

How To Win With Money

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We're passionate about helping YOU win with your money. In this series, we are going to be talking about a practical, step-by-step plan that you can use to take your finances to the stratosphere! This concept is known as the I Was Broke. Now I'm Not. Ladder – 9 Rungs to a Fully Funded Life.

RUNG 1: SET GOALS

Suppose I told you to run a race, but I did not tell you where to run. You could do a lot of running and still not end up at the ultimate goal – the finish line! Now suppose I challenged you to run a race, and at the same time I provided you a detailed map of the race course, a GPS, and a personal guide. The chances that you will end up at the finish line will have increased exponentially!

There is nothing like the power of a clear goal to spur one to take action. While a person might be able to make progress with their life without having clear goals, the process of establishing and tracking goals makes their achievement more likely. This is especially true when it comes to money and money management. One rarely stumbles upon wealth. Facts support this. Most wealthy people achieve their success through a series of focused decisions that are inspired by their goals.

Your money decisions should be driven by your goals for life! Many people make the mistake of allowing their current financial situation to dictate their goals. They make “broke thinking” statements such as, “I can’t afford that” or “I’ll never be able to do that.” This is a money lie that can create paralysis in all areas of life.

Establish life goals that mirror your plans, hopes, and dreams. Refuse to let the high costs frighten you away from establishing each goal because each one can be fully funded by following this plan.

Take some time in the near future (why not right now?) to write down some of your goals. Here are some good questions to ask yourself to fire up your dreams again:

1. What opportunities do I want to provide to my children?
2. What trips do I want to take?
3. Who do I want to bless? What do I want to bless them with?
4. What type of house do I want to live in?
5. Where do I want to live?
6. When do I want to retire?
7. What career(s) do I want to pursue?

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RUNG 2: SAVE MONEY (BUILD A WALL OF PROTECTION) – START WITH \$2,500

I've seen nothing provide greater confidence to a leader than having financial margin. Money in the bank provides a person with the ability to take risks, pursue opportunities, fund dreams, and encounter obstacles. Without savings, a person will always be at risk of financial catastrophe. Any occurrence of a multitude of potential financial challenges could cause financial collapse – vehicle breakdown, air conditioning unit failure, replacing an appliance, and medical bills all seem to be attracted to people who have failed to save money.

If you want to truly win with money, you must prioritize saving money.

Saved money allows you to prevent future debt. This allows you to confidently turn your focus to eliminating any existing debt you may have.

A beginning goal of \$2,500 will allow you to pay cash for most financial challenges you could potentially face such as an emergency trip out of town, replacing an appliance, or repairing the car.

Here are some ways to quickly achieve this goal:

1. Sell something
2. Use your tax refund
3. Take a 2nd job and commit to depositing all of the extra money into savings
4. Eliminate an “extra” or several “extras” from your monthly budget
5. Use the Budget Boosters page on our website under Next Steps (iwbnin.com/next-steps) to find ways to save money

RUNG 3: INVEST ENOUGH TO CAPTURE YOUR FULL COMPANY MATCH (OR \$100 – WHICHEVER IS GREATER)

Compound interest is an amazing financial principle that can literally explode your finances to levels you never believed possible. As proof, let me provide you some examples:

- \$50 per month for 40 years at 8% annual growth will yield \$174,550 (you only invested \$24,000 of your own money)
- \$100 per month for 40 years at 12% annual growth will yield \$1,176,477 (you only invested \$48,000 of your own money)

While you may be sick of debt and really want to start attacking it before you begin investing for the future, please ensure that investing is #3 on your journey to financial freedom. Here's why: CONSISTENCY and TIME are what matter most when it comes funding your big-time goals and dreams (which is rung #1 on the I Was Broke. Now I'm Not. Ladder). If you have debt, it can take months or maybe even years to eliminate it. If

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you choose not to begin investing, you lose both “consistency” and “time,” the two biggest enablers for wealth!

Suppose you choose not to invest your \$100 per month and focus on killing debt instead. Let's assume that it will take three years for you to eliminate your non-house debt. Let's see how much this will cost you:

- \$100 per month for 40 years at 12% annual growth is \$1,176,477
- \$100 per month for 37 years at 12 annual growth is \$819,259

Delaying your \$100 per month investment for just three years will cost you \$357,218 (the difference between \$1,176,477 and \$819,259! And if your company matches your investment dollar-for-dollar, double that amount to \$714,438!

Non-investor: If that doesn't make you RUN to begin your investments right now, I don't know what will!

Where do you get started with your investments?

- Start with company retirement plan (especially if there is a matching contribution from your employer)
- Open a Roth-IRA (or similar tax-advantaged investment account)
- Start or buy a business
- Real estate
- Personal talent or skill set that can create income

RUNG 4: ELIMINATE ALL NON-HOUSE, NON-BUSINESS DEBT

Let's face it. **Debt is a drag.** It hangs on like a bad relationship or a fixer-upper money pit house. Anyone, when given the choice, would choose to be debt-free over paying debt payments every month.

The average family possesses credit card debt, student loan debt, furniture debt, vehicle debt, and a personal loan or two. Then a house payment enters into the picture. Every single month, 40% or more of the family's income is “dead on arrival” because it must immediately be sent out to lenders.

And the average family feels trapped.

The average person believes they will always have a car payment and credit cards must be used for every financial emergency.

But they are believing a lie.

The facts reveal that the average family can become free of all non-house, non-business debt with 12 to 36 months. The facts show that an average of between \$500 and \$1,250 per month could be freed up just by eliminating this debt.

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You want to truly win with money? Eliminate non-house, non-business debt and utilize that freed up monthly money to achieve rungs 5 through 9!

How to attack debt:

1. Understand how much debt you really owe (I really like using the free website www.annualcreditreport.com to determine this)
2. Calculate your Debt Freedom Date (on our website under Tools – Debt)
3. Pay off debt using the Debt Snowball technique (focus on smallest debt first)

RUNG 5: BUILD SAVINGS TO A MINIMUM OF THREE MONTHS OF EXPENSES

Read rung #5 again. Note that this rung focuses on saving three months of expenses - not income. Because this follows rung 4 (to eliminate all non-house, non-business debt), your monthly expenses should be much lower! In general, this rung will take three to nine months to achieve.

It is amazing how much confidence this will give to you! Your ability to live is no longer wholly dependent upon an employer's willingness to keep you. You can encounter financial challenges with substantially reduced stress. Even more, you are able to look beyond the current day and week and focus on "what could be." It is at this step that you will begin to live in the vision and goals you documented at Rung 1 – the start of your journey to win with money.

Take a moment to determine how much your monthly expenses will be once you have eliminated all non-house, non-business debt. Now, multiply that number by three. This is your "Rung 5 Savings Goal." If you don't have this much money saved right now, take a moment to think about how you might feel upon achieving this rung. Let that feeling provide fuel to you as you progress up the 9 Rungs required to truly win with money!

RUNG 6: PLACE AT LEAST 15% OF YOUR GROSS INCOME INTO TAX-ADVANTAGED INVESTMENTS

At this rung, you truly begin to change your entire financial future. You have built savings, initiated investing, and eliminated all non-house, non-business debt. It is time to build wealth in a big-time way. You might call this "the dream funding" rung.

Consider your annual gross income that you expect to receive this year. Multiple that salary by 0.15 to calculate your rung 6 investing goal. Suppose your gross income is going to be \$40,000 this year. This means that your goal is to move at least \$6,000 into tax-advantaged investments. Imagine how much this could grow to be after doing this year after year!

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This money will be used to fund your big-time dreams and goals that you established way back at rung 1! This includes funding college for your child(ren), retirement, blessing others financially, dream vacations, and other items that are very important to you.

It is important to note that this 15% investment of gross income does not include any match you may receive from your employer. Whatever they may contribute is above and beyond the 15% goal.

Consider the following example:

28 year old parents earning a combined income of \$50,000 commit to follow this process

They achieve Rung 1 (set goals) and Rung 2 (save \$2,500) in three months by using their tax refund

They achieve Rung 3 (invest enough to capture company match in retirement account) one month later by contributing \$100 per month and their employer matches with another \$100.

They achieve Rung 4 (become debt free except house) over the next 3 years

They achieve Rung 5 (save 3 months of expenses) in another 8 months

They are now 32 years old and have arrived at this rung – Rung 6 – and begin to invest \$7,500 (15% of gross income) into tax-advantaged accounts.

They receive another \$3,000 in matching contributions from their employer making their total annual investments equal \$10,500 per year (or \$875/month)

They invest this amount every year until they are 66 (for a total of 34 years)

Because they started investing in Rung 3, they have been investing \$200 a month for 32 months. This investment is already worth \$7,499 at age 32!

Using this \$7,499 and assuming an annual growth rate of 12% with monthly contributions of \$875/month, their investments will be worth \$5,418,542 at age 66.

Get. Fired. Up!!!! By the way, this assumes that this couple never received a pay raise for 38 straight years.

Any doubt that this process will help you win with your money?

RUNG 7: PAY OFF HOUSE AND BUSINESS DEBT

This is a rung that marks a “major milestone” for most people. It is the goal of most people to retire with zero debt including their home. It provides a sense of security and accomplishment like little else will.

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Utilize extra income and “found money” to eliminate the mortgage. There are several simple steps you can employ that can have a major impact on the velocity of your pay-off.

1. Make a half-payment every two weeks. Since there are 52 weeks in a year, this will result in 13 full payments each year. This can eliminate around 5 to 7 years on the average mortgage.
2. Each year, use tax refund to make one extra payment toward principal. This extra payment will accomplish very close to the same as option #1
3. Pay extra money toward principal each month. Use our early pay-off calculator on our website (Tools – Calculator) to help you figure out how many months you can shave off your mortgage!

When you eliminate your final debts, your monthly cost of living has usually been reduced by 50% or more. This accomplishes two things:

1. It provides more financial security
2. It makes your investments last twice as long because you now require only half of your previous need.

By the way, I paid off my house by age 38, and I promise you this is an incredible feeling.

You can do this!

RUNG 8: PLACE 30% OF GROSS INCOME INTO TAX-ADVANTAGED INVESTMENTS

Now that you’ve eliminated all of your debt – including your house and business debt, you have nearly reached the top of the ladder of winning with your money. At this rung, you are now positioning yourself to prosper like few others choose to do. You have become an elite manager of money. Everyone can do this, but not too many are willing to make the few (but tough) decisions necessary to do so! In general, it takes between seven and ten years to move from Rung 1 to Rung 8.

Invest money into tax-advantaged holdings. It is important to pursue diversification to protect the investments to protect against a massive loss. Many people have achieved Rung 8, but became so enamored with a particular investment (such as Enron) that they disregarded the importance of diversification and fell from Rung 8 back to Rung 1! After all, this is not about greed and hoarding. It is all about funding goals – your plans, hopes, and dreams.

Consider a 40 year old couple earning a combined income of \$50,000 per year who has arrived at Rung 8. They are now able to invest at least \$15,000 per year. Suppose they already had \$60,000 saved up because of their efforts in Rung 3 and 6. If they invest

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\$15,000 per year from age 40 to age 66 and gain 12% annual growth, they will have \$4,000,156 at retirement. That is with zero pay raises for 26 straight years.

Rung 8 positions you for the final level on the I Was Broke. Now I'm Not. Ladder. It's the best one of all.

RUNG 9: LIVE A GREAT LIFE!

When you have accomplished Rungs 1 through 8, you have positioned yourself to fund all of the amazing dreams and plans you have for your life. It allows you to be generous, provide in an amazing way for your family, and fund dreams you hardly dared to give breath.

Utilize your wealth to bless the poor and serve the less fortunate. Recognize that life is fleeting and that a life lived serving others and in the service of others is amazing. Ensure that you teach your children to apply the rungs so that an inheritance will bless them instead of ruin them. Take no pride in your financial status as it will only amplify who you are anyway.

Have a blast with life! Life is amazing. And awesome. And wonderful. It is worth being FIRED UP over! And it is way too short to live it financially broken.