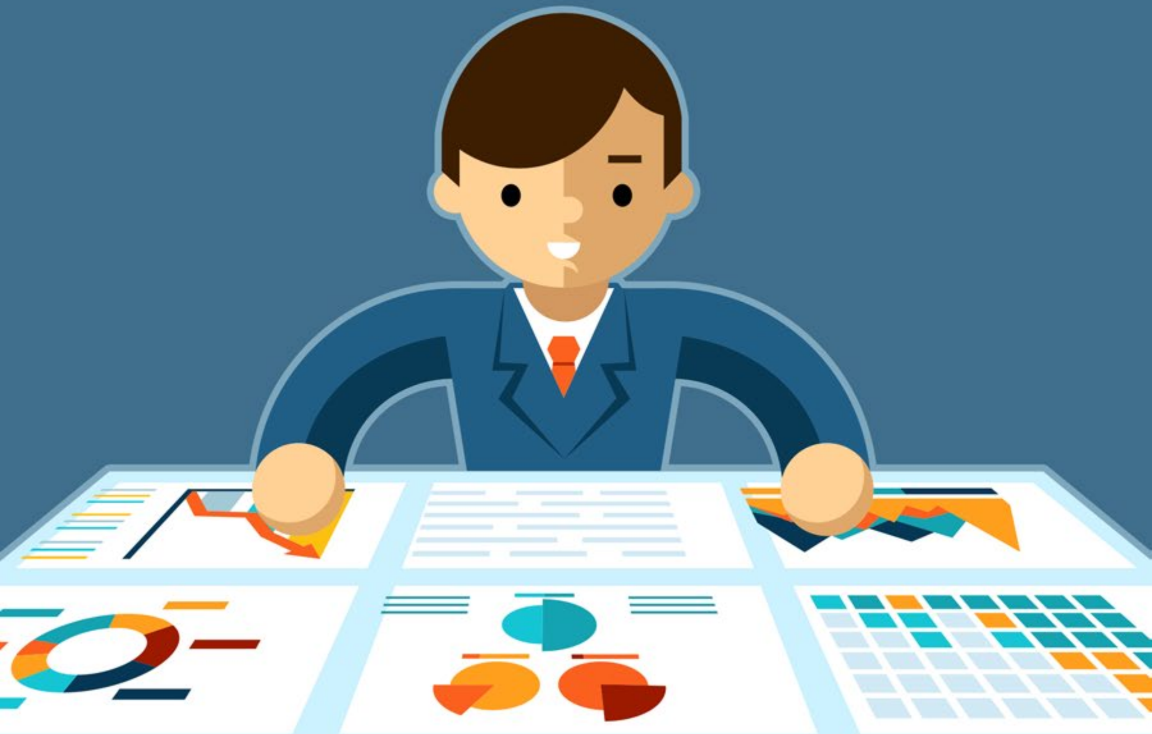
Financial Blueprint for Teens and Beyond

Money Bag Budgeting, Credit, Insurance, and Investing

JP Rockney



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Self Development

We have many idioms or phrases to describe money. Money is the root of all evil. A light purse is a heavy curse. He who pays the piper calls the tune. Regardless of how you feel about money, money is not the problem. Money is neither good nor bad, but our beliefs about it make it so. Money is necessary and in our society downright important.

It's also relative to the needs of the person. What is enough for me might not be enough for you. Some people have very little money and live happy, fulfilling lives. Some have billions and take their own life. Money can be used to judge people. Are material possessions a good judge of character? Does a big house and expensive car make you a better person?

The things you own if not careful will soon own you. Why is money important to you? Is it because you feel like you deserve it? Do you feel like you will never have enough? Do you feel ashamed about how much you have or don't have? Are you judging yourself because of the money in your bank account?

I want you to try a thought experiment with me. It won't take long and it can help change your limiting beliefs you may have about yourself. Okay, here we go list five things you would buy if money was no object. Think big, think huge, what are your five things. Do you have your five? No, put this down and make your list it will be worth the time spent. Long ago when I was a teenager I had a mentor take me through this thought experiment. The first list I gave him he read quickly, ripped it up and put it in the trash. He said "Your thinking too small, do it again" as he handed me another sheet of paper. Reading my second list he smiled and said "a Ferrari Testarossa, that's a good

choice, why do you only want one." The preverbal light bulb lit up in my mind.

It never occurred to me I could have more than one. The only thing stopping me from unimaginable riches was my belief of what was possible. You see, it's not about the end result or the huge bank account. It's about the ability to create the huge bank account. Personal and professional development go hand-in-hand. People don't get rich by chance, some people win the lottery and others are born into it, but for everyone else it comes down to skills and discipline.

Think of skills as the machine that prints money and discipline as the person maintaining the machine. You have to have both. You could be a disciplined person with little to no skills or the flip side you may have skills and poor discipline. Both situations will create financial struggles.

The time spent getting better at your craft developing your skills should be in proportion to the time spent developing yourself and the discipline to maximize the effectiveness of those skills. How far you want to take your skills and discipline is personal decision which has no right or wrong answer. I'm only suggesting everyone has the potential to reach financial freedom, whatever that means to you.

Your beliefs, frame of mind, and emotional connection to the all mighty dollar will dictate your pursuit of it. Put too much emphasis on the pursuit and your personal relationships may suffer. Put too little and you may not have the lifestyle you want. Some people may not care about personal relationships or how they make money, they just want as much as they can get as quickly as possible. Others may want enough to have a comfortable life. As stated before there is no right or wrong, judgment should not be placed on your pursuit of money or how much money you have.

The information to follow is the beginnings of your machine. These financial skills are a solid foundation to which you can stack more parts or skills. Sprinkled throughout will be simple disciplines that when applied will ensure your machine works efficiently and will last as long as you do. Let's come down from the analogy clouds and get down to the fundamentals.

Building Assets

There is no such thing as a free lunch. If you are receiving money you are providing a service or a product to someone or something giving you the money. In a normal job or career you are trading your time and effort in exchange for money. If you're an entrepreneur you are selling a product or service to a customer. An asset is anything that has a value such as fixed assets like real estate, inventory and equipment. Financial assets such as stocks, bonds and equities, additional, there are intangible assets like patents, trademarks and website domains.

The majority of our society makes themselves the asset. We go to school, learn a skill, and find a career. Sometimes individuals change careers as life unfolds, but this way of life makes you the asset. When making oneself the asset, a person typically tries to capture the highest income in the area they choose to pursue. The greater the skill or profession the higher the income you will be able to earn. Some people choose to attend higher education after high school costing tens if not hundreds of thousands of dollars learning the profession they are trying to enter. Others go directly into the work force learning their trade as they climb the economic ladder with experience and sweat equity or hard work.

Over time you as the asset will eventually want to stop being the asset. You will want to retire from the work force at some point (most of us will) and go fishing or whatever else retired people do. The model most people in our society subscribe to follows the same general trajectory. At the beginning of a young adult's life they make themselves an asset to produce income. Over time they use portions of that income to create other assets that will eventually produce enough income for them to sustain their standard of living

without having to be the asset.

What assets a person chooses to produce income later in life can vary greatly. Many people use retirement investment vehicles like Individual Retirement Account (IRA) or 401(k) to save for retirement. The idea is a person invests a portion of their income in their IRA or 401(k) that is usually invested in something tied to the financial markets or multiple things across the financial markets. The cumulative effect of their contributions, along with the potential rise of their investments value, plus compounding interest over time will create enough money to eventually live off of. Later, investments will be explained in more detail, for now I will only discuss this in terms of asset building.

In the financial model just explained you are the asset whom has created another asset (your retirement account) to eventually produce a large enough income to allow you to stop being the asset. This is just one of many ways to build assets. Another common asset is real estate and rental properties. The property itself holds value and can produce income in the form of rent payments.

Anything that has the ability to generate money for you is an asset. Businesses are also assets since they have the potential of creating income for you. When building a business asset, you have to use some common sense and simple math prior to starting or you will quickly be in a negative cash flow situation. Almost all businesses take some money to get started, the initial start up cost is necessary to get things going, plus the operation costs to sustain them. The simple math is how much profit will you make from each sale and do you have enough money to sustain the business until your sales can support the cost of operations?

When building a business most business owners will tell you it takes large amounts of “sweat equity” effort and a reasonable amount of money to get started. The profit from

your business will need to be reinvested in the business in part or in total to ensure the business has enough money to sustain and grow. If everything works out you will eventually be able to pay yourself from the profits. The business itself (the sales is generates), the equipment and/or property associated with it are all assets.

Assets can produce passive or residual income. This is when your asset(s) are producing income for you with very little involvement from you. It's possible to have multiple streams of income at the same time. You could be working your fulltime career while building a portfolio of rental properties, contributing to your 401(k), and building a landscaping business in your spare time.

To be financially independent your asset(s) will have to produce enough money to support your life style. I once had a mentor as teenager that told me "The sooner you start thinking about retirement the sooner it will happen." Building assets are the road to financial independence. The sooner you start building whether it's contributing to a 401(k), buying real estate, or starting a business the earlier financial freedom can become a reality.

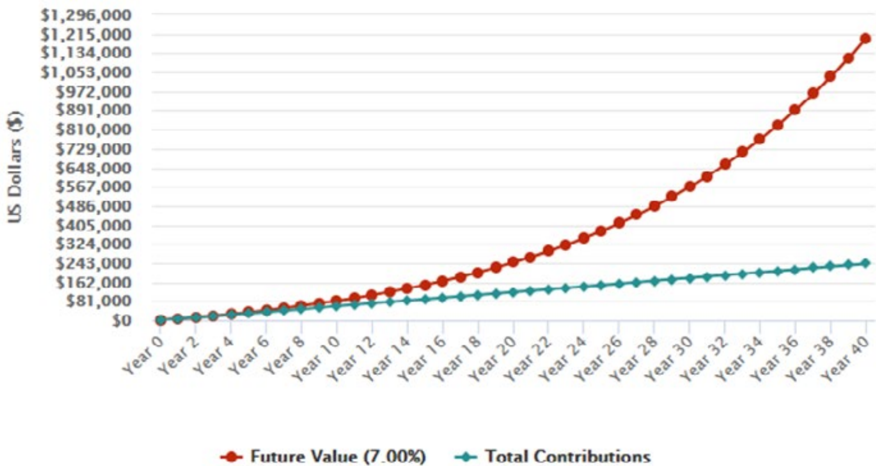
The things mentioned are common things the majority are doing. I am not advocating for one over another or that these are the only ways to go about building assets. The fantastic thing about freedom is you can chose to pursue anything you want. I would recommend pursuing multiple things over the course of your life. Choosing to do nothing and hoping or worse complaining is not a good strategy to achieve financial freedom.

Investing

Start early

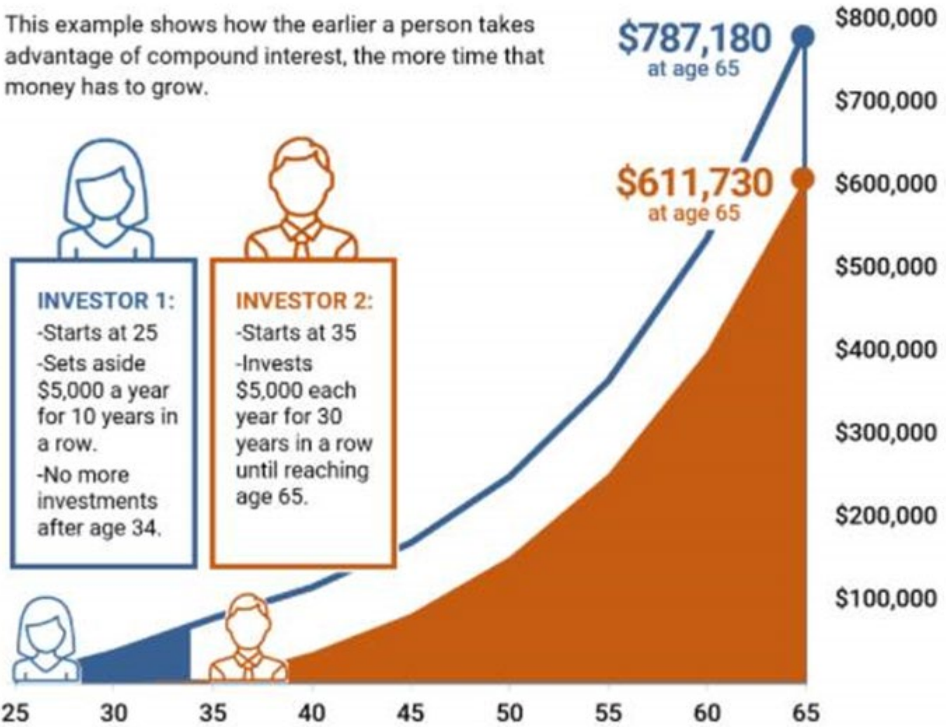
Albert Einstein called compound interest the eighth wonder of the world. Think of compound interest as interest on top of interest. Your contributions will accumulate interest and that interest will compound periodically. The periods could be monthly, quarterly, yearly, and even daily with some investment vehicles. The period in which interest compounds is set by the bank or company that owns the investment vehicle.

Notice how in the illustration below the total value over time starts rising faster and faster from the amount of money contributed. This is the power of compound interest. This compounding effect can be applied to more than just money which I will cover later.



Compounding interest is powerful but needs time to build. With that logic in mind, the stage in life you start saving makes a huge impact on the end result. As you can see below time can matter more than contributions.

Time vs. Contribution



When discussing compound interest it is usually done within the context of retirement savings. For most people retirement saving is done with a 401(k) or an IRA. The difference between the two can be a little confusing because they are very similar. The IRA you personally set up either on your own or with the help of a financial professional. A 401(k) is a retirement account set up by your employer.

Both are savings accounts that you contribute portions of your pay to in order to build your retirement nest egg. Over time this account grows large enough to replace your income or at least provides enough money for you to live off of in retirement. With these types of accounts, you are not able to withdraw money until you reach age 59 ½. If you withdraw money prior to 59 ½ you will incur penalties

which vary but are usually around 20%. That's a pretty big deterrent from taking your money out early.

Both IRA's and 401(k) have two types available, traditional and Roth. As the customer or investor you have the option to contribute to the traditional, the Roth, or both. The question becomes which is better? Well, that depends on your personal financial situation.

With a traditional account the money you contribute is tax deferred. That means the contributions are not taxed prior to it entering the account. It will be taxed once you start withdrawing from the account later in life. The idea is avoiding tax as you're accumulating thus giving you more to invest and compound which in turn potentially accelerates the growth of the account.

A Roth account is not tax deferred. The contributions to a Roth are taxed prior to it being deposited into your account. When you eventually start withdrawing from the account it will not be tax free since you have already paid tax.

As you can see neither is better nor worse than the other. It comes down to personal preference and financial situation. Like mentioned earlier you can always contribute to both types which will maximize your flexibility in terms of taxable income later in life when you start withdrawing the funds.

Coming full circle, the sooner you start contributing to accounts like these, the longer they will have to take advantage of compounding interest. The longer that goes on the larger the account will be.

These types of accounts can be used to invest in many types of investments, but more often than not are invested in something having to do with the US stocks and bond

market. They can be used for other types of investments such as precious metals like gold and silver. Some people invest in real estate or foreign stock markets. If you are contributing to a 401(k) you will only get to chose from what your employer offers, but in a self directed IRA there are many more options. With increased options comes the responsibility of choosing and if you don't know how to choose consulting a professional or learning how to manage your money yourself will be important.

If you find yourself in a situation where you're employer matches your 401(k) contributions it's a good idea to max that out. Contributions from your pay are usually done by percentage. If you are contributing 3% of your pay to your 401(k) and your employer matches up to 5% you are leaving free money on the table.

Money put into IRA's and 401(k) can be rolled over from one account manager to another. If you change employers or just want to change account types to better suit your investment needs no money will be lost. It can be rolled over into another retirement account. As you progress through life and decide you want to move your retirement savings in a different direction it can be done. You will not be able to withdraw your money prior to 59 ½ without penalty, but you can certainly place your hard earned savings in different investment vehicles.

Real Estate

This is another financial asset class that many people choose to invest in. When you buy your first home it will most likely be with a mortgage. A mortgage is simple a type of loan banks provide specifically for purchasing a house. There are many different types of mortgages over many different time frames. The two most common time frames are 15 year and 30 year mortgages. The most common types are fixed Annual Percentage Rate (APR) or adjustable APR usually called Adjustable Rate Mortgage (ARM).

The APR is the interest rate you will pay over the course of your loan. For example you may buy a house for $200,000 with a fixed APR of 4%. Fixed meaning the APR will not change for the duration of your loan. The longer the time frame the more interest you end up paying in the long run. Mortgages are set up on an amortization schedule for however long you have it. Keeping with a 30 year 4% fixed mortgage for $200,000, you will pay much more than $200,000 by the end of 30 years. In fact you will pay around $144,000 in interest alone over the course of 30 years. On top of that the amortization schedule set up by the bank will front load most of the interest to the beginning of the loan so they can capitalize on as much of your monthly payment as possible.

When you make a monthly mortgage payment a portion of those payments go to the principle of the loan or to say another way the actual amount you’ve borrowed. The other portion of your payment goes to the interest on the loan. At the start of the loan most of your payment will be going towards the interests owed on the loan and a smaller portion will go towards the principle amount. Using the same 30 year 4% example, your payment would be $950 per month for 360 months. The amortization schedule will start with $665 of the monthly payment going to the interest and the remaining $285 will go to the principle.

Each monthly payment the money applied to principle will get a little higher and the money applied to interest a little lower.

While you may not think this is fair, in the world of finance fair is not something that is taken into consideration. The bank is taking all the risk, so they can structure the payments however they see fit to protect their best interest. You can pay extra each month specifically using that extra amount of money to pay down principle. Your payment is $950 and you don't get to chose how the bank applies that payment since you have signed a contract for how that payment will be applied to the loan. If you pay $1,200 you can tell the bank to apply the $250 over-payment to the principle of the loan. This will bring down the total balance of the loan also affecting the amount of interest you will pay. The APR is calculated on the principle amount of the loan therefore the more you pay the principle down the less you will pay in interest. You can save yourself tens of thousands of dollars over the course of a 30 year mortgage with just an extra $50 per month.

The shorter the time frame, the less interest you pay in total dollars and percentage. It's a good strategy to take on a mortgage you can afford but also one with the least amount of interest. Not all mortgages or banks are created equal. Compare banks and don't be afraid to negotiate.

Adjustable Rate Mortgages (ARM) are what they sound like, the APR adjusts periodically. It could be monthly, quarterly or yearly. While most ARM's have limits to how much they can adjust from period to period or over the life of the loan they can still swing substantially. Usually the first 1-3 years are at a fixed rate then it changes to adjustable for the remaining time.

There are situations when a mortgage like this can be beneficial. Because of the uncertainty of the APR, banks

will make the initial fixed rate at the beginning of the loan very low to attract customers. If you plan on selling the property prior to the conversion from fixed to adjustable APR you could benefit from the lower initial rate. If you're renting the property an adjustable rate will most likely be absorbed in the rent payment you receive.

If you are planning on buying a home that you will be living in for the foreseeable future, most people opt for the fix rate opposed to the adjustable rate. When budgeting your living expenses which will be covered in great detail later, it makes good financial sense to have stable monthly expenses.

Creative real estate is a powerful tool when used carefully. There are many ways to use real estate to acquire wealth and build assets that produce additional streams of income. The traditional fix and flip and building a rental portfolio are two examples of popular means to that end. There are thousands of fix and flip, rental courses and guru's promising their secrets. Some are worth what you pay for them and others are not, buyers beware.

The world of real estate is vast and can be complicated and intimidating. A world full of agents and brokers who can be helpful, but can also be trying to just get their cut. Real estate professionals will not talk about all the creative things that an individual can do on their own because it takes them out of the picture. While real estate professionals are not bad or untrustworthy, their income is based on helping you with your real estate transaction. There are times when you need professional help. Be up front and firm with your desires and often you will get just that if it's within the power of the real estate professional.

There is no shortage of information about fix and flips or rentals, but not many discuss fixing and flipping over time. With a traditional fix and flip you will need a loan

designed for something that a traditional mortgage cannot be used to buy and resell in a short amount of time. You can however buy property you live in while improving its condition and/or marketability. After some time has passed usually two years, sell the property for a profit.

When doing this it's important to not spend the profits on random things you don't need. The money used for real estate should stay in real estate. I discuss the money bag concept in more detail later. In order for you to grow your real estate asset as quickly as possible keep the profit in the same money bag and reinvest your profits back into more real estate. Over time the money you use to build this asset will become self-sustaining and won't need more of your income to make this asset grow.

A variation of this strategy is buying a multi-family property like a duplex or quadplex. Very simple strategy of living in one unit while renting out the other units. This will lower your monthly cost and potentially cover your mortgage payment.

To go a little deeper into the realm of creative real estate there is more than one way to sell a property. The traditional sale involves using a real estate agent and listing your property on MLS to attract buyers. There is nothing wrong with this way of selling, but there are nontraditional alternatives. A "For Sale by Owner" is fairly common and will save you some of the expenses by not paying as much in agent commissions.

A less common sale is what's call a "Lease Option" which gives the buyer the option to buy the property. The seller sets the price and the terms that usually are structured fairly for the seller and the buyer. An example of the typical lease option deal in general terms would require the buyer to make down payment and pay rent until they are ready to buy the property. Let's say you want to sell

your property for $150,000 using a three year lease option. Let's take this hypothetical situation further and say the current average rent in that area is $900 per month. Your mortgage payment is $700 so the average rent will put you in a profitable position while you wait for the potential buyer to purchase the property.

You charge a down payment of $2,500 and $1,000 per month. To make it attractive to your potential buyer you will apply the down payment and $100 of the $1,000 monthly payment to the total cost of the house. What makes this attractive to the seller is the monthly income and the set price of the sale. Since this is not a traditional rental property, the buyer will potential be the owner, you as the seller are not responsible to the up keep of the property. The potential buyer is responsible for the problems that may arise while they are leasing the property. That means as a seller you won't have to worry about the late night phones calls to fix clogged toilets. The burden of repair falls on the potential buyer.

The buyer has the ability to buy the property at the agreed upon price minus any money you have agreed to apply to the total cost of the property. They can also walk away and not buy the property but they will lose the money they paid the seller. This kind of real estate transaction is a good option for someone that doesn't qualify for a traditional mortgage. Someone that is working on their credit or a larger down payment to qualify for a traditional mortgage and wants to own a home now will jump at an opportunity to lock in a set price for a property they want but don't yet qualify for.

Yet another creative way to sell a property is with owner financing. You as the seller become the bank. This is a long term strategy but can yield huge payoffs. People that have lower incomes and/or people that can't qualify for a traditional mortgage will be the potential buyers in

this kind of transaction. By no means am I suggesting you take advantage of anyone. There are a lot of unscrupulous people that will charge outrageous interest rates and look for ways to make sure the buyer never actually pays off the property. I don't agree with that behavior in the slightest and I propose a win, win strategy.

Looking to sell a property valued at $50,000 for the market value of $50,000 with owner financing will make a hefty profit over time. You will collect a down payment of $3,000 and set up an amortization schedule for the next 10 years at 10% APR. This would make your buyers payment $635 per month. At the end of 10 years they would own the property paying in total around $78,000. There are ways to adjust these numbers for more profit with this model by increasing the sale price and/or raising the APR as well as extending the length of the loan. Changing any of these factors will increase your profit.

Like the lease option mentioned above you as the seller are not responsible for any repairs of the property. The buyers are responsible for the condition of the property; after all you sold it to them. This is not a rental agreement, it is a sale. The deed will transfer to the buyers name at completion of the loan.

Land can also be very profitable. Buying land in areas you think have the potential to rise in value or land that others will want to rent or lease from you for their use. An example of land leasing or renting would be an RV Park. You can buy a lot or lots in an RV Park and charge rent for its use. You don't need to buy the whole RV Park just the lot located in the park. The owner of the park maintains the lot (which is minimal) and collects the rent or fee's from the customer using the lot. The RV Park owner will take out their fee and send you the rest. This is a very low maintenance way of producing passive income. Not very high yield or exciting but inexpensive and relatively safe as long as the due diligence is done on the RV Park.

Alternative Investments

Do you have an interest that can be monetized? Do you like to collect things that can hold or even increase in valve? Coin collecting, sports memorabilia and even digital art are all collectable. Anything that has the potential to rise in valve can be considered an investment.

Do you know someone that is trying to start a business? Investing in a start-up can be done with any amount of money. You don't need millions of dollars to invest in start-ups. Sometimes that friend that is quitting his job to run down his dream of owning and operating a food truck just needs an extra little bit of money to get started. Loaning him the money or taking a stake in the equity is an investment.

Home run investing is the idea of investing in something or many something's that have not caught on yet but has the potential for huge grains. Bitcoin is a great example or Amazon back when it first started. You never know what will hit it big until it takes off so the strategy for something like this is to spread money around an industry or idea hoping one of the investments grows to gigantic profits. A little less know home run investment strategy is purchasing domain names to sell later at a much higher price. Domain names are unique and if you own a particular domain that someone else or a company wants you can charge a very high price for it. Things like this are valued at whatever someone else is willing to pay for it.

Another alternative is peer-to-peer investing. This is when an individual gets a loan from another individual or group of individuals. These loans can be used for anything the lender(s) agree to. There are companies that help facilitate this kind of thing as well as networks of finance professionals that manage groups for this kind of lending.

Risk

Don't be afraid of risk. Learn how to control and manage risk because it's a necessary part of investing. I was once told "When you figure out how to not lose money you can't help but make money." This applies to all investments with risk. Learn the ways things can go wrong. Weight the probabilities of profit against the probabilities of loss. Come to a conclusion based on logic and math, not excitement and rhetoric.

There are two major schools of thought. One group says you should diversify your investments helping to minimize big loses. The idea is if you are invested in five assets classes and one is performing badly you have four others that are still growing so your overall portfolio doesn't suffer catastrophic losses. While this is a good protection strategy is also slows down how quickly you can grow your investments.

The other school of thought is focus on just one or two investments to maximize the amount you can invest. This provides the maximum growth potential but also the highest risk since all your eggs are in one basket so-to-speak.

I'm not claiming one to be better than the other. There are many combinations and variations of targeted investing while diversifying. Let's say you set aside 10% of your income for investments and each month place 5% of the 10% you are allocating for investments into your 401(k) and the other 5% is being invested in crypto currency or going to build a portfolio of penny stocks. These are just examples, placing 5% in your 401(k) to max out the matching allocation from your employer would be your diversified investment (assuming the 401(k) is diversified), while investing the other 5% in something with higher risk and higher growth potential.

You may spend your twenties taking huge risks in hopes of hitting it big. You may chose the slow and steady route building wealth over decades. There are endless possibilities from which to draw from. They all involve risk to varying degrees. There is no right or wrong answer; this is a personal decision that you should be evaluating continuously throughout your life.

Insurance

Save $10k+ on insurance

This is a topic so boring most people never learn it. It can also be confusing because of all the legal jargon. The insurance companies know this and you pay the price. Having the proper insurance coverage for your living situation could save you tens of thousands of dollars over the course of your lifetime. It will also provide you with peace of mind, which can be priceless.

Insurance works by many people paying relatively small amounts of money to cover the cost of those people who need to file claims against their policy. As unfair as insurance may seem it actually plays an important role in keeping the cost of things relatively cheap compared to what it would be if your insurance cost wasn't part of a huge collective of people all doing the same thing.

When you pay for insurance you are paying for access to large sums of money to cover the cost of accidental yet very expensive things. You're out of pocket cost is small in comparison to the amount of money you will have access to if needed.

One day you're driving along and accidently cause a collision with another vehicle. You didn't mean to cause the accident but it was your fault and now the damage to the other person's car is $15,000 and they have $20,000 in medical bills from the accident. Since you pay for car insurance your insurance company pays the money you are legally liable for. Being at fault you are legally responsible or liable for damages and insurance helps you pay for that. If you chose your insurance coverage wisely you will only pay your insurance premium while the insurance company

will pay for the damages you caused.

While you may not like paying for insurance it is a necessary financial function of a civilized society. Insurance will protect your personal financial well being. The price of your insurance will be dictated by the insurance company and their perception of the risk they take by providing you insurance. The higher the perceived risk you are to the insurance company the higher your insurance cost will be. The cost is sometimes called a premium.

What's next is a simple explanation of the coverage's build into auto, home and renters insurance policies. You don't need to be an insurance expert, but understanding what you're paying for will help you tailor your coverage to your specific needs. Some insurance companies pray on the ignorance of their customers.

This topic is as important as it is boring. Knowing how to properly choose insurance coverage, no more or no less will help you save tens of thousands of dollars over the course of your lifetime. Additionally, it will also help you protect what you have worked so hard for.

Auto Insurance

Not all insurance companies are the same, however the coverage they sell is. It has to be, the individual state mandates it to be that way. I should mention each state has their own specific laws and regulations. A good example of differences between states would be UM/UIM (don't worry you will understand what that is later). In some states you can waive (refuse coverage) this coverage and in others you can't. What insurance pays for in the event of a claim doesn't change much from one state to another. The biggest difference between states comes from the requirements and type of coverage available.

A quick reference guide is included below so you will not have to remember all the details. Plus, it will make shopping for insurance much easier. Let's start with breaking down the three categories of auto insurance liability, property (your vehicle) and what I call extras.

Liability covers the damage you cause to others and their property. If you cause an accident, you are liable for the injuries and property damage you caused. This includes the passengers in your vehicle. If you caused an accident and the people in your vehicle are injured you are liable for that as well. Insurance companies will determine who is liable for the injuries and/or property damage based on police statements, the statements from the parties involved, damage to the vehicles, etc.

Let's go over an easy example. You are stopped at a red light (your person A) and the person driving the car behind you was texting and didn't see you were stopped (this is person B). BAAAMM! You have just been rear-ended. This is not your fault therefore the other person is 100% liable for your injuries and the damage to your property (vehicle). In some states companies will determine each party liable but at different degree's. One person could be 20% liable and the other 80%. I'm not going to get into all the "what ifs" of insurance claim possibilities. I just wanted to mention who is at fault is not always clear cut. There are situations where both parties are at fault but to different degrees. Going back to our example, person B's bodily injury and property damage (BI/PD) coverage will pay for your injuries and your property damage since they are completely at fault and 100% liable. BI/PD coverage looks like this on your policy:

BI/PD 25/50/25

- The first 25 is “BI” bodily injury coverage and means the insurance will cover $25,000 per person, per accident.
- The 50 is also “BI” bodily injury coverage and means the insurance will cover $50,000 total per accident.
- The third 25 is “PD” property damage coverage and means the insurance will cover $25,000 total per accident.

BI/PD 25/50/25 is just an example of coverage limits and could be 50/100/50, 100/300/100 or many other combinations. How to decide how much coverage you may want for yourself will be covered later.

This next coverage works similarly but in the opposite direction, uninsured motorist and underinsured motorist (UM/UIM). We will stay with the same rear-ended example from above. You’re person A and the rear-ender (at fault) is person B. Let’s say person B didn’t have any BI/PD (liability) insurance. Your uninsured motorist (UM) coverage would pay for your injuries up to the limits of your policy. If person B had BI/PD (liability) insurance but the limits were not enough to pay for the total cost of your injuries, your underinsured motorist (UIM) coverage would pay the difference up to your policy limits. Have you noticed I haven’t mentioned property damage? That’s because it only covers bodily injury. Notice below only two numbers not three like BI/PD.

UM/UIM 25/50

- The first 25 is “BI” bodily injury coverage and means the insurance will cover $25,000 per person, per accident.
- The 50 is also “BI” bodily injury coverage and means the insurance will cover $50,000 total per accident.

Now that we have covered the liability portion let's move onto the coverage for your vehicle. When someone says they have full coverage, this is what they are talking about. Full coverage implies you have insurance for the damage you cause others and your vehicle. Insurance companies offer two coverage's for your vehicle which protect it from almost anything that could happen. Comprehensive and collision is what they are called.

Comprehensive will pay for damage done to your vehicle that is not classified as a collision. A tree branch fell on your vehicle, kids playing in the street accidently dented your door, or maybe your significant other decided you deserved to have your vehicle beat up with a baseball bat.

Collision is any damage done while the vehicle is in motion. As you can see no matter what happens to your vehicle the damage will be paid for with few exceptions. One example of an exception is intentional acts. If you beat your own vehicle up with a baseball bat, it would not be covered. Driving it into a brick wall trying to collect the insurance money is not covered. Insurance is meant for bona fide accidents.

This coverage's usually come with deductibles. A deductible is the amount you pay to use comprehensive or collision coverage. This could range from $0 - $1,000 out-of-pocket cost to you. The higher the deductible the lower cost will be because you are assuming more risk, therefore lowering the insurance company's risk.

Let's pretend you walked out your front door and noticed the tree in your front yard fell over and landed on your vehicle. Let's also imagine your deductible is $500. When you get your vehicle to a repair shop, they tell you it will cost $2,500 to fix. Your comprehensive coverage will pay $2,000 and you will pay $500. The $500 is the cost you

agreed to pay when you signed your auto insurance policy. You can see why the higher the deductible you select the lower the cost of your policy. Your deductible will have a direct impact on the cost of your insurance but chose your deductible wisely. It's doesn't do you any good to have a deductable you can't afford.

Now we will revisit our rear-ending example. Person A (you) has comprehensive and collision coverage and person B has insurance as well. Since person B caused the accident and is 100% liable, you will not have to use your collision coverage or pay your deductible because person B's property damage (PD) coverage of their liability (BI/PD) coverage will pay for the damage to your vehicle. In addition, person B's bodily injury (BI) coverage will pay for any injuries you and your passengers may have incurred.

Let's change the scenario a bit. Same accident but this time person B doesn't have insurance. Now you will have to use your collision coverage and pay your deductible to fix your vehicle and your uninsured motorist (UM) coverage will pay for any injuries up to the limits of your policy. As a side note, it will not raise your insurance premiums for an accident that is not your fault. Also in most cases your insurance company will pursue person B for repayment. If they are successful you will recoup your deductible cost as well.

The rest of the coverage's are what I would call extras. Full glass breakage (FGB) is only available to you when you have comprehensive and collision coverage. You might be thinking, doesn't comprehensive insurance cover the windows? Yes, it does, but you have to pay your deductible to use that coverage. FGB is an endorsement in addition to your comprehensive coverage that allows you to use your comprehensive coverage to fix glass without having to pay your deductible.

Switching gears and moving to a financial piece of insurance coverage called gap insurance. When I was an insurance agent, I would not sell someone an auto insurance policy that had a loan and refused gap insurance when it was necessary.

Ponder this, you pay $20,000 for a new vehicle, but the insurance company doesn't care what you paid for the vehicle. They only care what the vehicle is worth. In this example let's say your vehicle (in insurance company terms) is worth $16,000. You just paid $20K for your new vehicle and on the way home from the dealership someone hit you hard enough to "total" your vehicle.

Quick note, "totaling" a vehicle is completely up to the insurance company. If the value of the vehicle is less than the cost of repairs or the vehicle is unable to be brought back to satisfactory safety standards, the insurance company will "total" your vehicle. This means the insurance company sees your vehicle as a total loss. If they deem your vehicle totaled, they keep the vehicle and pay you the value they determine, in this case $16K.

But wait, you owe $20K. What about the $4K difference? That's where the gap insurance comes in. Gap insurance will pay the difference between the value the insurance company paid you and the remainder of your loan. If you don't have gap insurance, you will still owe the difference without the benefit of having the vehicle. If you owe less than the vehicle is worth than this coverage isn't necessary.

In some cases, the bank that gave you the auto loan will include gap insurance within your auto loan terms. Be sure to check that so you don't pay for the same thing twice. Full glass coverage and gap insurance are not mandatory but should be seriously considered by doing some simple math to determine if it make financial sense.

Continuing with extras, medical payments (Med Pay) will pay for you and your passenger's injuries up to the limit of your policy (usually $5,000) regardless of who is at fault. This is commonly overlooked and insurance companies will typically include it in your policy without regard to whether you really need it.

Think about this coverage as paying for health care for you and your passengers up to the limit of your policy. Some people like active duty military have zero cost health care, so they have no need for this coverage. If you don't have health insurance or don't want to pay your co-pay, then you might want to consider this coverage.

Think about when medical payment coverage would be useful. If you are not at fault in an accident, the other person's liability insurance will pay for your injuries. If they don't have insurance or they don't have enough you're UM/UIM will kick in. It's neither good nor bad, but whether or not you feel it necessary to pay for this is up to you.

Emergency Roadside Service (ERS) is just what it sounds like. It will provide coverage for unexpected problems like locking your keys in the vehicle, towing, flat tire assistance, etc. This coverage varies from company to company so make sure you ask for the details of what is covered. One company might offer free towing of a broken down vehicle for a maximum of 11 miles and another company may have a maximum mileage of 26 miles. This coverage is usually very inexpensive and in my opinion worth the cost, but again it's up to you.

Rental Reimbursement (R/R) is just what is sounds like. Back to the rear-end example from before. Person B is at fault so their insurance coverage will pay for a rental vehicle for you (person A) while your vehicle is being repaired. If they don't have insurance or you are at fault, R/R coverage will pay for a rental vehicle up to the daily/

weekly rental price limits you chose.

Death and Dismemberment (D & D) is offered by some insurance companies. It is a simple pay out in the event you are dismembered (lose a finger, leg, etc) or die in a motor vehicle accident. This is not my favorite topic to explain but if you don't have life insurance or the money to pay for funeral arrangements, this is a cheap option. Limits will vary from company to company so if you're considering this you will need to ask your company for the limits and circumstances in which they will pay.

Quick Reference

As promised, below is your quick reference guide. This will be helpful when it comes time to shop for auto insurance and you need a quick refresher of what the coverage's mean and what they will pay for in the event you need to use them.

Liability
BI/PD 25/50/25: This covers injuries and property damage you cause up to the limits you specify.
25 = $25k bodily injury per person, per accident
50 = $50K bodily injury per accident
25 = $25K property damage

UM/UIM 25/50: If the other person doesn't have liability insurance or doesn't have enough liability insurance.
25 = $25k bodily injury per person, per accident
50 = $50K bodily injury per accident

Vehicle
Comp & Collision: Comprehensive and collision will cover your vehicles damage in almost every situation. The deductible will change the price of your policy, the higher the deductible the lower the policy price.

Comprehensive: Deductible $0 - $1,000
Collision: Deductible $0 - $1,000

Extras
Full Glass Breakage (FGB): Will waive your deductible for repairing vehicle glass damage.
Gap Insurance: When a vehicle is deemed a total loss this will pay the difference between what the insurance company paid you for your vehicle and what is left on your loan.

Medical Payments (Med Pay): Will pay for injuries to you and your passengers up to the limits of your coverage.

Emergency Roadside Service (ERS): Pays for unexpected problems and road side emergencies up to the limits of your coverage.

Rental Reimbursement (R/R): Provides a rental vehicle for covered claims up to the limits of your coverage.

Death and Dismemberment (D & D): Onetime payment in the event of death or dismemberment.

Homeowners Insurance

This type of insurance can and should be customized to your needs which should be determined by the type of home you are insuring. I will cover the common coverage's that will apply to the broadest range of homeowners' policies. When people buy this insurance, it's usually done as part of the closing process when you purchase a house. The bank will make sure the dwelling (the structure itself) is insured to protect the mortgage they extended to you. While this is a requirement to close on the house, the buyer should use this time to customize the policy to their needs.

Understanding the difference between "Replacement Cost" and "Actual Cash Value" is crucial to selecting the proper coverage. I strongly recommend you opt for replacement cost. In fact, when I was an agent if a customer refused replacement cost and wanted actual cash value I wouldn't sell them the policy. This is best explained with an example. You have a 65" TV you bought two years ago. Your dog was chasing your cat and knocked the TV off its stand destroying the TV. With actual cash value coverage, the insurance company will give you what the TV is currently worth. A two-year-old TV will not be worth what you paid for it and it certainly won't be enough to buy a new TV. Replacement cost coverage requires the insurance company to pay the cost to replace the TV, not just what it's currently worth.

Like auto insurance, you pick your deductible and the higher the deductible the lower the cost of the policy. Anytime you file a claim to use your policy you will be responsible for paying your deductible. Ok, let's get into the most common coverage's.

Dwelling
The structure (the house itself) is considered the dwelling. Everything from the foundation to the tippy top of the roof is covered for damages. Flood and earthquakes are not covered in the standard policy. It can be added in addition to your policy, but they are not covered unless specifically included. If you have an unattached structure like a shed or garage, you need to specifically add that as well. A typical homeowners' policy will have coverage for unattached structures built into the policy but not all. If you have an unattached structure, ensure you have proper coverage.

Personal Property
This is exactly what it sounds like, all of your belongings in the house or on your property. You set the limit for this. It typically defaults from 50% - 75% of your dwelling

coverage, but you can customize this coverage as needed. Remember when figuring out how much coverage you need think in terms of the cost to replace things, not the value. Certain items have built-in limits. If you have something of high value like jewelry or collectables to name a few, be sure you ask if those items will be covered at their replacement value. Also be sure to have these things appraised to ensure you get full value. Taking a video or writing out an inventory is always a good idea. Don't keep that in the house. It won't do you any good if your inventory gets destroyed. Give it to a family member, friend, or store it online.

Loss of Use
If you are displaced from your house, this will pay for living expenses up to pre-defined limits. If a covered claim causes you to leave your house, it will pay for things like hotel costs and sometimes food costs. You need to understand the limits of this coverage to ensure you don't accrue out-of-pocket expenses.

Liability
Like auto insurance, this covers injuries and/or damage to personal property. Not for the residents, but for visitors to your residence. It protects the homeowner against having to pay for the losses and damages experienced by others due to the homeowner's negligence. It will also cover damages that may result from pets. In short, if you get sued for something that happened on your property this coverage will kick in. If you are legally liable for someone's personal injury or damages to another person's property while on your property this liability coverage could be used to cover the costs.

Medical Payments to Others
This provides coverage for accidents and injuries experienced by others on your property. This will pay up to your policy limit for injuries to prevent lawsuits.

Renters Insurance

If you do not own your home, you may still want to protect your personal property. Renter's insurance will do just that. If you take away the "Dwelling" coverage above, everything else is what renter's insurance covers. This coverage is usually very cheap and well worth the cost. It also can provide you a discount on your auto insurance equal to or greater than the cost of the renter's policy.

Let me explain, to keep the math simple let's say your auto insurance is $1,200 per year. You add a renters' policy that cost you $200 per year and since you purchased your renters and auto insurance from the same company, they gave you a 20% discount on your auto insurance for having multiple policies. That 20% is a savings of $240 per year. So now your total insurance cost per year is $1,160. That's not a huge total dollar saving, but you essentially got a renters' policy for free and saved yourself a little bit of money on your auto insurance.

How much coverage do I need

Like most things in the financial world how much insurance you need depends on your personal situation. Each type of coverage is designed to protect you from huge financial losses. Insurance does not prevent you from being responsible; it covers the cost of what you can be held liable for or the replacement of your owned property up to the limits of your policy.

Homeowners insurance for your dwelling (the house itself) is fairly straight forward. If you have a mortgage your insurance must be enough to cover the mortgage. The bank will require you to carry at least enough insurance to cover the total cost of the mortgage. In addition to that it's a good idea to cover your house up to the amount you have

paid for it. That way in the event of a total loss you will at least break even financially.

Personal property coverage limits whether a home-owners policy or a renters policy should have the same considerations. Replacement coverage is always better than actual cash value. With replacement cost in mind, when looking around at all your possessions you need to calculate how much it will cost to replace your personal property, not what the current value is.

When shopping for insurance keep in mind collectable, high money value items, and uncommon things that may be excluded from coverage or the limit built into the policy may not cover the full replacement cost of your items. A good example of this is jewelry. Most people have jewelry and it is covered in most personal property insurance, but only up to a certain limit set by the company that sold you the policy. If you have valuables ask what the limit is for the things applicable to you. You may need to add additional coverage depending on the value of your items.

It's a good idea to make an inventory of your personal property that includes a simple description. A more detailed description is necessary for items that have a higher value than normal. A wood dresser made of red oak will be much more expensive to replace than a common dresser purchased from a budget retailer. Keeping receipts for the items you purchase is a good way of proving the value. Scanning receipts is an even better idea, that way you can back that information up by storing the files online. Creating a video of things is another way to document and inventory your possessions. Appraisals for things that need proof of value, such as collectables or jewelry are a must. Without a stated value of something you are leaving it up to the insurance company to determine the value of something and that will never be in your favor.

The last word about personal property coverage is very important. Do not keep this inventory, video, appraisal, or whatever you have in the house you are insuring. If the worse should happen and the place burns to the ground your list will burn with it.

Auto insurance needs to be thought of in a few different ways. If you have comprehensive and collision coverage which protects your vehicle the insurance company gets to decide the value of it. The only way to dictate to the insurance company the value of your vehicle is with an appraisal. If you have aftermarket equipment installed or for some reason your vehicle is worth more than a normal vehicle of that year, make and model, then it would be worth getting an appraisal done. That's not the end of the story, you need to submit the appraisal to your insurance company before there is a claim or it may not be honored at the time of loss.

Deciding the limits of your liability coverage can be more complicated. To refresh your memory liability coverage is the money paid to someone else in the event you are at fault. Below is the information from the quick reference guide.

Liability
BI/PD 25/50/25: This covers injuries and property damage you cause up to the limits you specify.
25 = $25k bodily injury per person, per accident
50 = $50K bodily injury per accident
25 = $25K property damage

The limits listed are just examples and can and should be adjusted to meet your needs. The higher the coverage, the higher the cost paid. When deciding how much coverage to purchase, price is not the only thing to consider. If you are at fault in an accident you are personally responsible or liable for the damage you caused. If the damage or

injuries caused is higher than the limits of your policy, you will be responsible for paying the difference. In my time as an insurance agent I saw this play out time and again. This kind of thing is avoidable and higher limits should be seriously considered.

Some people want to keep their insurance premiums as low as possible. In their effort to do so they are leaving themselves open to greater financial and legal risk. Liability coverage can be as low as 15/25/10 in some states. $10,000 in property coverage is not very much when you consider the average price of a vehicle currently is over $30,000. Trying to save a few dollars per month has the potential to financially wreck you. If you are providing for a family this kind of thing carries even more weight.

When it comes to the auto insurance extra's like road side assistance, rental reimbursement, and the like this is where it truly comes down to personal preference. The extras usually don't cost much, but when you start adding them all together it can make a significant difference in price. That's not to say they are not worth the cost. Piece of mind is worth a lot to some people. Road side assistance for someone that doesn't know how to change a tire or locks their keys in their car often might be worth every penny. The extras just come down to whether or not it's worth the extra cost to you, there is no right and wrong.

Credit

Credit can be a useful tool and can also be extremely detrimental to the health of your finances. When used wisely credit can be leveraged to enhance financial buying power. If used irresponsibly, it can create financial obligations far exceeding your ability to pay back. There are no free lunches, if you borrow money you will pay it back with interest.

The kind of credit available to the retail customer falls into two categories: installment loans and revolving credit. Installment loans involve vehicles, a home, or even a personal loans. Revolving credit encompasses credit cards which are not all created equal. All of the above fall under revolving credit and impact your credit worthiness the same.

All credit has some kind of APR attached to it. The APR a company charges is a major factor in how financial companies compete for your business. They will use many different types of incentives to try and capture your business.

All credit cards are provided by financial institutions in some way. Visa and Mastercard are not banks. If you have a Visa or Mastercard you probably got it from your bank. Department store credit cards like Home Depot, Kohls, or any other retail store offering their own credit card all use a bank that is actually extending you the line of credit.

The structure of a loan is fairly straight forward. You ask for $30,000 to buy a car, if approved the bank loans you $30,000 with 3% interest. In this example you will make payments monthly for 60 months (5 years) being charged 3% interest until the loan is paid in full. If you want to pay less interest, make larger monthly payments. The faster you pay off the loan the less interest you pay. If you pay more than the monthly payment, be sure to apply the extra money to the principle of the loan.

Credit cards are different from loans. A credit card can be used to pay for almost anything and over multiple transactions. A loan is for a specific purchase, a credit card is used for retail purchases. During the credit card application process the bank views your income and credit worthiness (a combination of things to determine a score) assessing their risk to extend you credit. If the bank decides you are a low enough risk the bank will then assign a limit to how much credit they are willing to extend to you.

The terms or conditions for the use of credit cards vary greatly from company to company. Some credit card companies offer reward points or cash equivalent matching for using their card. Some companies offer benefits like travel insurance or fraud protection, to name a few. Credit card companies use benefits, lower APRs, no annual fees, and many other things to compete with each other in an effort to capture your business. I'll explain later how to use this to your benefit in detail later.

Almost all credit card billing cycles work the same. When you make a charge on your card it creates a balance that you will have to pay back. Credit card billing cycles usually have interest grace periods build into their terms and conditions. For example, you used your credit card to pay for gas in your car on the 18th of May charging $30 on your card. Your bill becomes due on the 12th of June for $30. As long as you pay the balance in full on or before your due date no interest will be charged. Since you paid the balance in full when you spent $30 you only paid $30.

Credit cards will vary in APR, benefits, and whether or not they offer reward systems. They all charge interest and have limits on how much you can spend. Your card could have a $5,000 limit with 12% APR and no annual fee. An annual fee is money companies charge their customers for having the credit card. This is common for credit cards with very good reward programs or lots of benefits.

Think about this for a moment. If your credit card doesn't have an annual fee and you pay it in full ever time you use it, you will avoid paying interest. If you never pay any interest does it matter how much interest they charge? Having a credit card that costs you nothing to use can help your credit in a few different ways. More details about this later.

How much credit should I have

Everyone has their own idea of how much credit they should have. It's possible to obtain as much revolving credit (credit cards) as your annual gross income. This might not be comfortable for some people. I'm not trying to convince anyone they should try to get that much credit. This is a personal decision. You need to have some available credit to maximize your credit score and it needs to be in play. Using a card or two each month and paying them off before the bank charges interest will have a positive impact on your credit score. If paid in full prior to interest being charged, you're paying the same amount you spent. If you spend over 25% of the cards limit, you could bring your score down. Ensure the amount you're spending stays below 25% of the credit cards limit.

If you decide you want to get as much credit as the banks are willing to give, don't try to do it all at once. A good idea is to wait three to six months between credit applications. When you apply for a new line of credit, it will result in a hard inquiry even if you're not approved. While a hard inquiry by itself will only cost you a few points, multiple hard inquiries especially back to back will signal financial risk for the banks. New inquiries can count as much as 10% of your credit score.

I will break down what impacts your credit soon. Knowing what is possible with credit is a key part of understanding how to leverage it for your financial benefit. For instant, how

much available credit you have is a metric the banks use to measure your credit worthiness, as well as how much of that credit extended to you is spent. If you have a $5,000 credit limit and carry a balance of $4,500 you have used 90% of your available credit. If you have a $45,000 credit limit and carry a balance of $4,500 you have only used 10% of your available credit. If you owned a bank which customer would you choose?

The more credit extended to you the easier it is to leverage the ratio's that determine your credit worthiness in your favor. I do not think getting as much credit as you can is a wise choice for someone who is irresponsible or lacks self control. This kind of thing could financially ruin someone for many years, but for someone that can use credit responsibly this will open more financial opportunities.

Credit is not something to be afraid of or avoided. Interest is certainly something you want to avoid paying, but in some circumstances it will be necessary to pay interest. There is also a lot of myth and bad information out there. Be careful of the source of information.

5 Factors that impact your credit

Your credit is something that follows you around for a very long time. A bad choice can impact your credit for as much as 10 years, more in some cases. It's important to protect your credit and treat it responsibly. If you take care of your credit, it will take care of you.

Your credit score is used to help financial institutions make decisions on your credit worthiness. Each financial institution uses one or more of the three credit bureaus to calculate your score. Experian, Equifax, and Transunion are the bureaus that financial institutions report your credit history to and also where they go to look at your credit history. Every financial move you make that impacts your credit is

recorded by the financial institution involved and reported to the three credit bureaus. This transaction history is how your score and credit worthiness is determined. Learning what impacts your score and to what degree can help you manipulate the ratios.

Credit scores are calculated by range. You can have perfect credit, never had a late payment, always paid more than the minimum payments, etc. You can also have beyond perfect credit. Not making any credit mistakes or bad choices will give you perfect credit history, but combining that with optimal credit use will give you a higher than perfect score. I will have tips on this later.

One factor that impacts your credit is the length of credit history. This is determined by the age of your oldest account, newest account, and the average of all your accounts. This is why it's a good idea to keep older accounts open assuming they aren't costing you anything to maintain. Let's say you have 3 open credit cards, one from 10 years ago, the second from six years ago, and the third from one year ago. Because you have an open credit card from 10 years ago your active credit history is 10 years. If you close that card you will shorten your history to six years negatively impacting the ratios that are used to calculate your credit worthiness.

The amount owed weighs heavily on a person's credit score. The total balance you owe on your accounts and your total credit limit comprise your credit report. This is a snapshot of your last statement. This is important because if you have a credit card with a $500 limit and every month you spend $450. When the bill comes due you pay it in full but all the lender sees is you're near your limit and this will hurt you. If your billing statement reflects a $450 balance that is what the bureau will see. Paying your balance before it becomes due on your monthly statement will avoid this problem. It will still be captured as an on time payment but it will reflect a zero balance.

The lower you can keep your balances in relation to your total credit limit, the higher your score and credit worthiness will be. I mentioned earlier about better than perfect credit. If you have better than perfect credit it will be pulled down by carrying a balance of more than 25% of your total limit and/or 50% of the limit on the particular credit card the balance is on. You will still have perfect credit but the beyond perfect credit score will lose some points.

Of course the closer you get to your total credit limit or single credit card limit the more it pulls your score down. Anything over 75% you will start to negatively impact your score. Meaning, if you had a perfect score it will lower your score below perfect. If you are approaching your limit in total or in part you become a higher risk. It won't cause bad credit but it may impact your ability to get more credit as well as the APR you will be offered for a new credit account.

The most crucial metric in which your credit will be scored is payment history. Good credit can be ruined very quickly with just a few bad choices. Not that it can't be repaired, but this trouble can and should be avoided. The most recent history will have the greatest impact. If you had a blemish on your payment history six years ago and perfect payment history since, it will weigh less than if you missed four payments in the last six months. The same goes for delinquent accounts. The higher the percentage of delinquent account in relation to your total credit as well as how far back in your history will all be considered in your credit score.

Types of credit included in your history will matter as well. Having loans and revolving credit in your history and/or in use will yield a higher score compared to someone who only has one of the two types of credit in their history. This has a small impact; usually around 10% of your score is measured by this.

Lastly, credit inquiries will impact your score negatively. Not in a big way but it can be a sign of higher risk if there are too many of them or multiple inquiries within a short period of time. A person should be careful not to let a company "pull" their credit history without good reason.

There are two types of inquiries, hard and soft. Hard inquiries have the biggest impact and will cause your score to drop a few point every time it is done. Due to the nature of inquiries they do not stay on your credit as long as blemishes like late or missed payments. Inquiries can be seen for up to three years and lower your score for as much as one year. Hard inquiries will not cause you to have bad credit, but should only be done when absolutely necessary. Soft inquiries are more common and do not impact your score. They will show up on your credit report for up to three years but will not cause your score to go down. The easiest way to describe the difference is a hard inquiry gives a financial institution access to your full credit history. A soft inquiry is more like a summary.

Tips and tricks

There are many things a person can do to raise their credit score as well as maintain a good score. A quick and easy way to boost your score by as much as 10 points is by opting out of receiving credit solicitations. Very simple to do, just search the web for "OptOutPreScreen.com" and opt out. This not only slows down the amount of junk mail you receive but since you have removed yourself from receiving credit solicitations you are a slightly lower risk causing your score to increase. This is only good for five years so you will have to opt out again after five years.

Every year for every credit account you have request a lower APR. Most people haven't even considered such a thing is possible. After all you signed a contract clearly

stating the terms and conditions of your contract. Trust me when I tell you this works. The credit card companies don't have to lower your interest and some won't, but a few will lower the APR. This has only been effective for me when I have called and spoke with someone. Sending an email or online request has not been effective.

Once you get through to a person simply ask for your APR to be lowered. They will initially say something like, "I'm sorry but there is nothing I can do" or "It's against policy." Your rebuttal can be "I'm in good standing with your company (assuming that is true) and I feel I deserve a lower APR. I currently have another credit card with a lower APR and if you can't match that APR I would like to cancel this account." That will usually get them to consider lowering your APR. If not, then thank them for their time and call the next company. I don't actually cancel the credit card; it's an empty threat to get them to consider lowering your APR.

An even less known trick is to add your children as authorized users to a credit card or a few credit cards that you will leave open until they establish credit on their own. I'm not suggesting giving them the card or even telling them you added them. I'm saying add them to credit accounts to build their credit. When they turn 18 and can apply for their own credit they will already have established credit history. This is a huge head start for a young adult looking to make their way in the world. Not to mention they won't need you to co-sign for anything.

When possible pay off credit card balances before they show up on your statement. As mentioned earlier but worth repeating, if you have a card with a $1,000 limit and spend $900 you can avoid that balance being reported by paying it off prior to your billing cycle. The credit bureaus will reflect an on time payment and a zero balance maximizing the positive effect on your credit.

Be responsible with your credit. If you have the thought "I can buy this now because I can afford the payment" and you pay interest on that payment that is probably not the best choice. Late payments are a big deal and missed payments are an even bigger deal. This can cause your APR to default to a much higher percentage. Not to mention the negative impact on your score. The financial institution can freeze the account until paid in full limiting your buying power. If you made an honest mistake and forgot or for one reason or another your payment was late or missed, call the company right away and ask them not to report it as such. As long as you don't have a history of being late most of the time the company will help you out. This is very much worth a somewhat embarrassing phone call. The alternative is a blemish on your credit history for the next 10 years.

Last but not least, check your credit often. If all you are doing is making sure things are accurate and you don't have any serious concern, using free ways to check your report yearly is usually enough. If you are actively building or repairing your credit then paying for a service to check more frequently might be worth it. The real point is to be informed and understand your credit. Don't wait until you are trying to make a purchase to find out something is wrong. Be proactive and maintain your good credit.

When banks compete you win

The banking industry is so competitive they will pay you with rewards programs for using their cards. To find a rewards program that fits your lifestyle all you have to do is change some spending habits to maximize the rewards. If you always pay off the balances each month you never pay interest. Now you're in a situation where you get more out of the bank than you give.

The practical application of this strategy is simple. Find a rewards program that best fits your lifestyle. Then shift

your spending habits to this card paying the total balance each month. I'm not suggesting spending extra; simply pay for things with this card you already spend money on. Set up regular expenses like utility bills or subscriptions, anything and everything. The more the card is used the more reward points you obtain. Again, I'm not advocating you spend extra but capitalizing on the rewards is an easy way to get the banks to pay you.

Maybe you're wondering why banks are willing to give so much away. The truth of the matter is for every customer maximizing the reward payout without paying interest, there are so many more people paying interest every month. The majority of consumers carry balances each month paying interest.

Another strategy to use banks competition to your advantage is introductory rates. Most credit card offers have zero percent introductory APR that will last 6-12 months, sometimes more. They usually offer this introductory rate for balance transfers as well.

An effective way to avoid paying interest and increasing your available credit is to open a new card that offers a 0% introductory APR. Then transfer the balance from a card you are paying interest on to the new card and pay it off before the interest starts to accumulate. This is effective but not totally free. Balance transfers will usually cost you a flat amount or a percentage (typically 2-3%) of the amount being transferred. So, do the simple math comparing your APR savings vs. fees to ensure this is the right move for you.

Here is what this looks like. You currently have a credit card from XYZ bank with a $1,000 limit and a balance of $550. You're currently using 55% of your available credit. You apply for new credit card with 321 bank. 321 bank gives you a credit limit of $5,000 with an introductory rate of 0% for 12 months. Transfer your $550 balance from XYZ

bank to the 321 bank. This drops your balance to zero for XYZ and you are now only at 11% of your credit limit with 321 bank instead of 55% of your credit limit with XYZ. Just shifting the balances and changing your available credit ratios will increase your score. It also allows you to stop paying interest. Pay that balance off within 12 months and you will avoid paying interest in this scenario.

Debt reduction

If you're like most people, you have balances on your credit cards, auto loans, and maybe a mortgage. You're not a terrible person for having debt. Too many people judge themselves in harmful ways because they are in debt. Debt is not the problem, bad habits and poor choices are the problem. It's possible to raise your credit score a 100 points or more in less than one year.

Growing up, I had a good understanding of credit. When I was a teenager one of my first jobs was selling platinum credit cards over the phone. Yes, I was that dreaded telemarketer selling credit cards and I was too young to even apply for one. I was taught as a teenager how the world of personal credit works which allowed me to become great at selling credit cards.

Once I was old enough to apply for credit, I quickly matched my yearly income with available credit and as an irresponsible teenager I spent every last bit of it. I didn't think much of it because I could afford the monthly payments. Being an irresponsible young adult, I was fired from my well-paying job and suddenly, the manageable payments became a mountain of debt. I soon learned how quickly late payments turn into over limit fees which then triggered a change in my APR from the 12% I signed up for to 27% because I was late on a payment. Within months my balances skyrocketed, and I was dodging embarrassing

phone calls. If any of this sounds familiar stay tuned. I will explain how to get out of this mess.

To help explain solutions to debt reduction, things to watch out for, and ways to raise you credit score I will use a hypothetical person and situation. Max is our fictitious character and he has three credit cards. His credit card debt is listed out below and we will use this information across all the examples to come.

Credit Card 1:
Card limit $10,000, balance $8,200, minimum monthly payment $164, with an 18% APR.
Credit Card 2:
Card limit $6,000, balance $5,700, minimum monthly payment $114, with a 14% APR.
Credit Card 3:
Card limit $1,200, balance $550, minimum monthly payment $11, with a 27% APR.
Total credit extended to Max is $17,200. Max's combined balances are $14,450 which means he has used 84% of his available credit.

This debt reduction strategy isn't a very good one and should be regarded as a scam. In this situation Max is approaching his credit card limits and starting to receive debt consolidation advertisements. These companies are not doing anything illegal but whether or not they are ethical is up to interpretation. They promise to get people out of debt for pennies on the dollar or stop bankruptcies. Their claim can be true, they can do that, but it could destroy your credit for a very long time.

Max lost his job and took a job that only pays half of what he's used to. He has to eat and pay his rent so he stops paying his credit cards. A few months go by and Max is getting desperate. He's being harassed by creditors and they are threatening court and wage garnishments. He

hears about a company call Bad Solutions or BS for short. BS promises to get him out from under his debt for less money than he owes. Not seeing any other option, he signs a five year contract with BS which promises to make him debt free for only $200 per month over the next five years. They even empowered Max with a script that explains what he should say to the creditors when they call. He's told to direct all harassing phone calls to BS and they will take care of the creditors for him.

Max is told not to make any credit card payments, only pay BS $200. BS will pay his creditors on his behalf. Max doesn't realize BS is collecting his monthly payment but is not paying down his debt with it. BS is using very aggressive negotiation tactics that make your already downwardly trending credit score even worse. BS is withholding payments to your creditors until they have enough of your money built up to negotiate lump sum settlements with your creditors. They might be very successful at settling your debts for pennies on the dollar, but that doesn't help you. Consider the math. If Max is paying BS $200 for 5 years it will equal $12,000. That's less than Max owed his creditors. Given the credit wrecking tactics BS uses, they settled all three credit card accounts for $7,300. Max paid $12,000 to BS and they paid $7,300 to settle his accounts profiting $4,700. They also left Max with terrible credit. BS's goal is to settle your debt for the least amount possible. They profit on the difference between what they pay your creditors and what you have paid them to settle your accounts. They don't care what it does to your credit in the process.

Max could have used the same tactics as BS to settle the debt with his creditors and saved himself $4,700. Please understand if you use those tactics it will destroy your credit for at least 7 years. Think long and hard about the possible long-term repercussions of a strategy like this. It may be a valid option depending on your personal situation.

This is what I call the nuclear option. Only to be used when you have no other financial means to get yourself out it debt. I call it the nuclear option because it will leave your credit in a very bad way. Sometimes under certain circumstances your credit score is not the most important thing. When faced with difficult financial situations, this is an option. You don't need to pay a company to negotiate with your credit card company. You have the same authority as they do.

Anyone can negotiate a settlement. It doesn't have to be a lawyer or accountant. The truth is when a credit card company is faced with getting some of what is owed or nothing they will usually chose to get something. Credit card companies will lower your interest rate, remove all the interest accumulated and allow you to make payments on just the principle. When negotiating for a settlement having a large lump sum payment will give you the most leverage. Credit card companies don't have to negotiate with you, but they usually will especially if you are bringing at least half of what you owe them to the negotiation.

Have you ever made a snowman? You start with a snowball and roll it in the snow making it grow. The bigger it grows the faster it grows. This next debt reduction strategy is commonly referred to as the debt snowball. You may have heard of this before. There are two snowball methods, each will work. Which one is best for you will depend on your personal situation. One method prioritizes your balances and the other your interest.

Remember Max? Max wants to pay down his debt with the balance method. Think back a few pages and you'll remember Max has three credit cards each with a different limit, balance and APR. Max budgeted $400 per month to pay towards his credit card balances. His total minimum payment equals $289. With the balance method Max pays the card with the least amount owed first. Max lines up

his debt from lowest to highest balance. Max makes the minimum payment on all of his credit cards on time, but the extra money budgeted will go to paying down card 3 first since that has the lowest balance. So that would mean Max is paying $164 to card 1, $114 to card 2 and $122 to card 3.

The snowball occurs because once card 3 is paid off Max will continue to pay $400 towards his credit card debt. Now he will pay $164 to card 1 and $236 towards card 2. You see, with the snowball method Max takes the money he was paying to card 3 and applies it to the next card payment once the first card is paid off. This increasing the speed in which the cards will be paid off as well as the amount from one card to the next. Max simply shifts the payment from one card to another as they get paid off.

Fast forward and Max has paid off card 2, now all $400 he has budgeted goes to toward off card 1. The method is simple, efficient, and effective. The more money you can budget towards your debt the faster it will reduce. The faster it's reduced the less in interest you will pay. The less interest you pay the smaller the total amount of money you pay to get out of debt.

The interest method works in the same way as the balance method except instead of paying your debt in the order of lowest to highest balance you put it in order of highest to lowest interest. In this situation Max would pay his three credit cards off starting with the card that has the highest APR, followed by the card with the next highest interest rate.

Both of these methods are great ways to get out of debt fast. Do some math with your debt and figure out which would be best for you. To work out the numbers run the math for each method and see which gets you out of debt faster with the least total amount paid. Whichever is faster and cheaper is the right choice for you.

Fix Bad Credit

Fixing bad credit is not difficult when you know how credit works. You have a good understanding of credit at this point so Max will be back to help explain how to use that knowledge to raise your credit score. You don't have to wait until you are debt free to deploy these tactics. In fact, I would encourage you to take action as soon as it's worthwhile to do so. The information in this section will not only help anyone fix bad credit but can also be used to improve fair or good credit as well as provide some useful things you can be doing to maintain your credit over your life time.

The first thing you will need to do is see exactly what is going on with your credit. Step one is to obtain your credit report. There are free ways to do this yearly from each of the credit bureau's Experian, Equifax and Transunion. Paying for a service to pull credit reports may be worth the money if you are actively working with creditors to correct mistakes or updating your report. If you are maintaining your credit it's still a good idea to check it once a year for free.

Credit reports can be confusing the first time you look at them. Take your time and read each one from each credit bureau and look for any incorrect information. Your name should be spelled correctly, previous addresses, and of course errors in the reporting of payments. You should check to make sure that each item is being reported correctly. This goes beyond just your payment history. Make sure the time frames for how long an account has been open is correct, credit limit for each item, etc. Take note of anything that is not correct. Hopefully everything is correct but if not the next step will be to dispute the discrepancy. If a problem is found on Experian you will have to dispute that with Experian.

Filing disputes is fairly easy using the credit bureau's website. They each have ways to dispute errors and they all have to follow federal reporting laws. The same rules

and regulations for one credit bureau will be the same for another. The credit bureaus have timelines they have to maintain or the dispute will be settled in your favor. The timelines change so be sure to read the procedures on the credit bureaus website.

The dispute procedures will follow a logical path. Let's say Max files a dispute because he noticed 3 years ago on credit card 1 the payment he made in August is reported as being 15 days late. The late payment only appears on the Equifax report and not on the other two. Max knows this can't be true so he files a dispute with Equifax challenging this late payment. Equifax has a defined number of days to notify credit card 1 about the dispute. Credit card 1 has a defined number of days to respond. If credit card 1 doesn't respond in the allotted time then your challenge will be resolved in your favor removing the record of the late payment.

Successfully removing incorrect information is as simple as reading the procedures to learn the timelines, filing the dispute, and following up to ensure timely resolution. Hopefully you don't find anything to dispute, but if you do don't hesitate to take action.

It's possible to get blemishes removed from your credit report even if they are accurate. Let's bring Max back again, but with a different situation. Same debt as mentioned earlier but this time he just paid off credit card 3. In the past, he made two late payments that are showing on his credit report. These are legitimate blemishes; Max was in fact late to pay twice in the last year. You might think there is nothing he can do because it's valid. Not necessarily, now that he paid the debt in full and his account is in good standing, he can call the company and simply ask them to remove the blemishes from his credit.

For this to work Max has to know which months and year the late payments occurred and when he calls his credit card company he has to speak with the credit resolution department or the equivalent. This is not something a customer service representative can help with. Each company may call it something different but whoever is responsible for resolving credit bureau disputes is who you want to talk too. It might take a few minutes on hold and you may get transferred a few times, but it will be worth the trouble.

Once Max gets to the person that can help him, he puts his acting hat on and gives an Oscar winning performance. Max is trying to get the person emotionally invested in his problem. They don't have to help him because the blemishes are valid. Max is asking a stranger for a favor. I'm not suggesting you lie to the person whom you are speaking to. Letting the person you are speaking with know that you understand they don't have to help you, but you would be very grateful if they did. Adding a reason or two why it's so important to you will help convince them. Saying something like, "I know what I'm going to ask you will cause you more work and I understand you are probably very busy. I was hoping I could plea to your kindness. I'm getting ready to buy my first home (or whatever your reason is for why it's important). I have paid my account in full and I'm in good standing with your company. In the past I was late twice once back in (whatever month and year) and again on (whatever month and year). Removing those blemishes would be a huge help to me with the purchase of my first home (or whatever). I know you don't have to help me, but it would mean the world to me if you could help me with this."

A word of warning, DO NOT offer anything in return. That is bribery and they will not help you because it puts them at risk. They can be kind and help you, but they cannot accept gifts. If they agree to help you which in my experience they almost always do, get their name and direct phone # so you can follow up with them if need be. Also, a quick thank you

phone call after you see the blemishes removed will make their day and is just a nice thing to do. After all, they helped you so take a few minutes to appreciate that.

You've paid down your debt, got blemishes removed, and now it's time to supercharge Max's credit score. This involves the use of one, maybe two credit cards in a responsible way. To improve your score rapidly you have to use your credit consistently. This is easier than you might think. We all have bills to pay; electricity, cell phone, gas, water, etc. Set up your credit cards to auto-pay your normal monthly bills. Then simply pay off the cards every month.

As discussed earlier you won't pay interest if you pay the entire balance each month. You are not spending extra money for the sake of building your credit; you shift your spending to take advantage of the credit card reporting to help boost your score. Doing this with two credit cards will raise your score faster than with the use of one credit card. That doesn't mean the more cards you use the better. Using one card each month and paying the balance in full is good. Using two cards each month and paying the balance in full is better. Adding additional cards to this won't help increase your score enough to be worth the trouble.

Another word of caution, DO NOT use more than 25% of the available credit limit of the card you're using for this strategy. Max is now debt free, so he has an available limit on credit card 1 of $10,000. If Max set's up auto-pay for all his monthly bills on this card and those bills equal less than 25% of his available limit ($2,500) his score will raise faster than if he stopped using credit. If he carries a balance over 25% he will slow his progress and if the balance gets too high, he will hurt his credit again. Max can still have good credit and carry balances higher than 25% but to maximize his score the balances need to stay below 25%. Max wants to boost his score as fast as possible so he also uses credit card 2 for normal expenses like gas and groceries. Additionally he pays this card off in full each month.

Budget

A budget is like a master plan, not just a way to track money in and money out. Like all good master plans, there are layers of information. A budget is much more than writing recording your expenses, bills and savings. Sure, that is part of it, but I want you to think of your budget as a representation of your financial philosophy. A good budget plan converts your financial philosophy into practical, actionable steps.

Financial philosophy is the way you think about money; the driving forces behind your financial actions. Are you thrifty? Is saving money important to you? Are you impulsive or have a hard time controlling your spending? Do you have aspirations of being financially wealthy, or are you trying to have enough to live a modest yet comfortable life?

A budget that is practical is one that is easy to implement and stick to. A budget that is difficult to execute or takes a lot of time and energy to keep up with probably won't be a budget you will follow long term. Some people enjoy complicated calculations and tons of data to compare to make precise decisions. For most, simple and effective is the best way. Practical means different things to different people, but it comes down to having a systematic way to track your spending and plan for your future. Having a way to see how the money coming into your bank account and is leaving your bank account.

What makes a budget effective? The ability to use your financial information in an actionable way. If your budget is too complicated, it won't be effective. If it's so simple, it doesn't help you plan for future events or warn you of over spending it will fail to keep you on track.

Creating a budget that converts to action or behavior is very important. If your budget and your actions are not in line, the budget is useless. Your budget not only gives you a way to plan and track your finances, it also provides you with ways to use your hard earned money. For example, how you allocate the money coming in, how you manage your money bags (more on money bags later), how you pay your bills are all action points. We should spell these action points out in your budget. Things like when you will pay your bills, are you going to wait for them to come due, or will you pay them when you get paid. What, if anything, will be set up on auto-pay. Will you use credit cards to pay for some bills collecting on the rewards points or will the payments come out of your checking account? Maybe a combination of the two is the best fit for your finances.

A well-constructed budget will allow you to maximize every penny without being overly complicated to keep up with. Once the framework is in place, your budget becomes a filtering mechanism. Money comes into your budget and the framework you establish funnels it to the appropriate money bag, bill, or expense.

Budget philosophy

Spending money is a behavior and will trigger emotions, good and bad. To gain control of the behavior, you first have to have rules by which you operate. A budget is a tool that, if constructed well, can make spending automatic and enjoyable. Knowing your hard earned money is being used to its fullest potential provides peace of mind. A solid budget provides a foundation from which you can plan your financial future.

As you progress through life, your budget plan can and should change to meet your ever-changing needs. A good budget will have categories that are easy to add and remove. It will touch every financial aspect of your life and in some

ways be the driving force behind some areas.

How many people do you know that spend every dime they make? An easy and extremely effect way to insure you always have positive cash flow is by living below your means. In general, over time, your income will increase. When you reach a financial comfort zone, stay there while your income increases. The idea is as your income increases, your cost of living stays the same. That way, as your income increases, so does your positive cash flow. The more positive cash flow, the more you can put into your money bags.

What’s a money bag? I’m glad you asked. There are many ways to accumulate wealth. I’m an advocate of keeping money in the category in which you placed it. For example, if you buy a home for $200,000 and five years later you sell that home for $210,000, keep the profit from the sale in real estate. I refer to this as the real estate money bag. By keeping money in the receptive bags and adding to the bags over time is a simple and very effective way to grow wealth while diversifying. Money that is invested in a retirement account like a 401(k) will be kept in the 401(k) bag. Adjusting how much income goes to each bag is a personal decision. There is no limit to the types of bags and they don’t all have to grow. A vacation money bag will not grow on its own and will be emptied when you take a vacation.

The concept of money bags is to provide a visual tool to help categorize where your income will be spent. A budget will channel the flow of your income into your money bags. How many and what kind of money bags you have are entirely up to you. Everyone has different desires, needs, and lifestyle they want to achieve or maintain. Your money bags will be what feeds those needs.

Budget structure

In 1926, George Clason wrote "The Richest Man in Babylon" which is not only a fantastic book, but through story it teaches the principles of the 70/20/10 budget plan. His budget principles hold true even today in our global economy. It lays out limits for types of things you should budget for. These numbers are based on your income. Living expenses should be 70% or less, debt 20% or less, and last but not least investments 10%.

Expenses are things you need to support your lifestyle like your mortgage or rent, utility bills, car loan, etc. Mortgages and auto loans are debt, but in this plan, they are considered living expenses. Credit cards or personal loans are in the debt category that should be kept to 20% or less. Investments should be at least 10% of your income. In fact, paying yourself first is a key component to healthy finances.

What do you do with the 20% for debt if you don't have debt? It can be used for savings of any kind. Feed your money bags, maybe you like to vacation often; maybe you have a hobby that has expenses associated with it. It could be seed money for a business you want to start. A fantastic use of this portion of your income is education. Investing in yourself will pay the largest dividends of all. This is not just limited to traditional school, education comes in many forms. Books, programs, special interest groups, just to name a few nontraditional education sources. It can be added to the amount you invest, or any combination mentioned. It can also be your source of disposable income. This can be the money that pays for entertainment, dining out and fun events.

When it comes to investing the 10% or more, remember there are a vast number of things that can investments. Anything that provided a return on your money is an investment. As mentioned before and worth restating, pay

yourself first. At least 10% of your income should come right off the top and not even considered for anything else. Start early and stay consistent. You will be glad you did.

Creating a budget

A budget should be more than just a record of how much money you spend on bills and coffee. A good budget will be a snapshot of your financial world that tracks your spending while ensuring your income is going into the right money bag all within the framework of the 70/20/10 structure.

This may seem like a lot, but once it's built, keeping it up-to-date is simple and takes about 15 minutes two or three times per month. I suggest updating your budget in line with your pay cycles. Money enters your bank accounts and you spend a few minutes dispersing it to the appropriate money bag and checking on the automation you have in place.

Max has a monthly income of $4,000 paid to him across two paychecks on the 1st and the 15th. Max does not have overly complicated finances, but he does take advantage of easy wins like rewards points on two of his five credit cards. He owns his home, which he pays a mortgage for and has an auto loan for one of his two vehicles. Max is married with one young child and a little dog with a big attitude, appropriately named Zeus. Max is the sole income earner in the family and is steadily climbing the corporate ladder in a growing industry. Life is good for Max and he is content with his position in life. He has future aspirations to own rental properties and contributes 5% of his income to his 401(k) which is the maximum his company will match.

Max always keeps $1,000 in his checking and two months' pay in savings. Keeping those minimum amounts helps Max sleep at night, it provides peace of mind. He also

takes advantage of the rewards point on credit card #1 by setting up his monthly bills on automatic bill pay with this card. He then pays card #1 in its entirety each month, never paying interest while collecting the rewards points. Annual bills are categorized together, which Max sets aside his yearly tax refund to pay for those expenses. If Max's tax refund happens to not be enough one year to cover his annual bills, he saves a portion of his income each month until he has enough to cover the annual bill. This strategy helps him keep his monthly expenses down, freeing up more cash on a monthly basis.

As you can see in the illustration below, Max tracks his bank accounts in the left column, his monthly bills in the middle column, and the right column is the list of annual bills. Below the top section, he lists all of his credit accounts with the general information about each one. The right column is where he records any payments made for each account.

Below the credit accounts, Max keeps a record of what he is putting money towards each pay period. This money feeds the accounts (money bags) listed in the top section, so these numbers move in sync with each other. If there is an unexpected expense like a vehicle repair or doctor's visit, that would get recorded in this section as well. Unexpected expenses are paid with credit card #2, so Max can take advantage of the rewards point on that card like he does on card #1. Max will then use his savings to pay the card in full to avoid interest and then adjust the contributions to rental savings to compensate until he is back to his standard of two months' pay. That may seem overly complicated, but it's quite easy to shuffle money from one account to another to maximize reward points. This is just an example of how to move money around in your budget to cover unplanned expenses. There are many ways to do the same thing. The lesson is to use your credit card to pay for the unexpected expense, then decide based on your current financial priorities which account the money should come from to pay off the credit card.

Max uses credit card #2 for all his monthly expenses like groceries, gas in his vehicles, etc, to collect on the reward points for that card. Unlike card #1, he pays this in full each pay period, not each month. He does not wait until the bill comes due. By putting all the normal daily living expenses on card #2, he can easily see where his money is being spent. By paying it off every pay period, he avoids interest while making sure he is staying within his allotted amount he and his wife have decided to budget. They have determined their normal daily living expenses are roughly $250 per pay period and another $200 is allotted for entertainment, things like dining out or random incidentals and impulse buys. All of this goes on card #2, which helps him track their spending, collect reward points and, since he is keeping two credit cards in play every month, he's maximizing the benefit to his credit score.

The example you see below is easiest to create in excel and can be manipulated any way that best fits your needs. At the end of each month, copy the template to make your next month's budget. Reset the columns that need refreshing like the "Paid" columns would be cleared, "Misc. Expense," etc. Using colors can be helpful as well. For example, as your annual bills become due and are paid, highlighting that bill to mark it as paid can be an easy way to know at a glance you have paid it.

Monthly Budget Example

Check Balance	$1,000	Monthly Bills	Monthly Cost	Annual Bills	Annual Cost
Savings Balance	$8,000	Electricity	$160	Amazon Prime	$120
Annual Bills	$1,440	Water	$65	Car Insurance	$1,100
Rental Savings	$17,500	Phone	$115	Membership 1	$60
Vacation Savings	$5,000	Internet	$95	Membership 2	$160
401(k)	$42,320				
Available Credit	APR	Account Name	Due Date	Minimum Due	Paid
$15,000	12.99%	Credit Card 1	26th	$0.00	
$8,000	14.99%	Credit Card 2	5th	$0.00	
$3,000	21.99%	Credit Card 3	12th	$0.00	
$2,000	17.99%	Credit Card 4	23rd	$0.00	
$20,000	16.99%	Credit Card 5	16th	$0.00	
	3.25%	Mortgage	1st	$975	
	1.9%	Auto Loan	18th	$350	
Investment	Contribu-tion	1st Pay Period	2nd Pay Period	Paid	Paid
401(k)	$200	$100	$100		
Rental Savings	$400	$200	$200		
Vacation Savings	$200	$100	$100		
Misc. Expense					

As you can see, this monthly budget template can be expanded or reduced to fit your needs. It provides a simple, efficient way to manage your income flow to the appropriate money bag and expenses. With a template like this, you can see in one place that your income is being managed using the 70/20/10 rule while providing a snapshot of your financial world.

Creating a budget is not difficult and the time it takes to build it will be well spent. Once built, it's a tool you can use over and over again and adjust as your financial needs change.

Another budget tip is to use extra pay wisely. Don't just go buy something, but think how the addition money can be used to better your financial world. Using your tax refund to pay for your yearly expenses is a good example. Your yearly bills will then be removed from your income budget, freeing up more monthly income. Paying down debt, using it to pay for Christmas and birthday gifts is a good way to use extra income. Look for ways to pay for things that will need to be paid for anyway; by doing so, you free up more of your monthly income.

At first, it may feel like you are making your budget fit your bills. Eventually, you want to be in a financial position to make your bills fit your budget. Money management is important. If you don't control your money, it will control you. Some people learn this the hard way and some people never learn, so they struggle paycheck to paycheck.

Exponential Growth

If you were offered a choice between $1,000,000 today and a penny that doubles every day for 30 days, which would you choose? The penny that doubles every day is an example of exponential growth. At first, it doesn't amount too much, but over time, the doubling penny runs away with itself equaling $5,368,709.12.

This doesn't just apply to money, it applies to learning. Knowledge stacks, skills stack and when you use your acquired knowledge to build your skills, the resulting trajectory will eventually hit critical mass. When that happens, you can't help but be successful in whatever endeavor you have applied yourself to.

When the principles of exponential growth are used to improve one's self, it can be life changing. It will take effort and perseverance to cause the trajectory of success to run away with itself. It will be slow and hard at first and may be that way for a long time, maybe years or decades. How fast will be determined by your effort and disciplined practice. Successful people (whatever your definition of success is) don't get that way by accident.

There is no secret to success. No magic, just focus and effort. The human animal is nearly limitless, and we all have the potential for greatness. Turning knowledge into action, learning from your experiences, and persevering over time is all it takes. It's a simple path that is difficult to walk, but if you chose to walk it, you can reach your potential. No matter what you chose, enjoy the journey. My sincere hope is this information helped you along your journey.

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