Invest In Your Debt
Part Two: The Spend Smart Factor

Second Edition

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It is recommended that the reader rely on his or her own judgment and experience as he or she utilizes any of the ideas, techniques, or suggestions contained in this book.

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Invest in Your Debt…Spend Smart
is the second in a series of Educational Materials designed to help you rid yourself of burdensome debt. This text will introduce you to ideas on reducing your monthly spending; to coming up with "extra money" in your budget, without diminishing your current lifestyle.

Invest in Your Debt

The Spend Smart Factor

In Invest in Your Debt, Part 1, we covered the process of paying down all debt, beginning with the debt that is being handled through your debt settlement program, and progressing through all remaining debts. In Part 1 the Spend Smart Factor was introduced as being the additional money that you could pay against your debts, in addition to the normal minimum payment that is required each month. This part of IYD focuses on the Spend Smart Factor.

Paying more than the minimum required payment shortens the time needed to pay off all debt, increases the amount of interest saved, and begins sooner the time when you can begin investing the money that had been going to pay off your debts.

Once people see the Invest in Your Debt program they are amazed at how simple it is and how much sense it makes as a plan for financial freedom. Investing in your debt and getting a return, risk-free, guaranteed and net of taxes is the best investment in the world! It is the best-kept secret on the planet.

For many people, learning about the IYD program is an epiphany – they suddenly "see the light!" Even once people agree that the program makes sense however, there is still some resistance. Many people feel uncertain about whether they can really do it.

If you feel this way, don't worry. IYD sounds good on paper and it is good in real life. In fact, doesn't it almost seem like it is "too good to be true?" When something sounds too good to be true, we tend to be skeptical, don't we? It is a normal human reaction.

We are on a mission to free this planet from debt. We want to help you achieve true financial freedom. Understand however, our plan is only a small part of the picture. The most important component of the program is your attitude.

You see, you are on the verge of beginning a journey to true financial freedom. Think about that for a moment. If you really believe financial freedom is within your grasp, if you really believe you have the chance to own your life again, are you going to let anything stand in your way?

Most people, at least initially, don't completely believe they can achieve financial freedom. So until you reach the point where you have absolute confidence in this program, we want to help you avoid excuses for failure.

We want to help guard against "excuses for doing nothing." One of the biggest excuses people give for not taking charge of their financial futures, for not implementing this program and starting to invest in their debt is:

Yeah sure…IYD sounds good…but it won't work for me, because I never have <u>any extra</u> money! I can't find a Spend Smart Factor!

<u>How Can I Create a Spend Smart Factor?</u>

There are many ways to create your Spend Smart Factor. There are general approaches you can take whose impact on your Spend Smart Factor will vary depending on circumstances. There are very specific actions you can take which we discuss in great detail in the book *<u>Spend Smart, Creating Wealth Even With No Room in Your Budget</u>*.

Before you start looking for ways to create your Spend Smart Factor, you have to get your attitude in the right place. For most people, when you talk about ways to save money on spending, their eyes glaze over and they take the attitude that it doesn't matter, "because it's just a few bucks." You need to really understand how the Spend Smart Factor makes a significant difference in your ability to achieve true financial freedom.

You see, it's all about leverage. There are many ways to save money on spending. You can cancel your movie channels on cable. You can brown bag lunch to work once or twice a week. You can raise your insurance deductible. You can cancel extended warranties. But these ideas themselves don't necessarily save enough money to really get people excited. It is when you leverage the savings with the Invest in Your Debt process that things get really exciting!

Consider a few of what we call the "Spend Smart Laws of Finances."[1]

"Most Purchasing decisions are driven by emotion!"

When you think about ways to save money on spending, it often makes us feel like we will be depriving ourselves. We don't want to do without. You have to get past this emotion to successfully create a Spend Smart Factor. Instead of focusing on the negative emotion of "doing without" when working on your Spend Smart Factor you should focus on the positive of all the wealth you can create simply by using a Spend Smart Factor to Invest in Your Debt.

So let's say you do start finding ways to save money without drastically affecting your lifestyle. Have you ever saved money on spending before? For example, did you ever save $10 at the grocery store by using coupons? Many people have. The important question is, after making all that effort to save $10 on groceries, at the end of the month, when you check your wallet, do you still have that $10 you saved? If saving money on spending doesn't give you cash in your hand to invest in your debt at the end of the month, then there really is little benefit to spending smart.

Here's another Spend Smart Law of Finances…

"The only way to turn Spend Smart into cash is to seize your savings!"

What we mean by this is simple. Once you do something to save money, you need to take the money you saved and "hide it." You need to put it someplace where you won't be tempted to spend it. Apply the "out of sight, out of mind" principle to your Spend Smart Factor.

This may seem like a silly mind game. But guess what – it is another thing that our millionaire friends do. They apply a concept know as "false economic scarcity."[2] How do millionaires spend a little less than they have? The simply pretend that they have less money than they do!

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1 Bill Keenan, Spend Smart, Creating Wealth Even With No Room In Your Budget (Premier Financial Solutions, Inc., 1999)

2 Thomas J. Stanley and William D. Danko, The Millionaire Next Door (New York, NY: Pocket Books, 1998)

We know it can be a bit of a transition to go from spending everything we make (and more) to spending less than we make. It is this type of spending behavior that has contributed to the record high debt levels. When you spend more than you make, it usually means you have to increase your debt to do so.

People may worry that they won't be able to survive while spending less than they have been. If you feel that way, think about a 401K account for a minute. Most people who put money into a 401K have this money deducted from their paycheck. At first they are worried that they won't be able to get along without the extra $50 or $100 in each check. But an amazing thing happens due to what is known as the elasticity of spending. This is expressed in one additional Spend Smart Law of Finances…

"Spending increases or decreases as available income increases or decreases!"

You know this intuitively, don't you? In general, what happens when you have some extra money, such as a tax refund? Most people spend it! What happens to spending on optional items, like eating out, if you have some surprise expenses in a month? Spending decreases!

The bottom line, folks, is that financial freedom is a choice. Perhaps in the past you have tried to improve your financial situation by "spending smart." You probably became frustrated because the relatively small amount of money you could save on your spending didn't make a big difference in your life. This is where Invest in Your Debt can make a difference. If you can find just a little bit of money and begin building a Spend Smart Factor, you can leverage this relatively small amount of money into true financial freedom!

So where can we start finding Spend Smart Factor money? Let's take a look!

The Key to Financial Freedom

The key to Financial Freedom by first investing in your debt is to change habits, to make different choices than you had in the past. Read through the following chart to see where you fit.

The Invest In Your Debt® Philosophy

Consumer	Wealth Builder
Buys items on credit. Not only pays exorbitant interest charges but spends over twice as much (112%) as someone who pays cash for purchases.	Buys everything with cash. Often receives a significant discount for using cash. If the funds aren't there either does without the item or waits until they have the money.
Buys on impulse. In fact, their attic is full of last year's impulse purchases. These items either end up getting thrown away or sold at a garage sale for pennies on the dollar.	Plans purchases and considers impact on wealth building goals. Buys items that "consumers" sell at garage sales for pennies on the dollar.
Spends every penny earned each month. Laments over the fact they aren't making enough money.	Lives on significantly less than they make. Saves a large portion of their income every month.
Influenced by adult peer-pressure (keeping up with the "Joneses"). Believes displaying social status is more important than financial independence. Buys bigger home, new cars, expensive clothing — all to appear affluent and successful.	Believes true net-worth is more important than social status. Pays no attention to the "Joneses." All purchases are based on value rather than appearance. Also believes living a fulfilling, stress-free life is more important than Madison Avenue's version of success.
Spends little or no time on establishing a wealth building/retirement plan. Plays the lottery in the desperate hope of striking it rich someday.	Spends significant amount of time planning financial future. Has specific wealth building goals and sound investment plan to reach those goals.

Lessons from The Millionaire Next Door*

- Eighty percent of American millionaires are first-generation rich. More than 50 percent never received as much as one dollar in inheritance. (In 1892, 84 percent of American millionaires were first-generation rich.)
- The typical millionaire has accumulated enough wealth to live without working for ten years or more.They live well below their means. They save on average between 15 and 20 percent of their annual income.
- They allocate time, energy, and money efficiently — in ways conducive to building wealth.
- Their favorite place to shop is J.C. Penney. The typical American millionaire paid no more than $399 for a suit, $140 for a pair of shoes, and $235 for a wristwatch.
- The most popular car company of the millionaires interviewed was Ford Motor Company. The most popular models are Jeep Grand Cherokee, Ford F-150 pickup truck, and Ford Explorer.
- Fewer than 25 percent are driving the current year's model car or truck. Most have not purchased a car in the last two years. They paid $24,800 for their most recent purchase.

*Taken from the book titled, The Millionaire Next Door written by Thomas Stanley, Ph.D. and William D. Danko, Ph.D. Longstreet Press.

As you read through this text, use the following chart to jot down ideas you come up with on what you could do to come up with some Spend Smart money.

Where Can I Find My Spend Smart Factor®?

Words of Wisdom — "Beware of little expenses: a small leak will sink a great ship." – Benjamin Franklin

So where can we start finding Spend Smart Factor money? Here are seven easy methods for finding Spend Smart Factor money. Let's take a look!

<u>Spend Smart Factor Finder Method # 1 – Stop Making More Than Minimum Payments</u>

Any money you are currently paying above minimum payments on any debt is Spend Smart Factor money! As discussed in the chapter about our linear math / variable path process, the fastest way to get out of debt is to invest every extra dime you have into one debt at a time. While on the

Negotiator Program, we suggest that any extra money that you may have available be paid towards your debt elimination program.

<u>Spend Smart Factor Finder Method # 2 – Stop Saving!</u>

Let's clarify our terms here. What we don't mean is "stop saving on spending." In other words, you should continue to do what you can to reduce your non-essential spending. What we mean is stopping or reducing the amount of money you are putting money into savings plans, especially those that have no tax benefits like 401K or IRA plans have.

Are you putting money into a mutual fund, a Christmas club, buying savings bonds or putting money into a bank account? If you are putting money into some type of savings plan, we certainly congratulate the effort. Unfortunately, such types of "investments" are usually very unproductive as you are gaining 2% or so interest, while paying a much higher interest rate on your debts.

There are three basic reasons for which you may be saving. First, you save for emergencies, so you don't unexpectedly have to resort to credit. We agree that you should have some modest cash reserve for this purpose. We are not talking about saving up enough to cover six to eight months of expenditures, but enough to handle a typical unexpected expense. The amount may be $500, or $1,000 or even $2,000. The exact amount is up to you.

Second, you save for future purchases, such as a refrigerator or a car. If you know that your car is on its last legs, and that you will need some sort of down payment on a new (used) car, then certainly you must save for that purpose. Third, you save for long-term (retirement) purposes. If you currently are putting money into a 401k or IRA account, we suggest you continue to do so, especially to the extent your 401k contribution is being matched by your employer.

Should I Save or Not?

Our concept of investing in your debt flies in the face of conventional wisdom, which promotes traditional savings and investments. The chart on the left shows how a typical family starts their road to financial freedom by following <u>conventional wisdom</u>. That is, taking their extra money of $427 a month to build up a cash fund equal to six months of bill payments, and then investing their $427 a month into a longer-term stock investment. The chart on the right shows that same family taking their $427 a month and first investing it in their debt until they are debt-free. This means they now have $2,391 a month of "extra" money. They use that monthly amount to first build up six months worth of living expenses, and once that is reached they can begin their longer-term investment in stocks. Let's compare both approaches and see which works best.

Traditional Investments

Year	Cash Fund	Stock Fund	Monthly $ Invested
1	5,267		427
2	10,859		427
3	16,797		427
4	23,100		427
5	26,758	3,065	427
6	28,408	8,751	427
7	30,161	15,033	427
8	32,021	21,973	427
9	33,996	29,639	427
10	36,996	38,108	427
15	48,683	95,765	427
20	65,667	190,629	427
25	88,574	346,709	427
28y, 1m	106,525	489,739	427

Total Wealth **$596,264**

Invest in Your Debt

Year	Cash Fund	Stock Fund	Monthly $ Invested
1			427
2			427
3	Invest	In	427
4	Debt	For	427
5	7 years	11 months	427
6			427
7			427
8	2,391		427/2391
9	14,527	17,161	2391
10	20,803	49,003	2391
15	28,060	265,776	2391
20	37,849	622,436	2391
25	51,053	1,209,252	2391
28 yr 1mo	61,399	1,747,001	2391

Total Wealth **$1,808,400**

In both cases, our Spendsmart family has annual income of $51,188 and the same living expenses. They choose to "pay themselves first" and invest 10% of their income. The difference is where they choose to invest this 10%, after they build a cash cushion equal to six months of expenses. Our time frame is 28 years and 1 month, the time it would normally take to pay off the mortgage. Let's look at both strategies in detail.

Traditional Investment Strategy

The traditional approach has our typical family invest $427 each month. First, they invest into a money market fund growing at 6%. The purpose is to build a six-month cash cushion. Since their monthly expenses are $4,266, they need a "safety net" of $25,840. It takes them 53 months to build the safety net. Then they begin to invest the $427 each month in a mutual fund growing at 10% for the next 284 months, until the time their mortgage is paid off.

Following the traditional investment strategy, the Spendsmarts build wealth of $596,264 in 28 years and 1 month.

Invest in Your Debt Strategy

The Invest in Your Debt strategy also has our typical family invest $427 each month. However, they first invest in their debt. The following chart shows the Spendsmart Family at the beginning of their program.

Debt	Balance	Monthly Payment	Interest Rate	Months to Pay Off
MasterCard	$972	$24	22.9	6 yr, 6 mo
Discover	$2,755	$41	9.9	8 yr, 2 mo
VISA	$4,286	$86	18.9	8 yr, 2 mo
Her Car	$8,150	$359	7.12	2 yr, 0 mo
His Car	$11,650	$308	12.60	4 yr, 0 mo
Home Equity	$31,242	$389	10.11	12 yr, 4 mo
Mortgage	$110,286	$757	7.11	28 yr, 1 mo
Totals	$169,341	$1964		

If they pay their debt off the "normal way" they will be paying for the next 28 years and 1 month. If, however, they follow the linear math, variable path process, adding in their $427 monthly Spend Smart Factor, they can be debt free in just 7 years and 11 months.

When their debt is eliminated in 7 years and 11 months, they now have $1,964 extra money each month since they no longer have debt payments. They add this to the $427 and begin investing a total of $2,391 into traditional investments. Next they invest the $2,391 into a money market fund growing at 6%. Their monthly expenses are only $2,302 since they no longer have debt payments. Therefore, they only need a "safety net" of $13,812. It takes just 6 months to build the safety net. Then they begin to invest the $2,391 in a mutual fund growing at 10% for the next 236 months, until the date when their mortgage is paid off in the traditional way.

Following the Invest in Your Debt strategy, the Spendsmarts build wealth of $1,808,400 in 28 years and 1 month.

<u>Spend Smart Factor Finder Method # 3 – Cash in your safety net</u>

People in our classes often ask "I have $5,000 in a bank account – should I invest that money in my debt?" Our answer is ABSOLUTELY YES! If you have money in any type of liquid account, accounts other than a 401K or an IRA or any other tax-qualified plan, you should consider investing that money in your debt. Giving your IYD program a jump-start by investing a lump sum of money in your debt at the beginning of the process can make a huge difference.

How much of a difference can it make? Let's look at what would happen with the Spendsmart family if they had a $5,000 safety net and they chose to invest it in their debt. They would be debt free in just 7 years and 7 months, 4 months faster than without the $5,000 jump-start. More importantly, they can build $1,922,994 in true wealth, $72,154 more than they would without the $5,000 jump-start.

<u>Spend Smart Factor Finder Method # 4 – Restructure , but still Invest in Your Debt</u>

Now this is a tricky one. We've all heard about debt consolidation loans. You know the ads, "save money by consolidating your debt." The concept is to take your high interest debt and consolidate it into lower interest debt. The desired end result is to decrease the minimum monthly payments required. Conventional wisdom says this is good because they have lowered their interest rates.

While it's true they have lowered the interest rate, the Rest of the Story is that when people decrease their payments, what they are also doing is

stretching out the time and total amount of money it will take to pay their debt back. Unfortunately for most people, when they use debt consolidation loans, they actually end up digging a deeper financial hole for themselves. But it gets even worse.
When people consolidate their debt, all of a sudden they feel like they have gotten a raise or "found" some extra money. What do we usually do in such cases? We spend the money! In fact many times people not only spend the money, but they add more debt. And you already know that will only take you further from true financial freedom.

There is one other problem you could run into by consolidating several unsecured debts, such as credit cards, into one secured debt, such as a second mortgage. It is bad enough having something happen that prevents you from being able to make your normal credit card payments. At least your debt elimination program has a solution for that situation. However, if you consolidate those payments into a second mortgage and then cannot make that mortgage payment, you could be in even bigger trouble.

We believe the only way debt consolidation can work is if you use the money you save on minimum monthly payments and add it to your Spend Smart Factor.

<u>Spend Smart Factor Finder Method # 5 – Resist the Wealth Worms!</u>

These wealth worms are the reasons people buy things that they don't necessarily need. Please know we aren't against spending money or having fun. Life is a matter of choices. And now that you know how to invest in your debt, and you realize how much impact a few dollars here and there can have on your financial future, maybe you will want to make some different choices regarding the wealth worms. Let's look at these wealth worms a little more closely.

EASY EDDIE – Easy Eddie wants you to do things that save you time or makes your life easier. Grabbing lunch at the fast food restaurant is a good example of Easy Eddie. You could make lunch and bring it to work, but hitting the drive-thru is so much easier!

The typical worker spends $100 each month eating out for lunch. But it's your choice – you can eat out at lunch, or you can brown bag it just once a week and invest the money you save. Over our working lifetime (40 years), eating out one day less a week allows you to accumulate an additional $126,482 of wealth. Which would you rather have – one extra burger and fries each week, or an extra $126,482 of wealth at retirement?

PAMPERED PATTY – Pampered Patty likes to indulge in only the finest things. Sometimes it is important to pamper yourself to recharge your batteries and relax. A good example is “designer” ice cream. You know what we are talking about – the stuff made from pure cream and lots of sugar. The stuff that has more fat grams in a pint than most people get in all other foods in a whole day!

It’s okay to pamper ourselves, but what about all the different “designer” stuff we may consume in the food and refreshment area. Specialty coffee, microbrew beer, imported chocolate, etc. Do you think you could choose to look at the things you indulge in and find maybe $20 a month that you could save on spending and still find ways to pamper yourself a little? That $20 each month helps our typical family get out of debt 2 months sooner. It also allows them to build $33,774 more in wealth than they could without a Spend Smart Factor in the same time they would have normally just been struggling to pay off their mortgage.

APPEARANCE ANNIE – Appearance Annie loves to, as the cliché says, “keep up with the Joneses.” She wants to have nice stuff and sometimes measures herself by comparing her stuff to her neighbors’ stuff. So if her neighbors have nice new cars in the driveway every two years, it can be tempting to want to do the same. You don’t want to hold down property values in the neighborhood, do you?

Examine the wealth worms in your life. Each time you are buying something, ask yourself if Easy Eddie, Pampered Patty or Appearance Annie is influencing your purchase. Again, what you do is your choice. But now you have a better understanding of how seemingly small financial choices can have a huge impact on your long-term financial health!

Spend Smart Factor Finder Method # 6 – Throw out your Credit Cards!

What The Credit Cards Hope You Never Find Out!

Instead of helping us financially, credit cards actually rob typical families of the ability to achieve true financial freedom!

In other words, for most people…

If you use credit cards on a regular basis, you probably will never be able to retire! Does this seem a little harsh? Let me put it to you in another way…

You have a choice. You can continue using credit cards or you can begin to build real wealth: wealth such that you can become financially free!

These statements seem a little preposterous, don't they? That's okay to admit it because most people in our classes don't believe it at first either. But it is absolutely true. For most people, **credit cards do nothing but drain their future wealth!**

LET US SHOW YOU HOW!!!!

Four Credit Card Company Secrets

1 – Credit cards cost you money, even if you pay them off in full each month.

People assume the only costs they need to worry about with credit cards are interest rates, charges and annual fees. They look for cards with no annual fees and an interest fee grace period so they don't pay interest rates if they plan on paying off the card each month.

People often ask in our classes "I pay my credit cards off each month, so it's okay to use them, isn't it?" First let us repeat, our purpose is not to tell you what to do. But don't make the assumption that paying off your cards each month is the same as "having no cost." Yes, it is true that with most cards you won't pay interest charges if you pay your card off each month. There is however, a hidden cost most people fail to realize. Here's the rest of the story…

When you use a credit card you spend more money than when you use cash...

Retailers want you to use credit cards because they want you to spend as much money as possible! If it costs a retailer a couple percentage points of the sale, it is worth it because the sale will be larger. How much larger, or in other words, "How much more do people spend when they use a credit card?"

According to RAM Research…When people use credit cards, they spend as much as 212% of what they would spend with cash.

Most of us can relate to this. When you are shopping, and counting out money at the checkout, it's a little painful, isn't it. Cash is much more tangible – you feel it! Compare that to whipping out a credit card. When you throw the credit card down, it doesn't feel like "real" money does it? We don't think of it as "three hundred dollars" or whatever you're spending. We think of it as "a few more bucks on my monthly payment…"

According to a Dun & Bradstreet report, "the typical grocery purchase doubles when a credit card is used."[3] That means someone spends twice as much when they use a credit card instead of cash at the grocery store! Now, buying "too many" groceries isn't that bad since you probably will eat the food. But when you have a credit card, and aren't as worried about "Do I have enough money?" Do you think you might buy more gourmet foods, snack foods, prepared foods, deli foods, etc.? These items are of course among the more expensive and most profitable for the store.

2 - There ain't no such thing as a free lunch.

There are so many credit card bonuses out there. Cash back…donations to charity…frequent flier miles…frequent buyer points, etc. Ask yourself a question. Do you really think the credit card companies are just giving these

3 Robert Klein, Dunn & Bradstreet Reports, March/April 1993

things away? Are they just such nice people that they want to be as generous as possible?

When you look at these promotions, you have to really look closely to see that "there is no free lunch." Let's look for example at the Cash Back Bonus rates for the Discover card and analyze the financial aspects.

According to the Discover web site[4] you get up to 1% Cash Back on your purchases each year. The percentage is 0.25% on your first $1000 spent, 0.50% on your next $1000 spent, 0.75% on your third $1000 spent and 1% cash back bonus on spending on all purchases beyond the first $3000 you spend in a year. So the first thing to know about the Cash Back Bonus is that it is not a great deal of money.

The typical family has about an $8000 balance on their credit cards. If they had spent all of that money on a Discover card in one year, they would get a cash back bonus of about $65! That's $2.50 back on the first thousand, $5.00 back on the second thousand, $7.50 back on the third thousand and $10 per thousand for the next five thousand they spent. And by the way, though it is called a "cash-back" bonus, you don't get any cash. Your bonus is simply a credit that gets applied to your account!

Now $65 is nothing to sneeze at, but is it worth using your credit card often, and spending $8000 a year to get a $65 credit on your bill at the end of the year? Remember from our discussion above how people spend more money when they use credit cards than when they use cash. Let's look at the math.

…If they spend 50% more with a credit card, then the $65 cash back bonus cost them $2666 in extra spending.

…If they spend 10% more with a credit card, then the $65 cash back bonus cost them $727 in extra spending.

…If they spend JUST 1% more with a credit card, then the $65 cash back bonus cost them $79 in extra spending.

The only way you come out ahead with the Cash Back bonus award is if you DO NOT SPEND ONE PENNY MORE with the credit card then you do

[4] http://www.discovercard.com/discover/data/apply/cashback.shtml

with cash. Someone would need to have a huge amount of discipline in order to not spend any more money with a credit card. Doesn't your personal experience tell you that you will spend at least a little more with a credit card than you will with cash?

3 - <u>Minimum payments are designed to keep you in debt FOREVER!</u>

Minimum payments are a funny thing. Some people always make minimum payments. Some people pay off their credit cards each month. Most of us are somewhere in between these extremes. Has there ever been a time when you were short on money, and you were glad that you could just pay the minimum amount?

Minimum payments are convenient – they are easy. Typically, we analyze our financial situation based on how much money we have left over at the end of the month. Minimum payments trick us into thinking we have more money than we do.

Now we all know that minimum payments mean we pay more interest. But it's not that much interest, is it? In our classes we always ask people the following question…
"If you spend $2000 on your 17.9% credit card and make minimum payments, how long does it take you to pay off the debt?"

Most people say it will take 5 to 10 years to pay off this credit card with minimum payments. Hold onto your hats folks because the rest of the story is…

When making minimum payments, it takes 30 years and 5 months to pay off a 17.9% credit card with a $2000 balance!

If one chooses to pay this debt off with minimum payments, they will make a total of $6827 in payments, spending $4827 in interest! Now for those of you who are getting your slide rules or financial calculators out, there are a number of unique factors inherent in credit card, or revolving credit, that make this different from a mortgage or car payment. The first factor to recognize with credit cards, is that minimum payments are not necessarily level payments.

Minimum payments are generally 2% to 3% of the balance.
In this example, we used a minimum payment of 2%. With a $2000 debt, the minimum payment is therefore $40. If you make $40 payment every month, then the $2000 debt is paid off in 7 years and 9 months. But $40 is the minimum payment in the first month only!

After you have made the first minimum payment of $40, you no longer owe $2000. The $40 payment paid for $30 of interest and $10 of principal. So after the first payment, the balance is now $1990. Since minimum payment amount are calculated as a percentage of the balance, your minimum payment next month is 2% of $1990, or $39.80.

4 - <u>Credit card companies that offer you a card when no one else will are not your friend!</u>

The fastest growing segment of the credit card industry is what is known as the "sub-prime" segment. Sub-prime refers to people who would not qualify for new or additional credit under typical credit guidelines. The reasons people would not qualify vary, but they might include bad credit histories, a high debt to income ratio or low income. Why are people who are generally not "credit-worthy" the fastest growing segment of the credit card industry? **Many credit card companies make the bulk of their profits from sub-prime clients!**

Credit card companies make piles of money from sub-prime clients, because those clients have no choice but to pay high costs!

Now when you sign up for one of these sub-prime cards, it appears to be like most any other card, and it really is to a large degree, as long as you follow their rules. You usually have a low introductory rate and no annual fee. But remember, in our example above, very few companies would give you a card because you are a credit risk. The companies that issue sub-prime cards may actually be hoping you break their rules!

What rules are we talking about? Simple rules like paying your bill on time, not exceeding your credit limit, etc. These are typical rules for most cards. But when you break them, by law, credit companies have the right to impose "punitive" interest and fees. Do you know what punitive interest and fees mean?

Punitive literally means "punishment." So when a credit card company charges you punitive interest and fees they are punishing you for not following the rules!

Now you may have gotten a card with a low introductory interest rate. Usually after a few months, you know that rate will go up to some constant rate. If however, you are even one day late with a payment, the credit card company can raise your rate to a punitive level! According to Cardweb, punitive interest rates on credit cards are now as high as 31.9%![5]

But that's not all. Late fees can be added to your account balance. Sometimes these fees can end up being hundreds of dollars. How can that happen?

If you are already in the position of only being able to make minimum payments, and now you have late fees added on, your late fees can be added to your minimum payment. If you are already having trouble making the minimum payment, and now it is increased with late fees, are you going to have any easier time making the now larger payment? Of course not. So next month you will still be considered late because you haven't made the minimum payment. What happens then? More late fees!

But it gets even worse folks. What if you are nearing your credit limit on a sub-prime card? If you go over the limit, you can then be charged additional punitive interest charges and fees. Many cards will let you go over the limit – it just gives them the opportunity to collect more fees! Since late charges are added to your balance, they too could push you over your limit if you are close!

It doesn't take more than a late payment or two or going over your limit once, to lock you into years of sky-high interest and fees. So if you get fed up with all these high costs, can't you just transfer the balance to a different credit card company and be done with it? Usually not. Remember the reason you got this sub-prime card is that you couldn't get a card from anyone else. Now that you are in trouble with your sub-prime card, your credit rating is even worse. Why would another credit card company want your business now?

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[5] www.cardweb.com

One card not only carries the usual late payment and over-limit fees, but also carries a $35 processing fee, a $50 annual fee, a $119 application fee, a $20 annual second card fee, and a $50 fee to apply for a higher credit limit!

Sub-prime cards are “fool’s gold,” folks. It seems great that you are able to get a card when no one else will give you one. But that is precisely the reason you should avoid such cards like the plague. It is a great “catch-22.” The sub-prime cards want you because no one else will take you. Because of this, they know you are more than likely to be late on a payment or exceed your credit limit. And when you do, such companies are hovering like vultures, waiting to make money from your financial misfortune!

<u>Spend Smart Factor Finder Method # 7 – Spending Review</u>

As humans, we are creatures of habit. We get comfortable doing things in a certain way. This comfort can lead to inertia, or a resistance to change. This resistance to change is not always bad. For example, one thing we definitely want you to get comfortable with is investing in your debt!

Sometimes however, we get comfortable with spending habits that are not helpful to the goal of achieving true financial freedom. When habits are formed, we tend to forget about them and they become automatic. There are many ways you can increase your Spend Smart Factor by slightly changing some habits. But you need to review your spending habits in order to recognize which habits may be worth less than true financial freedom.

Spending Item	**Old Choice**	**New Choice**	**Spend Smart Factor**
Cable TV			
Car – Gas			
Car - Maintenance			
Car – Parking			
Car Insurance			
Cell Phone			
Child Care			
Clothing - Purchase			
Clothing - Cleaning			
Coffee Shops			

Convenience Stores			
Electricity			
Entertainment			
Fast Food – Breakfast			
Fast Food - Lunch			
Spending Item	**Old Choice**	**New Choice**	**Spend Smart Factor**
Fast Food – Dinner			
Garbage Service			
Gas – Home heating			
Golf			
Groceries			
Hair Care			
Health Club			
Health Insurance			
Indulgence			
Internet Service			
Laundry Service			
Lawn Service			
Life Insurance			
Maid Service			
Miscellaneous			
Other			
Pager			
Pet Care			
Pet Food			
Restaurants – Work			

Restaurants - Family			
Savings			
Status			
Spending Item	**Old Choice**	**New Choice**	**Spend Smart Factor**
Telephone			
Travel			
Vending Machines			
Voice Mail			
Water/Sewer			
Totals	**$**	**$**	**$**

<u>Spend Smart Factor Finder Method # 8 – Baby Steps</u>

As you know, you can still follow the Invest in Your Debt Program even if you have a Spend Smart Factor of 0%. You also know however that every dollar you can add to the amount you invest in your debt each month has a tremendous impact on the wealth you can build. Don't get overwhelmed by the amount of Spend Smart Factor you want to find. As Bill Murray learns in the movie <u>*What about Bob?*</u>, just take "baby steps!"

Based on what you've learned so far, do you think you could find $1 a day to add to your Spend Smart Factor? Sure you could! Do you think you could find $100 a day to add to your Spend Smart Factor? Probably not, though many people, once they have eliminated their debt will have a Spend Smart Factor of over $100/day! Somewhere between these two extremes of $1 a day and $100 a day is your Spend Smart Factor. As little as $3 a day, times 30 days in a month will generate almost $100 of Spend Smart Factor money. Don't worry about where you are now. Just start taking baby steps towards your Spend Smart Factor goal, one step at a time.

The Value of a Dollar

One dollar. A buck. A George Washington. Eight bits. A greenback. We have so many different terms for a dollar that it must be very confusing to someone learning English. These different terms highlight a problem most of us face when we make a commitment to Spend Smart. <u>We don't fully understand the value of a dollar</u>. Worse than that, we UNDERESTIMATE THE VALUE OF A DOLLAR.

That's a shame because if more people understood the value of a dollar the financial stress level in families would be greatly decreased, there would be far fewer bankruptcies; more people could enjoy their retirement instead of scraping to get by. You see, different dollars have different values. The more you can focus on getting and keeping the most valuable dollars (and the less you worry about other dollars), the more fantastically successful you can be with Spend Smart!

Please re-read that last paragraph again as it probably doesn't make much sense yet – but it will. By the time you finish this chapter you will have begun to understand the value of a dollar in a way that can change your financial future. The concept of THE VALUE OF A DOLLAR is the rocket fuel that will keep your Spend Smart program running at top speed.

Remember, earlier we talked about how changing your thinking, looking at things from a different perspective is about 60% of what it takes to be successful with Spend Smart. Understanding the value of a dollar is a large part of this change. Let's first look at the way we value a dollar at different times in our lives and how our perception of the value of a dollar changes as well.

Remember when you were a kid? What was the value of a dollar to you then? How did you measure it? Allow me a personal example. I know for me, a dollar's value was measured by how much candy I could buy! On Saturday mornings, I would sneak into Mom's purse and snatch a few dimes, or if I was lucky, I would grab a quarter or two. Then I would go to the corner store with friends and buy enough candy, gum and fun stuff to keep us busy until lunch time (this wasn't that long ago – late 60's early 70's). In fact, the value of a dollar in my mind was huge because I rarely had one.

How about when you got a little older and started earning money? What was the value of a dollar to you then? I remember the first time I got a "job" working on a farm. I would "pick rocks" all day, hard, back-breaking physical work (of course, we got a nice midday break when we were fed a huge farmer's lunch of fried chicken with mounds of mashed potatoes and rich country gravy). I was paid however the handsome sum of one dollar a day! Of course I was living high. A favorite pastime then was playing pinball at the local country store/gas station/restaurant/tavern. My value of dollar was defined by the amount of pinball I could play. I would ride my bike to the Popple Creek store, take out my dollar, have a soft-drink and could play pinball for an hour or more (depending on how many games I won at a cost of three games for a quarter).

Later when I got older, my pay rose to a dollar an hour. Of course, with increased pay, I had increased responsibilities. Now I had to milk the cows, but I had more dollars, more often. Looking back, I realize that as the number of dollars I had increased, I VALUED THEM LESS and began spending them more frivolously. Things like paying my siblings to do my chores, etc.

When I got into high school and college, my income grew as I began to earn several dollars an hour. My purchases grew as well. Ten dollars meant a lot to me because I could fill the gas tank, buy a pair of jeans or go on a date. A buck didn't mean as much because I couldn't buy much of what was important to me.

Today, as full-time income earners, our earnings are probably higher than they have ever been. Of course, the price tag of the things most important to us is much higher than previously in our life. Our most important expenses are things like a car, a mortgage payment, a family vacation, etc. A dollar really doesn't seem to have much value anymore does it? Especially compared to the value we placed on it in our earlier years.

It is time to make a change in your life – a change in your perspective. The purpose of our trip down memory lane was to highlight a point. The value of a dollar changes for people over time. It is influenced by factors such as your income, your purchases and others. In fact, THE VALUE OF A DOLLAR really IS WHATEVER YOU THINK IT IS. More to the point, the value of a dollar is WHATEVER YOU DECIDE IT IS. It depends on your perspective. And you need to make a decision right now to better your financial life by changing your perspective.

THREE VALUES OF A DOLLAR

Students of Spend Smart learn there are different ways of looking at the value of a dollar. Believe it or not, YOU ACTUALLY CAN CHANGE THE VALUE OF A DOLLAR, depending on how you decide to look at it. The value of a dollar is determined by your point of view.

Spend Smart encourages you to look at the value of a dollar in three different ways. This approach will help you improve your financial situation. The three important values of a dollar can be summarized as follows:

Purchase Value

Purchase value refers to the value of something you can buy right now. Like candy in the earlier story, what is something you can purchase worth to you? The PURCHASE VALUE of a dollar is the value of a purchase.

Replacement Value

Replacement value refers to the cost of replacing a dollar you spend. If you spend a dollar right now, how much will you have to work, how much will you have to earn to replace it? The REPLACEMENT VALUE of a dollar is the amount of money you must earn to replace a dollar you spend.

Future Value

Future value refers to the value of a dollar at some time in the future. If you take a dollar and invest it, what will it be worth to you? The FUTURE VALUE of a dollar is the amount of money it can grow to if invested.

Let's look at these values of a dollar more closely.

<u>PURCHASE VALUE</u>

The purchase value of a dollar is equal to whatever an intended purchase is worth to you. Since you value some purchases more than others and you probably value certain purchases differently than someone else would, it's easy to see that the purchase value of a dollar is very subjective. It depends on who is buying what and what the item is worth to them.

Purchase value is not a constant. It changes depending upon the item being purchased. The purchase value of a dollar becomes the value of whatever you buy with the dollar.
For example, a $20 tank of gas may be worth more to you than a $20 bouquet of flowers because you need gas in your car to get to work. So even though the price is the same, in this example the purchase value of a dollar is different.

The purchase value of an item also can vary from one person to another. For example, that same $20 bouquet of flowers may (at least for a short time) be worth more than the $20 tank of gas to someone who is trying to impress a date.

One good way to help you spend smart is to think about the purchase value of dollar. For example, you might be walking through a store and suddenly see a super-gizmo VCR on sale for $100. Before Spend Smart, you might just automatically whip out your credit card and grab that hot deal. If you stop for a moment however and remember that one of your Spend Smart goals is to buy your next car with cash, you might realize that a car is worth more to you than the VCR. If you compare the purchase value of the dollars you buy a car with to the purchase value of the dollars you buy a VCR with, do you think you might put the VCR back on the shelf? Do you think understanding the purchase value of a dollar might help you achieve your Spend Smart goals faster?

Thinking of the purchase value of a dollar is something we all do naturally at time, but the key to financial success is consistency. Wealth and financial security is created slowly over time, like the way a small river eventually created the Grand Canyon. If you let the purchase value of a dollar be a consistent tool in your Spend Smart habits, you will have a powerful weapon in your fight for financial security.

REPLACEMENT VALUE

The replacement value of a dollar is equal to the amount of money you must earn in order to replace a dollar you spend. When you spend a dollar, you are going to have to replace that dollar – otherwise you eventually will run out of dollars!

How do you replace your dollars you spend? By going to work and earning a paycheck! Now typically we think, no big deal, I spend my $1,000 or $2,000 dollars this month – I'll earn that much next month. A common mistake many of us make however is to assume that the dollar in our wallet or purse is the same as a dollar we earn. Listen closely…

A DOLLAR IN YOUR POCKET IS WORTH MUCH MORE THAN A DOLLAR YOU EARN!

In fact…

A DOLLAR YOU SAVE WITH SPEND SMART IS THE MOST VALUABLE DOLLAR YOU HAVE!

How can that be? Didn't Ben Franklin tell us "a penny saved is a penny earned?" With all due respect to Mr. Franklin – HE'S WRONG. It's not his fault though. When Ben was alive we didn't have personal income tax. Income tax is what makes the replacement value of a dollar such an important concept to understand. It's simple really. Like we said, if you spend a dollar you can replace it by earning more dollars right? The important question is how many dollars must you earn to replace a dollar? Isn't it more than a dollar?

If you earn a dollar, after taxes are taken out, you have less than a dollar. Therefore, you have to earn more than a dollar to end up with a dollar in your pocket. Financial experts like to talk about "before tax" and "after tax" money.

Spend Smart doesn't require this kind of financial rocket science. To keep it simple, just remember (AS IF YOU COULD FORGET!) that your earnings have taxes taken out. You never end up with as many dollars in your pocket as you earn. Dollars already in your pocket, don't have any (more) income taxes taken out. Spend Smart helps you keep more dollars in your pocket –

and DOLLARS IN YOUR POCKET ARE THE MOST VALUABLE DOLLARS YOU HAVE.

How much more valuable are the dollars in your pocket? It depends on the amount of money you earn. It depends on what your federal and state income tax rates are. Review the following chart and find the column with your federal tax rate.

Know the Value of a Dollar!

"A penny saved is a penny earned" --Benjamin Franklin

Mr. Franklin had the good fortune of living in the day when there wasn't a personal income tax. His thought is not entirely true today. If he lived today his quote would be: " A dollar saved is (at least) a dollar and forty cents earned."

The following table outlines how much income you must earn to replace a dollar that you spend. In other words what each dollar you save is worth to you in earnings.

1998 Federal Tax Rates

Federal Income Tax	15.00%	28.00%	31.00%	36.00%	39.60%
State Income Tax	6.50%	6.50%	6.50%	6.50%	6.50%
Social Security Tax	6.20%	6.20%	6.20%	6.20%	6.20%
Medicare Tax	1.45%	1.45%	1.45%	1.45%	1.45%
Total Income Tax	29.15%	42.15%	45.15%	50.15%	53.75%
Replacement Value of $1	**$1.41**	**$1.73**	**$1.82**	**$2.01**	**$2.16**

Though state income tax rates vary according to state and income level, for the purpose of simplicity, an average state income tax rate of 6.5 is used. Also, even though Social Security tax is not collected on any earnings beyond $68,400, for the sake of simplicity, this chart includes Social Security tax on all income.

What is your Replacement Value of a dollar? Find it! If you are in the 15% tax bracket, the replacement value of a dollar for you is $1.41! This means that for each dollar you spend, you must earn $1.41 to replace it. More importantly…

WITH SPEND SMART, EACH DOLLAR YOU SAVE ON SPENDING, EACH DOLLAR YOU KEEP IN YOUR POCKET IS WORTH $1.41 OF EARNINGS.

Why is this? Each dollar you save is $1.41 you don't have to earn or $1.41 of earnings you can use for something else. Are you starting to understand why dollars in your pocket are the most valuable dollars you can have? Figure out what the Replacement Value of a dollar is for you and use this powerful tool to help you Spend Smart!

For the Mathematically Curious - HOW DO YOU FIGURE?

Math with percentages can be tricky. For example, if you have a dollar and you lose a quarter, you now have 25% less money. On the other hand, if you have 75 cents and you find a quarter, you now have 33% more money.

When you look at the chart with the Replacement Value of a dollar, for those of you who aren't accountants, you might think the calculations are wrong. For example, in the first column, someone who pays 15% federal income tax, 6.5 state income tax and the regular social security and medical taxes, the total income tax is 29.15%.

If the total tax is 29.15%, how can the replacement value be $1.41 – that seems like more than 29.15%! Wouldn't the replacement value be $1.29? That's 29% more! Try the math.

Our objective is to find out how much you have to earn to have a dollar left after 29% is deducted for taxes. 29% of $1.29 is 37 cents. So if you earn $1.29, you subtract 37 cents and have 88 cents left. So the replacement value of a dollar in this example is more than $1.29.

If you earn $1.41, 29% of $1.41 equals 41 cents. Hence, if you earn $1.41 you'll subtract 41 cents for taxes and have $1.00. The Replacement Value of a dollar (assuming total income taxes of 29%) is $1.41 because that's what you need to earn in order to have a dollar left after taxes.

If you want to figure your own Replacement Value of a dollar using different tax rates, the formula is as follows:

$$\text{Replacement Value} = \frac{1}{(1 - \text{tax } \%)}$$

NOTE: Tax % needs to be in decimal format, that is, 29% should be 0.29

Let's look at how the Replacement Value of a dollar is related to the Purchase Value of a Dollar.

How Does this affect the Purchase Value of a Dollar?

Let's say you purchase a new washer and dryer for $1,000.00 (and you are in the 15% tax bracket) **You need to earn $1501.65 to buy that washer and dryer*:***

Earn $1,410.00 to cover the cost of the item ($1,000.00)
Earn $ 91.65 to cover the cost of the sales tax ($65.00 at 6.5%)
$1,501.65 is what you need to earn to purchase that $1,000 washer and dryer!

Talk about a powerful way of looking at things. Did you ever stop to think that the $1,000 purchase costs you $1,531.65 in earnings? Of course, the 15% tax rate is the lowest rate. If you aren't in the lowest tax bracket, that washer and dryer cost you even more in earnings!

While we hope the replacement value of dollar helps you begin to change your thinking on spending, more importantly, we hope the Replacement Value of a dollar helps you place much greater value on the dollars in your pocket. Spend Smart helps you keep more of the most valuable dollars you have.

Let's take it one step further. You're beginning to see how dollars you save are worth much more than dollars you earn. The washing machine example we used above actually underestimates the reality of purchasing a washer and a dryer for many Americans. Many people don't make large purchases with cash. They use credit.

It gets worse you use credit to buy the washer and dryer: If you are in the 15% tax bracket, **You need to earn $1,974 to buy that washer and dryer!**

Earn $1,410.00 to cover the cost of the item. ($1,000.00)
Earn $ 91.65 to cover the cost of sales tax ($65.00 at 6.5%)
Earn $ 472.35 to cover the cost of the interest ($ 335.00 - 12% for 5 years)
$1,974.00 is what you need to earn to purchase that $1,000 washer & dryer on credit!
If someone wants to buy that washer and dryer and they don't have the $1,000 cash to make the purchase, our "gotta have it now" society encourages people to use credit. When you do this, suddenly that $1,000 washer and dryer now costs you $1,974.00 in earnings!

Can you guess what kind of dollars actually decrease the purchase value of a dollar? Credit dollars! Think about it. When you buy the washer and dryer with cash, each dollars worth of washer and dryer costs $1.50 in earnings. When you buy the washer and dryer on credit, each dollars worth of washer and dryers costs $1.97 in earnings!

FUTURE VALUE

The Future Value of a dollar refers to the value of a dollar that earns interest as it grows over time. While Future Value is an investment term, remember, we don't deal with rocket science in Spend Smart. The Future Value of a dollar is an especially important concept to understand however, if you, like many people, want to begin or increase your retirement savings as one of your Spend Smart goals.

The Future Value of a dollar always depends on two factors – Interest rate and time. The Future Value of a dollar gets larger as the interest rate increase and/or the amount of time gets longer. If you know the interest rate and you know the length of time, you can calculate the Future Value of a dollar.

Let's look at an example of the Future Value of a Dollar. If you invest $1,000 for 15 years and it earns 10% interest, that $1,000 will grow to $4,450. The Future Value of a dollar, of each dollar in this example, is $4.45

That's the financial explanation of the Future Value of a dollar. What does this mean to you and what does this mean for Spend Smart? Look at the table below to see the Future Value of a dollar at different interest rates and over different lengths of time:

Future Value of a Dollar

Number of Years

Rate of Return		5 years	10 years	15 years	20 years	25 years	30 years	35 years	40 years
	6%	$1.35	$1.82	$2.45	$3.31	$4.46	$6.02	$8.12	$10.96
	8%	$1.49	$2.22	$3.31	$4.93	$7.34	$10.94	$16.29	$24.27
	10%	$1.65	$2.71	$4.45	$7.33	$12.06	$19.84	$32.64	$53.70
	12%	$1.82	$3.30	$6.00	$10.89	$19.79	$35.95	$65.31	$118.65
	14%	$2.01	$4.02	$8.07	$16.18	$32.45	$65.08	$130.53	$261.80
	16%	$2.21	$4.90	$10.85	$24.02	$53.17	$117.72	$260.60	$576.92
	18%	$2.44	$5.97	$14.58	$35.63	$87.06	$212.70	$519.68	$1,269.70

Figure out what the Future Value of a dollar is for you. How many years before you want to retire? What do you estimate your rate of return (or interest rate) will be? Many people assume a 10% rate of return because that has been the long-term rate of return for the stock market during the 20th century.

This table tells us that the Future Value of a dollar increases the longer it is invested. That's simple enough to understand. Most of us understand that. Unfortunately, most of us have few if any dollars to invest. So why is the Future Value of a dollar important to Spend Smart? It's important because…

In most cases, **THE FUTURE VALUE OF A DOLLAR IS THE GREATEST VALUE OF A DOLLAR.**

Spend Smart helps you find "extra" dollars in your current spending. This means that even if you've never had money to invest before, using Spend Smart strategies, you will now. You can now have the power of compound interest working for you instead against you (as it does with debt).

Putting It All Together

Now that you have begun to learn that…
ALL DOLLARS ARE NOT CREATED EQUAL,

You have the most powerful motivating Spend Smart tool. By understanding the different values of a dollar, you can greatly increase your ability to use Spend Smart strategies. And the more you use Spend Smart strategies, the sooner (or greater) your financial success will be.

WHY ARE THE DIFFERENT VALUES OF A DOLLAR IMPORTANT? THEY ARE IMPORTANT BECAUSE THEY UNLEASH THE POWERFUL "MULTIPLIER" EFFECT OF SPEND SMART.

The multiplier effect helps you value dollars much more than you have before. When you value dollars more highly, you will use them more wisely! When you realize that each dollar you save is worth $1.41 in earnings, the value of a dollar is multiplied in your mind? When you understand how each dollar you save is worth $12.06 in retirement dollars, do you think that will motivate you more to Spend Smart than just the simple idea of saving a dollar will?

This chapter on the Value of a Dollar is the most important of all the chapters in this book. You can learn all the strategies and even begin using some of them to improve your financial situation. If you really want to achieve your goals however, if you are committed to doing what it takes to turn your dreams into reality…

YOU WILL NEED TO USE THE CONCEPT OF THE VALUE OF A DOLLAR TO ACHIEVE YOUR GREATEST SPEND SMART SUCCESS!

The key to achieving financial success is to make as many smart choices as you can, and to do it as often as you can. Consistent action creates consistent results. Don't fool yourself into thinking otherwise because…

NO SINGLE SPEND SMART STRATEGY BY ITSELF WILL MAKE YOU RICH.

You need the power of numbers, you need massive action, you need to use as many Spend Smart strategies as possible to achieve financial success. One or two Spend Smart strategies by themselves will not do the trick. Even as you get to the point where you use a large number of Spend Smart strategies…

JUST USING SPEND SMART STRATEGIES ONCE OR TWICE WILL NOT MAKE YOU RICH EITHER.

Repetition is the key to success. Using a Spend Smart strategy on a regular and consistent basis will give you better and better results. When you do something often enough, it begins to become a habit. Spend Smart is a good habit to practice. Not only that, saving money with Spend Smart will have a snowball effect for you.

When you see yourself making progress towards your goals, you're going to get excited. This excitement feeds on itself. As you see results, you're going to look for more Spend Smart ideas to increase your results. It's like a snowball at the top of a hill, starting out small, starting out slowly, but gaining speed and power as it rolls down the hill.

You need to use as MANY Spend Smart ideas as often as you can to get the most from this textbook. This is the most important chapter because using what you've learned about the Value of a Dollar will motivate you to use as many Spend Smart strategies as often as you can.

The Value of a Dollar – Using it for Spend Smart Success

In teaching Spend Smart, we find that people may at first think some of the saving tips aren't very valuable. They think the money saved by following some of the strategies isn't worth their time or effort. For example, when I first began collecting Spend Smart ideas, I thought the ones that saved me less than $10 weren't worth bothering with.

I save about $9 when I change my own oil. No big deal right? When you think about the Replacement Value of a dollar however, you appreciate the value of that $9 much, much more. I am much more motivated to Spend Smart by changing my oil when I think of the Replacement Value of a dollar.
If I can save $9 by changing my own oil, that action has a replacement value of $15.39. If I don't change my own oil, then $15.39 of my earnings must be used to get an oil change. When I do change my own oil however, I now have an extra $15.39 of earnings that doesn't have to be spent on an oil change.

When I Spend Smart, when I save money, I can do something else, whatever I want with that $15.39 of earnings that would have otherwise been used for an oil change. WOW – Doesn't that have the same impact on my financial situation as earning an extra $15.39? Absolutely. Like Ben Franklin said, a penny saved is penny earned (but we know it's more than a penny earned). That's the power of the Replacement Value of a dollar.

Saving on spending, using Spend Smart strategies is similar to having another job or source of income. You should think of Spend Smart that way because it makes more money available to you than you would have otherwise had. It's another source of dollars just like a job is. And this is the best "job" you'll ever have.

With Spend Smart, you don't have to commute, you can "work" at Spend Smart whenever you want and best of all, no income taxes are taken from the money you save. If you had a second job, you would have additional dollars to use you how want right? Think of Spend Smart as an additional source of dollars and you're success will grow.

Using the Future Value of a dollar can be a very motivating Spend Smart tool as well. Many of the ideas in this book will save you $1 or less. You can understand that for many people that probably doesn't excite them very much!

If you save $1 in spending, you now have the opportunity to invest that dollar. For the typical American, the Future Value of that dollar is $12.06 in retirement dollars. Now saving just $1 may not get you excited, but does the idea of an extra $12.06 at least get your interest?

SUMMARY

Studies show that most people do not achieve the financial success in life they had hoped for. In fact, at age 65, 96% of people have incomes under $35,000 per year. If you do what these people do – if you think like they do – don't you think there's a good chance you'll have the same results?

If you want to succeed financially, Spend Smart is the place to start. Sixty percent of your success at Spend Smart will be based on your ability to change your thinking. The concept of the value of a dollar is the cornerstone to changing you thinking about money. Use the Value of a Dollar to propel your Spend Smart success.

If you make Replacement Value and Future Value a regular part of your thought process every time you spend money, fantastic things will start to happen in your financial life. First, you will spend much less on things you don't really want or need. Second, you will make better spending decisions on the things that you really do need.

Next time you're driving by McDonald's and consider going through the drive-through for that $3.29 Big Mac extra value meal, think about the Future Value of a dollar. Is that Big Mac really worth $39.67 (Future Value of a dollar - $12.06) in retirement dollars to you?

Next time you see a pair of shoes that catches you attention, think about the Replacement Value of a dollar. They might be a great deal at $73.48 ($69 plus tax) but are they really worth $103.60 (Replacement Value of a dollar - $1.41) in earnings to you?

Now that you understand the different values of a dollar you have a better basis for making better spending decisions, for using Spend Smart. Start thinking about and using the Value of a Dollar whenever you buy something. You may feel silly at first, but who cares? It takes practice and repetition to be successful at anything.

A great eastern philosopher said, "the journey of 1,000 miles begins with the first step." Take that first step, then the second, and start on your way. While the journey to financial success is long and challenging, changing your thinking about the Value of a Dollar will help you follow the Spend

Smart path. And if you become a champion at Spend Smart, you can achieve all of your financial dreams.