

# FINANCIAL PRINCIPLES NO ONE EVER TAUGHT ME

## Adapted from a lecture by Reed DeVries

**RESOURCES:** War on Debt by John F. Avanzini; Richest Man in Babylon by George S. Clason; Rapid Debt Reduction Strategies by John F. Avanzini; Millionaire's Common Sense Approach to Wealth by Dexter Yager; Wealth Without Risk by Charles Givens; The Debt Squeeze by Ron Blue; Master Your Money by Ron blue (also has an additional workbook).  
**OTHER BOOKS TO READ:** Rich Dad, Poor Dad by Robert T. Kiyosaki, The Cashflow Quadrant by Robert T. Kiyosaki, The Power of a Millionaire Mentality by Richard Solano

### PRINCIPLES TO START WITH:

- We all start out in life wanting to succeed and expecting to succeed financially.
- You have a responsibility to yourself and to your family to learn to manage your money and to teach it to your children.
- Be patient – you can't overcome your problem overnight (it wasn't created overnight).
- Money is never an end in itself, but is merely a resource used to accomplish other goals and obligations and to help other people.
- Spend less than you earn, and do this for a long time, and you will be financially successful.
- You can spend money any way you want, but you can only spend it once, and you are fully responsible for your decisions.

### TOP REASONS PEOPLE ARE IN FINANCIAL TROUBLE:

- Consumptive lifestyle – they spend more than they can afford
- Lack of a plan (goals & budget)
- Purchasing automobiles unwisely
- Impulsive buying habits
- Going into debt for luxuries
- Not looking at all the alternatives and not being patient
- Not willing to take advice and suggestions (from those who are financially free)
- Not taking care of and maintaining a checkbook (have no idea where they are at financially)
- Purchasing too much on credit
- No discipline
- Not honest with themselves
- Not committed to succeeding financially and getting out of debt
- Do not use common sense
- Feel that they or their kids deserve something before they can afford it

### YOU ONLY HAVE SO MANY OPTIONS OF WHAT TO DO WITH YOUR MONEY!!!!!!

#### \*\* 5 short-range objectives:

- give it away
- spend to support a lifestyle
- repay debt
- taxes
- accumulate or save for long-range objectives

#### \*\* 6 long-range objectives:

- financial independence
- college education
- pay off debt
- major lifestyle desires
- major charitable giving
- owning your own business

# 4 STEP PROCESS TO GAINING CONTROL OF YOUR FINANCES

## STEP 1 --- SUMMARIZE YOUR PRESENT POSITION

You must develop 2 statements: (forms are provided on the second to last page)

### A. A net worth statement

Assets minus liabilities = Net Worth

*Assets* - Liquid (easily converted to cash) and Non-liquid (takes a while to convert it to cash); examples: home, auto, boat, IRA, furniture, etc. Be honest with the actual \$\$ you would get for it.

*Liabilities* - List everything from smallest to largest;

Account	Amount owed	Interest rate	Minimum payment
---------	-------------	---------------	-----------------

### B. A cash flow statement (without a cash flow margin, you cannot accumulate in order to meet long-term goals)

Total income minus total expenses = Cash Flow

Do a budget analysis for a month –

*Total income* (put net income and do not inflate)

*Total expenses* (list everything – go through check register for last few months)

Put down monthly commitments and living expenses.

**YOUR CASH FLOW MUST BE POSITIVE!**

## \*\*\*\*\* STEP 2 --- ESTABLISH FINANCIAL GOALS \*\*\*\*\*

### SHORT TERM GOALS

- Eliminate all high interest debt
- One month's living expenses in checking account
- 3-6 month's living expenses in saving's or money market fund
- Major purchases savings, to meet lifestyle goals, in a money market fund
  - car
  - home
  - vacation
  -

### LONG TERM GOALS

- Invest, to meet long-term goals, in mutual funds, money market funds, etc.
  - college education
  -
- Eliminate mortgage debt
- Invest to meet financial independence goals
  - retirement
  -

## STEP 3 --- INCREASE YOUR CASH FLOW MARGIN

### 2 STEPS TO INCREASE YOUR CASH FLOW MARGIN

1. Increase your income
2. Reduce your spending and debt

### THOUGHTS ON DEBT:

- Primary danger of debt is that compounding works against you.
- Major problem people face is how to get out of debt.
- Debt is no one's friend; it will always make you a slave.

- You cannot lend or borrow money without getting into a master-servant relationship.
- Remember – it is easier to jump into a hole than to get out of a hole.
- Debt can sentence you to a lower standard of living in the future.
- The goal of banks and financial institutions is to lend you money.
- Even if you want to stay out of debt, the entire economic system is allied against you.
- Reasons for debt:
  - ✓ lack of discipline
  - ✓ lack of contentment (if you are not happy now, you won't be happy at another income level)
  - ✓ search for security
  - ✓ search for significance
- Advertising illusions: You can't live without it; why should you deny yourself; enjoy now, pay later, there's little or no cost involved; this product or service will meet your real needs.
- DON'T EVER LEND MONEY TO ANYONE. (if you want to help someone financially, think of it as a gift, not a loan)

#### **ASK THESE QUESTIONS ABOUT BUYING AND GOING INTO DEBT:**

- What will this accomplish? Is there another way?
- Is it necessary?
- Does it make economic sense?
- What are the long term consequences about debt?
- Can you guarantee repayment?
- Do you feel right about it? (sleep on it)
- Have you sought counsel and advice before you buy it? When in doubt – DON'T BUY IT
  - ✓ Take your time – think things through!!

#### **TYPES OF DEBT**

- Credit card- interest usually 12-21%
- Installment Debt- interest usually 6-14% (usually for furniture, boats, cars, etc.)
- Mortgage- interest usually 6-15% (for home or other real estate)
- Investment
- Business

#### **HOW TO GET OUT OF DEBT:**

- You get out of debt little by little over time, and the major requirement is discipline. It almost always requires a change in life-style and a reordering of priorities. The only alternatives to gradual repayment of debt are to sell assets or to increase your income.
- Determine where you are at, financially.
- Stop going into debt – there will be no additional borrowing for ANY PURPOSE. Cut lifestyle to increase cash flow.
- Develop a repayment plan and stick to it – sell assets (look around your house); make double payments; reduce tax withholdings; potentially seek a debt consolidation loan **ONLY IF YOU UNDERSTAND THAT IT IS NOT EXTRA MONEY TO SPEND ELSEWHERE**
- Establish accountability – be honest with someone.
- Talk to those whom you owe money.
- Protect your house payment.
- Consolidate debt **ONLY AS A LAST RESORT** – You **DO NOT** have extra cash flow when consolidating.
- Increase your income.

**CUT SPENDING TO MINIMUMS – DEBT PROBLEMS ARE NOT INCOME PROBLEMS, THEY ARE SPENDING PROBLEMS!!!!!!!!!! YOU MUST HAVE A POSITIVE CASH FLOW IN ORDER TO ACHIEVE YOUR LONG-TERM FINANCIAL GOALS!!!!!!!!!!**

## RULES AND SUGGESTIONS:

- Cut out anything and sell anything that will not get you to your long-term goals and reduce your spending in every area EXCEPT GIVING!!!
- Housing – Cut utility bills by lower heat at night, reducing water consumption, shutting lights off, etc.
- Food – DO NOT EAT OUT!!!! DO NOT GRAB FOOD AT CONVENIENCE STORES OR FAST FOOD OR ORDER OUT!!! \$2.75 per day = \$1000 per year; take that and invest it for 40 years at 12% = \$1 MILLION
- Clothing – Right color and good fit, not brand name. Avoid fashion trends; nice shoes and niceties/ accessories can do much more. The greatest thing you can wear is your smile.
- Entertainment/Recreation – Cancel cable, newspapers, magazines, recreation memberships, attending movies, etc.
- Children – They do not need new clothes, teach them work ethics; make them earn their money – don't just give it to them.
- Impulse buying – always shop with a list and never grocery shop before eating. NEVER BUY ANY SPECIFIC MAJOR ITEM WITHOUT SLEEPING ON IT OVERNIGHT.
- Habits – Cigarettes, pop, beer, etc. (you could invest that money instead – back to food)
- Furniture – Delay buying it; shop for prices.
- Sell assets – guns, boats, etc., if you don't really need it.
- Telephone – Use it wisely. You do not NEED the newest, greatest cell phone.

## DEVELOPING A GAME PLAN FOR REDUCING AND ELIMINATING YOUR DEBT

- List all your debt from largest to smallest balance as shown (form provided on the last page)

Debt	Monthly payment/Balance	month 1	2	3	4	5	.....
<i>a.</i>							
<i>b.</i>							
<i>c.</i>							
- Each month pay the monthly minimum of *a* first, then *b*, and when you get to the end put any extra money you are putting towards debt retirement on the ones at the bottom and pay them off entirely
- Take the monthly payment amount from the item you paid off, and apply that amount towards the monthly payment of the next to the bottom. If you pay off a debt, IT IS NOT FREE MONEY – IT MUST GO TO DEBT UNTIL ALL DEBT IS PAID!!
- Keep doing this, and you will see progress being made.

## PRIORITIES ON PAYING YOUR BILLS:

- Giving
- Home mortgage
- Utilities (heat, lights, etc.)
- Automobile payment (and insurance)
- Telephone
- Then: health insurance, taxes, debt, seed money.... **Meet your obligations before spending on a new purchase.**

## CREDIT

Credit is having the right to borrow.

### Myths and Misconceptions:

- You can't live without it.
- Having a credit card means you're credit worthy.
- You have to have a credit rating.

## CREDIT CARDS

- Merely putting a credit card in a potential user's hand will lead the person to spend 34% more.
- Average credit card debt per college student: \$3173
- Average credit card debt per family: \$7900!!!
- Dangers of credit cards:
  - ✓ high interest, overspending
  - ✓ increased debt
- Benefits of credit cards:
  - ✓ record keeping
  - ✓ convenience
  - ✓ not carrying cash

## RULES IN USING CREDIT CARDS

- Begin with a spending plan.
- Use a debit card
- Always pay the full balance (Immediately write a check after every purchase.) Never pay just the minimum (unless you are using the snowball plan for getting out of debt).
- If you can't afford to save money in order to pay cash, you can't afford to buy on credit!
- Burn excess credit cards - You should have a maximum of 2 credit cards. Put in a glass case and mark - Break in case of emergency.

## THOUGHTS ON PURCHASING AN AUTOMOBILE: Most people make bad financial choices in automobiles.

- You don't always need a newer car. The cheapest car anyone can ever own is the one they presently own, unless it is sold and the proceeds reinvested in a lower priced car.
- When to replace a car? A) Time - if a car requires so much of your time in keeping it repaired that the cost of your time is greater than the cost of replacing the car. B) Cost of repairs - excessive repair costs (do your monthly costs in repairing the vehicle exceed what a monthly payment on a different vehicle would be?). C) Safety - if it has become unsafe.
- Most auto accidents take place on the lot! Rules: A) Never buy for ego or prestige. B) Try to sell your own car rather than trade in. C) Shop around for bank loans. D) After the loan is paid off, continue to pay yourself to prepare for the replacement of that vehicle. E) Continue to look at cars so that you know a good deal when it comes time to replace it.
- Avoid leasing - Leasing will never be more advantageous than financing, let alone paying cash. A lease is set up strictly for convenience sake.
- If you finance a car - How long will it take you to have the odometer at 100,000 - 110,000 miles? That's how long you should take the loan for. (NEVER finance for more than 36 months - if you can't afford that payment, then the car is too expensive.)
- Study options before you buy. Can you replace the motor on the car you have now?
- Don't buy on projected income growth.
- Shop around for insurance on the car, and let them know you are shopping.
- Push up the deductible, and have no collision if it is an older car.
- Buy a good used car rather than a new one.

**THOUGHTS ON PURCHASING A HOME:** Owning a home is not a right, but a privilege. Purchasing a home will require financial sacrifices in some other part of the budget. The cost of owning a home is much more than just the purchase price of the home.

- Do not purchase based on projected growth of income.
- The best house is the one with the smallest mortgage. Do not buy a home to impress people.
- Do not believe that you must own a home. It is possibly better for you at this point to rent.
- DOWN PAYMENT - Have 20-25% cash to use as a down payment.
- Have a guaranteed way to repay your loan; this will give you peace of heart and mind.
  - ✓ go with a fixed rate mortgage rather than any type of adjustable loan
  - ✓ choose a 15 year loan rather than a 30 year
- REFINANCING - A rule of thumb is that the new rate should be at least 2% less than the rate you are currently paying in order for the refinancing to make economic sense. It will take 2-3 years to recoup expenses incurred at the 2% difference in rates.
- Avoid credit life or mortgage insurance. Get a term life insurance policy instead.
- One additional payment each year on your house can reduce the total term of the mortgage by almost a third.

**IDEAS TO REDUCE THE INTEREST PAID ON LOANS (that the bank will not tell you):**

- Make the first payment on your loan the day it is activated
  - ✓ Example: \$100,000 loan for 30 years a 10% interest
    - 1 payment - save 18 months (1.5 years) and \$14,941.01 in interest
    - 2 payments - save 34 months (almost 3 years) and \$28,106 in interest
    - 5 payments - save 73 months (just over 6 years) and \$59,642 in interest
- Make a half payment every 14 days (one extra payment per year). You will save 9 years, 11 months of payments and \$75,816 in interest.
- Specify addition \$\$ to loan balance each month (\$100 extra principal payment each month saves 12 years, 9 months and \$90,508 in interest)
- Pay off the house in 15 years rather than 30 years.
  - ✓ 30 years - \$877.57 per month; total - \$315,925
  - ✓ 15 years - \$1074.61 per month; total \$193,429 (saving \$128,496 in interest)
- Reduce interest rate - a drop of 4% on a \$100,000 loan can save over \$100,000

## **STEP 4 --- CONTROL YOUR CASH FLOW**

### **LEARN TO BALANCE AND RUN YOUR CHECKBOOK - HINTS**

- Enter all transactions - checks, deposits, returned items, overdraft charges.
- Every month balance your account with the bank. Do it immediately.
  - ✓ Circle all the checks that are processed.
  - ✓ Check that all deposits are credited.
  - ✓ Note any debits to the account.
  - ✓ Enter bank charges.
- If you can't figure it out or if it is out of control, close the account, go to another bank, and start over!!!!
- File all bank statements, cash deposit slips, and cancelled checks.

## **RULE: GIVE 10%, SAVE 10%, LIVE ON THE REST.**

### **GUIDELINES FOR GIVING**

- Give first - take 10% from your (gross) paycheck immediately.
- Give wisely.
- Give quietly.
- Give joyfully.

## LEARN THE LAW OF INVESTING AND SAVING

- Invest in your future first and your pleasures second. If you invest in your pleasures first, you will never have a future.
- When you invest in your self-growth (books, seminars), you are investing in your future.
- START NOW – Investing \$2000 per year in an IRA
  - ✓ Value of your investment at age 65 assuming an 8% return:
    - START AT AGE 25 = \$606,487
    - START AT AGE 35 = \$266,427
    - START AT AGE 45 = \$108,914
    - START AT AGE 55 = \$35,954
- PLAN AHEAD – Retirement savings needed if you want a pre-tax monthly income of these amounts when you retire (not taking inflation into consideration):
  - \$1000 per month: \$250,000 (in a 5% return); \$150,000 (in an 8% return)
  - \$2000 per month: \$500,000 (in a 5% return); \$300,000 (in an 8% return)
  - \$3000 per month: \$750,000 (in a 5% return); \$450,000 (in an 8% return)
  - \$1000 per month: \$1,000,000 (in a 5% return); \$600,000 (in an 8% return)
- BE WISE AND LOOK FOR THE BEST INTEREST RATE FOR YOUR RETURN
  - ✓ At the following interest rates, this is how long it would take for your money to double:
    - 3% - 24 years;
    - 4% - 18 years;
    - 5% - 14.4 years;
    - 6% - 12 years;
    - 7% - 10.3 years;
    - 8% - 9 years;
    - 9% - 8 years;
    - 10% - 7.2 years

## ADDITIONAL HINTS IN CUTTING YOUR EXPENSES:

### ➤ INSURANCE

#### ✓ CAR INSURANCE

- Drop duplicate coverage, like medical payments, no-fault insurance, and uninsured motorists' coverage.
- Raise the deductibles on your automobile policy to \$500 or more.
- Never file an insurance claim for under \$500.
- Check insurance rates on an automobile before you buy it.
- Ask for the 5 basic automobile insurance discounts.
  - ✓ multi-car owner
  - ✓ driver training
  - ✓ good driver
  - ✓ anti-theft equipment
  - ✓ senior citizen
- When the value of your car drops below \$1500, drop the collision and comprehensive coverage.
- Decline all extra insurance coverage when you rent a car.

#### ✓ HOMEOWNERS INSURANCE

- Raise the deductibles on your homeowner's policy to \$500 or more.
- Replace expensive mortgage life insurance with inexpensive term insurance.
- Buy replacement value coverage, not market value coverage, on your home and contents.
- Video-tape your valuables for insurance records.
- Carry fire insurance of at least (but not more than) 80% of the replacement cost of your home.

✓ **MEDICAL/LIFE INSURANCE**

- Raise the deductible on your medical insurance to \$1000 or \$2500.
- Buy annually renewable term insurance, and switch companies every few years.
- Never use life insurance as an investment.
- Have enough life insurance to retire all debt, cover burial expenses, and provide 3 years of income (if you have small children) or 2 years of income (if you have teenagers).

✓ **LIABILITY INSURANCE**

- Carry enough bodily injury liability insurance to cover your net assets plus all potential legal fees.
- Buy \$1 million of umbrella liability coverage for under \$150 per year.

➤ **CREDIT CARDS**

- ✓ Deduct a credit card charge in your check register as if you made the purchase with a check.
- ✓ To eliminate high-interest credit card debt, pay an extra \$25-\$100 each month, plus the minimum payment, plus the amount of your purchases.

➤ **TAXES**

- ✓ Choose an aggressive tax agent, or none at all.
- ✓ Create a deductible office at home (if you own a consulting business, plumbing business, construction business, ....)
  - Pay your spouse or kids to help with your job
  - Hire your spouse and create a deductible IRA.
  - Pay your child a salary of up to \$3000 and still claim a dependency exemption.
  - Hire the children to make allowances and gifts deductible – clean the business office, washing the business automobile, answering the phone when you are away, stuffing and addressing envelopes, keeping track of inventory, delivering products, running business errands, entering data on the computer, ....
- ✓ Beat the kiddie tax with a children's IRA.
- ✓ Deduct your job related tools and equipment.
- ✓ Deduct your special clothes (uniforms, ...).

➤ **MISCELLANEOUS**

- ✓ Finance automobiles, furniture, and other personal assets no longer than 24 to 36 months.
- ✓ DO NOT invest the profits from the sale of your old home into your new home.
- ✓ Update your will.
- ✓ Use an asset management account to double the interest you receive from a bank checking account.

**THOUGHTS ON COMPOUNDING INTEREST - \$10,000 invested**

At	8% -- 20 years --	\$46,609	40 years --	\$217,245
	10% --	\$67,274	--	\$492,592
	12% --	\$96,462	--	\$930,509

INCOME

Wages 1 \_\_\_\_\_  
 Wages 2 \_\_\_\_\_  
 Wages 3 \_\_\_\_\_  
 Business \_\_\_\_\_  
 Other \_\_\_\_\_  
**Total** \_\_\_\_\_  
  
 Total Income \_\_\_\_\_  
 Total Expenses \_\_\_\_\_  
 Net Income \_\_\_\_\_

EXPENSES

Alimony/Child Support \_\_\_\_\_  
 Auto(s) - Gas, Repair, Maint \_\_\_\_\_  
 Auto(s) - Payment \_\_\_\_\_  
 Cable TV \_\_\_\_\_  
 Child Care \_\_\_\_\_  
 Clothing \_\_\_\_\_  
 Credit Card Payment \_\_\_\_\_  
 Dry Cleaning/Laundry \_\_\_\_\_  
 Gifts \_\_\_\_\_  
 Groceries \_\_\_\_\_  
 House/Rent Payment \_\_\_\_\_  
 Household Expenditures \_\_\_\_\_  
 Household Improvements \_\_\_\_\_  
 Insurance - Auto \_\_\_\_\_  
 Insurance - Health \_\_\_\_\_  
 Insurance - Home \_\_\_\_\_  
 Insurance - Other \_\_\_\_\_  
 Leisure/Eating Out \_\_\_\_\_  
 Medical/Dental/Vision \_\_\_\_\_  
 Miscellaneous \_\_\_\_\_  
 Newspaper/Periodicals \_\_\_\_\_  
 Personal Care \_\_\_\_\_  
 Pets \_\_\_\_\_  
 Savings \_\_\_\_\_  
 Taxes (Property/Income) \_\_\_\_\_  
 Telephone \_\_\_\_\_  
 Tithing/Charity \_\_\_\_\_  
 Travel \_\_\_\_\_  
 Utilities (Gas/Electric/Garbage) \_\_\_\_\_  
  
**Total** \_\_\_\_\_

ASSETS

Auto(s) \_\_\_\_\_  
 Checking/Savings \_\_\_\_\_  
 House/Real Estate \_\_\_\_\_  
 Personal Property \_\_\_\_\_  
 Retirement/I.R.A./  
 401K/Keogh \_\_\_\_\_  
 Stocks/Bonds \_\_\_\_\_  
 Other \_\_\_\_\_  
**Total** \_\_\_\_\_  
  
 Total Assets \_\_\_\_\_  
 Total Liabilities \_\_\_\_\_  
 Net Worth \_\_\_\_\_

LIABILITIES

Auto(s) \_\_\_\_\_  
 Credit Card \_\_\_\_\_  
 Credit Card \_\_\_\_\_  
 House \_\_\_\_\_  
 Student Loans \_\_\_\_\_  
 Other \_\_\_\_\_  
 Other \_\_\_\_\_  
  
**Total** \_\_\_\_\_

## LIVING EXPENSE SUMMARY

	Amount Paid Monthly	Other Than Montly	Total Annual Amount
Housing:			
Mortgage/Rent	\$	\$	\$
Insurance			
Property Taxes			
Electricity			
Heating			
Water			
Sanitation			
Telephone			
Cleaning			
Repairs/Maintenance			
Supplies			
Other			
Total Housing	\$	\$	\$
Food Total	\$	\$	\$
Clothing Total	\$	\$	\$
Transportation:			
Insurance			
Gas and Oil			
Repairs/Maintenance			
Parking			
Other			
Total Transportation	\$	\$	\$
Entertainment/Recreation:			
Eating Out			
Babysitters			
Magazines/Newspapers			
Vacation			
Clubs/Activities			
Other			
Total Entertainment/Recreation			
Medical Expenses:			
Insurance	\$	\$	\$
Doctors			
Dentists			
Drugs			
Other			
Total Medical	\$	\$	\$

	Amount Paid Monthly	Other Than Montly	Total Annual Amount
Insurance:			
Life	\$	\$	\$
Disability			
Other			
Total Insurance	\$	\$	\$
Children:			
School Lunches	\$	\$	\$
Allowances			
Tuition			
Lessons			
Other			
Total Children	\$	\$	\$
Gifts:			
Christmas	\$	\$	\$
Birthdays			
Anniversary			
Other			
Total Gifts	\$	\$	\$
Miscellaneous:			
Toiletries	\$	\$	\$
Husband: miscellaneous			
Wife: miscellaneous			
Cleaning/Laundry			
Animal Care			
Beauty/Barber			
Other			
Total Miscellaneous	\$	\$	\$
<b>Total Living Expenses</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

Creditors w/Interest & Balance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1 Int. Bal.												
2 Int. Bal.												
3 Int. Bal.												
4 Int. Bal.												
5 Int. Bal.												
6 Int. Bal.												
7 Int. Bal.												
8 Int. Bal.												
9 Int. Bal.												
10 Int. Bal.												
11 Int. Bal.												
12 Int. Bal.												
13 Int. Bal.												
14 Int. Bal.												
15 Int. Bal.												

Year  
\_\_\_\_\_