Part II

Getting Ready to Get Ready…

Chapter II

G.O.O.D.
Get Out Of Debt

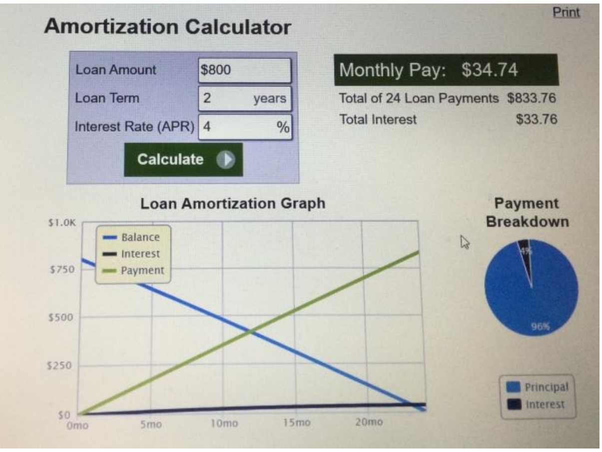
Before any serious commitment can be made to any business venture there are certain conditions that must be met. The first and foremost in importance is a passion for the business one begins… He must be totally committed to the idea of running his own shop… Whatever shop that may be.

The second is to be free of debt. Debt is the great eliminator in businesses. In America, 80% of all new businesses fail in the first two years. Most of these do so for one of two reasons… Foremost is under-capitalization… The business simply runs out of money.

Generally speaking, It is not that the business is not generating sufficient revenue to resupply itself and to pay its bills… The problem is, the owners are trying to live on it before it has matured sufficiently to support that heavy of a load. It is the rarest of small businesses that can do this within the first two years of life. In order to let our business succeed, therefore, we must support ourselves for these first two years outside of the business.

While this sounds daunting, it need not be if the operator and his family are willing to live as frugally as possible. Regardless of what television would have us believe, we do not need the very latest model car… Nor does each member of the family need their own car. When I was young and growing up, there were seven of us of us in our family… And in those post World War II days, no one had two cars. I was in my last year‘s of high school before our family had two cars… And neither of those were anything like new… It was seldom we owned a car that was made in the same decade in which we were driving it.

In these times, a new Chevrolet cost between $1500 and $2500, depending on model and options. In 1960 the Ford dealership in our small town had a car on the lot that I was totally in love with. It was a 1956 Ford Crown Victoria convertible with the continental kit for its spare tire. They were asking $800 for this magnificent piece of iron and I wanted it in the worst way possible. If my parents would've cosigned with me on it, my payments would have been $35 per month for 24 months… Of course, they would not do so… "No one pays $800 for a car! It just isn't done!"



They had some logical arguments to… Though I don't remember what those were… something out about insurance and gas and oil and tires and that sort of thing. Their edict? "Save up your money and buy what you can afford." Who ever heard of anything so absurd? The TV said "see the USA in your Chevrolet…"

Since this all occurred in an era when parents were allowed to say really mean things to their kids like "NO", and worse yet to mean them, I was doomed to remain carless for almost another year until I had amassed about $150 and found a 1952 Studebaker Commander which could be had for that price. Then I learned about insurance and how fast gas had to be replenished and on and on and on. My job paid me about $35 per week and it took most of that to keep me on the road… Oh yeah… And to support a girlfriend who insisted on going out every weekend!

The funny thing is, although I have bought more new cars than I care to admit over the ensuing years and have owned and driven both a Cadillac and a Continental Mark VI, no car I ever owned has been more economical to drive, free of mechanical problems nor more comfortable to drive than was that little Studebaker.

After I was forced by my heart to retire from working in 2007, I found myself in need of replacing my car. As much as I loved my bronco and as perfect as it was for me, it was simply too expensive to operate. Gas mileage was, at best, 12 miles per gallon at a time when gas sold for more than four dollars per gallon and with the 47 gallon gas tank, it brought tears to my eyes when it was time to fill it. By this time I was living only on Social Security and that did not allow for such extravagance, so, I again saved my shekels until I found a 1998 Buick LeSabre and purchased it for $2200… And drove it for more than ten years while doing no more than changing the oil… I change the spark plugs once… And put new brakes on once. Again that was a very comfortable ride. I gave up nothing but large payments and high insurance rates by so doing. As for insurance… Since it was not financed, there was no need for collision or theft insurance that, at the most, would've paid me $2200 while over the ten years I would've paid them over $4000 in premiums… I could carry liability and property damage for $135 per year and be totally protected.

But this was supposed to be a treatise on how to get out of debt wasn't it? This much I will say to begin… debt is pervasive… It is pernicious and it is the number one cause of marital strife today.

Back in the early 1980s, I was the clerk for the bishop in my church… He held office hours on Tuesday, Wednesday and Thursday evenings and, although it was not required of my position, I would come in and act as the coordinator and receptionist. One night after the last couple of left, we were sitting in my office just chatting and winding down. At that point he made a statement I have never forgotten over these more than forty years since…

He began… "You know, Thom, in the next year I will see one couple… Maybe two… Who have sexual problems bad enough to break up their marriage. I will see one other or maybe two who will have spiritual problems severe enough to cause the failure of their marriage, but I will see at every appointment time I have on these nights plus Sunday and other times I just get an impromptu call with debt problems bad enough to break up their marriage!"

Can we even imagine that? For some reason, when the bills are paid and there's a few bucks in the bank, it's pretty easy to get along and even overlook one another's small foibles, but let the bills back up and the rent be overdue and all of a sudden the fact that he squeezes the toothpaste tube in the middle becomes a really big deal.

In the 1980s, I, in my capacity in my church did a lot of credit counseling with members. It is unbelievable how deeply in debt people were on plastic alone. I saw people who are more than $80,000 in debt on credit cards alone. These were good people… They paid their bills… albeit the minimum payment allowed on each card, so the credit card companies just kept sending them more cards.

There were instances where I confiscated a stack of credit cards from an inch to two inches thick!

These are extreme cases, for sure… But they exist.

Things to Consider in Buying a Home…

In today's society, it is still the American Dream to own our own home. This is a desirable thing… Probably even more so today than in our past, but let's examine for a moment how to go about that.

The normal procedure is to make application to be "qualified" for a loan… This process will tell us how much money the finance company will advance to purchase our home… Basically, they tell us that, with our down payment,

they will allow us to spend up to X dollars on a home provided it has an assessed value of that or greater… Never less… and at the interest rate they specify.

Now, we are armed and ready, we have our down payment and approval for $450,000 home… And the search is on… "Oh dear, here is a nice home on an acre of ground for only $275,000…"

"No," he answers, "we are approved for $450,000."

And so it goes. The average couple searches until they spend that full $450,000… Like it was mortal sin to actually spend less that one is qualified for, shorten the term or lower the payment. Then, they want the longest term possible… often for thirty years or more! And the interest rate? "Oh, it was ok…"

No! Shop that interest rate… Find who will offer the lowest rate and have a fixed rate… Never a variable rate loan… And never beyond a fifteen year term. Interest is pernicious… It goes on even when we are sleeping.

It was in the middle 1700s that the great statesman, scientist, author and printer, Benjamin Franklin, said, "When it comes to compound interest, there are two types of people… Those who understand it and those who pay it!"

Please believe me, this is so true… A simple example… If I put a mere $2000 into my investment and receive just 10% compounded interest on it and do nothing more… Just let it sit there… In 7 1/2 years I will have $4000… Add in 15 years, I will have $8000, and still, all I have put in is my initial $2000… The rest is what the person who got that money pays me for the use of my $2000.

Let's carry this out a bit further and say we can't put in the investment until we retired after 40 years… At that point our little $2000 is now worth over $90,518!

Now that's impressive, but what would happen if, instead of just that $2000 one time, we add another $2000 each year for that same forty years and that that same 10% rate… Now, we have amassed just less than $1 million… of which you have contributed but a mere $88,000 while the interest as contributed some $900,000. That is the power of interest… It will make you rich if you understand it and it will keep you poor if you pay it. The choice is yours… Which will it be for you?

"Well, gee, Thom, that really sounds great but I don't have that much money to do that with…"

Yes you do! You just spend it on other things… For instance, the average family spends $10,000 per year going out to dinner. Cut out one time out of five and there is your $2000 per year.

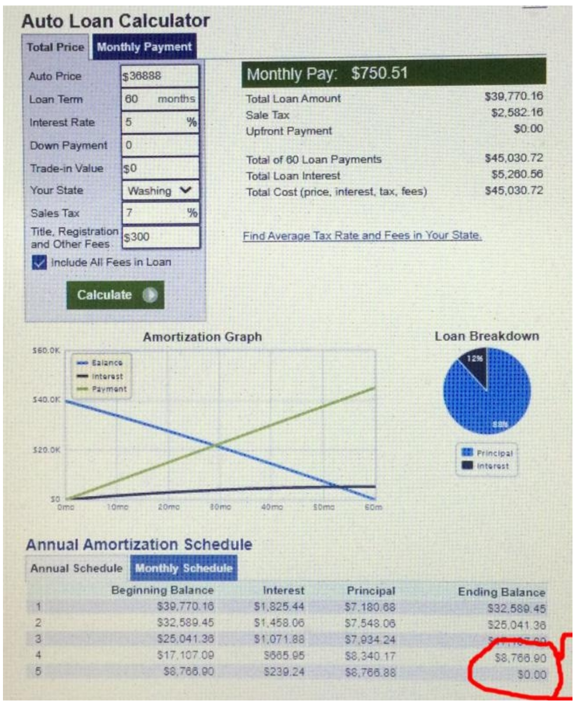
Do you smoke? Quit… And the average smoker will save $4000 a year in tobacco cost.

We will get into more of these specifics soon but these are but two examples of more than a dozen we will be covering.

Autos - Renting Versus Leasing

As stated previously, I do not ever advocate purchasing a new car… I was in the car business back around the turn-of-the-century and it taught me much… I have had myriad people try to convince me of their “need“ for a new BelchFire V8 with all the bells and whistle‘s and most arguments were spurious… There was no need for a new car, there were simply a want for one.

The average car buyer drives a car for less than four years before trading it in (on another new one). When he bought it, he financed it for the longest term possible… Usually five years and often six years. Hence, he still owes a substantial amount of money on his original loan and in many cases, that outstanding balance is more than the vehicle is worth! This is called negative equity… Or more commonly, being upside down in the car so it will require a substantial cash down payment to make the loan appealing to the bank.



The simple fact is automobiles decrease in value with time. Drive that new car off the lot and it’s value drops significantly before you get it home even.

Now, as it should be obvious by now that this buyer NEVER owns his car… The bank owns it, And if he keeps up with those payments, keeps it insured and in good condition, they let him use it and park it at his house. If one should think the facts are otherwise, miss a couple of payments or let the insurance lapse on it and see what happens. Skip four payment and see who's driveway it will be parked in now.

Since the average person never owns it his car anyway, but he's making payments for four years then trading for a new one to make payments on for four years, why not simply lease vehicle instead? When we purchase a vehicle our payments are determined by the full value of the vehicle plus the interest compounded by the day… With the lease, the amount of the cars value is dependent on the term of the lease. We pay only for the years we have it, usually three or four years but it could be for only one year.

Let's look at some numbers that I remember from those times… our nicely equipped Toyota Camry Hybrid is $36,888 and the residual value on a four year lease was 55%… Meaning the bank expected that our car would be worth about $20,288 at the and at the end of the four year lease at the end of the forty-eight months of being driven 10,000 miles per year.

This meant the person leasing that only had the " finance" the $16,600 it was expected to depreciate over the those four years… Plus interest, of course…

At the end of the lease., The person leasing has the option of then converting the car to a sale, or turning it back to the dealer… Which he does should be determined by the actual value of the vehicle at that time. He could buy the car for that $20,288 residual amount if he should desire, so, if the actual value on the market was, say, $24,000 he would be making money to do so… If it had actually be valued to say $19,000 he could, and should, say, "Here are your keys where is the blue one for the next time around?"

It should be noted that if the car was beyond the 40,000 allowed miles, those extra miles would be charged for, but the same thing happens on a regular trade-in… The trade in value is adjusted by the same factor per mile for actual miles driven. Further, on a lease, one can buy in extra miles. If the lesser knows he will be driving 20,000 miles per year instead of the 10,000 allowed, he simply adjusts the lease payment to pay for the added miles so, at termination, there is no adjustment necessary.

Just to show the difference, that Camry so purchased would have a monthly payment of, as the illustration shows,

around $750 per month. Under a lease for forty-eight months, the lease payment would be approximately $375 per month. Remember please, these numbers, while actual at the day of writing for my hypothetical buyer, they do not represent what anyone might find… all cases are different and must me computed with the data from the actual customer. There are, however, very representative of the real-life situations.

It has to be noted, that not all cars are created equal in this respect… As I said, the residual on the Camry was 55%… But across the lot, where the Chrysler products were, at the time I worked there, the residual on a Chrysler Sebring with approximately the same sale price was only 22%. Each case needs to be examined individually.

It is the wise businessman who knows that we purchase appreciating assets… Those which grow in value… And we lease depreciating assets to minimize our losses due to depreciation.

If our goal is to get out of debt it must be realized that the $250 per month savings realized by leasing instead of buying would be certainly a positive step in that direction.

Things We Can Eliminate To Save Money

In this section we are going to address those things we can either eliminate or restrict in order to meet our financial goals. I understand that probably no one does all of these things and some of us do few or none of them at all. To this extent, I will give figures that pertain to either the entire population or figures that pertain to that portion of the population who do participate in that activity. I will try to distinguish between them in the discussion, but in any event, if an activity is not relevant, do not despair of it, simply go on to the next. I'm sure there will be enough that do apply that we can get started on our road to financial freedom.

Bear in mind as well that this is not a book designed with the goal of eliminating depth, but is a book designed to get you into business for yourself in a financially responsible way… And that requires a minimum of debt… And what debt we incur should be extremely short term and to improve our business stance.

I have heard so many times, "I would love to do as you suggest but the fact is we just don't have the money to get started… While he is sipping his Starbucks Latte Delecto Monstrositous… Just purchased for eight dollars… His fifth one this week… And it's only Wednesday. Is a light coming on?

The fact is, the average person who partakes of these small, kiosk type coffee shops spends $2500 per year doing so… And substantially more if they patronize those mobile coffee trucks that visit our places of work regularly.

Do I advocate denying yourself that treat? No, not necessarily, although that would probably not be a bad thing for your body, but if you are going to continue to partake, get yourself your own machine and make them for yourself for pennies on the dollar. That $3.75 cup of coffee that Starbucks sells can be made at home for about a dime.

Overall, Starbucks alone sells $62 million in coffee every year… And that's just one such. There are many others out there competing for your buck. To me, this is a simple one to forgo…

An even simpler one is bottled water. The average purchaser of this commodity spends $1500 per year on it.

I lived in a small city in the desert of Southeastern Washington for over thirty years. The city provided water to the community from seven-hundred foot deep wells. It was tested in an independent laboratory monthly and the results were published in the local newspaper. As one can imagine, there were no contaminants getting into this water… The only thing at all evident was a slight elevation of iron in the well water… Yet I watched people carrying case after case after case of this bottled water into the apartment building where I lived… And when I pointed this out to one friend he noted "well, there is that iron…"

I replied, "My gosh, Jean, you were just telling me two days ago that the doctor put you on an iron supplement…" Enough said?

If a person lives in an area where there is a problem with the water… And I certainly have done so, get a simple Britta filter system and you're generating your own "designer water" for an initial cost for a very highly rated system of under $50 and about $20 a year in supplies. Get a yeti cooler to carry it in and you're saving yourself about $1500 every year.

An interesting side note here… the most polluted water found offered to the public is that offered in these designer water situations. It comes from the grease used in the manufacturing coming from the bottling process and the machinery used in the bottling process. It gets into the water when it's being bottled yet people ignore this and spend the money to get lower quality water than what comes out of the tap in their kitchen sink.

Do You Smoke? Quit!

I'm not going to bore us with all the health and social arguments against smoking. All it took for me, was to watch my mother die from emphysema caused by a lifetime of smoking to convince me that I didn't need it any longer… And I had smoke for eighteen years at that time. I simply said, on 11 August 1980, "That is enough," and I put them back on the shelf and never touched another cigarette again!

No my reason has nothing to do with anything but that the habit is expensive. In my home state, a pack of cigarettes cost over $10. For the average smoker, that is $300 per month! That is absolutely foolish to burn up three $100 bills every month… Month after month… That is, at this minimum rate, $3600 per year!

I realize that quitting is difficult… I did it. But, look at what it does for us financially… Suppose we were free of debt and could invest the $300 we saved into a program that would return us 10% interest for our forty years of working life... Over that period of time we only invested our former cigarette money that would total to $144,000, but our account would at that time, contain $1,665,104! That, my friend, is the power of compound interest and that is why those who understand it as Benjamin Franklin intimated, do not pay yet.

Going Out To Dinner

There are not many of us who do not enjoy a lunch out with friends or an evening with our spouse at a nice restaurant now and again. If we add children to the scene it almost becomes mandatory doesn't it?

Even if it's a trip through McDonald's or a pizza from a pizza place… it is what we do! Stop a moment and consider the cost… Today it is virtually impossible for a couple to dine in a decent

restaurant, have a drink, dip their server and pay the tax and get out for under $75. Take the kids and it's well over $100… And the average in this country is about once a week.

Heavens, even fast food will run eight dollars or more for a burger, fries and a large drink. Now let's add lunches… Five days a week and a minimum of $10 per day… Per person…

The final numbers are astounding… The average family in America today spends over $12,000 per year eating out in one form or another.

Am I saying we should never take our family out? No, of course not… But need it be every week? Do we need to eat lunch out every day of the week? What is wrong with carrying and your lunch with you? Yes buying cheeses and lunch meat could add up, but why not use leftovers from dinner? It seems every lunch room has a microwave to warm it up if necessary.

When we are totally clear of debt and our business is up and running… Then we might add an extra meal or two!

Vacations

This is a statistic that made my mouth drop open… What we Americans spend on our vacations is outrageous… And totally unnecessary.

It sounds so wonderful… "Let's take the kids to Disneyland this year…" Or, perhaps it's a cruise to the Caribbean or to Alaska…

The fact is, the average American family spends $4800 a year on their vacation and the really shocking part to me is that they take an average of two vacations per year! This means, simply that the average family spends nearly $10,000 per year on their vacation.

To further compound the problem, of course they do not have cash to be able to afford this, so they put it on the credit card. In fact, try to rent a car without a credit card. Now, they are not only minus the $5000 cost, but they have to repay it at over 20% compound interest. That is a double indemnity.

Again, I am not advocating the cessation of all vacations. Heavens, families need this time together. But, why not do something more frugal? Perhaps plan a history tour and drive the colonial Parkway from Jamestown to Williamsburg to Yorktown, then on to Washington, D.C. and all it has to offer from the seat of government to Arlington National Cemetery and all the monuments and museums… Then onto the battlefield at Gettysburg…

I have made these trips for a week and I've done so for under $1500. Also, once per year is sufficient. Let's say we up our ante and budget $2500 per year for vacations and weekend outings… That leaves us $7500 to apply to our Get Out Of Debt program.

New Clothing

In our country, the average man spends $150 per month on new clothing while the average woman spends $450 per month on new clothing… Together the average couple will spend $600 per month on this commodity or $7200 per year.

The average "back to school" student spends just over $600 on new school clothes alone. A family with four children would average spending $2400 per year on back to school clothes.

"Is there a better way?" She asked. "We cannot send our kids to school ragged, after all, and they have out grown or torn up all of last year's things."

Yes, there is a better way. It's called the thrift store… Consignment stores are wonderful for our purposes here. One can purchase a consigned, designer brand, wear it awhile, clean it and can send it back and receive 50% of the sale price in store credit they can be applied to a new article.

In some areas these consignment stores are located near large malls. These mall stores will "donate" their surplus goods and take the tax write off as their payoff, leaving the thrift store with name brand products available to us at about ten cents on the dollar. I personally have purchased brand new Carhartt and North Face brand items, with the new tags still on them, for less than 10% of the price on that new tag.

Do we need to do this for the rest of our lives? No, not necessarily… But we are striving here to get out of debt as soon as possible and to build our nesting to support us while our business matures.

Is This All?

No it's not all but I do believe the point is sufficiently made at this point so that we don't need to belabor our essay with in-depth details. I will mention a few more with, perhaps, a cursory explanation and move along towards our real purpose here… Finding a business for ourselves. To this point, however, if we followed just what has been mentioned above and use the average spending figures on each item, I think the total will be a source of amazement. In tabular form, I wish to present this data to you:

Table of Savings

Item	Average Spent on Item	Savings/Yr
Auto Lease	$375/mo	$4,500
Coffee Kiosks	200/mo	2,500
Bottled Water	125/mo	1,500
Tobacco Products	300/mo	3,600
Dining Out	1,000/mo	12,000
Vacations	625/mo	7,500
Clothing for Family	800/mo	9,600

As we have mentioned a major portion of this is purchased on charge cards, compounding the indebtedness problem. What are some other things we might illuminate… Or at least, Curtail to help us realize our dream? Let us continue our table:

Alcoholic Drinks	200/mo	2,500
Haircuts	150/mo	1,800
Paper Towels, etc	50/mo	600
Gym Membership	150/mo	1,800
Cable TV/NetFlix, etc	150/mo	1,800
Overbooking Child Act	200/mo	2,500
		$70,200

Of course, we don't all participate in all of these activities but I think most of us do participate in more than one. Suppose we just quit buying coffee out and made our own, cut back on eating out and packed our own lunch then gave up tobacco… That would give us over $18,000 per year if we are average, to apply to our debt. Then if we curtail our vacations for a bit, we now have $25,000 each and every year to pay off those pernicious credit cards… Double up on our car payments and even pre-pay our mortgage…

It's extremely interesting to note that just a small over payment monthly results in huge savings down the line… Several years ago our family was in a situation where our payment on our thirty year mortgage was eight dollars short of the next even $100… For example, the payment was possibly $592 per month… I wondered what would happen if we simply round up to the next $600 level… And it paid that loan off eight years ahead of the thirty year term. For an extra eight dollars a month, we literally saved us nearly $50,000 in interest charges!

Why did this happen this way? Look at your payment schedule for your mortgage… The first several years, virtually nothing of your payment goes to reduce the principal amount of the loan… It all goes to pay interest with a relatively few dollars being paid to the principal. Thus, by over paying the bill or buy as little as eight dollars, we were, as far as the principal was concerned, making double payments!

To double your payment on the loan, you don't have to double the full payment amount, just the amount that goes to reduce the principal.

Now, we are ready to do great things with our indebtedness… But first, a warning… For a couple, make sure that both share this vision… Both must be on the same page on this or the unity may well not survive! Take the time to sit down and talk about this plan and mark out your goals and paths together. Anything else is fraught with danger and will be like trying to traverse a minefield with one's hands covering his eyes!

Since we are now agreed that this is a desirable goal and we are ready to move forward, what do we do? How do we go about it? After all every campaign must have a battle plan, right?

First… Write it down! Any goal or plan not written out is no more than a dream. Before worrying about what to begin with, itemize where your money goes now. Itemize every second spent and see where the holes are. I have done this exercise with a client that they did not astound themselves with the amount of money that they either could not account for at all or had no idea they were spending so much on a frivolous expenditure.

There is a very good plan available to follow as taught by Dave Ramsey at www.daveramsey.com. Study what he has to say… Figure how to apply it to your situation and begin. The old Chinese Proverb is totally apro pos here… "The journey of thousand miles begins with but a single step."

My suggestion would be to to also itemize every single payment you make… Credit cards… Furniture stores… Bank loans… Car payments… Jewelry store… If you make a payment there, write it down… Now, once you have this list arrange it in order of the interest rate paid… And jump on the highest rate first! Pay that off, then start on the next one. Then the next than the next.

By following this routine, we are eliminating the worst offenders first.

If at any time my ideas conflict with Dave Ramsey's, ignore me and follow his advice… He is a professional in this area. I have done it and I have helped many others to do the same, but always it was with his plan.

Finally, we put ourselves on a strict budget and follow it religiously. Also, since we have cut off our cable TV and Netflix and those distractions, we have time to start studying and reading up on our chosen business. Do this and we will not be that one business that fails because we lack knowledge.

Whatever we plan to do, involve the children… They can be our biggest supporters and greatest cheerleaders or the largest anchor we can carry. All of the businesses we will discuss here will have room for our children to be part of it… And with that participation, reward them… Make it a pleasure for them to help us out.

Lastly, in this vein, begin growing your own food. The food system is rotten and that food found in the supermarkets is overpriced in general and swill in particular. I highly recommend watching a documentary from a few years back, entitled, “Food, Inc.“. It is an eye-opener!

Before you say it’s impossible where you live… I have grown tomatoes and other vegetables in pots on the balcony of my apartment and while my neighbors were complaining they couldn’t buy a tomato worth eating… And they were right… it was impossible to buy a tomato worth eating in a supermarket, but I was enjoying them every meal. If you have a garage (and zoning doesn’t forbid it), you can grow 75% of your meat protein inside a double car garage in the form of poultry and rabbits. Often, restrictions that disallow poultry, will allow rabbits… And they are perfectly quiet and totally delicious. There are many other options as well but this will for suffice for now as we let our minds expand.