Part VII
The Best Financial Strategies

Part VII – The Best Financial Strategies

In this part, you will learn:

- How to get out of debt
- Whether to buy or lease your next car
- How to pay for college
- Whether parents of young children should work

Chapter 51 - How to Get Out of Debt

I'm going to show you how to get out of debt and increase your ability to save. But first, let's see how people get themselves into debt in the first place.

Is money a problem for you? Here are some warning signs, courtesy of the Consumer Credit Counseling Service:

- **an increasing amount of your net income is going to debt payments**
- **you pay only the minimum amount on loans and credit cards**
- **you've reached your limit on credit cards**
- **you pay bills with money that was intended for other things**
- **you use credit cards to pay for things that you used to pay for with cash**
- **you often pay bills late**
- **you delay or omit visits to the doctor or dentist because money is tight**
- **you get calls from collection agencies regarding unpaid bills**
- **you work overtime or a second job to raise cash to pay bills**
- **losing a job would create instant financial trouble**
- **money is a constant concern to you**

If any of these hit home, you need to read this chapter.

Don't Spend Tomorrow's Income Today

Nobody intends to become debt-ridden, but at some point in your life you may turn around and say, "Gee, how did I accumulate all this debt?" It starts very innocently.

> ***"A family budget is a process of checks and balances; the checks wipe out the balances."***
>
> **—Arthur Langer**

You see, none of us are born in debt. We start life with a clean slate. But then we make bad decisions, or we fall into traps, and the most common trap people fall into is committing themselves to a future lifestyle that is based on their current income.

Here's a great example. Debbie is 23 and lives with her parents. She earns $23,000 a year. Her parents cover her basic living expenses, although Debbie chips in $500 every month.

Recently, Debbie's old clunker died and she needed a new car to get to work. She intended to buy a Ford Escort for about $14,000, but the salesman talked her into buying a hot new Mustang for $28,000. Well, we can't really blame the salesman — Debbie loved sitting behind that wheel. And considering her income and expenses, as the salesman showed her, Debbie easily was able to afford the 'stang. So she bought it, financing $20,000. Her payment is $445 a month for five years.

By committing herself to this payment for the next five years, she will not be able to move out of her parent's house. Consider the figures: Her after-tax income is about $17,000, or $1,400 per month. From this, Debbie has obligated herself to $445 for the car payment, plus another $150 per month for insurance, gas, and maintenance — a total of 43% of her income! That leaves her with only $805, and that's not enough to rent an apartment and pay for food, clothes, furniture, and utilities — plus entertainment expenses.

Today, Debbie doesn't mind. But what about three years from now? She has made a decision today that commits her income for the next five years. This not only means she must continue to earn at least as much in the future as she earns today, she must actually *increase* her earnings if she wants to improve her lifestyle.

And since she has already committed $595 per month toward her automobile expenses for the next five years, and another $500 to her parents in lieu of rent, her discretionary income is reduced to just $305 per month. So guess what happens when she decides to rent a house at the beach for a week with her girlfriends next summer? Debbie runs out of money — not because she doesn't have any money, but because she has already committed the money she has.

"Just as soon as people make enough money to live comfortably, they want to live extravagantly."

—Anonymous

So, to get by, Debbie starts to pay for gasoline with a credit card. When it is time for fall clothes and Christmas shopping, she uses the credit card some more. Soon, she discovers that she's built up thousands of dollars in credit card charges. When the bill arrives each month, she finds herself unable to pay it off because her money already has been spent.

It's very easy to fall into this trap, and newlyweds are caught all the time. My clients Darren and Barbara asked me if they could afford to buy a $225,000 house, and after reviewing their situation I told them they could, but only if they were willing to become "house poor." They'd have to use all their current savings and investments to get into the house, and then, even after considering both incomes, they'd be stretched each month to pay for the mortgage and related costs. Thus, I told them, they could afford the house if they both continued to work and *if* their future expenses and income both remained unchanged.

Because I didn't say "no" outright, they were excited. "But," I was quick to remind them, "you don't have children yet."

Too often, I have seen couples experience radical changes when a baby comes. But by purchasing such an expensive home — by committing such a large amount of their income to maintaining that home — they essentially were making decisions today that would affect (haunt?) them in the years to come.

Therefore, I advised them to buy a less expensive home, one that did not place such financial restrictions on them for the next 30 years. I cautioned that by doing it their way, in the best case they'd be house poor and in the worst case they'd lose their home. They rejected my advice. Six years later, after two children, they lost the house and divorced. (For more on the notion of working while raising young children, see Chapter 54.)

Expenses Should Be Adjustable Over Time

If you want to avoid the debt trap, keep your fixed expenses as low as possible. Don't obligate yourself to long-term expenses, such as "buy now, pay later" deals. That way, if your income or lifestyle changes, you will be able to handle the change financially. Debbie and Darren & Barbara failed to do this.

But let's say you have succeeded on this point. Let's say you haven't made commitments for income you haven't yet earned. Thus, when your expenses go up or your income goes down, your lifestyle can change accordingly. Congratulations — but don't skip the rest of this chapter yet.

There's still one more trap awaiting you: You must be willing to make that lifestyle change when the time comes. Being *unwilling* to change is as deadly as being *unable* to change.

"Budgeting: A method of worrying before you spend instead of afterward."
—Anonymous

The best example I can offer is Lon and Gretta. When they married, Lon was 42 and Gretta was 39, and she became (rather unexpectedly) pregnant at 41.

From the time she was 18 until her marriage, Gretta had been on her own. She owned a condo, and enjoyed an excellent career. She earned $60,000 and, with no family, was able to live quite comfortably.

Lon was in research, with an income not as high as Gretta's. He too owned a home, and after the wedding, they sold their houses and together bought a bigger, more expensive home. Still, not much

> ***"Money is better than poverty, if only for financial reasons."***
> **—Woody Allen**

changed for them financially. Their joint income allowed them to live pretty much as before.

Then they had the baby, and six months later, Lon was let go after his firm lost a big grant. This forced the family to rely solely on Gretta's income for a time. Soon, Lon was back at work, although at a lower salary. Although things should have worked out, by the time they came to my office, Lon and Gretta owed $30,000 to credit cards.

Although they had not fallen into the trap of spending money they hadn't yet earned, they had fallen victim to the second trap: They each continued to spend as they always had, without regard for their new and different circumstances.

Indeed, they acted as though they were still "single and free." Gretta would think nothing of spending Saturday at the mall. Lon, too, regularly indulged himself. A car buff, he was forever under the hood, installing some new gizmo or other he bought at the local speed shop.

Yet they never adjusted their spending to reflect their new family obligations. So while they incurred new expenses with the house and the baby, they still maintained their *previous* spending habits. And while they easily could have paid for their new lifestyle or their old one, they couldn't afford both simultaneously.

Thus, Lon and Gretta continued to use their credit cards as each had done for the past 20 years. But now, instead of being able to pay them off each month as they'd always been able to do, balances started accumulating. At thirty thousand, it occurred to them that something was wrong. But they weren't sure what. After all, they hadn't been doing anything new or different. They had always spent money, and their incomes had always been enough to cover it. So *spending* couldn't be the problem. What, then, could it be?

This is the trap many people get into. We are so used to supporting only ourselves that we become used to instant gratification. We don't have to worry about feeding or clothing others, and since we earn our own money, we don't have to ask others for permission before we spend it. We've got ready access to cash that we're not afraid to spend. And since all our friends are just like us, it seems both easy and right.

Then one day you find yourself in your mid-40s with a spouse, a house, and kids — and lots of debts. Make sure you don't commit tomorrow's income today, and when your life changes, make sure your spending habits change with it.

Getting Out of Debt is Like Losing Weight

Now that you understand how people get into debt, let's focus on how to get out of it. In fact, it's a lot like losing weight.

The problem with trying to lose weight is that nature abhors a vacuum. Most people who eliminate (or sharply reduce) eating from their daily activities don't replace it with anything. That goes against nature, for if you don't fill the void, nature will fill it for you.

You know the drill: People who lose weight focus all their attention on *the food they're not eating*. So as soon as they reach the weight they wanted, guess how they celebrate? By going out to dinner!

I find the same problem with clients who are trying to get out of debt. Many people who want to eliminate their debt or save money try to do so by *not spending* — and as soon as they reach their goal, they reward themselves by, you guessed it, *shopping* — putting themselves right back where they started.

So if you want to get out of debt, the first thing you must realize is that "getting out of debt" is the wrong goal. For one thing, it's not fun. Getting out of debt means you can't spend money, and that's no fun for the same reason dieting is no fun (for dieting means you can't eat, or at least you can't eat the stuff you want to eat, or in the quantities you want to eat it).

So we need to set the right goal. And that means we must learn about goal-setting.

The Four Steps to Properly Setting Goals

First, set a positive goal for yourself. "I will save to buy a home" is a positive goal, while "I will not spend money" is a negative goal. By focusing on the positive, you'll quit spending money because you'll be so focused on your goal that you won't notice you've stopped spending money.

Second, set a date for achieving your goal. A goal is not a goal until you set a date for it. Having lived in the Washington, D.C., area for 23 years, I've always planned to go inside the Washington Monument. But I never have, just as New Yorkers never visit the Statue of Liberty! Why not? Because I have never set a date. We have too many things to do in our lives, and therefore only those with deadlines ever get accomplished.

So set a date for achieving your goal, and make sure your date is attainable. If it's not, you'll become discouraged and quit. But don't set a date so far away that achieving it is pointless. "I want to be debt free by the time I die" is a silly deadline, because you won't be able to enjoy the benefits of achieving that goal.

And don't worry about missing your deadline, either. One of my clients is 35 and a self-made millionaire. When I congratulated him on his success, he replied, "What success? I failed miserably! My goal was to be a millionaire by age 30 — I didn't make it until I was 34!"

If you aim at the eagle, you'll bag the pheasant, and you won't eat crow.

Third, write it down. Until you see your goal in front of you, it's not real. Tape your goal onto your bathroom mirror, your refrigerator door, your car's steering wheel, and your PC's monitor. Keep reminding yourself of your goal. One client of mine kept a picture of his dream house above his television. Another, who wanted to buy a Jaguar, bought a Matchbox version for five bucks and kept it in his pocket. His co-workers regularly saw him playing with it at his desk. (Today, he drives the real thing.)

And fourth, stay focused. Keep your goal in front of you. If your goal is to buy a home, tour model homes. Read *House and Garden*, *Architectural Digest*, and similar magazines. Design your own floor plan. By immersing yourself in your goal, you'll find it easy to stop spending money, because you won't regard it as "not spending." You'll regard it instead as "preparing to spend my money on something really special."

Focus on the benefits you'll derive by reaching your goal, not on the sacrifices you're enduring. If you can't perceive the benefits, you won't achieve your goal, and even if by some chance you do reach your goal, you won't sustain your victory.

> ***"Whoever says money can't buy you happiness doesn't know where to shop."***
> **—Gittel Hudnick**

Keep all this in mind as I show you the mechanics of getting out of debt, for if you simply follow the steps I outline for you, you won't do yourself any good. Oh sure, following my plan will get you out of debt — but it won't keep you out of debt. Only you can do that.

Set your goal, give yourself a deadline, write it down, and stay focused. You'll be amazed how far this will take you. And for more on goal setting, read **Discover the Wealth Within You**; half of that book is devoted to this topic.

Where to Start Your Journey

> ***"Obstacles are things a person sees when he takes his eyes off his goal."***
> **—E. Joseph Cossman**

What's the first thing you do when driving to a place you've never been? *You look at a map.* And where's the first place you look? *Where you are.* Only after finding your current location do you then seek the place you're trying to reach. By comparing the two, you can figure out how to get there.

And that's the first thing you've got to do with your debts: You must become an expert on *where you are*. Do you know *exactly* how much money you owe and to whom you owe it? Can you tell me the cost of that debt — the interest rate and minimum payment?

Too often, people in debt have no idea how much they owe. If you don't know the details, you can't fix the problem. Telling your mechanic that the car doesn't work is not much help. He's got to know exactly where the problem is — before he starts repairs. Similarly, if you don't have a firm grasp of exactly what you owe, to whom you owe it, and what the payment terms are, forget about trying to eliminate your debts. So let's start there.

It's simple to do. Just take a sheet of paper and make four columns. In the first column, list the name of each creditor (who it is you owe). In the second column, list the amount you owe to that creditor. Third, state the interest rate each is charging you, and fourth, state the minimum payment you must make each month. Do this before continuing. I'll wait.

...

Now that you have your list, I'll bet you wrote them down as you thought of them, in random order. So let's do it again, this time in order. Which creditor will you place at the top of your list? When I ask that question in my debt management seminars, most participants think the first debt to list is the one with the highest balance.

Wrong.

When making your list, show first the creditor which charges you the *highest interest rate*. Place the 21% credit card above the 18% credit card, which appears above the 14% card and so on — even if you owe more to the 14% card than to the 21% card.

I hope seeing all your debts listed on a sheet of paper makes you realize that you need to pay off those debts. If you keep going into debt, you might set a new record. In our firm, that record is held by a client who has $170,000 in credit card debts. His minimum payment is $12,000 per month!

Management Before Elimination

> **How long will it take you to become debt-free? For most people, at least as long as it took to accumulate the debt. So if you've been increasingly in debt for five years, plan on taking five years to get out of debt.**
>
> **If that surprises you, remember that you can jump into a hole faster and easier than you can climb out of one, and if that discourages you, remember to focus on the benefits, not the costs, and forget about quick fixes. There is no such thing.**
>
> **And you can forget about "credit doctors" or other marketers who claim they can "fix" your credit record for you. Such pitches are a scam. There is nothing anybody can to do repair a bad (but accurate) credit record — except you, by following the methods I'm outlining for you here. No quick fixes, no magic solution.**
>
> **I'm addressing these credit repair outfits in a sidebar because that's all the attention they're worth.**

I emphasize the rate instead of the balance because we have to stop the bleeding before we can cure the patient. You're not going to get rid of your debt overnight, and until you do, additional interest charges are accruing. Therefore, you must reduce the speed with which interest charges are accumulating, and that means we have to focus on the debt that's charging you the highest interest.

And, in case I need to say it: While we're working on eliminating your debts, do not add to them.

Now that you have listed all your debts in the proper order, look at column four: the minimum monthly payment. Each month, make certain you pay the minimum payment to each creditor. Never skip a payment and always send at least the minimum. If you don't, the creditor will make a note in your credit file, and this will haunt you when you try to buy a house or a car. Make sure you stay current. I cannot overemphasize the importance of this.

After you pay the minimum to each creditor, devote all your remaining money exclusively to the creditor that charges you the highest rate. Do not spread this money evenly among all the debts. Instead, send whatever you have left entirely to the most expensive creditor. After you finish paying off that creditor, go down your list to the next-highest creditor, again devoting all resources (beyond the minimum payments) to that creditor until that debt too is gone, and keep repeating this process until they're all gone.

Empty Your Bank Account

To accelerate this process, withdraw any money you have in the bank and send it off to the creditor at the top of your list.

If this advice shocks you, please understand that it makes absolutely no sense to have money in the bank earning 3% while you have debts that cost 18% or 21%. While you're at it, liquidate any other assets you have, such as savings bonds, stocks, mutual funds, even baseball cards.

Liquidate all your assets, with one exception: Do not liquidate your IRA or company retirement accounts. The tax penalties would be so high and you would be jeopardizing your future retirement to such an extent that it's not worth it.

"But if I close my bank account, I won't have any money," you might be complaining. Well, I've got news for you: *You don't have any money now!* You just don't realize it. And if you're worried about needing cash in the event of an emergency, let me ask you: What do you think a credit card is for?

Why bother paying more than the minimum to *any* card, when paying the minimum is so much easier? Besides, paying the minimum will eventually pay off the balance, right?

Right. But the key word there is *eventually.* Say you've got an 18% credit card with a balance of $1,800. If you pay only the minimum each month, it will take you nearly 14 years to eliminate the debt. But if you pay just $10 more per month, you'll get rid of the debt in less than four years — saving you 10 years and $1,400 in interest!

Love Your Credit Card

> *"I had plastic surgery last week. I cut up my credit cards."*
> **—Henny Youngman**

I love credit cards. What I don't like is credit card debt. Credit cards are wonderful cash management tools, and I encourage you to obtain one and keep it with you. If the car breaks down during a road trip, you can pay for repairs and overnight lodging. If Aunt Ida needs you to care for her, you can buy a plane ticket to see her right away.

So I have no problem with credit cards. What I have a problem with are people who don't pay them off every month, and with people who own assets that produce lower returns than the cost of the debt, when they should be selling the assets to eliminate the debt.

Get Out of Debt By Getting Into Debt

Next, go borrow some more money.

And get as much as you can — provided that (a) the amount of money you are now borrowing is not more than the total amount of debts you already have and (b) the interest rate you'll have to pay on this new debt is less than the rate you're currently paying.

See how this trick works? Say you owe $5,000 to an 18% VISA card. Maybe you can get a new VISA card from another bank that charges only 14%. Take $5,000 from the new card to pay off the balance on the old card — and in essence, you'll cut your interest rate to 14% from 18%. Do this as often as you can to reduce your interest charges while you're working to eliminate the debts themselves.

> *"Practice economy at any cost."*
> **—Anonymous**

Keep in mind that this is just a temporary solution. The real goal is to eliminate the debts, not merely reduce their cost. And be sure you understand the terms of your new card: Many card issuers offer introductory rates to get you to switch, but these "teaser rates" often last only a few months, after which time the rate rises dramatically — perhaps to a rate even higher than the rate you're currently paying. In other cases, the low rate applies only to new purchases, not to existing balances that you transfer from another card. Execute this strategy carefully, or you'll defeat the purpose.

Next, Focus on the Cause

Now that you've stopped adding to your debts, reduced their interest charges, and begun a plan to eliminate them, we can focus on what caused all this debt in the first place.

And guess what the cause is? *It's you*. You are the cause. You are the problem. Remember the Newmans from Chapter 1, and how they were spending their money? Like them, too many of us let our spending habits get us into trouble.

The most astonishing aspect about the Newmans is that their daily spending represented 3% of their total annual income. To understand the importance of this, consider John D. Rockefeller. When he died in 1937, how much money did he leave behind?

All of it!

Do you get the point? You were trying to guess how much money he had in dollar terms, because that's how you're used to dealing with money. But where money is concerned, *dollars* are irrelevant. To succeed financially, you must think in terms of *percentages*.

Thus, when Rockefeller died, he left "all of it" behind, or 100%. Rockefeller had 100% of his money, just as you have 100% of yours. The reason this is so important: *Amounts* constantly change, but percentages never do. The amount of money varies from day to day, but the percentage never does: You always have 100% of your money.

By the way, Rockefeller had $900 million when he died in 1937, the equivalent of about $13 billion today.

This is why you have the same assets as Rockefeller: He had 24 hours a day, just as do you, and he had 100% of his money, just as you have 100% of yours.

If you don't earn interest on your money today, you've given that day away forever. And if you earn a lower interest rate today than you should have earned, you have given that away as well — forever.

If you want to make your finances very simple, just think of all of your money as 100 *per cent*. Through your entire life, you will have only 100 of these cents, and you will never get more, so spend them with care.

"My problem lies in reconciling my gross habits with my net income."
—Errol Flynn

Where Does Your Money Go?

So start thinking about it. What will you do with your 100 pennies? The first thing you do is something you'd rather *not* do: pay taxes. That costs you about a third of your pennies, leaving you with 67.

Finished with the taxman (or should I say he's finished with you), you first need shelter. Lop off 28% of your income for housing. That leaves you with 39 pennies.

Next comes food, on which the average family spends about 18% of income. You're down to 21 pennies — and you're still naked!

So let's buy some clothes. Seven pennies ought to cover that. Now, you need to get around town, so siphon off 11 pennies for transportation-related expenses. You've got three left.

What's going on here? You've got only three pennies left and you haven't had any fun yet! (You also haven't paid for insurance, utilities, or your kids' education, either, but I won't mention those because I don't want you to get discouraged.)

And with their precious three pennies left, the Newmans chose to buy candy bars and coffee! So, the next time you think spending fifty cents on a soda won't make any difference, think again.

You Make Plenty of Money

Please don't try to tell me you're in debt because you don't make enough money. You already make as much money as it takes to become financially successful. You simply are not using your resources wisely. Life is all about choices, and if you are in debt, I'm willing to bet it's because you made some bad choices. You spent every tax refund you ever got — often before you got it. Every time you got an increase in salary, you upgraded your lifestyle. And while it's true that this new income allowed you to handle the new payments, it also did two more things: It forced you to maintain your income stream so you could keep paying for these new financial obligations, and since the new income was pre-allocated, you were prevented from saving it or from using it for other purposes in the future.

If you think you're not rich because you never had the opportunity to become rich, look elsewhere for sympathy. Why do I say this? Because in a study by the Employee Benefit Research Institute, 70% of non-retired Americans say they could reduce their expenses in order to save for retirement, but only 18% say they are very likely to do so. Apparently, living well today is more important to most of us than living well tomorrow.

Indeed, say you go out for dinner and a movie twice a month, spending $75 each

Just to prove I'm not totally heartless, I will admit that there is one legitimate cause of indebtedness that is beyond one's control: huge medical bills resulting from health problems.

But that's about it. Being out of work doesn't qualify, which will annoy those reading this who have been downsized in the past few years. While I agree that a person might be facing some serious economic challenges after being let go rather unceremoniously, that's not an excuse to be in debt. You should have been accumulating savings while you were working, and maintaining cash reserves to tide you over (at least for a time), and your lifestyle should not have been relying on your full income stream. In other words, loss of your job should be a difficulty — not a disaster.
If this scenario has happened to you, I'm sorry. And if it hasn't (yet), be forewarned so you can be prepared.

time. That's $1,800 a year. If you instead saved that money over 30 years at 10% per year, you'd have $325,698! Yet, according to EBRI, restaurant meals "are no longer considered luxuries, but a standard part of the middle-class lifestyle."

So, please, don't tell me you don't make enough money. The truth is you simply *spend* too much money.

Track Your Expenses

What all this leads to is the need to track your expenses. You've got to determine where you are spending your money, because until you know where your money is going, you won't be able to stop it from going there.

I want you to track your expenses so that you can see how you are spending your money. I am convinced that once you see how you are spending your money, you will quickly and easily fix the areas that need improvement. And you'll be able to do all this without having to create — or live with — a budget.

There are two ways to track your expenses. One way is fast but hard; the other is slow but easy. The choice is yours. The fast/hard way is to spend a weekend going backward in your checkbook and through your credit card statements for the past six months. It's hard, because you'll work all weekend, and you'll have gaps, particularly regarding the cash you spent, but by Sunday night you'll be ready to go to the next step.

Forget about budgeting, for you won't do it even if I tell you to. There's probably nothing more tedious, or less effective, because budgets only reflect how you think you'll spend your money, not how you really do spend your money. After all, how often does life go according to plan? So forget the dreaded "B" word.

See? There's good news after all!

The other way is slow/easy, and here you start to track all your expenses for the *next* six months. It's very easy to do, for you just record expenses as they occur. It takes very little effort, but it's slow: It'll take you six months to complete the process. The choice is yours.

PC or No PC

If you have a computer, you can do this with Quicken, Managing Your Money, Microsoft Money, or any similar software package. You also can use a spreadsheet program. *This is not an excuse to buy a personal computer, nor does it dismiss those who don't have one*. Tracking expenses is just as easy with an ordinary pencil and paper, so don't think you need to spend two grand on a PC to get started, or that you can't get started because you don't have a PC.

If you have a PC, follow the instructions provided by the software. I'll explain how to do it here for those using paper, which is how my wife Jean and I did it when we started to get our financial life in shape.

But first, starting now, you may no longer spend cash. To effectively track spending, your money must leave a paper trail, and cash leaves no trail. Therefore, you must use checks and credit cards only. I'll talk more about how to properly use credit cards later in this chapter.

To begin, draw on your paper a series of columns (you'll probably need 20 or so, maybe more).

TRACKING YOUR PERSONAL EXPENSES

Paid To	Amount	Food	Clothes	Gifts	Auto	Travel/ Enter.	Phone
Grocery Store	157.99	157.99					
AT&T	21.21						21.21
Ford Motor Credit	236.49				236.49		

FIGURE 7-1

In the first column, list to whom you wrote each check. In the next column, write down the dollar amount of the check. For each of the next 20 columns (or more if needed), assign a spending category — one each for FOOD, CLOTHES, AUTO, UTILITIES, and as many other categories as you wish. Then list the amount shown in column two under the appropriate category.

For example, say you spent $157.99 at the grocery store. In the first column, you'd write the name of the store. In the second column, you'd write "$157.99" and then you'd move to the FOOD column, where you'd again write "$157.99." See Figure 7-1.

I don't care what your categories are, provided that each is meaningful to you, and that you use the category consistently. For example, where will you show money spent on dinners at restaurants? Will you list it under FOOD or ENTERTAINMENT, or perhaps DINING OUT or something else? For some people, UTILITIES is sufficient, while others set separate categories for TELEPHONE, ELECTRICITY, WATER, and GAS.

The choice is yours; just make sure you are consistent with where you place the expense. Also try to ensure that each category is not so broad that it is used too often nor so limited that it is seldom used. For example, CLOTHING is fine, but

EXPENSE CATEGORIES

Household
Mortgage/Rent
Association Fees
Utilities
Phone/Cable
Food
Child Care
Private School
Clothing
Maintenance

Charitable
Church Dues
Tithe
Donations

Transportation
Auto Loan/Lease
Fuel/Oil
Public Transit
Parking/Tolls
Repairs/Maintenance
Registration Fees

Health Medical
Professional Fees
Drugs/Medicine
Parental Care

Debt Service
School Loans
Personal Loans
Credit Cards

Insurance
Life
Health
Disability
Long-Term Care
Auto
Home
Personal Property
Umbrella

Gifts
Birthdays
Anniversaries
Holidays
Graduations
Special Occasions

Savings/Reserves
Auto
Home
College
Retirement
Special Events

Recreation
Club Dues/Fees
Movies
Vacation
Dining Out
Lessons/Camp
Hobbies

Legal & Accounting
Retainers
Tax Preparation

Miscellaneous
Barber/Beautician
Professional Dues
Subscriptions
Pet Care
Domestic Help
Child Allowances
Dry Cleaning
Alimony
Child Support
Toiletries

FIGURE 7-2

creating three categories — CLOTHING-HIM, CLOTHING-HER, and CLOTHING-KIDS might enable you to determine more easily where the money is really going. But I once had a client who showed a category of "Clothes, William, Socks, Blue." Another client not only listed ENTERTAINMENT, she showed the name of the movie, gave a review, and listed that she bought a Kit Kat and Junior Mints. Both of these people are a little nuts.

Okay, they're a *lot* nuts. Don't go crazy with this. Just make sure your categories make sense to normal people. Figure 7-2 lists categories to help you get started.

What to Do When an Expense Extends to More Than One Category

Often, you'll need to itemize your spending. Say you spend $300 at a department store, buying a variety of items. Write the name of the store in column one, "$300" in column two, then split the total among the various categories appropriately. See the example in Figure 7-3.

TRACKING YOUR PERSONAL EXPENSES

Paid To	Amount	Food	Clothes	Gifts	Auto	Travel/ Enter.	Phone
Grocery Store	157.99	157.99					
AT&T	21.21						21.21
Ford Motor Credit	236.49				236.49		
Macy's	300.00		225.00	75.00			
Cash	190.07	18.76			46.31	125.00	

FIGURE 7-3

Do this for all your spending each month, and then total each column at the bottom. This will show you not only your total spending for the month, but how much you spent in each category.

Once you have produced dollar totals for each column, you need to convert the dollars to percentages, so you can see what percentage of your total spending occurred in each category. To do this, divide each column's dollar total by the total dollars you spent (the figure at the bottom of column two). See Figure 7-4.

TRACKING YOUR PERSONAL EXPENSES

Paid To	Amount	Food	Clothes	Gifts	Auto	Travel/ Enter.	Phone
Grocery Store	157.99	157.99					
AT&T	21.21						21.21
Ford Motor Credit	236.49				236.49		
Macy's	300.00		225.00	75.00			
Cash	190.07	18.76			46.31	125.00	
Total	905.76	176.75	225.00	75.00	282.80	125.00	21.21
Percent	100%	20%	25%	8%	31%	14%	2%

Example: $\dfrac{176.75}{905.76} = 20\%$

FIGURE 7-4

When you're done, all the percentages should add up to 100% — and this is how the Newmans discovered that 3% of their income was going to coffee and candy bars. And you'll be just as shocked about how you're spending your money as the Newmans were shocked about how they were spending theirs, and that's how you'll fix it.

You'll see that you are spending incredibly high percentages of your income in completely foolish places, and you won't tolerate it. Instead, you'll stop. But until you go through this process, you won't know whether the amount you're spending in a given area is too much or too little.

Where Americans Spend Their Money

According to the federal government's Consumer Expenditure Survey:

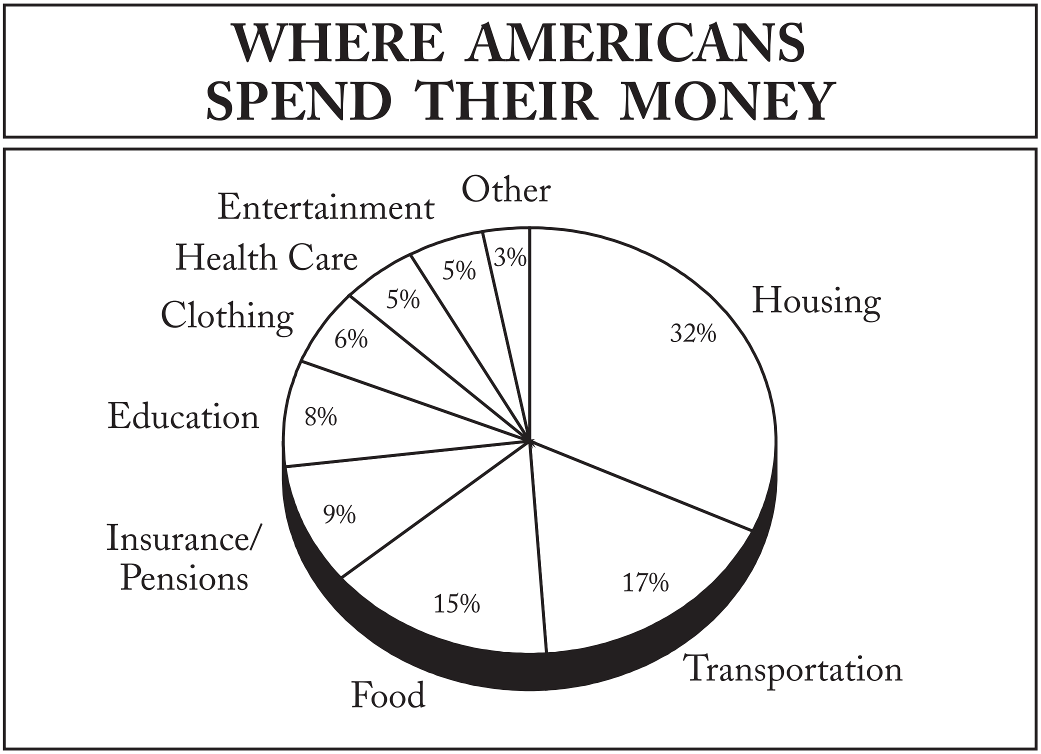

FIGURE 7-5

How to Handle Credit Card Purchases

Most of us use credit cards often. Although you write a check to "VISA" or "DISCOVER" or whatever, that obviously doesn't reflect what you bought. Therefore, you must break down the invoice, itemizing the bill across the many categories you've established.

Yes, go get another card. How many debt counselors advise people that they need to get *more* credit cards to help them get out of debt!

"Never borrow money except for a primary residence, education, or emergency health problems."

—Old South saying

"It takes time to succeed because success is merely the natural reward for taking the time to do anything well."

—Joseph Ross

But what if you're only making a minimum payment, or if you already had a balance, added to it, and now are making only a partial payment? It can get confusing, and here's how to solve that problem: Go get a new credit card.

I want you to get a new card because I want you to stop using all your existing credit cards. By placing all your new charges on the new card, you'll be able to track them each month. And make sure you pay off the balance in full every month. If you won't be able to pay off the balance at the end of the month, you have no right to use the card now. Remember, a credit card is merely a way for you to use the bank's money for 28 days instead of your own. If you can't pay for an item with cash, then you can't use the card, either.

By using the new card, you're not using the old ones - but you still have balances on them. That means you need a category called DEBT SERVICE. And as you make payments to those old cards, this is where you list the payment. This way, you can ignore what the money was used to buy. Those purchases are ancient history; all that matters now is paying off the debt.

Two Tricks to Help You Pay Off Your Cards Each Month

If you are concerned that you don't have the discipline to pay off the balance in full each month, get a charge card, not a credit card. With a charge card, you do not pay interest. Instead, you MUST pay the full balance every month.

The truth is, if you don't have the self-discipline to pay off your credit card every month, I'm not sure this chapter will help you very much. You know carrying a monthly balance is stupid, and if you do it anyway...well, there's not much I can do for you if yer gunna ackt stoopid.

Here's another trick that might help you pay off the balance each month: Every time you use your new credit card, immediately write a check payable to VISA (or whomever) for the amount you just charged. If you spend $35 at a store and put it on VISA, write a check for $35 to VISA right away. Then put the check in your drawer, and when the bill shows up, just slip the check into the envelope. You will have already recorded the check in your checking account, so the money is already there to cover the bill when it arrives.

If You Must Spend Cash

Sometimes spending cash is unavoidable, so if you must spend cash, get a receipt so you can remember what to record later. Just write "cash" in column one (like when you wrote a check to "VISA") and itemize by category where the money went. Thus, if you withdraw $100 from the ATM machine, you'll need to record what you spent that money on — whether it was a pack of gum (FOOD), a parking meter (AUTO), beer with the gang after work (ENTERTAINMENT), or all three.

Two "Unexpected" Expenses You Must Expect

When I ask participants in my debt management seminars to list categories of spending, they're real quick to offer food, shelter, clothing, transportation, education, travel, entertainment, and a few others. But there are two categories no one ever mentions, and I think this helps explain why you're in debt.

Unexpected Expense #1: Repairs

When I see that people have credit card debts, I ask why. And they often reply with something to the effect of, "Well, the car broke down. It cost $800 to fix. As soon as I get out from under that, I'll be okay."

And they work real hard and they pay off $100 a month until they get rid of that bill, and guess what happens next? The roof leaks. Or their son falls on the playground and breaks his arm. Or the washing machine dies. Let's face it: Life happens. Yet when things happen, people feel shocked, as though they didn't know things happen.

If you think occurrences like these are unexpected, you're deceiving yourself. Things are great until the car breaks down. Things are great except you owe $500 in taxes. Things are great until the basement floods. *Things are great until the next thing happens*. Time, a great physicist once said, is just one damn thing after another.

You just bounce from one crisis to another, like the guy who's always losing 10 pounds. He loses 10 pounds but then it's Thanksgiving. So in January he loses 10 pounds again, then it's Easter. Afterward, he loses 10 pounds, and it's Father's Day. He loses 10 pounds and goes on vacation. It's just a vicious circle, and we find our debt clients running round and round all the time. They're constantly going from "I paid off my credit cards" to "I owe $2,000" because they don't recognize that expenses in the UNEXPECTED category occur all the time. While it's true we don't know what the expense is, when it will occur, or how much it will cost, we should acknowledge that something will occur — and it's going to cost us money.

> ***"Earn a little, and spend a little less."***
> **—John Stevenson**

This is why you can't track your expenses for just one month. You must do it for six months because you might go several months without an incident. And if you have a crisis that costs you several hundred dollars every four or five months — and you do, as tracking your expenses will reveal for you — you'll learn that you must set aside enough money on a monthly basis to prepare for it. So set a new category for yourself called UNEXPECTED.

Unexpected Expense #2: Gifts

Haven't you heard of Christmas or Hanukkah? Every December, people are overwhelmed by the money they spend on presents. Then they get to January and say, "Thank goodness that's over," and they spend the next six months paying off the bills. Come November, they get shocked all over again.

It's easy to prepare for the costs of gift-giving: Just look at last January's credit card bills and checkbook — because you're going to do it again this year!

And while we're on the subject, does anybody you know have a birthday? If you're not anticipating birthdays, anniversaries, graduations, confirmations, weddings, births, and other milestones in the lives of those you love, you're just adding to the "repair bill crisis" that is certain to hit you.

Control Yourself

After completing their six-month review, many people show me their results and lament all the money they spend on gifts. "But I've got no choice," they say. "I've got a large family and we're very close," implying they are forced to spend hundreds or thousands of dollars every year.

Nonsense. If you are deep in debt, you have no business spending money you don't have on gifts that people don't need. You can bake cookies or rely on a hobby to make them a gift. Write a check to the American Cancer Society and tell the family that you've done so in their name.

Do you think I'm being cheap? Hey, I'm talking about survival here. If you were rich, yes, I'd say you were cheap. But since you're broke, I'd say you are prudent. And if your family — the people who know you best and love you most — can't support you in your efforts to improve yourself financially, then shame on them.

Have you ever heard the phrase "the rich get richer and the poor get poorer?" It's true, because the rich keep doing the things that got them rich, while the poor keep doing the things that got them poor.

Indeed, being "poor" is a state of mind. But being "broke" is just a temporary financial condition. People who are poor stay poor; they won't bother to read this book or seek to improve their lot in life. But you're not poor, you're just broke — as evidenced by the fact that you are reading this chapter. And although you're broke at the moment, that will change because of your desire and your effort.

Don't be SNIOP

And frankly, you shouldn't care if your sister thinks you're cheap. Because if that's what she thinks, then she's not much of a sister.

Don't let the attitudes of other people drag you down or dissuade you from achieving your goals.

Don't be SNIOPed. Don't be Susceptible to the Negative Influences of Other People. Think about it the next time your co-workers invite you out for a drink after work. You know that if you go, you'll spend fifteen or twenty dollars. You want to go with everyone, it's fun, it helps with office politics, and so on, but you also know you'll spend twenty bucks you don't have.

You need to excuse yourself from going. "I'm really tied up. I have other plans." (Your "other plan" is to become wealthy.)

But they'll use peer pressure. You know what I'm talking about. So you give in, telling yourself you won't spend much. But the night goes on, and sure enough, you've spent $20. Congratulations: You've been SNIOPed.

You need to put a steel rod in your back and say "I CAN'T MAKE IT." If they criticize you, or talk about you, or hassle you about not joining them, please realize that this is their problem, not yours. If you allow yourself to be caught up in their game, you'll never get anywhere financially. This is often hard to do, but it's a critical element to eliminating your debt.

If you're wondering how it is that your friends, neighbors, and co-workers can afford to go out for dinner, buy fancy cars, take frequent vacations, dress their kids in the latest fashions, and decorate their home so extravagantly, here's the answer: They can't.

These people are seriously in debt. Look, you know what they earn — about the same as you. And you know you can't afford it. That means they can't afford it, either. But your neighbors are so busy keeping up with each other that it's hard to tell. Remember: You can see their clothes, their house, their car, and their vacation photos, but you haven't seen their credit card statements or bank accounts. Don't assume that since they're doing it, (a) it can be done, and (b) you ought to be doing it, too.

Why? Because the truth is, (a) it can't be done, (b) they shouldn't be doing it, and (c) you shouldn't be trying, either.

Without question, you will experience the feeling of being SNIOPed. "No way," you're saying. "Not from my friends." Wanna bet? You'll find it's like crabs in a barrel. As soon as one crab starts to crawl out, another will reach up and pull it back down. If you're not prepared psychologically for this to occur, you will get SNIOPed for sure.

Virtually All Your Expenses are Optional

George and Monica came to me several years ago. At the time, they had a combined annual income of $120,000, yet owed $22,000 to credit cards, and they were adding debt at the rate of $2,000 per month (they were obtaining a new card every month). Despite their high income, they were spending considerably more than they were earning.

When we reviewed their situation, I discovered that a lawn service visited their home twice a month, at $85 per visit. I told them to cancel the service, and George replied, "But our lawn will look terrible if we do that! We must keep this expense."

I also noticed that they subscribed to cable TV, including every premium channel — a monthly cost of $97! I told them to cancel cable. Monica gasped. "There will be nothing for us to watch! We can't cancel cable!"

I'm sure you'll agree with me that a lawn service and cable TV are optional, yet neither George nor Monica understood this. Both these expenses are optional, just as — pardon me for shocking you — virtually *all* your expenses are optional.

Health club membership? Optional.

Entertainment? Optional.

Telephone? Optional.

Clothes? Most of it — or more accurately, the total money you spend on it — is optional.

Food? Again, mostly optional. Oreos, I regret to inform you, are not mandatory.

Are you getting my point? Almost everything you spend money on is optional! So don't tell me, "I gotta do this, I gotta do that." Sometimes, though, you'll find that you've been spending money on a certain item or in a certain way for so long that by now, not only can't you remember when you *didn't* spend money like that, now you think you *must*. Again, let me repeat: *Cable TV is optional*. Hard to believe, but true.

You *can* stop spending your money on things that in the bigger picture really don't matter. You *can* change it. You *can* fix it. You *can* stop it.

Don't feel locked in or trapped, because you are not. True, there are some expenses that you cannot change easily or quickly. Once you buy a car, you're stuck with the payments. But most of your spending is much more flexible than you might think at first. You are in more control of what's happening around you than you realize. But you've been SNIOP'd for so long you've forgotten that you do have a choice about how you spend your money.

The bottom line is that you got into debt because of your attitude, not your income. And it is your attitude about money that must change first, or changes in income won't matter.

As it didn't for George and Monica. By refusing to change how they spent money, they sought other solutions for their debt. And they found one: the equity in their home. They owed $150,000 on their $200,000 home, so from the $50,000 in equity, they borrowed $25,000 and used that money to pay off their credit cards. Problem solved, right?

Wrong: Within a year, their credit card balances were back up to $24,000, only this time they no longer had $50,000 in home equity to rely on. Within two more years, unable to keep up with the payments on their house, they sold it and rented an apartment (at least that ended the lawn service). Still, it wasn't enough, and they later filed for bankruptcy. It will be 10 years before they are able to buy another house — if ever.

I got a call one day from a viewer to my TV show. "I have $15,000 to invest and need your advice," he said. "By the way, I'd really like to talk with you about our debts." He explained that he and his wife owed about $40,000 to credit cards, so I told him to use the $15,000 to help pay down the debt. "No, I don't want to do that with this money. I want to invest it," he said. "I want to handle my debts separately."

I asked him about his income. "My wife and I both sell real estate," he answered.

"Oh," I replied. "I guess the recent softness in the real estate market has hurt your income."

"Not at all," he said. "We made about $225,000 last year and $165,000 so far this year. We just can't seem to get rid of these debts."

He asked for an appointment to come in and talk about it. "But we have to see you as soon as possible," he said. I wondered why. "Are you facing some deadline?" I asked.

"No," he said. "It's just that we're leaving for a two-week vacation to Cancun and I'd like to get started on this debt thing before we go."

Like I said, people get into debt because of attitudes, not incomes.

Focus on the Future

Although you must deal with your debts, don't beat yourself up over them — and don't let anyone else beat up on you, either. Not your spouse, not your parents, not your friends. No matter what your debt scenario, how you got into debt is relatively unimportant. The past cannot be changed, so focus your energy on what you can change: the future. Determine what you need to do from here forward, and then do it.

> **Once, while I was presenting this information in a seminar, a woman asked, "Isn't there a shorter way to do all this?"**
>
> **I just stared at her.**
>
> **If there was a shorter, easier, faster, less painful way to accomplish your goal of becoming debt free, don't you think I'd have told you by now?**

Simple Does Not Mean Easy

Everything I've described in this chapter is fairly simple to understand, but that doesn't mean it's easy to do, and I know this from personal experience.

Back in 1982, before Jean and I launched our financial planning practice, we were in another business, and it was several years before we admitted failure, ending up about $6,000 in debt.

To solve that problem, we decided to kill the business (before it killed us) and start over, rebuilding from scratch. With no income and no assets, we moved out of our three-level, 3,000 sq. ft. townhouse and into a one-bedroom, 900 sq. ft. ground-floor apartment.

We placed an ad in the paper which read, "Moving family must sell everything," — which we did, except for the kitchen table my best friend, Andy, built for me in high school, the bedroom suite that once belonged to my parents, and a sofa. We sold all our other furniture, the TV — everything.

If you've never had a bunch of strangers walk through your home, offering you ten bucks for a desk that got you through college, or $15 for your stereo, you can't imagine what this experience is like.

We accepted all offers and raised $2,000 that day, because we needed $600 for a security deposit on the new apartment, $200 to rent a truck to move our few remaining items, and to buy food and gas for the next few weeks while we got ourselves re-established. For three weeks, we spent $25 per week on food — mostly fruit and vegetables. If you think it can't be done, think again, for we proved it's possible. People who are eating peanut butter to save money are fooling themselves: We discovered that processed foods are so expensive we couldn't afford them. But you can eat well enough to survive on very little money.

The manager of a nearby store let us have some boxes he planned to throw away, and we used them to pack our clothes and dishes. I didn't want to pay $30 a month for a self-storage place, and since we had no furniture anyway, we stacked the boxes in our new apartment, creating a mountain in the living room. But I told Jean not to worry. "It'll only be for three or four months. We'll be out of here by then," I said.

We ended up living there for four years. During that time we did not own a television, nor did we buy a newspaper, because I refused to spend 25 cents each day when I knew I could get a copy at the office after someone else finished reading theirs.

Entertainment was the library and public parks. Years later, when we eventually bought a TV, we discovered how smart we were to sell our old one. By not having a TV, we were not constantly bombarded with messages to buy, buy, buy. By avoiding television's influence, we didn't feel the need to spend money. Perhaps you can control the TV shows you watch, but you can't control the commercials that air during them.

To rebuild income as fast as possible, Jean and I both had several jobs, working seven days a week, often leaving one job to arrive at another.

After living so frugally (made all the more difficult because life wasn't always like that for us) one day we splurged on dinner, spending $7 at a nearby Roy Rogers. We knew we shouldn't spend the money, that we'd regret it later, but we needed the release, and, boy, did those burgers taste good! That meal reminded us of the things we had given up and it increased our resolve to be able to return to a life that would allow us such luxuries. It was a year before we visited Roy's again.

Despite the challenge, we knew we weren't going to have to live that way forever, and for sure, we don't live that way any more. By denying ourselves the little pleasures, setting goals, and focusing all our energy on achieving them, we paid off those debts and in four years had saved enough to buy a townhouse. We've since sold that and built a single family home, which we later sold to move into an even bigger one. Indeed, Jean and I are able to enjoy our lifestyle now because we were willing to sacrifice it all for a time, something most people will not do. We give each other a "knowing glance" whenever people comment on the success we've achieved. "You're both so young," people tell us. "It's amazing how successful you've both become in such a short time." If they only knew. You might say it took us years to become an overnight success.

You, too, can become an "overnight success." You will be on this Earth for 40, 60, or 80 more years. You can choose to live month-to-month as you have been living, or you can choose to live better. Give up your materialism for a few years, reduce your needs for now, and one day, you'll be able to exceed your current lifestyle. All it takes is a little effort each day, and a lot of days.

There isn't any magic to this, no get-rich-quick scheme. And while you may be afraid of how much time it will take to succeed, that's nothing compared to how much time is really left in your life. So what if it takes you 10 years to get out of debt? You'll still have 30 or 50 or 70 years to enjoy after that.

Take advantage of this information. I know you can do it. The mere fact that you've read this far tells me that you've got the interest. I've given you the direction, so all you need is the initiative! Find it within yourself and as W. Clement Stone, the great motivational trainer, said, **Do It Now**.

> ***"Nothing lasts forever — not even your troubles."***
>
> **—Arnold H. Glasow**