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The Smarter Investor

The Top 10 Places Your Next Dollar Should Go

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There is no shortage of receptacles clamoring for your money each day. No matter how much money you have or make, it could never keep up with all the seemingly urgent invitations to part with it.

Separating true financial priorities from flash impulses is an increasing challenge, even when you're trying to do the right thing with your moola — like saving for the future, insuring against catastrophic risks and otherwise improving your financial standing. And while every individual and household is in some way unique, the following list of financial priorities for your next available dollar is a reliable guide for most.

Once you've spent the money necessary to cover your fixed and variable living expenses (and yes, I realize that's no easy task for many) consider spending your additional dollars in this order:

1. Create (or update) your estate planning documents. Your estate planning, or lack thereof, is unlikely to make headlines like that of the rich and famous. But the frightening implications of not planning for your inevitable demise lands it in the top financial priority slot, especially for parents of minor children. With extremely rare exceptions, every independent adult should have the following three documents drafted, preferably, by an estate planning attorney: a will, durable powers of attorney and advance directives (health care power of attorney and a living will).

2. Ensure that insurance needs are met. Don't become the next heart-wrenching 20/20 segment because your family was left destitute after you died or became disabled without adequate insurance for such catastrophic events. Please note, however, the difference between insurance needs and wants. Surprisingly, most insurance needs — especially regarding life insurance— are sufficiently covered with policies that are less expensive than the all-inclusive, bell-and-whistle products often recommended by insurance agents.

3. Pay off any high-interest consumer debt. It's hard to build assets when you're dragged down by liabilities. A new report out from the Urban Institute indicates that one-in-three Americans have debt in collections — you know, that's when you get nasty calls from unforgiving call centers that purchased your debt for pennies on the dollar from credit card companies and medical care providers, among others. That's roughly 77 million people! The economic and emotional toll of consumer debt, especially at astronomical rates, makes it financial enemy number one (or, in this case, number three).

4. Build at least one month's worth of living expenses in emergency savings. Savings is the first line of defense against cancerous consumer debt. Yes, of course I'd like you to have more than a month saved, but the next priority is just too good to put off …

5. Earn free money by taking advantage of your company's 401(k) match. Many companies offer to incentivize employee retirement savings by matching, up to a certain amount, the percentage of your salary that you contribute to the company retirement plan. They may match 100% of the first 3% of your salary that you elect to save, or 50% of the first 6%. In any case, give yourself a guaranteed rate of return by gobbling up those matching contributions from your employer. If not, you're leaving money on the table.

6. Contribute to a 529 plan for education savings. Education should not be prioritized over retirement, and merely contributing the matched amount to your 401(k) is not likely to secure your future retirement. But once you have checked off numbers

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Planning for 10 Years Down the Road

Some have a tendency to view successful people as being lucky, that their good fortunes have been merely happenstance. There's a much greater chance that good, long-range planning has played a significant role for those who have achieved success -- whether it comes in the form of emotional, professional, personal or physical well-being.

So, where do you start to create your big-picture plan? The blog "Connecting Happiness and Success" offers a guide for crafting your own 10-year plan by contemplating -- and then answering -- these four questions:

• Where will you be working (if at all)?
• What will your family life be like?
• What other interests will you be involved with?
• What will your health be like?

From there, you can start visualizing and specifically addressing what you will need to do to get to where you eventually want to be.

one through five, it's time to consider opening up 529 accounts for children you intend to help through college. Contribute what you can and invite loving relatives to do the same.

7. Contribute the maximum possible to your Roth IRA(s) if your income level allows you to. Nothing's better than free money, but tax-free money comes close. By contributing to a Roth IRA, you're filling a bucket of money that should never be taxed (as long as you wait until after age 59.5 to take gains). And, if you are hit with an emergency that runs through your reserves, you can take your principal contributions back out of your Roth IRA at any age for any reason without taxes or penalties.

8. Return to strengthen your emergency reserves. If you really want to sleep well at night, I like to see most households with stable jobs amass three months of reserves, households with more volatile income sources put away six months of savings and the self-employed stockpile a year's worth of expenses.

9. Come back to your 401(k) and cap it off. If you still have money left after taking advantage of numbers one through eight, you probably have a fairly high income. Maxing out your 401(k) or other corporate retirement plan will not only further pad your retirement savings, but will also reduce your taxable income for every dollar contributed. You may contribute up to $17,500 per person — and a whopping $23,000 for investors 50 or older — in 2014.

10. Set aside excess savings in a liquid, taxable investment account for mid-term needs and projects. Emergency savings helps protect you in the short-term. 401(k) and Roth IRA investments help secure your financial future. But if you're only taking care of the short- and long-term, it leaves nothing for the mid-term. Therefore, opening a regular, taxable investment account will help you set aside money for a boat, excess education costs, a closely held business investment or the down payment on a second home or a rental property. This money should be invested in accordance with the time horizon for its use.

Conspicuously missing from this list are non-deductible Traditional IRAs, annuities, all forms of permanent life insurance and hundreds of other marketed repositories for your money. These products have their uses, but they simply don't take priority over these ten financial initiatives. In all, I estimate the "cost" of checking off each of the listed priorities to be more than $70,000 annually, surely requiring combined household income of $250,000 or more. That means you can likely free yourself from worrying about any of the additional pitches that come your way until you've mastered each of these.

From the Sharpie of Carl Richards

Stubborn Grudges Yield Little. Time to Change Your Investing.
By continuing to invest in the things that hurt you, you only cause yourself more hurt.

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