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The nuts & bolts: 13 basic financial questions you need answers to

By Dave Burdick
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"I wish more people would ask these questions," said Pam Dumonceau, a registered investment adviser in Denver with over 20 years of experience.

They weren't unusual questions. In fact, they were the most basic personal finance questions. But they're the questions we all face and should probably be asking. Questions that return some kind of conventional-wisdom answer. Questions — in some cases — that ask these professionals to justify their own value to the average person as, respectively, a registered investment advisor, financial literacy teacher and tax preparer.

Here, find those questions and the rule-of-thumb advice, edited for length and clarity, given by a few people who know money.

Buy or rent?

Pam Dumonceau, president and CEO of Consistent Values Inc., a Denver registered investment adviser: There's a lot of conversation these days about the younger generation that doesn't want to buy. But really if you look at the long term, having your housing paid off someday so you don't have a cost of housing is really a nice objective. So really it doesn't matter if you buy in 2014 and the price goes down a little before it goes up — the only way to do that is to get your toe in the water and get started.

OK, how much of my income should go toward housing costs?

There are rules of thumb, about 25 to 30 percent going to housing, and in our community, I think that's workable. I think it's more important also to personalize it and look at one's budget. I know people who are really homebodies, and they spend 40 to 50 percent on housing but they don't care to travel.

How much time should my emergency fund cover?

The variation would be somewhere between six months to two years of expenses. I'm not using the gross-income multiple, I'm using the expenses multiple. Oftentimes for retirees, I say two years of expenses. They can ride out a two-year market contraction and still be OK.

How many credit cards should I have?

I think everybody needs at least two, because you could have one lost or stolen, and you'd need the other one. I don't know that people need more than two.

Which debt should I pay first?

The most expensive. The highest interest-rate one. So usually credit cards are the highest interest-rate ones. Put all the money you can on the highest-interest-rate one first until that one's paid off, then go to the next-highest interest rate. And I do see people send in extra money to the mortgage, and the mortgage costs 3.5 percent, and the credit card might have 12 percent.

Should I be saving for retirement while I have credit card debt?

Yes, still save for retirement, at least take advantage of a match if you have a match in your 401(k) at work. Be honest with yourself. Are you ever really going to get that debt paid off? If not, just get started in the retirement savings, because it's much harder.

If I have some extra money, ha, what should I do with it?

If you've maxed out your 401(k), I guess maybe a Roth. Once a Roth IRA has been open for five years, one can get the original principal with no penalty. So we oftentimes recommend that everybody — even if you can only afford $100 a month — open a Roth and start your five-year timeline, because after your five years, you can get your original principal with no penalty and no taxes. So your Roth can double as an emergency fund.

Uh, how do I diversify?

It takes a little bit of understanding of what you're investing in to know if you're diversified. And that's not easy for the average person, but the average person has probably been introduced to target-date funds, and those accomplish diversification. I personally like the lifestyle funds best. Some people who are very young are still conservative. But those funds are all really well diversified, the name-brand ones, Fidelity or T. Rowe Price or Vanguard.

Should I budget everything? Every dollar?

Well, I think you definitely want to make sure that you're covering all the biggest categories, but it's fine to have a little bit of fudge in there, and whether the money gets spent on Starbucks or happy hour, it can just be a little bit of pocket change. My experience of 20 years and nine months of doing this stuff is that your budget has to fit your personality. If you're not the kind of person that is going to budget down to the penny, then don't ask that of yourself.

Should I have a will even if I don't have much money?

Everyone needs a will, but even more important than that, everyone needs powers of attorney, because Colorado state statute will have a will for you if you don't have one, but what if you're incapacitated and can't take care of your own affairs? I had a client whose son was taken ill and the landlord wouldn't even let her in to take care of his dog. In Colorado, we recommend a medical power of attorney and a financial power of attorney.

Should I have life insurance?

If nobody's depending on you, you know, you're single and you don't have any dependents, you don't need a whole lot of life insurance. Life insurance is for the purpose of replacing your income. If you're the breadwinner in your family, then yeah, you need life insurance, somewhere around 5 to 10 times income. More like 10 times income for people who have young babies. The other funky one that throws people off is, the at-home spouse still does need life insurance, because if the breadwinner loses their at-home spouse, then they'll probably need to hire a nanny. I would still recommend around quarter-million, half a million on an at-home spouse.

Should I do my own taxes?

If they're simple, TurboTax, and the H&R Block one, TaxCut, for the majority of people, those are great. But if somebody has rental properties, if they have a business, if they have a complicated situation, then they are much better off going to a professional tax preparer.

Should I pay someone to help me with my finances?

Well, the history of my industry is that we don't serve people well who don't have very much money. People who don't have very much money don't know where to turn to get good financial advice. Our industry really targets the folks that are the millionaires next door and above.

The average baby boomer has $14,000 in retirement savings. For the majority of people, they're not going to get a lot of value out of paying. But there are some fee-based advisers now who specifically target that person, and they only charge a fee and they keep up with them.

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