



7 Baby steps from The Total Money Makeover (5 mins read)

Description

The book "The Total Money Makeover" written by [Dave Ramsey](#) is one of the most popular finance books of all time. 5 million copies of this book have been sold since its publication in 2003. The book is a must-read for people who want to turn their financial situation around and believe us when we say it can, no matter how nasty your financial situation is. The book- The Total Money Makeover tells a very simple no-nonsense way of tackling your financial problems at their core through 7 baby steps. Let us look at the brief summary of the book.

We buy things we don't need with money we don't have to impress people we don't like.

[Dave Ramsey](#)

Summary

The book is more of a guide to people who want to financially secure their lives. The book has a number of real-life examples of the people who followed the author's advice and accomplished their financial goals. In the book The Total Money Makeover, Dave Ramsey the author starts by telling us that a financial emergency can come up anytime followed by a 7-step plan towards a financially secure life.

If you want to improve your financial situation then there are several target areas you need to work upon. But if you start working on all the areas at once then you'll not be able to reach your financial goal in any of the areas. For example, if you have to eat any elephant then you can't eat it in one go. You have to go part by part similarly to improve your finances you have to go step by step targeting one area at a time. Follow the below-mentioned steps from the Total Money Makeover to strategically improve your finances.

7 Baby Steps from The Total Money Makeover

Step 1 – Start your emergency fund



The first step towards financial fitness is to start creating your emergency fund. You have to set aside any amount between INR 70k to INR 1 lakh. You can never anticipate any emergency coming your way. It might be any medical emergency, any major issue with your car, etc. For these unexpected expenses, you will require an appreciable amount in a short span of time.

Although we know that INR 70k is not a big amount but it still will give you a cushion to absorb the financial shock the emergency has caused. Building it will also give you mental satisfaction and you won't be afraid of any emergency coming your way. This emergency fund will reduce your chances of going into debt.

Remember that this fund is for emergency only and if you take something from it then you have to replace it as soon as possible.

Step 2 – Start the Debt Snowball

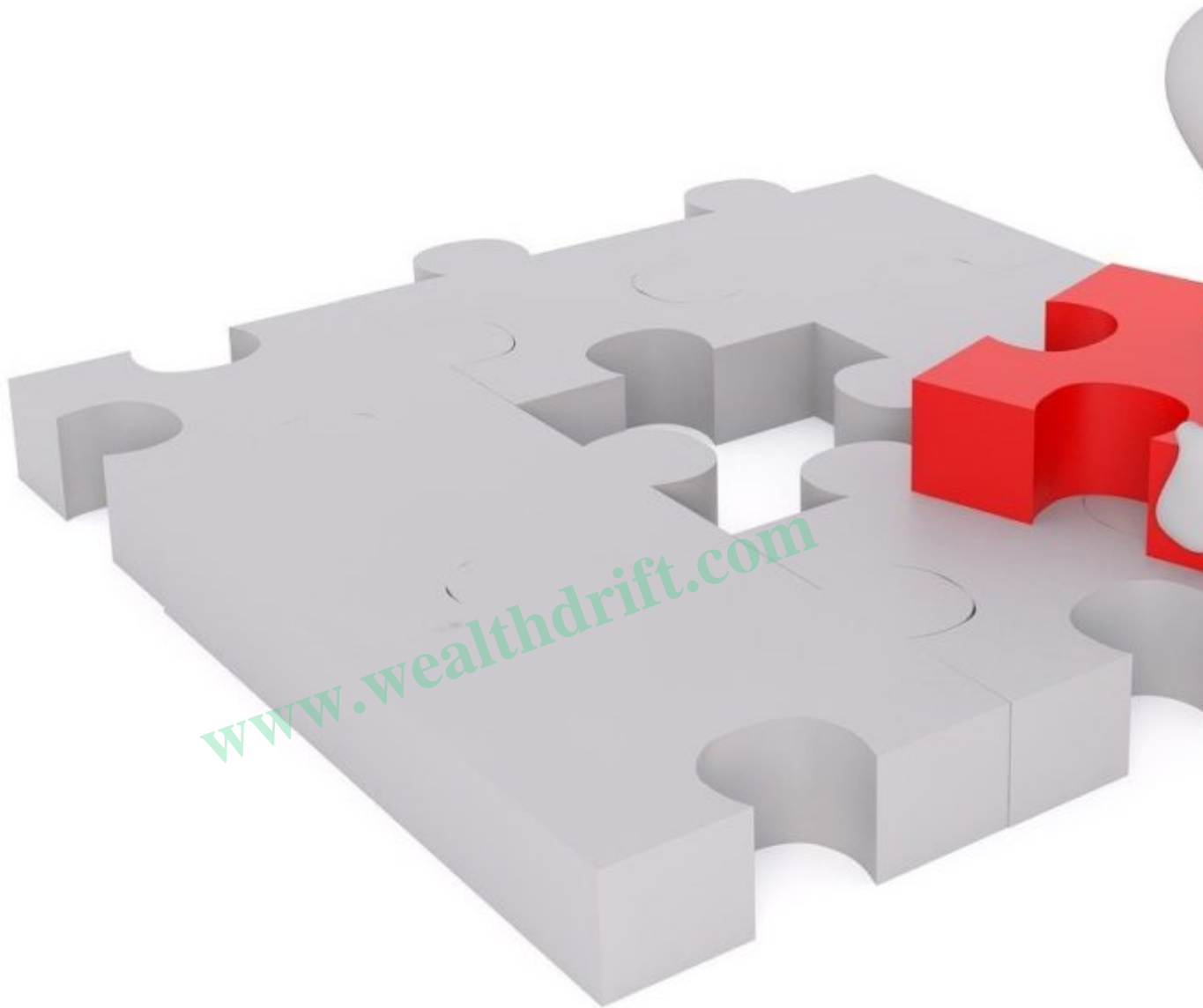


Once your emergency fund is set up then it's time to move onto the next step of "Paying off your debts". The author suggests you follow the snowball method. It is well known that if you roll a tiny snowball then it will in no time convert into a giant snow boulder.

Similarly, you have to pay off your debt. List all your debts be it a small mobile phone bill to your car loan. Now target these debts from the smallest one to the larger. And like the snowball, when your small debts start to disappear then you'll be inspired to tackle your bigger debts.

From personal experience, we tell you to go for the smaller debts first as it gives immense pleasure whenever you clear any debt no matter how small it is.

Step 3 – Finish your emergency fund



After you have paid your debts it is time to grow your emergency fund. The emergency fund should be large enough to support your expenses for up to 6 months. Let say your monthly expense is approx INR 35k then you must have at least INR 2 lakh as your emergency fund that too in liquid form.

The basic idea behind growing your emergency fund is, now that you have paid all your debt, your target is not to go into debt again and this emergency fund will help you with that. That rule is still applicable that if you take out some amount from it, you replace it as soon as possible.

Having an emergency fund gives you confidence and you'll be more confident on your path towards financial security and finally financial freedom.

This is the most recommended step from Total Money Makeover considering the volatile job market today.

Step 4 – Invest 15% income for retirement



Now that you have prepared for an emergency situation it's time to plan your retirement. Planning retirement is a whole new task. You need to decide upon the standard of living you want after retirement. This will give you a fair idea about how much money you need to have when you retire.

Now start investing at least 15% of your monthly income for your retirement fund. You don't want to be dependent on someone else for a comfortable living. Even if you have a pension then also living a dignified life over a pension at that time will not be possible.

Now the question arises where to put this 15% of your income. A good option is mutual funds. You can also diversify this 15% and divide it into high-risk investments and safe investments.

Read our article on the 5 safest investment options to know where you can invest your money. [Click here to read](#)

Buy Book – The Total Money Makeover

Step 5 – Save for college



The one thing that eats up a huge amount of money these days is education. School and college fees have skyrocketed in the past 5-6 years irrespective of whether the institution is private or government. The only option that is usually left with us is going to the bank for an education loan. This means your child has not started earning and is already under debt.

But we have reached Step-5 after we have got rid of our debts. Therefore going into debt is not an option anymore. So start keeping aside a fixed amount of money for their education from their age as low as 3-4 yrs so that when the time comes, you can fund their education and other expenses in cash.

Step 6 – Pay off the home mortgage



This is the step after which you'll be completely debt-free. In this step, you will be paying the biggest loan of your life i.e. your mortgage. Your mortgage puts you in debt for decades. You pay it back in 15-20 yrs. But now that you are following the 7 steps plan to financial security from the Total Money Makeover, you have to pay off your mortgage as soon as possible.

But there are certain reasons why people carry it on for years even if they can foreclose it. One misconception is that people think that they will take a home loan for 20-25 yrs and will pay it back in 10-15 yrs. But it is well known that very rarely people make extra monthly or yearly payments to foreclose the home loan. This usually happens because of the increase in expenses once you buy a house.

Instead, take a shorter-duration mortgage and try to complete it in that duration only. This will lead to huge money savings that you would be paying for a higher duration mortgage.

Step 7 – Build Wealth



Now you are on the verge of getting financially secured. You are now debt-free and can start saving and building wealth for yourself and your family.

Surround yourself with experts from different fields who can advise you on what to do with your money. And play the long-term gain. Don't worry about market fluctuations as in the long term you'll gain a lot if invested strategically.

Financial Fitness is not about living a frugal life. It is about having fun in your life that you can afford. Learning to spend their money is something one must learn if they want to be financially secured. And if a situation comes you should also be ready to give your money away. You get what you give as per the laws of the universe. But you can give only if you have it.

Buy Book – The Total Money Makeover

So, folks, follow the above steps religiously and turn towards financial security. This book “The Total Money Makeover” by Dave Ramsey in our opinion is a complete solution to our finances as it very aptly prioritizes the areas we should target first when it comes to our finances as evident from the above article.

If you agree with us then feel free to share this article on ‘The Total Money Makeover’ by Dave Ramsey. Also, share your thoughts in the comment section below.

Category

1. Book Summary

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