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## Making the Most of a Windfall



You've heard the story of the lottery winner who burns through his millions like Monopoly money and ends up in a trailer park. And if you haven't, [here's a roundup](#) of eight such cautionary tales.

It's an appealing story. You and I are never going to win the lottery, so we can tell ourselves, hey, I'd never be that much of a dumbass. Yes, I deserve a big pat on the back—except, wait, I've made the same mistake on a smaller scale. Repeatedly.

### Big hunks

When a professional financial adviser says "windfall," they are generally talking about an amount of money that would kill you if it fell on you. I know this because I recently spoke to a bunch of financial advisers. The word "million" was used many times, as was "wealth management." How do you know if you need wealth management? If you can read this without putting on your monocle, you don't need it.

Then again, a lot of us will have an actual windfall. Maybe not a million, but say five figures plus. It happens most often when people inherit money, get divorced, or sell a business. And to hear the planners talk, a person coming into money is kind of like a country striking oil. Awesome! How could this possibly go wrong? Then a few months later you're at war with Iran/your greedy brother.

So windfalls are an important topic, and it's good to think about the big event before it happens, but it's probably not the first thing on your mind in 2010. After talking with those financial planners, however, I realized that there isn't much difference between big windfalls and little ones.

Nearly every planner gives the same advice: if you come into a big chunk of money, the first thing you should do is nothing. Don't quit your job; put the money into an extremely boring account (like a money market fund or CD); let it sit there for three to twelve months until the urge to break a bottle of Cristal over the bow of your yacht passes. Some planners are a little more generous. "I encourage them spend a small amount, five to ten percent, on something frivolous to acknowledge the windfall," says Jorie Johnson of Financial Futures in New Jersey.

While the money is sitting in the boring account, you make a plan: How can I best use this money to achieve my long-term goals? Retirement or college savings? A house? A new career? (You know, boring stuff.)

Meanwhile, your planner will be delivering a necessary buzzkill. "I had a client years ago who got divorced and got \$5 million," says Jill Boynton of Cornerstone Planning in New Hampshire. "And we had to show her that even this money is not going to give her an extravagant lifestyle for the rest of her life."

## Little lotteries

I've never received the kind of windfall that would have me running to a financial planner or yacht dealership. Not even close. But I have let money slip through my fingers because I didn't recognize it as a windfall.

Forget about the million dollars. What if you made an extra thousand dollars? A holiday bonus, a sales commission, overtime pay, a gift from a rich uncle, the first paycheck at a new job—it happens all the time. You know it's not a life-changing amount of money. It's extra. You're probably already thinking about the cool stuff you could do with an extra grand. (I certainly am.)

I think Jorie Johnson's advice applies equally well to a thousand bucks as it does to a million: set it aside until the thrill wears off, spend a little, save the rest.

Recently I started doing something often recommended by frugal people. I have a couple of moderately expensive hobbies. When I want to buy something related to one of these hobbies, I have to do two things. First, I save up the money. (Duh.) Then I write down what I want and how much it costs. I keep this information on a spreadsheet. Once an item has been on the sheet for a whole month, I can go ahead and buy it.

You know the rest: by the end of the 30-day waiting period, I rarely actually want the thing any more. I'm looking at my spreadsheet right now, and in the last four months, I've decided not to buy \$600 worth of stuff, including some really stupid stuff. (Why did I think I wanted a box that lets you hook up four pairs of headphones to one computer?) Of course, I did spend some money on my hobbies during this time—about \$300.

Sure, I knew philosophically that people (other people) spend money on stuff they don't need. Now I have proof.

## Adding it up

Little windfalls add up. That \$1000 could take a chunk out of some high-interest credit card debt or pay for a credit or two of college. And the average person living in anything other than desperate circumstances receives several such mini-windfalls every year.

There's one other type of windfall that tends to magically disappear: a raise. What should you do when you get one? "The best thing they can do with it is immediately increase their 401(k) contributions by the amount of the raise if they're not already maxing out the 401(k)," says Jill Boynton. "So that way they've just increased their savings and they haven't changed their lifestyle at all." (I'm so glad Boynton said this so I didn't have to!)

Now, if you'll excuse me, I seem to have misplaced my monocle.

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