MONEY

What Financial "Experts" Will Never Tell You

WHAT YOU DON'T KNOW AND WHY YOU SHOULD KNOW IT

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Acknowledgments

The Money Mastery philosophy is a work of the ages. Its ideas, principles and methods are the accumulated time-value endeavors of the financially secure from ancient to modern times. It is precisely for this reason that this book cannot be considered the work of just a few, and to recognize all who have contributed to it would be impossible — it is truly the labor of many. However, the authors wish to acknowledge those individuals who have been instrumental in the creation of the Money Mastery concept and who have inspired and enlightened us as we have sought to bring the power of its ideas to you, the reader.

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Finally, we express our thanks to you, the reader, for taking the time to seek out this book. You are our purpose.

Alan Williams
Peter Jeppson
Sandy Botkin

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INTRODUCTION

Why You Should Read This Book

Why do you work? Is it for the money? Do you hope to afford a nicer car, a bigger house, or college tuition for the kids? Do you work simply so you can acquire more "stuff?" These may be your conscious motivations for working, but if you really ponder the question, no doubt you'll discover that deep inside you're actually working to buy yourself more time. If quality of life matters to you (and it probably does) very likely your long-term goal is to provide yourself and family with enough cash surplus and financial resources to allow you more time to spend in meaningful pursuits with those you love.

Most of the people we work with at Money Mastery, whatever their circumstances — whether they're overspending, in debt, trying to retire, or worrying about their stock portfolio — are full of fear about what's happening to them financially. They are fixated on today and how much money they're making (or not making) rather than looking towards the future with confidence that they will have all the time and resources they need to reach their full potential and make their deepest desires a reality. We teach our clients that this fixation stems more from a lack of understanding about the emotions they feel about money than from how little or how much money they make.

Counter to what most people have learned over the years, money is emotional, not mathematical.

Without a clear understanding of these emotions, people's perception of what money can and cannot do for them is skewed. It locks them into a perpetual cycle of fear, worry, and frustration and forces them to live only for today, unable to achieve the security that proper money management creates over time.

Most of the people we coach come to us knowing that whatever they have been doing financially is not working, but they can't figure out why. They feel that they should know how to manage their money, especially given the fact that they have read numerous books and articles on personal finance. They ask themselves why they don't have more money saved after following the strict and oft-repeated rhetoric of popular financial "experts" to invest in the stock market and squirrel away money in 401(k)s year after year. Attempts to get out of debt have proved futile and even though many of them have applied the pat advice of the news media in efforts to manage their money, they are still in deep and agonizing financial pain. Much of that pain spills over into their personal relationships and mars their hopes for the future. What we have observed over years of mentoring thousands of individuals and families is that most people are trying the best they can to manage their money with only a small fraction of the knowledge they need to do so successfully. With a plethora of information all about them, they are perplexed by their inability to make prudent financial decisions.

Although North Americans are living in the wealthiest society on the face of the earth and in a time with the most resources and opportunities, most don't have a clue about how to truly manage and maximize those resources. They are ill-prepared to face the complexities of today's financial markets, and instead follow opinion leaders and financial "gurus" who know little themselves about how to teach people the way to fix these problems (but act as if they do).

What about you? Are you living in the dark financially, never looking ahead because you're so mired down in the present? Have you tried following the advice of the financial advisors of our time about how best to manage your money in today's economy and yet still feel that you're not "seeing the big picture?" Do you wonder why you're no better off today financially than you were five years ago?

How would you feel if you could step into the light and stop being fearful and frustrated? Wouldn't it be wonderful if your money were working for you to create the abundance of time and peace of mind you're really craving? What if you could actually get in control of your finances so you could have the resources to not only purchase that which you both need and want, but the time to pursue your life's most cherished dreams and aspirations? What if you had enough time and money to develop worthwhile employment for yourself and others, to have the freedom to spend time in warm associations with family and friends and in service to others, and to experience the ultimate thrill of having adequate funds to be able to give generously to those in need?

This book presents the secrets for making such dreams a reality. It is unlike any other book you'll ever read about money and its management. Counter to other books and programs that spew out a mishmash of partial information in the wrong order and without context, this book deals with ***every*** aspect of personal finance — the way you spend, pay off debt, save for retirement, AND pay taxes — and how each aspect is emotionally interrelated and *must work together in harmony with the others.* It teaches that your financial life is like a puzzle and that an abundance of time, wealth, and resources are only possible when all the pieces fit.

Most best-selling titles on personal finance are full of financial theories and feel-good philosophies that sound nice on paper but are hard to apply personally. What most sources give people are bits and pieces of a larger puzzle that when placed on the "table of life" make absolutely no practical sense to the typical consumer because there's been no instruction on how to properly sort through those pieces, how to assess exactly what those pieces mean, and how they must fit together in a logical and orderly fashion.

It is not enough, then, to know that you need to make sense of the financial pieces you hold in your hand — until you are shown how, those pieces are not likely to fit together. Rather than endorsing popular people or trends, this book provides a hands-on, practical means of applying immediately the ideas taught within it using 10 time-proven principles of solid financial management, providing a complete approach for making all the pieces of your puzzle fit. Through this book you will see how your emotions affect the way you deal with each of these pieces, thus affecting your ability to successfully manage them.

This book will teach you how to:

- Gain immediate control of your spending and help you find at least 1 percent of your gross annual income you are using inefficiently through poor spending habits.
- Live within your means and still have fun doing it.
- Get out of all debt, including your 30-year mortgage, in nine years or less.
- Save up to 10 percent of your gross monthly income.
- Double, and in some cases, even triple your retirement income.
- Legally and ethically cut your tax burden by as much as half.
- Improve your relationship with your partner so you can stop arguing about money.

As you read this book, you will meet others who have learned how to put all the pieces together and have successfully dealt with their emotions so that they could stop working simply for things and begin creating more time to pursue that which really mattered to them. You will also read about the authors' own personal struggles to make sense of the puzzle — you will see that if we can do it, so can you.

In our seminars and coaching sessions, we ask people to assess how well their financial puzzle is coming together by responding to the following searching questions. Take a moment to rate yourself to see what pieces of the puzzle you're missing and what areas need improvement, then total your points at the end of the assessment to see how well you score (100 points possible):

1. How often do you argue with your spouse about money?

Never:	10 points	Monthly:	4 points
Seldom:	8 points	Often:	0 points

2. How often do you worry about having adequate money for your needs?

Never:	10 points	Monthly:	4 points
Seldom:	8 points	Often:	0 points

3. Do you have a monthly spending plan where you track how much you spend, save, and earn?

10 points:	I have a plan, track everything I spend every day, and compare what I've spent with available income to be sure I am staying on track.
6 points:	I keep track of the big things.
2 points:	I try to see what I've spent when I review my bank statements.
0 points:	I spend without thinking about where the money goes.

4. How much of your gross income are you saving monthly?

Save 10%:	10 points	Save 1%:	4 points
Save 6%:	8 points	I have little or no savings:	2 points
Save 3%:	6 points	I spend more than I make:	0 points

5. Are you adequately prepared for the future?

10 points:	I have at least six month's liquid emergency reserves and adequate life, health, and disability insurance.
8 points:	I have adequate insurance and three month's savings.
4 points:	I have adequate insurance but no savings.
2 points:	I have a savings account somewhere.
0 points:	I'm not sure about my financial future.

6. What percentage of your income goes toward paying debt?

I have no debt:	10 points	Less than 40%:	4 points
Less than 20%:	8 points	Less than 50%:	2 points
Less than 30%:	6 points	Over 30%:	0 points

7. Do you know the rules of the financial games you are playing and the risks associated with changes to those rules?

10 points:	I have read my credit card contracts, insurance policies, and other important papers in the past year.
5 points:	I am somewhat familiar with the terms of the financial contracts I have entered into.
0 points:	I have never read my contracts or policies.

8. Do you have a plan for retirement?

10 points:	I have chosen a retirement date, know how much I need to retire, and have a written plan in place to reach that goal.
8 points:	I have discussed retirement and am working on a plan.
6 points:	I make consistent deposits into retirement savings.
4 points:	I make occasional deposits into retirement savings.
0 points:	I have not thought about retirement.

9. Do you understand how taxes can affect your finances?

10 points:	I understand tax law, keep good records, understand the difference between tax-free and tax-deferred investments, and pay no more taxes than are required by law.
8 points:	I understand some tax law and keep fairly accurate records.
4 points:	I have considered investing in tax-free and tax-deferred retirement programs.
0 points:	I let my accountant take care of my taxes.

10. Do you know what you are worth financially?

10 points:	I could draft a personal income statement, balance sheet, and show my personal net worth.
5 points:	I have recorded assets and have a basic idea what I'm worth.
0 points:	I do not know my financial net worth.

How did you do? Many of our clients are startled to find that they score no more than 50 points on this assessment, and begin to see that many of their financial puzzle pieces are missing in areas they had no idea were even a problem. When we ask them to make observations about those flawed areas, we often hear comments about the frequency of arguments with their partner about money, that they can't remember exactly what they spent money on even one or two days previous, that they have more than $15,000 in credit card debt, and because of that debt they don't see how they can be expected to save anything.

What about your score and your feelings about the areas in which you scored poorly? If this assessment indicated for you, as it does for so many of our clients, that your debt-load is high, that you overspend, that you're not saving enough for the future, and that you overpay your taxes, perhaps now is the time to stop and ask yourself why. What might you be doing wrong and how committed are you to continue reading this book so you can change your life for the better?

Let's meet a couple whose struggle with finances caused them to stop and ask what they were doing wrong and how they could overcome their problems.

Mark and Joyce: Out of Control

Case History

Mark and Joyce* came to Money Mastery for help at the height of an emotional power struggle over their family finances. Both were in their mid-thirties, raising two children in southern Idaho and struggling to deal with their financial situation. Their "discussions" on money had evolved into arguments and were becoming more frequent. Mark was a pharmaceutical rep working a fairly new territory in Idaho and Oregon. He felt that he made more than enough money to support the family. Yet both Mark and Joyce knew they were out of control and couldn't understand why.

At the height of their financial struggles, Mark and Joyce had accumulated $15,982 in consumer debt alone. This figure did not include their mortgage. When it was combined with their consumer debt and all the interest, their total debt load came to a whopping $306,000. They had accumulated debt on two credit cards and were only making the minimum monthly payment. Although they had an after-tax monthly income of more than $3,000, Mark and Joyce always spent more money than they made. To compound the problem, each insisted on using their own system for paying bills and managing their finances. Neither shared this system with the other. Any communication about finances came in the form of emotional outbreaks, finger-pointing, and failure to take personal responsibility.

"I began to hate driving to my parents' house on Sundays," says Joyce. "During that 45-minute drive it was either stark silence or constant arguing over our finances. I began to wonder if we would ever be friends again, like we had been when we first got married."

"I had just about given up," recalls Mark. "I hated the confrontation. I worked hard for every bit of money I earned, but we never could seem to make it. I made as much money, if not more, than my neighbors and I just couldn't understand why we never had enough at the end of the month. We couldn't talk about it either with any sort of mutual understanding, and I eventually just wanted to avoid the whole situation and pretend it wasn't there."

*Names have been changed to protect privacy.

Sound familiar? Mark and Joyce's situation is typical of many households across the U.S. and Canada today. Their struggle wasn't about how much money they made. It wasn't even about their excessive debt. It wasn't based on the numbers, but rather on a lack of understanding about the emotions behind their spending and borrowing habits and how those habits were interlinked and adversely affecting each other.

Many people are doing their best to manage their finances, but based on our experience, 93 percent of them are struggling. It's ironic that in an age of relative prosperity and unbelievable opportunity, a majority of people are suffering financially due to overspending and excessive debt. An additional few, while not burdened with debt, worry constantly that their savings and investments will not be secure, that they will experience a loss in income due to reduced interest rates on their savings programs, and that taxes will ultimately devour most of their assets. We believe that these worries stem from trusting in the advice of today's popular financial "experts" while at the same time lacking understanding about how various forces at work in the world can affect emotional perceptions about money, and consequently the ability to control finances. Many people are victims in today's economy, because even though they are aware of these forces, they are not fully conscious of how deeply these powers are influencing their lives. Let's take a closer look at them.

Consumerism: Caving in to Relentless Media Hype

Studies show that the average consumer is now being exposed to over 3,000 marketing messages per day[1] and that just since 1995, advertising pitches have jumped from 1.52 billion annually to 4.29 billion.[2]

In today's sophisticated and highly technological world, we are constantly bombarded by emotional media messages suggesting that in order to be successful we must capitalize our lives to the fullest by adopting a particular standard of living. These media forces urge us to embrace extravagant lifestyles regardless of whether we can afford to or not. Billboards, magazines, television, the Internet, and other media subtly insist that to be successful and to reach our full potential we must do everything we can to accentuate our situation, take advantage of every opportunity that comes across our path, and keep up with everyone else around us lest we be left behind. We must wear the right labels, prevent the most facial wrinkles, and drive the hippest car. We are victims of today's product-oriented society that screams for attention and demands that we buy. Many of us have caved into the emotional media hype, becoming so accustomed to spending and borrowing in order to answer Consumerism's siren call that we never question whether something should be purchased — we only ask ourselves if there will be enough money to make the minimum monthly payment. Even if there aren't enough funds to cover a monthly payment, many individuals will make a purchase anyway. We call this reckless spending the "Disease of Consumerism."

Countless individuals across the U.S. and Canada have become infected with this disease yet don't realize how sick they are. You may be one of them and not understand the gravity of the situation because you are doing what's expected of you — you're living, spending, borrowing, and existing much like everyone else around you. "I don't see that I'm doing anything out of the ordinary," you may find yourself thinking, "what's the big deal? Everyone else is doing it!" The big deal is that just because your peers, family, neighbors, civic leaders, and fellow citizens may be doing it doesn't mean it's what you ought to be doing — just because they may be infected doesn't mean you need to join them in their illness.

If you are a victim of the Disease of Consumerism, you cannot entirely blame the way others around you are living or today's supercharged media hype for your illness. While media messages are often prevalent, passionate, and persuasive they are not accompanied by a taskmaster with a whip. You have the choice whether to listen to these messages or not. Ask yourself: Am I caving into peer pressure and media hype or am I driven to consume by a taskmaster of my own creation — one born of guilt, greed, pride, materialism, and expectation?

The materialism and expectation that plague today's generation stem partially from a lack of respect towards money, a respect that's been lost as a whole from our society since the ending of the Great Depression. The generation who suffered through the Depression carried a real fear of not having the basic necessities of life since most people of that era went many years without being able to provide adequately for themselves or their families. The Depression taught people a profound respect for money and its power over life. It also taught them the value of self-reliance, the importance of self-denial, and the danger of overindulgence. Unfortunately, as America came out of that great economic trial into the most prosperous time in all of history, it did not teach subsequent generations to fear and respect money as it ought. Instead post-Depression parents wanted to spare future generations the feelings of scarcity and fear they had experienced as young adults during the massive economic disaster of the 1930s, so they taught their children to hold out their hands in expectation. Because of this we now live in a time of great self-indulgence and very little financial self-control.

Today's generation, instead of fearing that it will not have* any*thing, fears that it will not have* every*thing.

Another issue that compounds the Consumerism problem is the increased complexity of the financial system within which we live. While it's true that people are more inclined today to spend than their parents or grandparents would have been 60 or 70 years ago, their parents and grandparents also had a much simpler financial system within which to work and much less available money to spend. Today, we must function within a highly sophisticated financial world about which we have been taught very little. In addition, we have access to easy credit that allows us to buy virtually anything we want, introducing a slew of new problems with which our parents and grandparents never had to deal. This financial ignorance and easy credit, combined with a sense of entitlement that has been instilled in society since the ending of the Great Depression, is crippling and enslaving today's generation.

Did you know that 25 to 50 percent of all consumer purchases in the U.S. are unplanned and unneeded? And here's another terrifying statistic: the average American will retire with just $60,000 at age 65 — that's after making more than $2 million during his or her lifetime![3] As a nation, we now have a negative personal savings rate of just under 0 percent of disposable income, compared with about 11 percent in 1984.[4] In fact, that rate is the lowest since the stock market crashed in 1929.[5] That's why more than two-thirds of all Americans who have reached retirement age today are not sufficiently prepared to retire,[6] and why many older Americans are going back to work after age 65. The AARP (American Association of Retired Persons) reports that 68 percent of workers between age 50 and 70 plan to work during their retirement or never retire at all.[7]

A lack of respect for money, combined with the absence of a system for successfully handling the complexity of the fiscal games we are all forced to play in today's consumeristic and monetarily sophisticated society largely account for our financial unhappiness. So many of us do not yet see how the force of Consumerism is eating away at our lives. What about you? Are you spending money simply because in today's economy it's become so easy to get the credit needed to make your wanted purchases? Do you spend money in order to keep up with everyone else around you and as a way to meet childhood-instilled expectations? Do you spend to make yourself feel that you are maximizing your life to its fullest potential? If you are, then you're spending money based on the naive assumption that there will always be more cash to offset the consequences of your spending decisions whether that cash exists or not. Perhaps it's time to take a hard look at how Consumerism might be affecting you.

Indebtedness: Becoming a Slave to Lenders and Easy Credit

Another force at work in many people's lives — Indebtedness — goes hand-in-hand with Consumerism. Unless its power to control you is completely understood you will fall victim to credit card companies, lending institutions, and other entities that wait with bated breath to put to work for them the compound interest they collect from you. Most people take debt for granted in today's world of easy credit and assume that debt is a "normal" way of life. "After all," they reason, "if I don't have the money to purchase something, I can always just borrow it."

Unfortunately, people don't realize that when the initial loan amount is combined with compound interest (which is interest on top of interest) they can end up paying three times the amount they actually borrow!

Credit card companies and other credit issuers are keenly aware of this fact. These entities know that compound interest is the way to make big money. That's why they send out more than five billion offers for new credit cards each year (which equates to nearly 50 per household) — even to those with bad credit.[8]

After being seduced into spending through emotional media messages, those sick with the Disease of Consumerism seem driven to further compound the problem by adding an interest payment to their load. Even though personal income has increased by 5 percent in the U.S. over the past five years, personal debt has increased by 10 percent.[9] And average credit card debt for people with at least one card now stands at just under $10,000, which is triple what it was in 1990![10] Is it any wonder that the majority of Americans cannot keep most of the money they make?

This type of debt enslavement is like taking one step forward and two steps back. It's impossible to get ahead so long as you fail to understand the power that credit issuers can have over you if you let them. As John Cummuta, author of *Transforming Debt Into Wealth*, notes: "We are seduced into using credit by the illusion of prosperity and the short-term pleasure. We don't think about the long-term pain, or the fact that buying on credit means we will pay far more for something than it's actually worth."[11] The ease with which most people can get credit today, along with the inability to fully and completely comprehend the enslaving power of the compound interest that comes with that credit is what keeps people chained to the credit-issuing institutions that control them. Without a system for getting out from underneath this enslavement, people remain in debt much longer than is necessary, living in homes and driving cars that they don't actually own but are simply "renting" from the credit issuer. Are you being deceived by the false notion that you actually have ownership in the items you purchase on credit and that debt is a normal and expected part of life? Do you believe that there's no other way to live other than as a slave to those with money to lend? If so, maybe it's time to free yourself!

Excessive Taxation: Getting Sheared by the Tax Systems

A third force at work today that can have a powerful affect on your emotions and lifestyle is Excessive Taxation. Over-taxation is one of the most subtly destructive forces at work in your life but it's unlikely you realize just how much it is affecting your long-term financial well being. That's somewhat due to the fact that most financial gurus repeat rhetoric about getting out of debt and investing in retirement savings, but rarely discuss the pickling effect taxes have on overall financial health. Unfortunately, those individuals who do realize the full impact taxes can have on them often feel powerless to control it.

Did you know that taxes have become the largest expense for most people, exceeding what they pay for food, clothing, housing, and transportation combined?!

Most Americans believe a myriad of tax myths that keep them perpetually yoked to a relentless tax machine that marches forward with precision and intimidation to seize what it believes will be necessary for its survival.

What are some of the myths you may be embracing that keep you under the control of this powerful force? One of the most pernicious myths is the assumption that a huge tax burden is inevitable and inescapable. Less than 100 years ago, the average taxpayer forked over only $60 annually in taxes?[12] Through the continual expansion of government, however, more taxes are extracted from you each year in order to sustain growth, only adding to the belief that there's nothing that can be done to reduce such a burden. Under recent tax laws, the government is limiting the amount of employee deductions that can be taken and raising Social Security taxes. The result: both spouses feel compelled to work in order to keep the family going. Even then, with tax laws such as they are, a two-income household rarely brings the desired financial relief it seeks.

In fact, when the average federal income tax bill of 39.2 percent is added to all the other "add-on" taxes such as FICA, state income tax, sales tax, property tax, and so forth, the average American ends up paying between 42 and 55 percent of their earned income to the government.[13]

With that kind of money being paid by seemingly unquestioning taxpayers, is it any wonder that the IRS and other government entities are unsympathetic and relentless in their efforts to ensure that the cash continues to roll in? While many grumble over the high cost of taxes, few seem to question what they can do about it, assuming they must pay such ridiculous sums of money. All of this makes most people feel like sheep being led silently and helplessly into a pen for shearing.

The truth of the matter is, you don't have to be a sheep.

The government gets away with taking far more money from you than is required by law simply because you don't know any better. One way Uncle Sam ensures that the money continues to roll in is by keeping you in the dark about what it can actually exact from you. It is up to you to come out of the dark and get informed about how to change this unacceptable situation.

Another tax myth that keeps you chained to excessive taxes and which goes hand-in-hand with the previous myth is the idea that a large and complex government is necessary. Through an attitude of "entitlement" many people are unknowingly subjecting themselves to larger and larger tax burdens. Post-Depression generations have held their hands out in expectation, demanding more services and greater benefits from government than at any other time in the history of the United States. Walter Williams, a professor of economics at George Mason University, explains:

> *Americans from all walks of life, whether they realized it or not....have decided that government should care for the poor, the disadvantaged, the elderly, failing businesses, college students, and many other "deserving" segments of our society. It's nice to do those things, but we have to recognize that government has no resources of its own. Congressmen and senators are not spending their own money for these programs. Furthermore, there is no Tooth Fairy or Santa Claus who gives them the resources. The only way the government can give one American one dollar is to confiscate it first...from another American.*[14]

"But," you may be thinking, "I don't have my hand out looking for government assistance. I'm the poor sucker who pays the taxes for all those other people who expect the government to take care of them." What you may not realize, however, is that it isn't just those on welfare who have their hands outstretched in anticipation to receive government benefits. You do not have to receive a welfare check to get federal "assistance" in some form or another. This "assistance" ranges from small things like reduced entry fees into federally controlled national parks, to larger benefits such as subsidized education and federally funded health care. If you are in favor of such entitlements, that's fine, but remember: someone has to pay for them, and that someone is you.

Many people today want to receive government benefits without considering how much they will cost. The greater number of benefits we are willing to receive, the larger government grows and the greater the tax burden we must expect to pay. Is it possible that the mentality that leads some to buy the cell phone in the mall, even when they have no real way of paying for it, is the same mentality that leads some to accept more government programs, even though they will not be able to afford the taxes required to support these programs?

While the idea that a large tax bill is inevitable is a hazardous one, the most dangerous tax myth of all is one that never gets any attention and isn't discussed at roundtables in Washington. It is one of the worst wealth killers today and is only seven words long. These seven words make more money for the IRS and steal more of your wealth than almost anything else — and the funny thing is, you'll never hear them mentioned in other books on personal finance or by today's popular financial experts. These seven words are:

My accountant takes care of my taxes.

We equate this myth to the equally absurd notion that a doctor takes care of your health. To believe such a notion assumes that you can eat all the fattening foods you want, rarely exercise, and then once a year have a doctor give you the equivalent of a plumbing job to clean out your clogged arteries. The idea is ridiculous and the idea that your accountant can magically clean up your tax life is equally preposterous.

If you don't know the rules for good "tax health," you can't expect your accountant to save you thousands of dollars in taxes at the end of each year. If you believe that your accountant takes care of your taxes, you will pay more to the government than even it requires! Only you can keep your tax bill fully under control. Unless you understand the importance of taking personal responsibility for your own taxes and learn how to take advantage of the good tax laws that are available to you, you will always pay more than is required by law. Excessive taxation is only excessive because you lack the knowledge to fix the problem. Without a system for eliminating unnecessary taxation you will be forever subject to a powerful force to which you have unknowingly yoked yourself. In fact, the subject of taxation is so important and so misunderstood that we have devoted the entire second part of this book to tax planning and tax-return bullet-proofing strategies.

The Time/Value of Money

These three forces — Consumerism, Indebtedness, and Excessive Taxation — are largely taken for granted by most people, and their casual attitude towards such powers leads to victimization. They know there must be something wrong with their impulsive spending habits, but they have not yet linked those habits to their financial ignorance and inability to tune out the media hype that urges them to consume, at any cost. These same people long to have more money for retirement, for their children's education, for vacations, and yet they realize they're not saving anything. Unfortunately they have not yet seen the correlation between their enslavement to credit issuers and their inability to save for the future. These people feel overwhelmed by the amount of taxes extracted from their paycheck each month, and by the way that estate taxes eat into their savings and investment nest eggs, but have not yet connected big government shearing with their own ignorance about the way the tax system really works. These people see tremendous financial opportunity in the world but lack the knowledge and skills necessary to control these powerful forces and harness the wealth and prosperity all around them.

Without a big picture view of how these forces can affect you over time, you may be forever trapped in the moment, failing to understand what's called the "Time/Value of Money." If you're living paycheck to paycheck, the daily struggle to survive inhibits your ability to see the true value that money can have over time — the kind of return it can bring over the course of several years. If you choose to remain in debt, you will not be able to see how the *time* it takes to pay off compound interest is affecting the long-term *value* of your money. The money that you could be using wisely to give a return over time is instead being paid to creditors, completely stripping your money of any value it could bring to you. If you continue to pay excessive taxes you are, in a similar fashion, failing to see the Time/Value of Money because you don't realize the *value* that your money will bring you over *time* if you pay your taxes correctly.

If Consumerism, Indebtedness and Excessive Taxation are weighing you down, it's probably hard for you to understand the exponential value that money can have if given a little time to grow. The Time/Value of Money can only be explained to a point, and then it must be experienced in order to fully comprehend it. Many of the people we work with are so caught up in the worry and frustration of the moment that they can't see what's waiting for them in the future. Others think they already have all the answers about money management — financial planners and accountants, for instance. They come to us for help already possessing an intellectual and mathematical knowledge about how to deal with money. Yet they are thousands of dollars in debt because they do not fully comprehend the power of these forces, the emotional impact they can have on lives when they are taken for granted, and how a casual attitude affects the value of their money over time. Are you one of them?

Are you limited by the things you don't know you don't know because you're wrapped up in the daily struggle for survival?

OR

Are you blinded by your own brilliance in thinking that you already know everything you need to know about money and its management?

It's been said that if all the money in the world were pooled together and then divided equally among each man, woman, and child, each person would have over $1 million. However, in less than 10 years, the majority of people would misuse that money so that they would end up with the same amount they started with. Amazing as this sounds, such loss of wealth is a direct consequence of the emotional mindset and attitudes about money that most of us struggle with today.

A Message of Hope

The intent of this book is to inspire and motivate you to see that there is a logical and systematic way to solve financial problems. The first step is to help you see the negative habits you may be engaging in so you can be aware of your own situation, whatever it is. We have seen countless people improve their lives the minute they became aware of their own behavior. The next step is to help you learn the system for eliminating any negative behavior and accentuating the positive habits you may already have.

Mark and Joyce are just one couple who have been helped by the Money Mastery system you will learn in this book. Let's go back to their story to see how this system and the principles it teaches totally changed their lives.

When they first came to Money Mastery, Mark and Joyce were thousands of dollars in debt and constantly fighting about money. Once they were made aware of how Consumerism and Indebtedness were eating away at them, they made a conscious decision to stop unnecessary and impulsive spending by implementing a spending plan and tracking system and by applying debt power down techniques that we will explain in greater detail in coming chapters. Instead of paying off their house in 29 years, if they stick to their current plan they will eliminate their mortgage and become completely debt-free in just under eight years. This quick debt elimination is saving them close to $132,000 in interest alone. By investing that saved interest, they will accumulate over $1 million at retirement. With their understanding of how to avoid Excessive Taxation, they are also protecting that retirement money. And best of all, they're doing all this without any additional out-of-pocket expense. If you're thinking this kind of success is only possible through slick financial wheeling and dealing, think again. Because Mark and Joyce now understand their emotions surrounding money and are approaching money with the respect it deserves and with a systematic plan for fitting all the pieces of their financial puzzle together, retiring with more than a million dollars is totally possible for them.

It can be totally possible for you, too.

How can you make it happen? First you must learn how to limit the power of Consumerism, Indebtedness, and Excessive Taxation. To do this, you must be aware of just how much they influence you and your emotions. Next, you must understand the importance of having a system that will help you deal with each of these forces. Putting this system in place, as we noted earlier, is much like putting the pieces of a puzzle together, or to use another analogy, is like baking a cake — you must follow a proper recipe if you expect to get the results you want.

First, you must have all the proper "ingredients" if you expect the "cake" to turn out just right. That means you must be aware of what it takes to become financially successful before you even begin creating that success. We will give you those ingredients within the pages of this book.

Second, you must have the correct amount of these ingredients — too much or too little of one particular thing can spoil the result. We'll explain how much of which "ingredients" to include.

Third, you must add the ingredients in the right order. A cake will not turn out right if you try to add the egg after the cake is baked. The same holds true for personal financial success — you must do what is expedient first, then add more "ingredients" later. We can show you how to do "first things first."

Many experienced folks have attempted to share the recipe for financial happiness, but unfortunately most of these "experts" do not include everything necessary to help you. Some provide all the ingredients but don't tell you in which order to "bake" them. Others know the order, but don't tell you how much of one particular ingredient to include. Contrary to what we're taught, the best information on how to bake the perfect "financial cake" or piece together a complete "financial puzzle" is not found on Wall Street. It isn't locked behind the doors of bankers or financial counselors. It isn't available in schools.

The secret to successful money management is understanding first that money is* emotional*, and second that because it is emotional it requires a* system *for carefully controlling it.

In these pages we will begin to explain the powerful secrets behind this system of true money mastery. You will learn the meaning of the Time/Value of Money and how financial security can release you from being nickeled and dimed to death by tedious daily financial concerns. Isn't it about time that you stopped living in fear of tomorrow because you don't have control over today? The moment has come to start on the road to creating all the time and resources you need to make all your dreams come true.

We invite you to stay with us as we explain how you can stop being a victim and instead become victorious over your circumstances. We will give you the tools you need to get your emotions and your money under control. Meet other struggling couples like Mark and Joyce, and see how these people overcame their own ignorance and inability to deal with the emotions surrounding their money. Read how they learned to take the emotion out of their financial decisions and how this totally changed their lives.

Make a commitment to change your own.

Decide now to remove yourself from the cycle of failure that has kept you in a pattern of unhappiness. Read as if you know nothing about money — read as if all those "expert" voices around you know nothing about money. Ask yourself what you want to get out of reading this book. Whatever your goals, you can make them happen, one step at a time. All it takes is a personal commitment to change.

To help you get enthused about making that commitment, we invite you to consider one of the most powerful arguments for committing yourself to change that has ever been recorded:

> *Until one is committed there is hesitancy, the chance to draw back, always ineffectiveness. Concerning all acts of initiative (and creation), there is one elementary truth, the ignorance of which kills countless ideas and splendid plans: that the moment one definitely commits oneself, then providence moves too.*
>
> *All sorts of things occur to help one that would never otherwise have occurred. A whole stream of events issue from the decision, raising in one's favor all manner of unforeseen incidents and meetings and material assistance, which no man could have dreamt would have come his way.*
>
> *I have learned a deep respect for one of Goethe's couplets: "Whatever you can do, or dream you can, begin it. Boldness has genius, power, and magic in it."*
>
> — W. H. Murray
> (the first man to photograph the top of Mt. Everest)

Our Promise

If you stay with the book, "definitely committing" yourself as Murray puts it, you'll learn a system of financial success and happiness that will open you to all the following possibilities:

- Learn immediately how to live within your income and have fun doing it!
- Find an extra $312 every month, on average, you are using inefficiently.
- Understand how to get out of ALL debt, including your mortgage, in nine years or less.
- Learn how to begin saving at least 1 percent of your gross annual income and work your way up to 10 percent or more.
- Understand how to forecast the dollars you will need for retirement and how to double — even triple — your retirement income.
- Learn how to legally and ethically reduce taxes by as much as 50 percent.
- Understand how to prioritize money so you can have anything you want as well as everything you need.
- Stop arguing with your partner about finances.

Best of all, you can learn how to do all this, and more, without any additional money from your pocket and without any additional risk.

Now, let's get started!

PART I

THE MONEY MASTERY PRINCIPLES

CHAPTER 1

Spending Is Emotional

We began this book with a bold statement: money is more about emotions than it is about math. With that in mind, let's begin examining the ways that emotions affect your money by taking a look at the first Money Mastery Principle.

Principle 1: Spending is Emotional

Think back to the last time you spent money. Perhaps it was yesterday, or even a few hours ago. Maybe you can't remember the last thing that you bought. If so, think hard until you can pinpoint the last thing for which you spent money.

Ask yourself the reason for making that spending decision. Did you buy something necessary like groceries or medication? Was the item something you needed or just wanted at that moment? Did you worry about having enough money to pay for the item? Did the purchase cost more than you thought it should or did you even worry about the price? Will this spending decision have a big effect on whether you'll be able to purchase other things later? Did spending the money make you feel guilty or did it give you pleasure?

Now, try to recall a particular incident where spending money had a strong emotional impact on your life or the lives of your family members. What made that incident so emotional?

One of the most important questions you can ask is: "How does spending money make me feel?"

Through years of counseling thousands of people, we have heard countless reasons why people spend money. Many of those reasons have more to do with a person's circumstances, his or her feelings about those circumstances, and what he or she decides to do about them rather than whether there is (or is not) enough money to spend. Let's take a closer look at what we consider the three most significant reasons for spending money.

Impulsiveness

As noted in the Introduction, we live in a world full of emotional media messages. These messages often play upon people's deepest psychological needs, pointing out all that a person may lack in his or her life. Responding to this supposed lack, many individuals spend money impulsively, without thinking, as a way to meet unfulfilled desires. Without the proper respect for money, our current society has become notorious for impulsive, reckless spending. According to Richard A. Feinberg, professor of Retail Management and director of the Center for Customer-driven Quality at Purdue University, up to 50 percent of all consumer purchases are made on impulse.[1]

Here are some of the responses we've heard from people who spend money on impulse:

"Spending money fills an emotional void in my life...I just feel like I can't get what I really desire, so I acquire material things to fill myself up."

"I like to give my children what they want because it gives me joy. Sometimes I feel like it's the only thing I can really do right for them."

"Having the money I want to spend, when I want to spend it, makes me feel important. I know my dad never could feel that way and I always felt sorry for him."

"I can't say no to my children...they pester me until I give in and get them what they want. They're just plain stronger than I am."

The Haywood* family are a perfect example of how emotions can trigger impulsive spending. They had a habit of going to All A Dollar, a bargain chain store that sells every bit of stock for $1 or less. The store's low prices made the trips seem so innocent, and purchasing small items like candy or inexpensive toys for the children gave the Haywoods pleasure without making them feel guilty. But once the family started to keep track of how much they were spending at All A Dollar, they were shocked to find it was over $300 per month. Low prices combined with their impulsive desire to please their children cost the Haywoods some serious cash they would rather have spent elsewhere.

*Names have been changed to protect privacy.

Most people are trapped in an impulsive mentality that prevents them from keeping much of the money they make for any length of time. Remember the Time/Value of Money we discussed in the Introduction? Impulsive spending completely eliminates the possibility of increasing the value of money over time. Did you know that 85 percent of all Americans who win lotteries spend every penny of their winnings on consumable goods rather than putting that money away for the future or investing it in high-yield programs?[2] Based on this statistic, it's plain that the majority of individuals do not understand the profound power of the Time/Value of Money and are destroying their future because of it. Are impulsive emotions affecting the way you spend?

Economic Hardship

Experiencing a financial disaster is another matter that can greatly affect feelings about money and how it should be spent. Have you ever lost a job and had to come home to your spouse with the bad news? What kind of an emotional impact did that have on you and the way you spent money as a family? After the trauma of losing a job, or some other economic hardship such as illness or divorce, we often hear responses like these about the way spending money makes people feel:

"I just hate not having enough money for the things I want. I get so depressed just thinking about it."

"Spending money makes me feel guilty, like I don't deserve the thing I bought, or that it will come back to haunt me later."

"My divorce has wiped me out financially. I have nothing left after I pay child support and alimony for anything I might want to get myself."

Doug was a young father of three when he experienced the economic trauma of divorce. Within 12 months of the divorce, he began paying over $900 a month for alimony and child support. Having recently graduated with a degree in graphic design, Doug wasn't advanced enough in his career to make the kind of money he needed to support his three children and an ex-wife. He was forced to move in with his parents and sell his car. Even then, he barely made enough to meet his financial obligations. The only thing he indulged in was music, buying a CD or two every once in a while. Doing so made him feel extremely guilty because he worried that indulging himself would somehow affect the happiness of his children. Doug's economic hardship was an emotional situation that had a huge impact on the way spending money made him feel.

When we are forced into a bad financial situation due to some kind of economic disaster, spending money can be a highly emotional issue capable of producing deep personal unhappiness.

Daily Financial Obligations

The struggle for daily survival can also affect why and how we spend money. Even those who are frugal and don't spend impulsively have heavy debt loads and excessive taxes and are impacted emotionally by the sheer effort of just making ends meet from day to day. We have counseled thousands of clients who have felt burdened and depressed by this daily struggle:

"I feel angry that I have to fight just to pay taxes and my debts....It leaves me nothing left over to spend on myself or kids."

"We were just audited recently and I felt so intimidated by the IRS. Taxes are the first thing that comes out of my paycheck and it just makes me sick that I still feel like the government controls my life."

"We were so poor growing up. I promised myself I would never make my kids wear hand-me-downs but we don't have enough money after all of our other expenses are paid for me to really give my kids what I dream of."

"I can't believe that I have to work almost six months out of the year just to pay my taxes. It really upsets me just thinking about it."

The Martinellis* are a good illustration of how this daily struggle to survive can greatly affect the emotional well being of a family. Don and Keisha Martinelli were struggling to make ends meet on the East Coast with its high cost of living. The couple had three boys under the age of seven and were concerned about financing their children's college education. Don was working 14-hour days as a controller for a corporation in Manhattan, but even with the long hours, they weren't able to find enough money to build a savings program for their sons' future education. In an attempt to earn extra money, they had invested in a business opportunity that never took off because they didn't have the time to put into it, forcing them into further debt and farther away from the boys' educational funding. This daily struggle simply to survive was draining the Martinelli family and killing the fun times they wanted to have with their boys because they never dared spend money to take them anywhere or go on any vacations.

* Names have been changed to protect privacy.

Emotional Events Affect Money

Impulse purchasing, economic hardship, and daily financial obligations are just some of the things that affect the way people spend money. Because of these emotional events, whether we end up with anything to show for all our hard work has less to do with the math behind the money, i.e., how much we make, but rather with how well we understand that these emotional events can affect our money over time.

Many people mistakenly assume that if they only had a job where they "made the big bucks," they wouldn't have to deal with these emotional issues. They think that more money would eliminate the problems that their impulse spending causes, or that more money would alleviate the burdens of economic hardship and the daily struggle to survive. But more money doesn't usually solve the problem. "In our seminars on money management," says Jim Christensen, co-author of *Rich on Any Income*, "we often quote a George Gallup survey which highlights four groups of workers (farmers, factory workers, business executives, and doctors). These four groups were asked if they felt they needed more income to make ends meet, and if so, how much. Every income group, from $30,000 to more than $200,000 annually, responded that they needed about 10 percent more income to work things out."[3] From this survey we can see that financial happiness has nothing to do with making a large income. Individuals making more than $200,000 a year are just as likely to be financially stressed as those who make a modest income. That stress is not caused because people don't bring home enough pay, but because they do not understand their own emotional reasons for spending money or have become a victim of financially draining events due to poor planning.

When our clients are tempted to blame their salary for their financial problems, we like to point out the following:

It matters not how much you make,
only how well you manage your money that counts.

Now let's meet a couple who were unable to manage their finances because they did not understand the emotional reasons for their spending.

Doug & Sally Hamilton: Victims of the Disease of Consumerism

Case History

Doug and Sally Hamilton* had married young. They made a modest living in a rural community in the Southwest, Doug working at a parts supply house for a trucking company and Sally working in a dental office. They had three children. Both Doug and Sally had grown up without a lot of material security, and both wanted to provide their children with the things they never had as kids. This led to over-indulgence of their children, giving them virtually everything they wanted even if the family couldn't afford it. The Hamiltons had inherited some land from Doug's father and when they were first married had built a modest home on that land without going into debt. But due to poor spending habits, they had been forced to borrow money against the house and had a mortgage hanging over their heads.

They were also alienating other members of their family because Doug's parents continually bailed the Hamiltons out of financial problems. Every month they spent $500 over what they brought home and were close to $16,000 in consumer debt.

At the height of their financial distress, the Hamiltons came to Money Mastery for help. Their coach, Peter, began working with them to figure out exactly how they were spending their money. As he sat at their kitchen table, finalizing an overall picture of their spending habits and counseling them on how they would need to start cutting back, the Hamilton's 16-year-old daughter came home asking for money.

"We had just finished talking to Peter about the huge financial mess we found ourselves in when Katie* came home," says Sally. "She wanted $5 to go with her friends to McDonald's. Dinner for that night was cooking on the stove. I had a roast and vegetables waiting to serve my family after we finished our session with Peter but Katie wanted extra money to go out with her friends. Doug and I looked at Peter and then at Katie, and all I could say was 'We can't afford it Katie.'

"She looked at me like I was crazy," says Sally, "and started arguing with us and coaxing and claiming that $5 was not going to break us. She said she couldn't understand why we were making such a big deal out of her asking for money. 'C'mon Mom, be serious, it's only $5.' What she didn't know was that Doug and I had just been made to realize that we literally didn't have $5 to give her because of the way we had mismanaged our finances throughout our entire marriage. I continued to explain that dinner was already prepared and that she couldn't go to McDonald's, but she wouldn't stop arguing. Doug tried to reason with her, but she wouldn't listen. Finally, she said 'Mom, you've never told me no before!' and slammed the door in a huff. After she left, I turned to Doug and Peter and said in astonishment 'Gosh Peter, that's our problem...we just can't say no, can we?'"

*Names have been changed to protect privacy.

We introduced you to Doug and Sally because we want you to think about how their situation applies to you. Are you like the Hamiltons, even in a small way? They were totally unaware of the impact that reckless spending was having on their lives over the course of their marriage. How about you?

When you are unaware of the long-term consequences of your spending decisions you are pulled in a variety of emotional directions, spending money for all the wrong reasons.

When you spend money, even for seemingly inconsequential things, you are at a crucial moment in time that will affect the rest of your life. If you make the decision to spend money for something now, you will not have that money later. You must decide if the purchase has more value to you now than the money would have later if left alone to work for you over time. Spending money emotionally eventually forces you into a survival mode rather than a planning mode. Usually this reckless spending causes you to burn up more than you make and ultimately limits what you can do for yourself and others in the future.

Giving Back: The Law that Helps Control Money Emotions

Let's take a moment to explain an important law about money that can help overcome these emotional spending problems. The more you think about money, clutching it to yourself to make sure you have enough to spend on your every want or worried that you won't have enough to pay the bills, the less money you attract to yourself.

We have noticed that the more needy and anxious people become over money, and the tighter their grip on it, the more they repel wealth and prosperity and the less they actually attract to themselves.

How can you attract rather than repel the money you need to feel secure financially? One of the best ways is to be willing to give some of your money away. Giving money to a church, charity, or to those in need, even when you feel least able to do so, will automatically attract more money to you. Giving money back to others causes money to naturally flow toward you.

Many individuals are already aware of this law and are living it by paying "tithing" to their church (usually 10 percent of their monthly income). If you are not associated with any church congregation or religion, you can still live this law by deciding on a realistic, yet meaningful amount, and donating it to a charity or other organization devoted to causes that you support. Doing so will change your focus from one of cheapness and hoarding to one of generosity and abundance. It will help curb your need to spend impulsively, help calm your fears about economic hardship that may come your way, and will flood you with feelings of abundance that will make dealing with the daily financial struggles of life much easier.

Giving to a church, charity, or other worthy cause will open you to all that is meant to be yours. Giving away makes you more open to receive. We have personally experienced the power of this law in our own lives and watched it make a difference in countless others.

When you live this law, coupling it with a realistic definition of your own needs and desires, and learn how to meet those needs appropriately, you can then create surplus to help others. That surplus is the absolute emotional thrill — ultimately more meaningful than the brief excitement that comes from impulse spending, and certainly more joyful than terrible feelings of fear and guilt that come from spending more than you have.

Get In Control — You Can Do It!

Understanding that spending is emotional is the first step toward financial control and the key to true contentment and happiness, regardless of your income. The remaining nine Money Mastery Principles are based on understanding this first (and most important) idea. Having come this far with us already, you're obviously making an effort to better understand (and manage) your own emotional approach to money. And that means you're beginning to take control — taking control is tremendously rewarding and we encourage you to continue!

To see just how rewarding this experience can be, let's go back to Doug and Sally Hamilton. As they worked with Peter, the Hamiltons began to understand how emotions were affecting their spending. They realized that they had a problem telling their children no. They understood that they were spending money to make themselves feel better in the short-term, thus jeopardizing their long-term financial security. They began making changes by denying their children when it was necessary. This was not easy to do in the beginning. The children were not accustomed to their parents' new behavior and resisted it. But in a short time, they began to accept their parents' new way of doing things. When the Hamilton's daughter had an opportunity to go to Europe for a high school academic event, instead of stressing out about how they would send her, Doug and Sally encouraged her to get a job and earn the money to go herself. Once she realized her parents were not going to hand her the money, she got a job and earned her own way. Later she commented to her parents that she had actually enjoyed the satisfaction of making her own money for the trip and had appreciated her experience in Europe much more than if Doug and Sally had just given her the money.

Today the Hamiltons have stopped overspending and have actually begun saving an extra $300 each month. They have begun to look at every expenditure as an emotional decision, determining whether the object of their spending is something that fits their financial priorities or not.

We encourage you to think deeply about the first Money Mastery Principle by looking at how emotion affects your purchasing decisions. Take the challenge to complete the following short assignment before going on to Chapter 2. It will help you go farther in your commitment to make important changes in your life. Go ahead! Take the challenge! You're worth it!

✓CHALLENGE #1: How Do Your Emotions Affect Spending?

1. Pinpoint the last time dealing with money became a dramatic experience that deeply impacted you. It could be the last time you made a major purchase like a car, or sent a child off to college — or the last time you examined your paycheck and realized how much you're paying in Social Security and federal income taxes. ***Note**: The experience may or may not be negative; it simply needs to be significant.*

a. Write at least three emotions you felt during that event.

b. What was your attitude toward spending money at the time the event took place? Were you affected by Consumerism and/or economic hardship?

c. Who or what was responsible for the way the event turned out? How much did your monthly take-home pay affect the outcome?

2. Determine a realistic yet meaningful amount of money to donate to your church, favorite charity, or other cause on a monthly basis. Record the feelings that you have when doing this, paying close attention to how this

gift helped you control your emotions surrounding money and whether it created more feelings of abundance and security: