Nine Financial Principles <u>EVERYONE</u> Should Follow

A Concise Guide by Dr. Thrift

1. Think differently.

We all know how to be average. Average is doing the same thing over and over. Average is being stuck in our comfort zone. Average is doing nothing to excel. Average is not standing out. Average financially is living paycheck to paycheck, having little in retirement, having less than $1000 in savings, living with large amounts of debt, and constantly being stressed. To be different, you have to act different. To act differently begins with putting new ideas into your mind. To put new things in your mind requires you to think differently. Learn how the wealthy behave through reading, asking questions, finding a mentor, and watching how they behave. Doing this will put a new perspective into your mind, which will force you to think, and therefore behave differently.

2. Have a plan for everything.

A proactive life is a less stressful life. Imagine something unexpected happens and you don't panic. You prepared for that moment ahead of time. I relate this principle to a toolbox. Without the right tools, it is hard to get anything accomplished. When something breaks and we don't have the tools to fix it, life becomes more difficult. Having tools isn't enough. We need to make sure we have the **right** tools. There is nothing worse than trying to fix something with the completely wrong tool. Financially, you need your toolbox to contain a cash flow plan, a record of spending, an emergency fund, a debt elimination plan, appropriate insurance, maintenance funds, and a will. Begin working today to accumulate the **financial tools** necessary to address any problem in a **proactive** way.

3. Protect yourself from your own worst financial enemy…yourself!

Everyone naturally has an unlimited amount of wants. We know we will never be able to satisfy all of them, but that doesn't keep us from trying. It is much easier for us to live for the moment and forget about the future. This mentality keeps most of us from ever accomplishing anything great. We have to recognize that the person in the mirror can be our enemy. We do more harm to ourselves than anyone else. We have all had moments when we made a financial decision we knew wasn't right. If you want to improve financially, you must address the real enemy. Begin by preparing a **written cash flow** plan, using **envelopes** to control spending, **paying yourself** first through automating your savings, finding an **accountability partner**, and having an **emergency fund**.

4. Avoid debt.

Debt robs us of our future. We commit tomorrow's income to pay borrowed money spent yesterday. Having no debt payments allows us to **build wealth**. Saving up to pay for things is a much better way to manage your finances. By **saving consistently**, your **assets** will one day buy things for you. Work to get yourself out of debt using a **debt elimination plan**. Starting with the smallest balance, continue creating a list of all non-mortgage debts, with the largest being at the bottom. Pay the minimums on all debts and use all extra money to pay off the debt at the top. Once that is paid off, then roll all the extra money to pay off the next smallest debt. Eventually you will have **no debt**. Then **save the money** for your next car, larger emergencies, to build wealth and to fund college for your kids.

5. Build your asset column.

Assets = Liabilities + Net Worth

This equation is used to calculate one's level of wealth. Think of assets as things you own that **MAKE YOU MONEY**. Ignore the standard definition which is things you own that have value. This helps you avoid purchasing only non-income producing assets. Buying things that make you money will help you position yourself to one day live without having to work. Many people accumulate assets by using liabilities. A liability is debt. This risky approach assumes the asset will pay the liability. Since you should avoid debt, the only true way to build wealth is to **accumulate assets without borrowing**. Continuously **buy assets** using your own income. Let your assets buy **more** assets. As your assets increase, so does your **net worth**. Thus, build your asset column.

6. Pay yourself first.

You work hard for your money. When you get to the end of your career, will you have anything to show for it? George Clason coined the phrase "pay yourself first" in his 1926 book <u>The Richest Man in Babylon</u>. Since then, thousands of financial professionals have preached the merits of saving first. The best way to start is to have your employer withhold a minimum of **15% of your income** to fund an employer-sponsored retirement account such as a 401k or 403b. You can also have them **direct deposit** money into your emergency fund, savings account, IRA, or brokerage account. Additionally, you can fund these accounts by setting up regular **auto drafts** from your checking account on specified dates. Each of these techniques assures you **automatically save money**. That's how you **protect** yourself from you.

7. Let banks work for you.

We freely give money to banks in the form of interest and fees, including overdraft, service, ATM, over the limit, and late fees. If we **plan appropriately**, save for emergencies, **track** our spending, and **avoid** non-mortgage debt, we can limit how much we pay to banks. Keep your savings and emergency fund in free accounts. Try opening free checking accounts with multiple banks, so you can quickly switch if one imposes new fees. It also allows you to take a hands off approach to paying some bills. For example, if your mortgage is with a bank, open a free account there and have money deposited directly into that account every paycheck. Then schedule automatic payments on the due date. You will have **automated** the entire process and shown yourself how to use banks for your benefit.

8. Before following someone's financial advice, ask yourself if they benefit if you follow their advice.

It is often necessary to pay for **professional** advice. Paying for advice up front is different than someone giving you advice that benefits them monetarily if you follow that advice. When offered suggestions, ask yourself if they will **benefit financially**. If so, take time to thoroughly analyze their recommendation. Instead of giving you the right advice, you might find they gave the advice for the financial reward. You might also conclude the advice benefits both of you. To find out, ask a **mentor**, look for **new information**, or seek out **other opinions**. If possible, **pay someone else** who won't benefit from the advice they give. In the end, if you are still unsure, **ignore** the advice. You might miss a great opportunity but there is a better chance you will have shielded yourself from bad advice.

9. Don’t hoard, don’t be greedy. Spend and give!

You don’t have to be a miser to win financially. People who hold on to their money tightly are generally miserable. On the other hand, people who spend everything they make are also miserable. Both extremes lead to stress and fear. One fears losing everything and the other fears not being able to pay bills. We must have a **mix of spending and saving**. Both complement each other and lead to a fulfilled life. You must enjoy the fruits of your labor now and in the future. Additionally, you must also give to **help others.** Giving also allows us to focus our attention on others. People who give tend to be less selfish. A less selfish person cares about the needs of those around them. Giving allows us to **serve others**. If you want to be **truly blessed,** you must **give, save, and spend**.

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