and likely in today's far less secure world, it so often results in disaster.

You are just so much more secure when you lower your must-haves. The fundamental rule of personal finance today, the most important one, is to keep your must-haves to less than 50% of your after-tax income. But don't forget the less than part. The lower you can reasonably get your must-haves, the more secure you are. And the more risky your situation is, the lower your must-haves should be.

So it's just such a great thing to bring that mortgage to zero early, not to wait 30 years, as is common. And even worse, many people will never own their house free-and-clear, because they keep taking out deadly home equity loans.

You want to do the exact opposite, and a great way to achieve this is our next worthwhile tangent, the 15-year fixed mortgage.
With a 15-year mortgage you not only pay off your home twice as fast, but the interest rate is substantially lower on 15-year mortgages. It's a double-whammy that really helps your family's financial security. And interestingly and importantly, even though you pay off your mortgage twice as fast, the payments are not twice as high. Typically, they're only about 30-40% higher. This is due to a lower interest rate, and the math of exponential interest rate growth over time, which you truncate with 15 years instead of 30. And it's due to the fact that there are fixed costs in your monthly house payment that are the same whether your mortgage is 15 years or 30. These include property taxes and insurance.

When you buy a home, price it out and see for yourself. Be sure to get the payments with both a 15-year fixed and a 30-year fixed. Note that I advise against variable rate mortgages. This is just too much risk for the vast majority of families. Interest rates can go up greatly, but not your income, and then you can be in trouble. Play it safe, and lock in your payment. Make it fixed at a level that you can be sure will keep your must-haves under 50%.

Now, the common objection is that with a 15-year mortgage I won't be able to afford the payments, even if they are only 30-40% more. My must-haves will go over 50%.

My answer is that often you're better off, then, buying a smaller, less expensive home, so that you can keep your must-haves under 50%, and still have a 15-year mortgage.

In fact, I think that for most people who have good college educated jobs, the 15-year mortgage is usually best, even if that means you have to spend less on your home. For lower income people it may be the case that the only way to get an affordable home in a safe neighborhood is to have a 30-year mortgage. That's a different story, and I'm very sympathetic. But if you're strongly middle class, I think 15-year is usually best. You should certainly price it out, and really consider it.

And remember, a smaller less expensive home does not just save you on the mortgage, it saves you on the down payment, the utilities, the maintenance and modernization, the furniture, and the property taxes. All of this really adds up. It can really affect your family's financial security. You honestly have to ask yourself how much of this is for having the prestige of a more expensive home, because this is a dangerous game to play if it means putting substantial risk on your family's security.

I know, with the context we see, it can seem like it's not high quality and not good if the home is not huge with wood, stone, and stainless steel everywhere. But again, as I talk about throughout these FAQ's, position, context, and prestige are so important, what economists call positional externalities. Please keep firmly in mind, decades ago, and I lived this, people had pretty linoleum floors and vynil countertops, brightly colored, non-stainless steel, appliances, and
comfortable carpeting, not Bolivian rain forest hardwood, and they did not at all feel like their homes were cheap and shoddy. They thought they were just as beautiful as the granite, stainless steel, hardwood everything homes you see on TV today. And they enjoyed them, and were proud of them, just as much as these expensive homes of today.

And this is because they thought of them as high quality, as homes that so many people would love to have. And that's how you have to think of it, and not play the high context and prestige game. If a 15-year mortgage means that your home is medium size, and doesn’t have granite stainless Bolivian rain forest wood, you have to think of how so many people would love to have a home like yours, that you will own free-and-clear in not that many years, and how beautiful you make it even though it's not huge and doesn't have platinum counter tops.

This kind of thinking is so important to your family's financial security, and just to happiness. You really have to be careful about going too far on position, context, and prestige.

This is not to say you should never get these things, but only if you can do so while clearly having financial security for your family. These things won't bring you nearly enough pleasure, especially over the long run, to merit risking that, and all the stress that goes with it.

A final advantage to paying your mortgage quickly down to zero, it's sometimes well protected wealth. In about half of the states the "homestead exemption" is over $100,000. The homestead exemption is how much of your home equity is protected in bankruptcy, or a civil lawsuit. In some states, it's well over $100,000. For example, it's unlimited Texas and Florida, so in a bankruptcy you get to keep all of the equity in your home, no matter how much it is.

Ok, so, 15-year mortgage, at least if you're solidly middle class. And even then try to make extra payments and pay it off even sooner, maybe in 10 years or less. And, pay all debt down to zero, to really drive down those must-haves. As we've seen, this is a great way to increase your financial security and net worth. Again, sound unrealistic? If you buy a smaller less expensive house without platinum countertops, and very nice 10 year old used cars, it becomes way more realistic.

Now, how much of your savings should go to paying down debt, and how much should go to other investments? In the vast majority of cases, first priority is fully taking advantage of your 401k at work. This is usually such a fantastic deal. According to a recent survey, the most common program for employers is to match an employee's contributions, one-for-one, up to 6% of their before-tax pay.

So, if you put 6% of your pay into your 401k, your employer gives you a free 6%! And that's not all. You also get a tax deduction. You're not taxed on the 6% you put in, or on the match.
But, nonetheless, it is not that uncommon for workers to not contribute at all to their 401k, or to contribute less than the maximum. This is just turning down a lot of free money.

Suppose you didn't put your 6% in the 401k. You said give it to me in my paycheck. Well, you wouldn't get the whole 6%, because you would pay taxes on it. Suppose you were in the 25% tax bracket, then you would only get 75% of this 6%, which is 4.5%.

Now, compare this to if you did put the 6% in your 401k. You get a free 6% from your employer, which takes you to 12%, and then you pay no taxes on this with the 401k tax deduction (at least until you take it out many years later, depending on the situation). So you get the whole 12%.

Thus, it's 4.5% or 12%. The 12% is obviously a fantastic deal, about three times as much. In other words, if you make $100,000/year, you could pocket that 4.5% and not utilize your 401k, giving you $4,500, or you could have an extra $12,000 in your 401k instead. You'll never get a better deal for accumulating savings. So, first priority is you always put the maximum into your 401k that your employer allows, at least enough to get their total match, the total free money they give away.

And it gets even better than this, not only do you get 12% of your earnings in a 401k, by giving up only 4.5%. This 401k money is also extremely well protected. It's really in the vault. No matter what state you live in it's 100% protected in bankruptcy or civil lawsuits, and so far the IRS has never gone after 401k money, and it looks very likely that they won't in the future. This is true of all official retirement accounts that meet federal government ERISA requirements, like IRAs and most pensions.

One caveat: Sadly, with a small, or even medium-sized employer, you have to be cautious. Some have embezzled the 401k money of their employees, and there's little government protection here currently. See this article for details. Diplomatically ask for records from a smaller employer, to verify the money is where it should be. And as soon as you leave that job, immediately move all of their 401k money to your IRA, which you can do pretty easily. Call your IRA brokerage for details.

So, the first priority usually is to fully fund your, and your spouses, 401k's. And remember my earlier FAQs, the money for stocks always goes into a highly diversified fund, which spreads it among thousands of stocks, and across a diversity of industries. You never put all, or a substantial percentage, of your money in your company's stock – or any single company's stock. It's extremely risky to put all, or a substantial percentage, of your eggs in one basket.
Next priority, usually, is to make sure you're liquid, and have a comfortable amount of operating money. This means having at least about $500 in your checking account at all times as an individual, more for a family. And once you get your personal finance running well, probably several thousand for a family, or even more. Plus, eventually at least, you should have a non-retirement brokerage stock account, with hopefully, at least eventually, a huge amount of money. Stocks are pretty liquid. You can sell shares of a highly diversified stock fund of the kind I recommend (see previous FAQs), and have the money in your checking account within days.

And the transactions cost is little or nothing. Again, this is for a non-retirement stock account. You can't take money out of a 401k or IRA before age 59 ½ without very large penalties (with some rare exceptions). So, a non-retirement stock fund, like at Vanguard or Fidelity, gives you some liquidity for the unexpected too. It's not immediate like a checking account, but you can usually get the money out in just a few days.

Now, there can be exceptions to this. Suppose your credit card company jacked up your interest rate overnight from 5% to 20%, for little or no reason, and they do this all of the time. Then, assuming bankruptcy is not necessary, you might want to really put every penny into killing this card right away, and might keep even less cash in your checking account.

But usually it's important to have some significant operating cash in your checking account. You don't want to have to do something desperate and dangerous if, say, your car breaks down, like a payday loan.

Now, what's next? Now is when we start looking at paying down debt. The most dangerous and high cost debt goes first.

The most dangerous debt today – and in the entire history of our country – is private student loans. The founding fathers believed debtor's prisons and lifetime indentured servitude to be abhorrent, and so put bankruptcy right in the constitution. But in 2005 a new bankruptcy bill was passed that excluded private student loans. These loans are now inescapable in bankruptcy (with the extremely rare exception of severe lifetime disability). Moreover, there is no safety valve of income based repayment and loan forgiveness. With the often very high interest rates on these loans, they can spiral out of control to the point where you will never be able to pay them. Then you are theirs for life. They can forever hound you, garnish your wages, and seize much, or even the vast majority, of anything you ever accumulate in life.

If you made the mistake of ever taking out these loans, if they haven't already spiraled to unpayable, then extinguishing these historically shameful cancers is your top priority. You should put everything you can into them, and live as cheaply as possible, until they are down to
zero. Then, you should get it in writing, and scan it, and keep that scan backed up to the cloud. As well, you should keep paper copies secure. These are people you don't trust in the least.

If your private student loans have spiraled to the point where they will never be payable, with interest rates in the double digits, you have my sincere sympathy. You have to now look into how to prevent them from seizing, as much as possible. If you move to Texas, for example, currently wage garnishment is illegal, and your home is protected from creditors up to an unlimited amount. This is the kind of thing you will have to research now to protect yourself if you get in this situation.

I hope that someday this exclusion of bankruptcy protection for private student loans will be reversed, but I don't see it happening anytime soon, and maybe not for a very long time if in your lifetime at all. Democratic Senator Richard Durbin has sponsored such a bill, but it can't pass Republican opposition.

And, keep in mind, these predators are always out for new victims. Today we see TV commercials for "Solve your student debt problems!". These are companies that actually take your safe government student loans, with amazing income based repayment and loan forgiveness options, and turn them into all private student loans!! It's one of the worst mistakes anyone could ever make. They consolidate your government student loans. This means they pay them off, and now you owe that money to them – now with no income-based-repayment, which today keeps your payments to no more than 10% of your disposable income, and no loan forgiveness, which today limits payments to no more than 20 years. So beware, only consolidate with the federal government, which retains, or even enhances, all protections.

Now, aside from the sad and shameful tale of private student loans, in general, you next pay the highest interest debt, and then the next highest (except for, of course, the minimum payments you are required to make), and put all of your savings to paying all debt down to zero, with two major exceptions, your mortgage and your federal government student loans.

Before you start building your awesome, well-diversified, stock fund at Vanguard or Fidelity, usually it's best first to get 100% debt free – except for your mortgage and government student loans.

Now, why did I make these two exceptions? Let's start with government student loans. These are not normal debt. The programs you get with them are such that you may never have to pay much of the money owed. Moreover, they're so safe because due to income-based repayment, if your income goes down, so does your payment, and it can easily go to zero. The income based repayment program federal student loans typically come with today is called pay-as-you-earn. It caps your payments at no more than 10% of your disposable after-tax income. This is usually
much less than your total income, and allowances are made for family size to make the payments even lower. The result is that it's typically less than 5% of your after-tax income, and can easily go to zero. Yet no matter how low your payments go, even to zero, after 20 years any remaining balance is forgiven.

As a result, with this debt being so safe (and the interest rates are reasonable), it's not at all a high priority to pay. Better to pay off all other debt, including your mortgage down to zero, and accumulate large brokerage accounts, retirement and non, before you really think about paying off this safe federal government student loan debt any faster than is required.

Note, however, that you don't just get the income-based repayment automatically. You have to ask for it, and sign up for it. Contact the federal direct student loans program at their toll free number (If the link changes, please just google them. This advice goes for any links; unfortunately, they often don't last long). And, I have an extensive article on this here that will get you relatively quickly up to speed.

Ok, next we get to the mortgage. It's certainly valuable to pay this down to zero, but it's not as urgent as higher interest debt like credit cards. When it's not as urgent, and the interest rate is not that bad, you don't want it completely crowd out other great investments, like a well diversified stock portfolio in a non-retirement account.

So, once the higher interest debt is paid to zero, next, typically what I think is a good idea is to put about half of any remaining savings money to paying off the mortgage faster, and half to financial investments. So, for example, putting money into a well-diversified stock fund in your non-retirement Vanguard. And as well, into a well-diversified stock fund in your IRA at Vanguard.

And, some other investments like shorter term CDs can be part of the mix. The best exact mix will vary, to an extent, from person to person. For guidance on this, and on investing in general, please see the FAQs above, especially those on investing during different stages of life.

And as far as total amount saved in everything, you should strive to save at least 20% of your after-tax income. The more risky your life is, all other things equal, the more you should save. This may seem hard, but what makes it vastly easier is cutting your must-haves, the foundation of good personal finance today.

And that's basically how it goes.
So, amazingly, we are finally finished with this longest of FAQs. There was just a lot to it, and a lot of important related points. But I think it was worth the ride. There's a lot of very valuable information here.