Guerilla Finance
James Frederick

Financial advice for the average person trying to crawl out of, or stay out of the hole.

The author, James Frederick, starts out by describing a supposed war between the small guy, the individual for whom the book is intended, and powerful forces including corporations. This is a little bit overdrawn. It is not a war per se, simply that the big corporations, the advertisers and the banks are run by smart people, and they take advantage of the unsophistication and laxity of the average person.

In any case, the result is the same. As Frederick says, in order to pull yourself up, you need to break free of the bonds that these powerful forces would impose on you. And to that end this book is very well structured.

Frederick starts with a good observation that the old rules don't work anymore. The game is rigged. It used to be that buying a house buying stocks were fairly good ideas. The federal government has put their hand so deeply into these markets, and so manipulated things, that one has to re-examine the rules.

At the same time, the nature of work is changed. There are not that many full-time jobs anymore, and jobs making things, jobs that actually produce stuff, are disappearing. There is an increasing gap between jobs that take education and intelligence and those that don't. Most of the jobs being created in America are low-level service jobs. Many are held by people with expensive university educations but no real marketable skills. We have to adjust to this fact.

Many people remain victims of conventional wisdom. They spend a fortune going to college only to find that their education has not prepared them well for the workplace. It's a poor education, overpriced, and they become saddled with debt which is brought on by a conspiracy between the federal government, the credit card companies, the student loan racket and the banks.

Frederick describes the corporations as guiltless, shameless, and exploitive. I think he is overdrawing it. They are simply amoral, ready to take advantage of anybody they can. If you are stupid enough to take out debt on their terms, they are smart enough to suck you dry. Is this immoral or simply amoral? In either case, it is your job to stay out of their clutches.

Frederick starts with some very good advice. Don't spend money you don't need to. Don't smoke. Don't spend $100 a month on a cell phone, or another hundred dollars a month on cable TV. We simply don't need those things. Don't drive a huge SUVs; an older smaller car will work just fine. You can save the money and do something with it.

Frederick observes that people don't even respect your great big car; they respect self-restraint and intelligence more. If you can show people that you are different from the pack, it will garner you more admiration than motoring around in a 2 ton Hummer. My wife married me despite the fact that I don't have a car. My ex-wife always throught of me as the guy who commuted by bicycle, and was rather shocked to find there was a little-used Mercedes in the garage. A bicycle is far cheaper, in addition to which it keeps you in shape.

Frederick excoriates advertising, as well he might. It creates false desires in people. Keeping up with the Joneses, the people next door. And of course, encouraging people to aspire to partnering with women who are far beyond their class, in beauty and intelligence. As if, drinking the right soft drink or smoking the right cigarette could influence that. Only a very small bit of thought is required to recognize how absolutely stupid those premises are. And yet, the advertisers are successful in promoting their soaps, aftershaves, perfumes and all of this nonsense that we don't need and which cost us a lot of money.

Frederick advocates that you avoid membership cards, giving personal input information to corporations. Every bit of information they have about you they were used to exploit you. While I agree that this is true, if you are in the habit of resisting exploitation, why not take their bargains and let them try? Follow his advice and use an assumed name; keep a throw-away email for just this purpose.

He talks about the frugality of buying used clothes and of renting in cheap, iffy neighborhoods. I interject a note of caution. Masculine rationality is different than feminine rationality. If you are trying to attract a women, frugality is not the most salable personal trait. You might you may buy things on the cheap, but don't brag about it. A woman wants to feel that she will spend money on her. Women want people who are money-smart, not cheap.

Frederick argues against putting money into a retirement plan. In this he is ahead of the times. I succeeded by putting a lot of money into retirement, but that was when things were stable. The way that the government is going broke down, he is absolutely right. Take the money and run.

Frederick is really addressing people at the low end of the income scale. People who are working at McDonald's could follow his advice. He talks about buying 1 ounce of silver – that costs about $10. He talks about living in iffy neighborhoods to save on rent, and putting newspaper in the windows. This is these measures are more extreme than most will be willing to take. I would say each person has to assess their own situation and decide what economies are necessary. The one thing on which I would agree with Frederick is that everybody should aspire to have a positive monthly cash flow and to avoid debt.

Another area in which Frederick is ahead of the times is questioning the wisdom of buying a house. The federal government, with the inflation that they have built into the housing market, makes this a trickier investment. Houses often cost more than they are worth. One of the things that Frederick does not do is to talk about spreadsheet modeling, discounted cash flow. That would be beyond the power of most of his readers. But, we can project that houses may not be a good return on investment. I write this is a guy who has owned real estate all of his life and profited quite well from it. These advantages are changing. There are fewer and fewer people coming of age who will be able to afford to buy your house from you more than you paid for it. On the other hand, mortgage money is now cheap and if you can be assured that you will be able to pay the mortgage, it may make sense because you will have an asset that appreciates with the coming inflation. In the market of 2013, be absolutely sure to get a fixed-rate mortgage.

Frederick's is goal is to get lean and mean. A global economy overburdened by debt and contraction will give way to a localized economy where the value of one's skills or goods produced will be the real capital, not the allusion of capital that easy credit or debt financing have provided in this past era.

Frederick says do not get an adjustable rate mortgage. In that he is absolutely right. Just look at what is happening with adjustable rate student loans as Obama switched the interest rate from 3% to 6%. People are strung out and going broke. This is same with ARM's – they contributed to the meltdown in 2008. If you're going to buy a house, by all means take a long take a 30 year mortgage with a low interest rate. Then as the government allows inflation to go out of sight, you will have an asset that at least rises with inflation. The downside once again is that you will be taxed on the inflated value of the house, not on a constant-dollar profit. Frederick points out that being a homeowner you are sitting duck for fees such as property taxes. In other countries such as France there also wealth taxes, so he on an expensive house you may be subject to those. Real estate is not very portable. You can't take it out of the line of fire.

Demographics offer another risk. As the composition of the neighborhood changes, the value of real estate tends to change as well. A rule of thumb would be to buy in most expensive possible neighborhood, one that will not experience a change in demographics. This is hard to do, as the population of America is becoming more and more weighted toward poorer demographics.

Frederick advocates keeping financial records. I absolutely support this. He says use this on paper. Without I disagree. Everybody, everybody who reads this will have a personal computer. Personal finance software like Quicken is relatively easy to use. For people who have the discipline to keep records – admittedly a minority, but that the audience of this book – learning Quicken should not be a difficult task.

Frederick advocates accumulating cash. That remains a viable option for the moment, but the government's money printing is pushing us into inflation, though when is not clear. Since Frederick is talking to people without a vast net worth, they are people who are beneath the radar of the tax authorities. Buying hard assets which are quite liquid, like gold coins, is a pretty good strategy. As long as you have a place to put them where the government can't find them you'll be in good shape. By the way the government found safe deposit boxes in 1933 when Roosevelt outlawed gold ownership. You have to be creative about this.

Frederick prefers silver to gold. As an investment, silver has the advantage that it is in smaller denominations, and therefore more useful in an emergency when cash doesn't work. Gold, on the other hand, is more compact. He talks about the dangers of tungsten filled bars. There's been talk about this, but very few real instances, and the banks have mechanisms for checking the authenticity of a gold bar. Specifically, the electrical properties of gold and tungsten are different, and it doesn't take vastly expensive equipment to figure out which is which. An advantage that Frederick doesn't mention is that gold has more value per weight and is hence more portable. It also has smaller transaction costs.

Frederick talks about conventional investments: stocks, bonds, mutual funds, options etc. This discussion is somewhat at odds with the skepticism about government, corporations and banks expressed early in the book.

I disagree with Frederick about using mutual funds. Most mutual funds underperform the market. Few professional managers have much of a lock one genius. I would recommend that a person buy individual stocks in companies that they know. Don't follow the crowd and by something like Apple, but if you work for a public company in your geographical area that you know something about, whose products you know, and whose employees are upbeat on the company, buy it.

Frederick talks about the certified financial advisor exam. CFAs have knowledge that has been taught. If they had any lock on genius in the market, they would be rich. They wouldn't need pesky clients like you. That is a golden rule of investing. Somebody who is really good does need you. If an investment advisor is dealing with the public, the odds are quite good that he is no better than average.

Frederick says he has never owned real estate. I have, and it's not quite the headache that he makes it out to be. It was a good investments from 1975 through 2005. I am not sure that it generally is now, because the housing market has been so manipulated by the federal government. On the other hand, part of that manipulation is to hold interest rates down, so owning rental property with a low rate long-term mortgage might not be a bad deal. The best that you make is that you can continue to rent it for enough money to cover the mortgage. That's probably possible, although just in the last year that situation has changed.

Frederick is somewhat right in saying that your personal credit score is worthless. If you can't buy something with cash, you don't need it. Yes! This should be true of everything except real estate. With real estate you need leverage and you need a good credit rating.

Had I written this book I would have added a couple of chapters. One is the income side of the equation. Where you live can influence how much you make. You have to make tradeoffs among your community, your commute, your income and your expenses. I used to live in Washington, D.C. Incomes are good, but the costs of living, taxes and commuting are high.

Frederick doesn't mention family. Becoming financially independent should be no trick for somebody with no dependents. A hobo is financially independent. The trick is to build wealth at the same time you build a family.

Lastly, Frederick could talk about living overseas. An increasing number of people have the freedom to work entirely via the Internet and Skype. They can be anywhere. The cost of living is much lower in Mexico, Costa Rica, Panama or Ukraine. In Kiev, where I live, public transit is excellent. Buses cost between 12¢ and 30¢. Staple foods like potatoes, carrots and beets average about 25¢/lb. Private medical care is about a quarter what it costs in the US. Americans who come here to teach school or on corporate assignments can make out quite well.

In summary, a good book, one which challenges conventional wisdom and offers lots of solid advice. He certainly asks the right questions. Even at points where one might quibble about an individual answer, the reader will be vastly better off having thought about the question.