

Lesson Two: Simple Money Matters

Objectives

- Identify the Lessons of Money Matters 101
- Explain the Meaning of “A Financially Healthy Lifestyle”
- List the Simple Solutions to Financial Hard Knocks
- Eliminate Simple Money Mistakes
- Understand the Single Biggest Victory to Becoming Wealthy
- Avoid Impulse Spending
- Describe What Retirement Looks Like to You

Assignments

1. Read
 - Chapter 2, *Money Matters 101*
2. Complete the activities
3. List 10 things that a debt-free, wealthy life will afford you

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Simple Money Matters

Introduction

To most people money is one of life's greatest mysteries. We never seem to have enough and don't know how to change our situation. After we pay all our monthly obligations there's never enough money left over to do some of the things we really enjoy or want, like travel, take up a new hobby, buy a vacation home or a nicer car. The thought of all those things we can't have is one of life's harshest realities.



Activity 2.1: The Lessons of Money Matters 101

Based on Ross's experience, what are the four lessons outlined in the beginning of Chapter 2?

1. _____

2. _____

3. _____

4. _____

A Financially Healthy Lifestyle

Big Paycheck, More Wealth?

Many years after going through his own personal financial challenges described at the beginning of the book, Ross learned that the size of a paycheck has less to do with financial happiness than you might imagine. That's one of the great money myths. The bigger your paycheck, the faster you'll get wealthy. Making more money gives us the potential to accumulate wealth faster—but seldom works out that way.

We all know people who have great incomes and yet have nothing to show for it. Everything they have is leveraged to the hilt and they own virtually nothing. They live in a big house with a 120% interest only adjustable rate mortgage. They lease a new European car every three years and pay \$500-1000 a month and never own it. They wear the latest styles of clothes and hairdos and pay for it all with credit cards that charge 18-21% on unpaid balances. You may know some of these people. If they ever have a hiccup in their job, their financial world will be turned upside-down in no time at all.

To them, the appearance of wealth is more important than actually being wealthy. It's all a façade that will eventually crumble and expose them. They are consumed by consumption.

On the other hand, we all know someone who never made a big salary all their working years, but when they retired or passed away, they had some significant wealth.

They never needed that fancy car or boat. They were always content with their simple home and lifestyle. They worked hard and saved part of their income every month. They invested wisely to make their money grow and when it came time to stop working, they had enough money to send to work to generate the income they needed to sustain, or even enhance, their lifestyle for the rest of their lives.



Activity 2.2: The Lessons of Gladys Holm

Gladys Holm lived a simple life, invested wisely and saved her money. She started early in life and stuck with her plan. At her passing, she surprised everyone with her generous gift to the children's hospital in Chicago.

What lesson(s) from the story of Gladys Holm can be adapted by you personally for a financially healthy lifestyle?

Increased Income, Increased Spending

As Ross explains, the world has convinced us that the \$300 payment is more important than the \$30,000 price tag. That's not reality. That's what all the advertising gurus on Madison Avenue want you to believe so you'll buy their client's products and services. Unfortunately, just affording the payment, doesn't always mean we can afford the item.



Activity 2.3: Increased Income

Think back to a time in your life when your yearly income increased (due to a salary increase, second job, inheritance, sale of property, etc.). Then, answer the following questions:

1. What was the amount of the increase?
2. What did you do with this additional income?

3. Did anything in your lifestyle change? If so, how? _____

4. How much of the income increase were you able to save?

5. Have you taken on more debt because your income now allows you to afford additional monthly payments? _____

If the answer is yes, list each item and the amount you still owe.

Making More Money is Not Always the Solution

Making more money is not always the solution to your money problems. When you make more money, the problems may be different, but they are still there. To a family that doesn't make much money and has lots of debt, just paying the rent can be a huge financial challenge.

A doctor may have an income many times higher than a nurse, but a single malpractice claim (justified or not) can wipe them out financially. A simple car accident could leave them disabled and unable to continue to practice medicine. As soon as the income slows or stops, the reality of their paper wealth comes crashing down. Money challenges seem to rise to match your income. The secret to eliminating money problems is to make sure we live a lifestyle we can afford. There is great comfort in living within our means.



Activity 2.4: Money Doesn't Buy Happiness?

What is meant by the following statement? "Whoever said money doesn't buy happiness didn't know what they were talking about!"



Learning to control your money is the only way to eliminate money problems. More money is rarely the solution. In order to truly change your financial fortune, you must change your behavior and eliminate your bad habits.

The Financial School of Hard Knocks

Looking back on his money challenges, Ross found some simple solutions that could have helped avoid many of the problems before he received his “PhD” in money and debt from the school of hard knocks where the school colors are black and blue.

Those solutions include the following:

1. The importance of balancing a checkbook
2. The risk of high interest credit cards
3. The perils of adjustable rate mortgages

List three financial lessons that you learned in the school of hard knocks: *(These may overlap with Ross’s list.)*

1. _____
2. _____
3. _____

Continuing on, Ross notes:

“I can’t think of a single class I took in high school or college that really prepared me to deal with even the most basic principles of money and debt. When you consider all the challenges most of us endure because of mistakes we make with money, you would think the smart people running our schools would make a basic finance class a requirement to graduate or earn a degree.”

Money is a Part of Life

Money is a part of life. We can’t survive in this world without a basic understanding of money and finance. There are always sharks waiting for us to make mistakes or to take advantage of our naiveté and take our money. Unless we know what we are doing, we’re easy prey.

Eliminating Simple Money Mistakes

Eliminating a couple simple money mistakes is one of the best ways to free up additional cash flow to eliminate your debts and accelerate your progress towards a wealthy life. When Ross speaks to investors, he often asks them to think about the worst investment they made in the past year. Then he asks them to determine what the impact on their entire portfolio would have been if they could eliminate that one disastrous investment from their results each year.

In most cases their overall returns would increase a minimum of 2-3% or more just by eliminating one bad decision. The difference in real dollars often amounts to thousands more than they would have earned had they taken the time to plan for the unexpected. Take those 2-3% annual savings and compound them over a lifetime of investing and you're talking about some serious money that would have a huge impact on almost anyone's financial situation.

Your money situation is no different. One bad buying decision or debt decision could sink you financially or at a minimum set you back substantially from your goal of a debt-free wealthy life. Before making a new purchase or taking on a new debt, you need to consider the worst-case scenario to make sure you can really afford it.



Activity 2.5: Eliminating Simple Money Mistakes

In your own words, explain the following statement: You don't have to make costly mistakes to learn how to eliminate debt and become wealthy.

If you want to be debt-free and enjoy a wealthy life, why would you trust anyone that wasn't living that kind of life already to teach you? Seek out those that live the life you dream of and learn from them. You'll often find that successful people are happy to share the lessons they have learned to help another person who is motivated to have a better life.



Activity 2.6: Financial Responsibility

Consider, for a moment, your formal and informal education or training in the matters of sound financial practices.

As you entered into adulthood, how prepared were you to take on the responsibilities of your personal or family finances? Explain.

What was the primary source of your financial education? How has it worked for you?

Debt is the #1 Obstacle on Your Path to a Wealthy Life

The credit card and banking industry sends out over 4 billion credit card offers in the mail every year. The fact is that banks and other companies that sell credit rely upon consumers who revolve balances month after month and stay in debt. Just imagine if we all paid off our credit card balances every month rather than just paying the minimum payment.

These companies make money by collecting interest from you and as long as you have a debt with them, you're obligated to keep paying. Their systems are designed to keep you in debt. If you only pay the minimum monthly payment on your credit cards you'll end up paying many times the price of the items you originally purchased before you actually pay it off. The game is rigged in their favor. You have to learn how to beat them at their own game.

Debt in America is an epidemic. Right now there is more than \$2 trillion in consumer debt held by Americans and it continues to grow at an alarming rate. The average household has over \$10,000 in consumer debt, mostly on credit cards.

Not surprisingly, bankruptcies and foreclosures are at their highest levels in decades as Americans struggle to pay their debts in a rapidly slowing economy. It's bad now and it's going to get much worse until we learn that we can't spend more than we make and expect to avoid money problems.

Break the Bonds of Financial Slavery

One of the first keys to eliminating debt is realizing that as long as you owe money to a bank or another lending institution, you are enslaved to them. Money lenders are never going to do you any favors to help you retire your debt faster because that's how they make money. The only person that cares about your money is you.



Activity 2.7: Your Money Motto for Financial Health

Complete the following: "Nobody takes care of my money like _____."
Explain your answer:

The Single Biggest Victory to Become Wealthy

Eliminating your debt is the single biggest victory you must achieve if you want to be wealthy and live the lifestyle of your dreams. It's not the financial goal line, but it's a significant milestone on your path to wealth. Once you experience the feeling of being debt-free, everything else will be easy.

Money and Happiness

As previously discussed, not having enough money to meet our basic obligations is a recipe for an unhappy life.

Most of the major challenges you will face in your life will often come as a result of poor money decisions or a lack of money. Not having money puts so much additional pressure on us that we often can't function in any part of our life. The stress you feel when you're broke or in more debt than you can handle will affect every aspect of your life.





Activity 2.8: Poor Money Decisions

Most of the major challenges you will face in your life will often come as a result of poor money decisions or a lack of money.

List some of the challenges in your life that came from making poor money decisions.

Understand What a Wealthy Life Means to You

The secret to financial happiness is making sure your values align with your attitudes about money. If you really want to be wealthy, first you must clearly understand what a wealthy life means to you.



Activity 2.9: What Does Being Wealthy Mean to You?

Answer the following: How will you know you've arrived at your destination if you don't recognize your surroundings?

What Do You Drink Your Hot Chocolate From?

Remember the story about the professor who served hot chocolate to his former students? Where are your priorities focused...on the cup or on the hot chocolate?

Is your life filled with fancy wrappers that hide the real treasures in your life? Do you focus more on the trappings of success at the expense of true happiness? You're not alone.

That's the primary reason so many people are in debt today. They fail to see that happiness rarely comes from things, but from being in control of our lives and money. Happiness comes from making wise choices. Too often we sacrifice the long-lasting delayed reward of true financial freedom and the peace of mind and joy that come with it for the immediate, but short-lived gratification of fulfilling an unnecessary want.

The happiest people don't have the best of everything. They just make the best of everything that they have. Live simply. Love generously. Care deeply. Speak kindly... and enjoy your hot chocolate.



Activity 2.10: A Most Valuable Possession

In addition to the material items listed in Activity 1.5, consider what you would do with one of life's most valuable possessions—your time—and then, answer the following questions.

1. What would you do for your job if the paycheck weren't the most important issue?

2. Where would you live?

3. How would you spend your free time?

4. What hobbies would you take up?



5. How much money would you need to retire comfortably? _____

6. When would you retire?

If you don't have any money values, you're going to merely spend to satisfy your emotional needs. Emotions are powerful things that can lead us to do things that we otherwise may never consider. That's another way of saying emotions lead us to make poor money decisions. You'll never eliminate emotions from money decisions, but you must learn to control them.



Activity 2.11: Avoid Impulse Spending

Answer the following:

1. When was the last time you purchased something on impulse—something not planned for financially? _____

2. Did you spend cash or purchase the item on credit? _____

3. What was the item and how much did it cost? _____

4. Did you experience buyer's remorse? Explain.

Before You Spend Impulsively . . .

Before you spend impulsively, ask yourself, "Does the purchase I am about to make align with my goals or does it hinder any of my financial goals to be completely out of debt?" By using this simple check and balance, you can avoid many of the emotional decisions that often lead to unnecessary purchases.

If you know the goal and you have faith in your plan, you can stick to it. Become mechanical in the process you use to make a spending or saving decision and you're likely to make better decisions that keep you on track for a debt-free and wealthy life.

What Does Retirement Look Like to You?

Many people are totally unprepared for the realities of retirement. The only thing they have right in their view is that they won't be working anymore, at least when retirement starts. When they realize that the money they get from social security or any pension or retirement plan provided by their employer isn't enough to meet their monthly obligations, reality begins to set in.

If you want to enjoy a debt-free and wealthy retirement you're going to have to do better. So the final thing before we start learning and using the seven steps is to define what retirement means to you.

1. At what age do you want to stop working? _____
2. What kind of monthly income will you need to sustain your ideal retirement lifestyle? _____
3. Where will you live? _____
4. How many years do you plan to live off your savings? _____
5. What activities will fill your spare time?
 - _____
 - _____
 - _____
6. What are three things you want to do before you're too old to enjoy them?
 - _____
 - _____
 - _____

Now, there's only one more thing we need to cover before we get to the seven steps.

Do You Really Believe You Can Be Debt Free and Wealthy?

Some people believe they are destined for a life of poverty. They see themselves as victims of society. They were born into the wrong family. They live on the wrong side of the tracks. They didn't go to the right schools or meet the right people. Their financial failures are not their fault. Their misfortune was out of their control.

If you have any of those thoughts or feelings right now ... *Get over it!*

