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Getting Ahead Financially

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You may not be ready right now, but someday you will be ready to get ahead financially. The recipe is fairly simple and straightforward, but following the recipe takes commitment and dedication. However, it *can* be done, and almost anyone can do it. *You* can do it. Once you understand and appreciate the fact that debt builds debt and wealth builds wealth, you can make the changes that will change your finances and your life forever.

Just as debt snowballs, wealth snowballs

Do you believe that? When you come to believe it, you will be able to take advantage of it. But just believing does not make it happen. Doing makes it happen. Believing gives you the motivation needed to give up some short-term satisfactions for long-term gains. If you must have everything you desire *now*—no matter what the cost or debt incurred—this program won't help you. You have to give up some things in order to get other things. More than that, you need to give up some things in order to get ahead of the self-defeating debt behavior that will keep you enslaved to debt forever. Remember, debt builds debt and wealth builds wealth. Once you turn the corner on debt, you will almost automatically be able to build wealth with your wealth. Below are the steps that can lead you from a life of financial worries to one of financial comfort. You can do it if you try.

1. Avoid unnecessary debt

Quite simply, if you can't buy it with cash, then maybe you can't afford it. So don't buy it. Do without. If you need a car to get to and from work, buy the car you can afford, and save until you can afford it. If you cannot afford any car without a loan, then buy the car that gives the best value for the longest period of time with a modest loan while you begin saving for your next car purchase. Might this be difficult? Probably, but transportation is a constant expense over the rest of your life. If you buy smart, use loans sparingly if at all, and get ahead of the debt curve by saving for your car purchases in advance, you can save nearly $3,000 in interest on each $15,000 loan at an average 7¼% APR that you would undertake every five years. This is the least you would gain. But if instead of making loan payments, you invest the nearly $300 per month car payment in a Roth IRA invested in a stock index fund paying 9% APR on average, you would have $22,627 in your account after five years, $58,054 after 10 years, and $113,522 after 15 years. You can now take back all of your $45,000 in contributions—tax-free and penalty-free—for any purpose you wish and still have $68,522 in earnings growing for your retirement.

2. Get out of debt

If you are in debt already, you need to stop using debt and get out of debt. This means you must stop using debt to supplement income. If you can't buy something without using credit, then don't buy it. You can't afford it. Once you have paid off your credit card balances, you can use your credit cards as cash as long as you pay off your balances every month. To pay off your credit cards, you need a plan. You would be surprised at how quickly debt can be repaid once you stop using credit and start making more than the minimum payment. If you are paying $250 per month on a credit card balance of $10,000 at an average of 12% APR, it will take you 52 months to pay off your balance. If you increase your payment to $300, it will reduce your payoff time to 41 months, and if you increase your payment to $350, it will reduce your payoff time to 34 months. For each month you reduce your payoff time, you increase your disposable income by the amount of the payment that no longer goes toward paying your debt balances. In other words, you regain $250 in income after 52 months, $300 after 41 months, and $350 after 34 months. Getting out of debt produces disposable income for spending, saving, and investing.

3. Save and invest

Every dollar you no longer pay toward debt or other expenses becomes available for saving and investing. Remember, debt builds debt and wealth builds wealth. Let's dream for a moment that because you received a nice inheritance, you now own your car and your home outright. You are no longer paying a car loan, a home mortgage loan, or rent. How much money would you now have for pur-

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chasing, saving, and investing? Well, you still need to put money aside for your next car, and you need to pay for your ordinary living expenses, but all the rest is disposable income for whatever purpose you deem appropriate. Having your mortgage loan paid would give you that full amount for further saving and investing. If your mortgage loan was paid off, you could save a portion of the freed income from your mortgage payment for your next car, spend a portion enjoying life, and invest the rest for early retirement. If your mortgage payment was $1,200, you would have $300–$400 for each of these purposes. If your mortgage payment was $2,000, you would have $600–$800 for each of these purposes.

As you can see, accomplishing a goal like owning your home can have a snowballing effect on growing your wealth. But this is just a dream, right? Not necessarily. The same strategy that enabled you to pay cash for your cars and save for a home down payment can enable you to pay off your mortgage and work on other goals. No matter what people tell you, even tax-deductible interest saves you only a portion of its cost. However, the fact that home ownership stabilizes your housing costs over many years and allows you to leverage a small down payment into the capital gained on your home's value bodes well for using debt to finance the purchase of a home. There are other times as well when debt can work for you, but this debt is used for wealth building, not consumption.

4. Use debt to build wealth

Debt can be the worst enemy of building wealth when debt is used to supplement income and make unnecessary purchases. That said, there are times when debt can be used wisely to build wealth, as in building a business or investing in real estate. This is what wealthy people do, and you can too, once you get out of the debt that drains your wealth and into the debt that builds your wealth.

Building a business is not easy, and it can be very risky, so this is not something that fits everyone as a wealth-building strategy. This is something that takes a lot of study, relevant experience, and hard work. Franchises offer the best opportunity for those who have limited experience, but franchises are not cheap, and the work requirements are substantial. To be successful, you need to work many more hours per week than you would at an ordinary job, and vacations and holidays may be almost nonexistent in the first three to five years of your operation.

While franchises and other small businesses offer wealth-building opportunities for some people, real estate, especially rental apartments, offer a wealth-building strategy that is better suited to those with less money, less experience, and less time. You still need enough money and experience to make a good purchase. And the money you invest has to cover enough of the purchase down payment plus the portion of the monthly mortgage payment and expenses, including maintenance, upkeep, and taxes, not covered by the rental income. The work required includes managing your unit's occupancy, its upkeep, and all associated financial receipts, records, and payments. This usually requires far less work than that required of a franchise or small business, but it is usually done in addition to a regular job.

The upside of a franchise or small business is that you can grow the business and build wealth based on its success. The upside of rental real estate is that you can use the leverage of your down payment plus the rental income and associated tax benefits to increase your ownership and associated capital gains.

5. Invest for wealth sensibly

What can you do if you are not wealthy or ambitious enough or are too risk-averse to start a business or purchase rental real estate? You can save and invest regularly in low-cost, broadly diversified mutual funds that reflect the economic growth of the nation and/or the world. This is quite easy to do, and the long-term balance of risk and reward is quite favorable. To make your investment even more productive, you can invest in these mutual funds through a tax-free Roth IRA and/or a tax-deductible and tax-deferred retirement plan, such as a traditional IRA, 401(k), 403(b), or 457 retirement plan. All such plans allow for investing in mutual funds, and the mutual funds of greatest interest for long-term wealth building are called index funds. These funds reflect the performance of a particular market index or measuring component by investing in a representative sampling of the stocks and/or bonds included in the index used. With an initial investment of as little as $500, you can invest in the total domestic stock market or, for example, a 60%/40% mix of the total domestic stock market and aggregate bond market. You can also invest in other mixes of domestic and international markets with index funds offering broad diversity and low expenses. It should be noted that U.S. domestic markets, both equity and bond markets, have historically offered lower expenses, greater stability, and more predictable returns. While historical performances are no guarantee of future performance, they indicate a pattern that has repeated itself time and again. You can also try to beat the markets with actively managed funds that have higher expenses and risk. You might consider doing this with a small portion of your investment portfolio, but no more. Wealth building requires some sacrifice, patience, and steady determination. If you follow its principles, you will succeed.