IT'S NOT ABOUT MONEY

THE BASICS OF PERSONAL FINANCE

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What is Money?

It's only paper…

As odd as it may sound, a $100 bill is simply a piece of paper (cloth, actually) that has no real value within itself. So why is it worth $100? In simplest terms, it is worth $100 because you and I will exchange a $100 bill for $100 worth of goods, services, or as repayment for $100 worth of debt. A $100 bill is worth $100 because you and I agree that it is worth $100. Consider this scenario: you are stranded on a deserted island and have nothing more than a huge stack of $100 bills and a book of matches. After a few days (probably much sooner), you will likely be tempted to use those $100 bills as fire-starters because there's no one there that wants your $100 bills, but you could sure you some good fire starters to get some warmth, an ability to cook food, purify water, etc. Although $100 bills are wonderful to have, they are really not worth what you might think.

Money can be just about anything…

Money is anything that will be accepted in the marketplace as money. This means that a farmer's produce can be money. It means that a bottle of water or a gallon of gasoline can be money. In fact, anything can be used as money as long as it meets three criteria:

1. ***A Medium of Exchange*** *– Any item that is widely accepted in exchange for the goods and services offered to consumers.*
2. ***A Unit of Account*** *– Capable of measuring the market value or cost of goods, services or assets.*
3. ***A Store of Value*** *– A commodity, currency or other type of capital that can be stored for future use.*

So, under normal circumstances, when you go to the grocery store with a $100 bill in hand, you can leave with what most people would consider $100 worth of food. However, this is not always true. For example, when Hurricane Katrina or the earthquake in Haiti occurred, paper money became of very little actual value because people didn't want paper money; they wanted water, gasoline, food and other basic necessities. So, what qualifies as money is not the same across different cultures or during different events.

So What's the Point?!

I'm sure by this point you're wondering why it is so important to define what money is (or is not) when the title of this booklet clearly states personal finance is NOT about money. *Personal finance, by the way, is about <u>behavior</u>.* Money is just a very clear and tangible way to display behavior. How we handle our money has a direct relationship to how we behave in many areas of life. If you are very organized and structured in the way you handle life, one can generally expect your financial life to be the same way. If you are very creative, unstructured and don't typically plan well, your financial life will probably reflect that. However, there is a common theme with our money that crosses the boundaries of income, personality, abilities and attitudes – *we want what we want, and we want it now*. So, the thesis of this entire booklet is this: To be successful in your finances and to build wealth, you must learn how to manage every dollar that comes into and goes out of your household. This is called *cash flow planning* and it is something every person does, whether consciously or not. Over the next several pages, we will approach cash flow planning in a way that focuses on behavior instead of money. This way, we can concentrate on the principles that can be applied across the majority of situations and lay the foundation for success. Thus, the purpose of this booklet is to provide an overview of the financial principles that will help you succeed with your money and learn how to correctly manage your cash flow.

Priorities with Money

Needs, Wants and Wishes

One of the most important concepts in personal finance is that of needs, wants and wishes. Let's start with a simple definition of each:

Need – something required to meet the obligations of a necessary situation (*he needs food to prevent starvation.*)
Want – something that is desired, but not necessarily required to meet the obligations of a necessary situation (*he wants to read a book.)*
Wish – something unnecessary, but strongly desired to bring pleasure, enjoyment or comfort (*he wishes he could buy that new video game console.)*

The challenge of considering needs, wants and wishes is that while all humans have the same basic needs (food, shelter, clothing), we also have unique needs. For instance, a person who is diabetic needs medication or specific food that someone without the disease would not need. So although the concept of needs, wants and wishes is one of the most basic ideas in life, it is one most people never grasp. There are many reasons for this, but a primary reason is that it is contrary to American culture to proclaim anything is less than a "need" if there is a chance to obtain it. Let me explain. When you go to the grocery store, you have needs, wants and wishes on your list. You NEED food to provide calories to fuel the body. You WANT the food that tastes good. You WISH for steak, seafood and other expensive, high-quality foods. No one would argue that food is necessary to sustain life. However, you could easily meet every food need without ever purchasing any "wants" or "wishes." Let me give another example. When you consider the purchase of transportation, you NEED something that will provide reliable, safe transport. You WANT something that is comfortable and easy to drive. You WISH for something that is brand new, looks good and gets the attention of your neighbor. However, consider the language we use when we approach the purchase of transportation. You'll hear someone say, "I need a new car." Does anyone truly NEED a new car? Of course not! We want or wish for a new car. But you'll probably never hear someone say, "I sure wish for safe, reliable transportation." It is contrary to our mentality.

Let's apply this to personal finance. Going back to our example of the grocery store, if I gave you exactly $100 to spend on groceries that must last for two weeks, you have to decide and prioritize which of the things on your list are necessary (needs), which are things you enjoy (wants) and which are things you enjoy but are probably too expensive to purchase, given your budget. In selecting items on your list based on these simple criteria, you have made a financial decision. The problem is that the general American view is to ignore the $100 and say, "I'll just make it work. If the total is more than $100, I'll put the rest on my credit card." This is where the concept of cash flow planning becomes critical. We'll get into this in more detail in the coming pages. For now, please take away three critical concepts:

1. Every person has needs, wants and wishes.
2. Every person makes a decision (conscious or unconscious) to spend (or not spend) money based on his/her perception of needs, wants and wishes.
3. How you apply and prioritize your spending based on your needs, wants and wishes will determine your financial success or failure.

Let's move on to the related concept of emergencies before we get into how to prioritize your spending.

EMERGENCIES: "IT'LL NEVER HAPPEN TO ME…"

One of the most common issues I deal with as a financial counselor is how to help someone recover from a personal disaster. This may be a divorce, illness, loss of employment or many other things but the common thread is that there was a financial devastation that resulted from the personal disaster. Almost 100% of the time, this disaster caused financial issues because the person had the attitude that "_________ (fill in the blank with any sort of personal disaster) will never happen to me." The great news is that it is usually easy to prevent the financial devastation associated with a personal disaster – simply put away several weeks (if possible, up to six months) worth of expenses in a savings account that is OFF LIMITS to being used unless there is an emergency – a REAL emergency. Dave Ramsey, in fact, calls this sum an "Emergency Fund." Your grandparents probably called it a "rainy day fund." No matter what it is called, having a buffer against financial problems is one of the most important places to start down the path toward financial success. We'll talk about strategies on how to save and how to build up a sufficient emergency fund in the *Saving* section of this booklet. For now, realize that without a financial shield against emergencies, any personal disaster will likely result in a massive negative financial shockwave that will continue long after the personal disaster.

MAKING YOUR MONEY BEHAVE

WHAT IS A BUDGET?

Budgets have gotten a bad reputation for telling you what you CANNOT do. This is wrong! Budgets, or more appropriately, Cash Flow Plans (I will use the terms *budget* and *cash flow plan* interchangeably throughout this booklet), allow you to be in complete control of your money. In other words, a budget does NOT tell you where your money went; it allows you to tell your money where to go. Cash Flow Plans are not designed to keep track of where you spent your money at the end of each month; they are designed to help you prepare to spend your money before the month begins. Again borrowing from Dave Ramsey, a correctly-created cash flow plan allows you to "spend" every dollar (on paper) before the month begins, before you receive your first paycheck. Then, all you have to do is execute on that plan. You are in complete control and very little (if anything) will surprise you. I regularly hear people complain about budgeting and how difficult it is. Budgeting is perceived as difficult for a few reasons:

1. You are forced to make priorities (remember, needs/wants/wishes)
2. Discipline is required to stick to the plan
3. Every month (and thus every budget) is different

Look at the reasons listed above. Are these bad things? Is it bad to prioritize in life, to have discipline or to plan for change? It may not be the easiest thing to do, but once you have a workable budget, you will find there are also some really big reasons for sticking to it. Below are just a few:

1. Planning for how to spend your money reduces the stress of the unknown
2. If you are married, making a budget significantly increases communication with your spouse
3. Budgeting increases your organizational and problem-solving skills

If you've read this booklet this far, I suspect you've tried to budget in the past and either didn't stick to it or found it too complicated. Let's look at how to make a workable cash flow plan.

MAKING A WORKABLE BUDGET

A workable (read SIMPLE) budget is a bit of a science and a bit of an art. I promise that if you begin budgeting and it works the very first time, you did something wrong. On the flip side, if you begin budgeting and it hasn't started to really click within three or four months, you did something wrong. Usually, the problem is that we want to overcomplicate and account for every penny in our budget. This may be necessary for big corporations and our accountants, but in personal finance, it is simply unneeded. A successful budget will tell you (and anyone who may look at it) four things:

1. How much money do I have coming in for the month
2. How much and how often am I setting aside money for emergencies and retirement
3. What are my ongoing monthly expenses (rent/mortgage, utilities, debt payments, etc.)
4. What are my major debts and how am I repaying them

In other words, a budget shows what your priorities are! You've probably heard it said that you can tell what a person cares about by looking at his checkbook. There is one warning I need to provide on this – a budget is only a tool. Like any other tool, it can only HELP you succeed in completing a task; it cannot do the task for you. You will not succeed with a budget if you do not use it and you will not use it if you make it too complicated. Although there are some of you who will read this booklet that have a complicated financial mess (if this is you, you should consider the following pages and then seek out assistance from a competent financial counselor), most of you have a very workable situation; you've just been too lax in your approach to personal finance.

Before You Start

Making a budget does not need to be complicated, but it does need to be organized. First, I will refer to a few worksheets found in the Appendix of this booklet (pages i-vi). Thus, it may be helpful to either remove the worksheet pages from this booklet or make copies of them for your use. You are welcome to copy as many pages of any section of the Appendix of this booklet without concerns for copyright. Second, you should spend some time compiling a complete "picture" of your income and bills. This means that if you don't already know how much your normal monthly income is, find out. This also means you should know how much your mortgage/rent is, how much your utilities run and what other bills you have (including credit cards, medical bills and anything you don't pay every month such as taxes or insurance). Once you have compiled all this information, you should set aside at least an hour to complete the Income Sources Worksheet (page i), the Irregular Bills Worksheet (page ii) and the Monthly Bills Worksheet (page iii). Don't worry – completing these sheets is something you only have to do one time! Once you have completed them, you will only need to periodically update them as your situation changes.

Once you complete these worksheets, you are ready to make your first Cash Flow Plan/Budget (page iv). *A new cash flow plan should be made every month, before the month begins*. I also recommend keeping the cash flow plan once the month ends so you can use it as a future reference. Once you've compiled all the necessary information, let's get started!

Income Sources Worksheet

This sheet has many lines and you should not expect to fill all of them! Simply fill in the various forms of income you receive, how often you receive them and what that translates into on a monthly basis. You should enter the information in terms of your net income (what you take home after taxes, etc.). Ultimately, this form will tell you your monthly income. Let's set up an example. Let's assume your household only has a single income source, a paycheck of $1,000 (take-home pay) you receive on the 15th and 30th of each month. In this example, you would fill in $1,000 SALARY 1 AMOUNT field, list it is received on the 15th and 30th in the HOW OFTEN field and list $2,000 in the MONTHLY field. At the bottom right of the page, you would list that you have $2,000 total monthly income.

If you have an irregular income, you should list that income in terms of what you SHOULD receive (not what you hope to receive, but a reasonable expectation of what you normally receive). If this scenario fits you, it may be helpful to look back at previous pay stubs to see how much you "normally" make. It is always better to underestimate your income than overstate it because this income is what you will have to use to plan your expenses.

Once you have completed the Income Sources Worksheet, set it aside. You will use it a bit later.

IRREGULAR BILLS WORKSHEET

This sheet, like the Income Sources Worksheet, has many lines and you should not expect to fill them all. The Irregular Bills Worksheet should only be used to list things that you don't pay every month. Usually, as the categories on the sheet indicate, this is some sort of tax or insurance payment, or savings toward the repair or replacement of a large ticket item (such as a car, house roof, etc.).

To complete this worksheet, first fill in the total amount of each category (life insurance annual premium, car insurance premium, etc.) in the AMOUNT column. Second, write in how often each bill is due in the HOW OFTEN column. Third, determine the monthly amount needed based on how often this bill is paid and write it in the MONTHLY column. This will tell you how much you need to set aside each month to ensure you're not surprised when an annual tax bill is sent, for instance. Instead, you should be prepared because you have set aside 1/12th of that amount each month in your budget.

Once you have completed the Irregular Bills Worksheet, set it aside. You will use it a bit later.

MONTHLY BILLS WORKSHEET

We have saved the easiest of the worksheets for last. The Monthly Bills Worksheet captures all of the bills you pay every month such as rent/mortgage, electricity, water, phone, etc. Unlike the other worksheets, this one does not have any listed categories. Hopefully you pulled together all your bills as suggested in the *Before You Start* section to help you write in each of your monthly expenses. If you have not yet done that, please do so before continuing.

To complete this worksheet, write the name of the organization/person in the BILL column. For instance, if you have a mortgage through ABC Bank, you could write "mortgage" or "ABC Bank (house)". It is only important that you identify the bill. In the AMOUNT column, enter how much the bill runs each month. Some bills will vary from month to month so you can only estimate how much it will be. Just like the Income Sources Worksheet for those with a varying income, it is important you enter a reasonable amount based on what you expect the bill to be. Of course, you probably won't be exact on your amounts but you should be as close as possible, always over-estimating rather than under-estimating. In the DUE DATE column, list the date on which the bill is due each month. Do not include any grace period; list the actual due date. Of course, things like gas and food won't have a due date. Only list the due date for things that have one. Also, hopefully you are able to set aside something for yourself as savings.

Once you have completed the Monthly Bills Worksheet, you should review it along with the Irregular Bills Worksheet to make sure you've covered <u>all</u> of the expenses you incur each month. Don't forget things like food, entertainment, gas, etc. It may be helpful to go back and look over your previous months' bills as you complete this part of the budgeting process. DON'T BE DISCOURAGED! Remember, you only have to do all this part one time!

CASH FLOW CALENDAR

Once you have captured your income and expenses on all the previously-outlined worksheets, it is time to do the actual budgeting process. You can set this up in many ways; I use two tools: 1) a calendar for seeing how money will "flow" through the month and 2) a categorized budget to help me plan with the big picture in mind. Let's start with the Cash Flow Calendar. To complete the Cash Flow Calendar, fill in the days of the month on the worksheet, as appropriate (I use the smallest gray boxes in the upper left of each day). Second, using your completed Income

Sources Worksheet, list the money you will receive throughout the month in the appropriate days (for instance, if you will receive $1,000 on the 15th and 30th of the month, put "+1000" on each of those dates). Third, using your completed Irregular Bills and Monthly Bills Worksheets, list the money you will pay out throughout the month in the appropriate days (for instance, if you have a $75 electric bill due on the 20th of the month, put "-75" on that date). When it comes to things like gas and food, you will need to plan when and how often you will make those purchases during the month and put the appropriate amounts on your selected dates. Once you've entered everything from your three worksheets onto the calendar (thus capturing all your income and expenses for the month), you are done! The purpose of the calendar is twofold:

1. If you begin at the first of the month and do the addition of your income and the subtraction of your expenses, you can see a fairly complete picture of whether or not you will have enough income to cover your expenses. This gives you the chance to adjust and prioritize your spending BEFORE the month begins and, if necessary, begin making arrangements with creditors and/or seeking out ways to make additional income.
2. If there are unexpected expenses that come up, or you have expenses that are too large to be covered by your income, you won't be surprised because you can "see ahead" to know what's coming and plan accordingly.

If you'd like to compare what you did to an example, one is provided for you on page v of the Appendix. There is a downside to using this method of budgeting – it takes longer to complete than the Categorized Budget. However, it forces you to pay attention to how your money will "flow through the month" and if you are past due on any bills or you must prioritize who you will pay each month due to a lack of funds in your overall budget, this method will give you a clearer picture of your situation. So, for anyone who struggles to make ends meet each month and/or is regularly late on payments, I highly recommend the Cash Flow Calendar method to budgeting.

Categorized Budget

The Categorized Budget is another way to approach setting up a monthly budget. Like the Cash Flow Calendar, it forces you to allocate your spending BEFORE the month begins and ensure you have a positive cash flow (in other words, it lets you know if there's enough money coming in to cover all your expenses). The major difference is that, with a Categorized Budget, you are determining a "pool" of money for a given category and then must be disciplined enough to make that pool last for the entire month. My wife and I have been doing a budget since the day we got married and can now do our budget in about 10-15 minutes per month. We now use the Categorized Budget because we are comfortable with when our bills are due versus when our paychecks will come in and the Categorized Budget method is faster. However, a Categorized Budget does not let you "see the money flow through the month" as a Cash Flow Calendar does. Thus, I recommend it only for those that know there is a positive cash flow and know the income from each paycheck can comfortably cover the expenses as they are due. If you need to do any prioritizing on bill payments and/or are past due on any bills, I recommend the Cash Flow Calendar.

In the Categorized Budget, you need to first select the major categories of your spending. I've given you a fairly complete example of a Categorized Budget on page vi of the Appendix. You should not expect to have the same categories as the example, although you will have several of the same ones. Second, determine which of your expenses from the Monthly Bills and Irregular Bills Worksheets goes into each category. As you add these up (per category) you should know how much you need to budget for that given category. Third, take your total monthly income and subtract the total amounts for each category. In the example, this is the AMOUNT column. The REMAINING column lists how much of your total month's income is left over after setting these aside. This will tell you whether you have enough money to cover the expenses for that month (positive cash flow). Make adjustments to the various categories and amounts until you are able to spend all the money on paper while covering all your necessary expenses. If you are unable to do this, you should consider using the Cash Flow Calendar and seek input from a competent financial counselor to help you with debt reduction and spending priorities.

The Envelope System

No matter which method of budgeting you use, I highly recommend the envelope system. It is very simple, but very powerful. Basically, the envelope system is this: for every category within your budget that you struggle with overspending, get an envelope and, on payday, place the appropriate budgeted amount IN CASH in the envelope. If you get paid once monthly, you'll put the total monthly amount in there. If you get paid twice monthly, you'll divide your monthly budgeted amount in half and put that much in the envelope each payday. Each time you need to pay for an expense, pull out the cash in the envelope and pay for it! When the money is gone from the envelope, you're done until the next paycheck. You can never overspend using the envelope system because the money is gone. My wife and I still use the envelope system for five major categories in our budget where we found ourselves overspending: gifts, entertainment, groceries, clothing and miscellaneous (household supplies such as toilet paper, detergent, etc.). Although we probably could go back to using our check card or checks, continuing to use cash keeps us from the temptation to overspend.

Why Does This Budget Thing Matter?

If you've kept up with the past several pages you realize that personal finance is so much more about behavior than it is about money. You also realize that discipline and diligence are required to make personal finance work. You've learned that a budget is just a tool to assist you in "making your money behave". While I could give you lots of reasons why a budget is so important, I can sum them all up in one phrase: a budget matters because if you don't do it, you will <u>never</u> succeed with money. It is a proven fact that you can never outspend your desires. The best you will ever do is meet all your needs, most of your wants and some of your wishes. For that reason, there is no better place to start than with creating a budget and putting yourself in charge of your finances, and there's no better time to start than NOW.

BORROWING MONEY

WAYS TO BORROW

This section could be VERY long if I went through all the different ways to borrow money. However, that's not my goal. My goal is that you would NEVER borrow money; I want you to be financially FREE. Since I know that is not a realistic goal for most people, I will cover some of the basics and some of the common pitfalls. If you need more detailed knowledge about a given type of borrowing, it is always worth the effort of learning about it BEFORE you get into it.

There are basically two types of borrowing: secured and unsecured. Secured borrowing is when you must offer collateral for the money you borrow. What's collateral? It is something of value you agree to give up if you do not repay the borrowed money. Types of loans that fall in this category are home mortgages, auto loans, title loans and some credit cards (usually for those with poor or no credit). Unsecured borrowing is the exact opposite – you only offer your signature on a contract as a 'promise' to repay the money. Types of loans that fall into this category are most types of medical bills, credit cards and personal loans. Although these debts do not have collateral, this does not mean you cannot be forced to pay back the borrowed money. Creditors can sue you, damage your ability to get future loans and will definitely seek repayment through collections.

INTEREST

Interest is the amount you agree to pay (usually as a percentage of the amount borrowed) in addition to the amount you borrow (known as the principal balance). You will often see this advertised as __% APR (annual percentage rate). For example, if you borrow $1,000 at 10% APR, you will be paying 10% interest (or $100) per year in interest per year you borrowed the money. As the principle balance goes down, you will pay less in interest. This is because you are paying 10% per year. So, if you pay $500 of that $1,000 off in the first year, the next year you'll only be paying $50 in interest (10% of the remaining principle balance, $500). This is a very simplified approach to interest and repayment terms, but it hopefully gives you a general idea of how it works.

Many people ask me why creditors charge interest or why the interest rates are so high. There are several answers to this question. Let's look at a few of them by way of a simple example. Let's assume you have $1,000 in hand. With that $1,000 you could go to the bank and, without risk, deposit it in a savings account and earn a small amount of interest (maybe 1%). You could deposit that same $1,000 in a money market account, taking a small risk, and earn a bit better interest (maybe 2-3%). You could take that same $1,000 and play the slots in Las Vegas, earning a lot. Your risk in Las Vegas, though, is VERY high. Basically, interest (and interest rates) work the same way. Interest is a *measure of risk*. If you have excellent credit, you should expect to pay a low amount of interest. Because the creditor isn't taking much risk, he shouldn't expect to get much return. On the flip side, if you have very poor credit, you should expect to pay a high amount of interest, especially on unsecured debt. The creditor is taking a much higher risk of losing the money based on your past performance and so he expects a much higher return on his money.

Life Without Payments

As I mentioned at the beginning of the *Borrowing Money* section, my goal is not for you to know how to borrow money. I want you to be financially FREE. I want to take a few minutes to discuss what life would be like if you didn't have ANY payments. Many think life without payments is impossible. I strongly disagree! In fact, I know several people who are completely debt free. They own their own houses, drive paid-for cars (and not junk), and you would NEVER know they had lots of money. Most of them never made a huge income. These "millionaires next door" just lived on less than they brought in and made good choices financially over a long period of time. Thomas Stanley wrote an excellent book on the subject. He studied the average millionaire and looked for the success factors that brought them into such wealth. I highly recommend the book, but I'll share with you a few of the success factors from his findings:

1. ***Spend less than you earn*** – if you are always spending up to or above what you earn, you will never increase your net worth no matter how much you earn.
2. ***Avoid buying status objects or leading a status lifestyle*** – Buying expensive status objects such as a new luxury car or branded consumer goods places you in a cycle of trying to compete with "the Joneses" and makes it more difficult to make reasonable financial choices.
3. ***Take financial risks only if it is worth the reward*** – Don't be "cheap". Invest in things that will offer a good return and don't gamble on "long shots".

Life without payments is not an easy goal to meet, nor is it one that will be quickly met. But don't forget to consider, "what would life be like if you had no payments?"

Common Pitfalls

Advertising

We are constantly bombarded with demands for our financial attention. Whether it is a television commercial for the latest gadget or a magazine ad for the newest clothing or a billboard for the newest restaurant – we are ALWAYS being asked to spend our money. While there is nothing wrong with having a new gadget, new clothes or going to a new restaurant, advertising is not designed to sell a product in most cases; advertising is designed to sell a mindset. Successful advertising makes you feel as though you NEED something that is really only a want or wish. Maybe now you better understand why we discussed the need, want, wish concept very early on. Don't fall for the lie that you need something that you really don't. Keeping your priorities in order will help you avoid this pitfall. If you feel the urge to buy something you aren't sure you really need, consider it for at least 24 hours and make sure it will fit within your budget. If you are still comfortable with it and you have the money to buy it, go for it!

Get Rich Quick

Many financial programs, especially those you may find on late night TV (wonder why they're advertising on television at an hour when "normal" people are asleep?), promise to help you build wealth quickly and without risk. This is a HUGE lie. There are a very few ways to get rich quickly and even fewer that are legal! If it were quick and/or easy to get rich quickly, everyone would be rich. To avoid this pitfall, remember this:

1. If you don't understand it, never invest in it
2. If it sounds too good to be true, it probably is

Credit Cards, Title Loans and other "Easy Money"

One of the simplest ways to get into financial trouble is with a small piece of plastic. Although a somewhat recent invention, using a credit card to pay for virtually everything in life has become a socially acceptable method of personal finance. I keep a jar of credit card pieces from those I've counseled on my bookshelf to remind me of the foolishness of credit cards and the success stories of those who gave them up. Credit cards, title loans, pawn loans, etc. are what keep a huge population of Americans in bondage. The Bible holds a wealth of knowledge on the subject of debt and whether or not you believe in what the Bible says, anyone who has been in debt with these types of "easy money" will agree with Proverbs 22:7 which says the borrower is SLAVE to the lender. Don't be a slave! If you currently use credit cards, title loans or other methods such as these, STOP. Again borrowing from Thomas Stanley's The Millionaire Next Door, he found that virtually no millionaire used a credit card, and those that did paid it in full every month without fail. I go a step further – I feel credit cards, title loans, etc. are like poisonous snakes. There are many people that handle poisonous snakes and are never bitten. There are others who make one mistake and it literally kills them. I don't ever want to touch something I know can kill me and I suggest you do the same.

Counting Chickens

You've probably heard the phrase, "don't count your chickens before they hatch." This old phrase simply means, "don't count on something to happen before it actually does." I've counseled numerous people who got into financial trouble because they spent money they didn't have (usually on a credit card) because they expected a paycheck, a bonus, or some other money that ultimately didn't come through. *While you should always spend all your money on paper before the month begins (a budget), you shouldn't spend any of your money in reality until you have it in hand*. Don't commit to pay a creditor without having the money in hand. Don't buy something, even if it is on sale, without having the cash in hand to pay for it. Don't buy something outside your budgeted amount unless you are willing to give up something else to make your budget work. This concept is really about discipline. If you buy something before you have the money to pay for it, it is a mark of severe immaturity and will eventually lead to a painful consequence.

Spending it All

A good budget will account for every dollar you expect to earn before you receive it. A better budget will include a part of that accounting to be designated to personal saving. Many people make a budget that never includes anything set aside for future savings and it, to me, is a bad idea. If you will start your budget with giving and saving, the rest will often fall into place. This goes back to the idea that personal finance has very little to do with money. Giving away some of your money, whether to your local church, a family member in need or a worthwhile organization, changes your attitude. It helps you let go of selfishness and materialism. Saving some of your money helps you let go of many of your fears. I covered saving for emergencies in an earlier section and will go into more detail in a future section but for now, consider this: if you have six months of expenses sitting in a bank account and you lose your job, it is a much less serious issue than if you're living paycheck to paycheck. If you have six months of expenses and the car blows up, you can go fix the car. Many of life's challenges simply disappear when you save because you are prepared. My suggestion to avoid spending it all is 10-10-80 rule. This is a very old concept, but a very valid one. The 10-10-80 rule states this: give away the first 10% of your income, save the second 10% of your income, and live on the remaining 80%.

SAVING

…BUT I DON'T MAKE ENOUGH TO SAVE…

I hear this phrase way too often and I've only once or twice seen it to be true. Usually this phrase is said when there has not been a real thought about needs, wants and wishes. If you make it a priority to save, you will save. It is as simple as that. There is no good reason NOT to save and I assure you that you will never succeed with money as long as you put off the habit of saving. If it means giving up cable or internet or eating out once or twice a month, there is almost always a way to free up a small amount of money to save. Even if you are deep in debt, you should save. In fact, it is more important for those who are deep in debt to save than virtually anyone else because those deep in debt are more likely to face a financial "crisis" due to poor planning. As made famous by Nike, there is little more to say than "just do it."

NOW VERSUS LATER

The topic of when to start saving is another frequently-discussed item in my counseling. The simple answer is that you should start saving **now**. Many of those whom I counsel are advanced in years and have given up on saving because they feel they've waited too long. It is never too early to start saving and it is never too late either. If you find out you have a serious disease, it is always better to start treating it early. However, if you discover the disease later in its progression, do you want to ignore it? Saving treats the "diseases" of selfishness, life crises, laziness and many other serious ailments. For those of you who are young enough to think about starting later because of your youth, consider this:

- ***Now***: if you are 30 and save $100 a month for the next five years and then never add another penny to it after that fifth year, you've contributed a total of $6,000 ($100 x 60 months = $6,000) and it is worth about $7,800. If you just leave that money alone, when you celebrate your 65th birthday, that same $6,000 you contributed (worth $7,800 on your 35th birthday) is worth almost $140,000 at a 10% interest rate!!! By the way, this is lower than the average stock market return rate over the past 100 years, so you will likely have more than that just by setting aside $100 a month for a few years.
- ***Later***: if you wait until you are 35 and do the exact same thing ($100 per month for five years and never add anything to it thereafter), you will still have $7,800 at the end of five years when you celebrate your 40th birthday. When you get to your 65th birthday, that $6,000 ($7,800) will only be worth about $85,000. This is still a great amount of money, but is waiting five years worth $55,000 ($140,000 - $85,000)?

SHORT-TERM VERSUS LONG-TERM

There are two categories of savings that I want to touch on in this section: short-term and long-term. The major difference between the two is the goals they are aiming to accomplish. Let's start by looking at short-term savings.

SHORT-TERM SAVINGS

The goal of short-term savings is low- or medium-risk, simple investing with the possibility of withdrawing funds without a penalty. This type of savings should be used for immediate or soon-upcoming expected spending such as vacation or to prepare for large ticket purchases such as a car or a major house repair. Short-term savings should be designated toward a specific large purchase and prioritized based on when you expect to need to make that purchase. It is impossible to save for everything that may ever need to be purchased, so don't overcomplicate this idea. The best way to start short-term savings is to first ensure you have an emergency fund. This is your buffer to any major expense. Once that is established, you should consider any major expenses you expect to incur over the next several months. Based on how much you can save each month, prioritize the savings toward those expenses you determined would be coming soon. When the expense comes up, you will hopefully be prepared. The goal is to keep it simple and to be aware of where you plan to spend the money, but to also be flexible, knowing "life" will happen.

People are often confused at the difference between short-term savings and their emergency fund. Consider this: if your three-year-old car with 50,000 miles on it breaks down and needs a $4,000 repair, you probably need to dip into your emergency fund to fix it as you likely haven't accumulated $4,000 in savings designated toward car repairs. But you should have set aside ***something*** for repairs and you may have set aside something for car replacement that may be appropriate to use for this expense. If you had neither, you didn't face the reality that your car would break down or need replacement and failed to properly plan. This is a common, but dangerous mistake. Similarly, if your car is in need of tires, this should not be an emergency. You should have planned to replace the tires on your vehicle and at some point, designated some of your short-term savings toward that upcoming expense. Your emergency fund is just for that – emergencies – ***unplanned***, expensive scenarios that you could not anticipate. Your short-term savings should be designated toward ***planned*** scenarios that you should reasonably be able to anticipate. How much you set aside for the various expenses and how many of those expenses there will be varies depending on your situation and what large assets such as a home or car, etc.

Long-term savings

Long-term savings could also be referred to as retirement savings because its primary purpose is to provide for your needs when you decide to stop working or must stop working due to a disability or other issue. The goal of long-term savings is low-risk, year-over-year growth. The ideal scenario is to accumulate enough of a sum to provide a reasonable income based solely on the interest that sum earns. Let me give you an example. If you are 30 years old and commit to set aside $300 each month in a balanced long-term savings plan (a competent financial advisor can explain what this looks like to you based on your situation), by the time you reach 65, that $300 per month will be worth over $1,000,000! Yes, that is $1 million dollars. On that amount, if you earn an average return each year (let's assume 10%, which is lower than the average stock market return over the past 100 years), you could skim $100,000 off the top of that $1,000,000 and it would replace itself during the year. You would never have less than $1,000,000 because the interest on the million would pay you $100,000 per year. Do you think you could live on that income?

Priorities Revisited

Do you want to succeed with money? Do you want to live a life without payments? Do you want to go to work because you WANT to go to work instead of because you MUST go to work? The preceding pages offer only a surface glimpse of what is involved in making personal finance work. The key theme of every personal finance concept, though, is the same – behavior. If you are determined to succeed with your money then your behaviors will reflect it and you will succeed. If you don't force the issue by doing a budget, monitoring your spending, living on less than you make and being diligent with your priorities, you will fail. I hope you will begin the journey toward personal financial success and recognize that every time you spend a dollar, you're saying, "this is what is important to me." Every time you spend a dollar, you are laying down a worthless piece of paper and saying, "this piece of paper is how I show what matters to me." So I'll close with a simple question – what matters to you?

APPENDIX

Forms and Suggested Resources

Income Sources Worksheet

Name: ____________________

Date: ____________________

Source	Amount	How Often	Monthly	Notes
Salary 1				
Salary 2				
Salary 3				
Bonus				
Commission				
Self-Employment				
Dividend Income				
Royalty Income				
Rents				
Notes				
Alimony				
Child Support				
Unemployment				
Social Security				
Pension				
Annuity				
Disability Income				
Cash Gifts				
Trust Fund				
Other				
Other				
Other				
Total				

Irregular Bills Worksheet

Name: ____________________

Date: ____________________

Bill	Amount	How Often	Monthly	Notes
Real Estate Taxes				
Homeowner's Ins.				
Home Repairs				
Replace Furniture				
Medical Bills				
Health Insurance				
Life Insurance				
Disability Ins.				
Car Insurance				
Car Repair/Replace				
Car Tags/Taxes				
Clothing				
Tuition				
Bank Note				
IRS (Self-Employed)				
Vacation				
Gifts (inc. Christmas)				
Other				
Other				
Other				
Other				
TOTAL				

Monthly Bills Worksheet

Name: ______________________

Date: ______________________

Bill	Amount	Due Date	Notes
Irregulars			Total from the Irregular Bills Worksheet
TOTAL			

Cash Flow Calendar

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday

* - indicates money to be set aside for non-monthly bill

Cash Flow Calendar (EXAMPLE)

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5	6
	+900 paycheck -120 charity -400 rent	-80 entertainment -35 gifts -25 clothing/shoes			-30 gas -80 groceries	
7	8	9	10	11	12	13
					-30 gas -80 groceries	
14	15	16	17	18	19	20
	+900 paycheck -120 charity -50 home improvement	-100 electricity -30 water/sewer/trash -100 car maintenance*	-25 clothing/shoes		-30 gas -80 groceries	
21	22	23	24	25	26	27
		-50 phone/internet		-40 cell phone	-30 gas -80 groceries	
28						
-100 savings -25 car insurance*						

* - indicates money to be set aside for non-monthly bill

Categorized Budget (EXAMPLE)

	Amount	Remaining
Net Income	**$ 1,800.00**	**$ 1,800.00**
Tithe	$ 240.00	$ 1,560.00
Personal Savings	$ 100.00	$ 1,460.00
Food	$ 320.00	$ 1,140.00
Mortgage/Rent	$ 400.00	$ 740.00
Auto Fuel	$ 120.00	$ 620.00
Auto Insurance	$ 25.00	$ 595.00
Water/Sewer/Trash	$ 30.00	$ 565.00
Electricity	$ 100.00	$ 465.00
Clothing & Shoes	$ 50.00	$ 415.00
Home Improvement/Maintenance	$ 50.00	$ 365.00
Entertainment	$ 80.00	$ 285.00
Auto Maintenance & Replacement	$ 100.00	$ 185.00
Miscellaneous	$ 40.00	$ 145.00
Home Telephone	$ 25.00	$ 120.00
Cellular Phone	$ 40.00	$ 80.00
Internet	$ 25.00	$ 55.00
Gifts	$ 35.00	$ 20.00
Unallocated (blow or extra debt repayment money)	$ 20.00	$ -

Suggested Resources

Recommended Websites

- www.daveramsey.com - Basic Budgeting, Personal Finance and Debt Reduction
- www.mint.com – Personal money-management site with lots of free tools
- www.javacalc.com – Numerous online calculators for everything from debt reduction to retirement planning
- www.mymoney.gov – Federal-government-run site covering basic personal finance topics with some free calculators and planning tools
- www.crown.org – Basic Budgeting, Personal Finance and Debt Reduction

Recommended Books

- 48 Days to the Work You Love by Dan Miller
- The Total Money Makeover by Dave Ramsey
- Money Matters by Larry Burkett
- The Millionaire Next Door by Thomas Stanley
- Thou Shalt Prosper by Daniel Lapin
- Smart Money Smart Kids by Dave Ramsey and Rachel Cruze