

Personal Finance: Turning Money Into Wealth

Author: **Arthur J. Keown**

Publisher: Prentice Hall

ISBN: 0-13-104156-8. \$114

Reviewer: **Sherman D. Hanna,**

Professor

Ohio State University

This is the most engaging personal finance textbook I have seen. I must admit that Keown had me on page 1 with a photo of Elvis Presley, but the interesting celebrity photos (including Homer Simpson and Dilbert) are but a small part of what makes this a nice and effective personal finance text. The use of items from the *Wall Street Journal* and other financial publications is good, including a number from my favorite, Jonathan Clements. Even though this text is clearly for a general personal finance course, Keown integrates the use of a financial calculator, making this a good choice for programs that train financial planners.

The text is as up-to-date on most topics as possible, given the lag time in publishing textbooks. I would, however, have had some coverage of online banking, especially since a reminder is given to balance one's checkbook immediately after receiving the monthly statement. With online banking, one can do this weekly.

The chapter on credit cards is very good, including the advice "Don't even consider investing money if you have consumer debt." Even though I do not regard this as an absolute rule for everyone, it is excellent advice for most consumers. As Keown points out, "No investment can guarantee you a return equal to the 18 to 21 percent cost of credit." For the college student audience, this is absolutely right --- any possible benefit of getting into the saving/investment habit earlier by violating his advice is not going to be worth the high interest rate most college students have to pay on credit cards.

The chapter on planned borrowing is also good – Keown points out the benefits of student loans. I wish students would take out more student loans – I have seen too many students fail because of limited time due to working too much. Keown does not go into detail about the repayment options, though he does list some web sites that have more information. The options available now make borrowing for education extremely attractive, because if income after graduation is lower than expected, income contingent repayment plans can make for low payments.

In the insurance chapter, I was thinking that it lacked a worksheet for analyzing life insurance needs, but then noticed mention of a worksheet from Keown's Prentice Hall web page. Putting extra material on the web does make a textbook less likely to contribute to physical problems.

Keown's coverage of health insurance is pretty good, though for the most part it is based on the premise that either one's employer will provide a choice, or one will look for a full coverage plan. Having gone through the stage of a child turn 23 and between jobs, I am familiar with the range of choices available for individuals choosing health insurance. Keown does give the generic advice to have as high a deductible as you can afford, but does not spell out that a high deductible also means that careful budgeting is needed. Shopping for health insurance on the web gives one many choices, and the differences in premiums by the size of the deductible is tremendous. A young adult in Ohio could purchase a \$1,000 deductible policy for as little as \$50 per month, but in Massachusetts, the cost might be 10 times that. There is also the problem that some medical services are discounted for insurance plans, so the game is not completely fair. At any rate, presenting this choice could make the topic more concrete for college students. Keown has much more coverage of Medicare, Medigap, and Medicaid, which are important topics, though probably not of great interest to the typical college student. Pointing to some of the better insurance web sites would also be useful.

Keown provides a brief, though clear, coverage of disability insurance. He even has a worksheet for disability insurance needs, though he does not point out that typical employer provided disability benefits are integrated with Social Security benefits, so that the total possible benefits are much lower than the sum of the employer and Social Security benefits. He lists a tollfree number to call Social Security, but these days, a college textbook should list the Social Security web site. The online information and the quick benefits calculators are extremely useful. Coverage of property and liability insurance is clear – I especially liked the chart explaining split coverage listing of auto liability insurance.

Keown's coverage of investing is extraordinary. The color graphs for topics such as the benefit of diversification are great. His approach is more consistent with mine than any other personal finance textbook I have seen. For instance, he states "If you try to time the market, you're just as likely to miss an upswing as you are to avoid a downswing. In the chapter on securities, he warns the reader to be wary of hot tips and expert advice on picking stocks. He includes my favorite graph from the *Ibbotson Yearbook of Stocks, Bonds, Bills, and Inflation*, which shows that if you had an ancestor who could have invested \$1,000 at the beginning of 1926 in a small stock fund, there could be \$7,860,000 by the end of 2001. (I would have been happy enough to have had a grandparent who did the same with a large stock fund, even though by the end of 2001, I would have had only \$2,279,000.) Keown briefly discusses and dismisses technical analysis.

The textbook covers the usual range of topics, including estate planning and retirement planning, then ends with a chapter designed to get college students on the right track, "Putting the Pieces Together."

The treatment of topics and excellent graphics give this textbook a very modern look, though it would be helpful to have more consistent references to the excellent web resources available, especially for insurance and Social Security.