A Critical Guide to Saving

The First Iteration

By Alex Yazdani

A Critical Guide to Saving

Preface

It doesn't matter your age. We can all learn better budgeting habits. With some simple tools, you can get out of debt and start your future toward economic freedom and security. These tools are easy to use, and you don't need a Ph.D. or high school diploma. All you need is basic arithmetic (Math) and, in most cases, a pen and paper. We will discuss simple ways for anyone, young or old, to start saving.

In June 2022, PR Newswire indicated that the percentage of Americans living paycheck to paycheck is 65%. This is an increase from 55% in June 2021. This is a crisis of massive proportions, and with a bit of planning and budgeting, you can get out of this vicious cycle and make the most out of your paycheck.

The economics of saving. Once you start to save, you will realize how easy it is, and with the simple tricks discussed in this book, you will learn how to save and keep your savings. We will go through multiple examples with different issues and ways we can help improve their savings. Any relation between these characters to the real world is purely a coincidence.

Most money managers want you to buy a product; they may even call it a forced savings program. However, with these tips and tricks, you get the same results for absolutely free. No monthly fees or insurance brokers trying to get you to spend money. It is your money, and you should have complete control of it.

A little bit about myself: my name is Alex Yazdani. As a young college graduate, I wanted to work with people with a lot of money. I reached out to potential clientele that was able to make $600,000 a day. From Traders, Business Owners, and C-suite Executives, these clients made more money in a year than most make in their lifetime. The first question you get when approaching this clientele is, why should I work with you? It didn't matter the plan you put together or the problems you were able to solve. They wanted to know if you were one of them. Do you come from money? How do you protect your investments? What is your life experience? The biggest concern is age. No 40 to 60-year-old will listen to a 20-year-old on money advice. I persevered and learned the money habits of successful people, how they control risk, what investments they start with, and how they develop their success.

After two years in the financial planning game, I moved to the analytical side. I became a financial analyst and have a decade of experience. Through my experiences, I learned trade secrets that will help you get out of debt, build your savings and live more comfortably.

This guide is built to be a quick read. Most Self Help Books are designed to be repetitive and drone on. Every story in this book is designed to think about real-life problems people go through in their saving journey. Try to relate to these examples and see if you can help them with their saving journey. Our goal is to be straight to the point. We are self-published and any support you can provide that will help us develop more guides is greatly appreciated. If you need additional help please drop us a line at our website criticalguides.org and we will get back to you as soon as we can with more personalized help.

Chapter 1
Building a Budget

Building a budget is the first and most crucial step to gaining financial freedom; without knowing what you have if you don't know what you are spending and vice versa. Spending too much will make it hard to keep those credit card bills down and ensure you have some money for an emergency.

Be honest with yourself. Do you have enough money in your savings for a $500 emergency? If you lose your job, how long can you cover your expenses before you have to sell your assets? Can you afford the maintenance on your car, or what if you need to get towed to the mechanic?

Below we will go through how to build a budget and look at a few examples.

Creating a simple budget is easy, and you can do this exercise as often as you need with just a simple notepad and pen or even through your phone through a note.

The First Step: Calculate your monthly pay and disposable income

How are you getting paid?
Weekly - Get your paycheck at the end of the week
Bi-weekly - Get paid once every two weeks
Semi-Monthly - get paid in the middle of the month and at the end of the month.
Monthly - get paid once a month.

Calculate your monthly income by taking your paycheck and multiplying it by the number of paychecks you get in the month. Your disposable income comes after you take your tax and deductions out. If you are living on a salary, your paycheck should show your tax, 401k, medical deductions, and other deductions.

If you're projecting your future budget and only know your salary amount, you can estimate your deductions and figure out your monthly salary by using a paycheck calculator online. If you are using an online calculator, make sure you put in the correct city and state, as your tax implications will change depending on where you live.

Let's go through an example - Fred. Fred lives in New York City and makes $40,000 a year, leaving approximately $2,000 in disposable income:

Fred’s monthly paycheck is $2,000
- rent $700
- groceries $300
- utilities (gas, electric, cellphone bill) $80
- streaming services $20
- eating out $500
- Internet $60
- transportation $240

Total expense = $1,900
Leaving $100 left as your discretionary income (income left after pre-tax expenses, income taxes, and living expenses).

In this example, Fred can save money. However, with only $100 left and living in NYC, $100 can go quickly. Imagine Fred’s rent is $1,000 monthly, not $700. That $100 in potential savings is a monthly loss of $200.

After taking a look at the expenses, do you notice anything unusual? Anything Fred can do to save more of his income? If you think Fred eats out a lot, 25% of his monthly disposable income goes to eating out. Averaging 30 days a month, Fred is spending about $17 a day on going out. This can be as small as getting a Starbucks coffee to having a steak dinner. However, daily decisions can reduce this expense whether getting free coffee in the office or going out once a week for dinner vs every other night.

Provided on the next page is a worksheet to build your budget. Please use as much space as needed and try to itemize all of your expenses. Try to be as honest and detailed as possible. As we learned with Fred a small expense could be the difference between saving money to losing money.

Monthly Income:________________

Rent -______________

Utilities -______________

Cellphone Bill -______________

Transportation Related -______________

Food -______________

Other Monthly Expense 1 -______________

Other Monthly Expense 2 - ______________

Other Monthly Expense 3 - ______________

Other Monthly Expense 4 - ______________

Other Monthly Expense 5 - ______________

Other Monthly Expense 6 - ______________

Other Monthly Expense 7 - ______________

Other Monthly Expense 8 - ______________

Leftover: (-) ____________

So how did you do? What is leftover? Do you have some savings, or are you losing money every month?

Now, like Fred, find some expenses that you can reduce. Are you able to save $100 a month? $500? Any credit card debt? Let’s look at possible ways to lower those pesky expenses and maximize your savings. In the next chapter, we will discuss different costs and the ways to control those expenses.

Chapter 2
How to Control Your Expenses

One of the hardest things to do is control your expenses. However, now that you have your expenses listed above try to think of ways to reduce each line item. Some expenses are more straightforward to tackle than others expenses. Some of the more challenging expenses to control include Rent, transportation, utilities: gas, electric, and telephone bills.

You know your spending habits better than anyone else. Do you gamble? Are there any extra costs that you can control immediately? Do you get a haircut every week? Have a gym membership that you don't use? Buy a lot of video games? Try to control these expenses by setting reasonable limits. If you set a limit on an expense try to follow that limit. If Fred limits his eating-out expense to $250 a month he can save that extra $250 a month.

Let's look at some possible expenses and potential ways to control them:

Rent Expense:
Rent is a tough expense to control with leases that last a year. You are locked into that monthly payment until the following year. Some ways to control this expense: Can you get a roommate? If a studio Apartment in New York City goes for $1,900 and a 2-bed room apartment goes for $3,600, with a roommate, the rent comes to $1,800 per person. Generating a savings of $100. Shared expenses, including electricity and utilities, may also provide additional savings. If your roommate is willing to share that expense, $20 streaming services can go down to $10.

Transportation costs:
Living in a city has its benefits for public transportation. A monthly subway or bus pass is cheaper than owning a car. With a car, you have monthly payments through the lease or financing costs, and you also have to consider the vehicles, maintenance expenses, fuel, and possibly parking costs. Let's look at the cost of subway and bus passes in a few cities:

New York City

You can find details on New York City's monthly fares @ new.mta.info/fares. Monthly tickets are available with unlimited 30-day subway passes for $127. For the bus plan, there are 7-day unlimited passes for $62.

Chicago

You can find details on Chicago's subway passes @ transitchicago.com. A 30-day unlimited subway pass comes out to $75, with a daily unlimited pass of $5.

Boston

You can find details on Boston's bus, rail, and ferry passes @ mbta.com/fares. You can get an unlimited charlie card/ticket for $90 every calendar month.

Other cities?

You can find your city online by searching fares and the particular city you live in.

Utility Expenses:

Utilities can be a tough expense to save from. However, you can reduce expenses by being more mindful of your electricity/utility usage. Can you lower the heat in the wintertime, maybe not have the AC on as long in the summer? An option is to use a programable thermostat to control the temperature when you are not home and make your home more comfortable when you arrive. Another option is to see what items use a lot of electricity and reduce the amount of time they are on. Do you keep a computer on all day, even when you are not using it? Turn it off or put it to sleep when you aren't using it.

The fastest way to lower your utility expenses burden is by sharing that expenses with a roommate. If you are splitting your monthly utility bill with your roommate, your expenses should be less than when you handle it yourself.

Phone Bill:

Some fast way to save on your phone bill is to join a family plan. Calling your provider asking for loyalty savings if you used the same provider for more than a year or see if other providers have switching benefits. One of the most significant expenses on phone bills is if you finance the phone. If you look at budget phones or older models, a new smartphone can cost more than $1,000; you may have no financing or very low monthly costs. Also, see if there are savings for different plans. Usually, an unlimited data plan is the most expensive if, on average, you use 2 gigabytes of data a month. Lowering your plan may provide additional savings.

Food and Groceries:

Understanding unit costs is the fastest way to save on your groceries bill. If you are purchasing a single chicken breast for $10 and 5 breasts are $40, the unit cost for the five chicken breasts for each breast is only $8. You can apply this measure for anything at the grocery store, and the grocery store will also help you by providing the unit cost for you. A single paper towel roll can cost $2, but buying a pack of 12 for $20 will get two extra paper towel rolls. Also, track your spending at the grocery store, big-ticket items like steak or liquor, while enjoyable, increase that grocery bill. You can reduce your grocery bill by reducing the number of big-ticket items or buying cheaper alternatives.

Review your expenses again and try to limit yourself this next month. If you are spending $5 every day on Starbucks try limiting yourself to $5 a week. Set limits for all your expenses and review that limit at the end month. Did you meet your goal? Were you under? Over? How much? Re-adjust your limits and see what you end up with.

Chapter 3
Will a Move Save?

The state with the highest median rent is Hawaii at $2,399. The City with the highest median rent is New York City, with a median price of $3,260 in 2022. A possible way to reduce this expense is moving to a city with a lower median rent and cost of living. If you are working in New York City and looking to reduce this expense, are you able to move to Connecticut or New Jersey? According to Zillow; the median rent is $1,485 in Connecticut and $2,200 in New Jersey. With a small commute, you can lower your possible rent expense; there are multiple things to look at when you're looking to commute from another area: What are the commuting trade-offs? What are the tax implications? What is the cost of living differences?

Let's break this down with an example: Robert and Becca.

Robert and Becca both work in New York City and looking to move to a place with more space from the upper east side of New York City. They are both making 80,000 a year, coming out with an approximate disposable income of $4,500 a month each, or $9,000 household disposable income. You can review your tax implications by searching for a salary calculator on your favorite search engine.

Keeping everything the same, a move to Stamford, CT, Robert and Becca would each have an approximate disposable income of $4,800 or a household disposable income of $9,600. Through tax savings, the couple has an additional $600. Let's look at the cost of living savings from moving out of New York City. You can find a tool through a cost-of-living calculator to find a comparable salary and how much money you would need to make to have the same standard of living Stamford provides a savings of 46% overall, which means that Robert and Becca can have the same standard of living with a household salary of $86,400. The standard of living takes into consideration of housing costs, transportation costs, food costs, and health costs.

Since Robert and Becca will continue to work in New York City, we need to account for the excess transportation costs, aka Metro North Trains. The train ticket for Metro-North comes out as an additional $300 per monthly ticket. Adding a subway pass, as discussed in the previous chapter, further increases transportation costs. Robert and Becca may also want to buy or lease a car; as public transportation in Stamford is not as extensive as the New York City subway system. Consider what a lease, auto insurance, and gasoline will cost a month.

While the increased expenses may erase the gains from reduced taxes, Robert and Becca may value the additional space and the cheaper cost of living. All of these factors should be considered when considering a move to another city or state.

Please note that not every move would provide an economic gain, however, understanding what you want, being able to budget, and adding to your savings will provide value to your future.

Chapter 4
Banking and Saving

In the previous chapters, we reviewed budgeting and possible ways to save. However what if you're still struggling with your savings? You see money in your account and think that you want to spend it. We will be answering the following questions in this chapter: how much should you have in your savings? Methods to control your savings? What products are available to help me save?

How much should you keep in your savings? While there is no specific number you should keep in your savings; your goal is to have 6 months of expenses saved. Why 6-months? The reason for the 6 months is if you lose your job, you will be able to cover your expenses until you can find another job, The average time it takes to find another job in a similar field is typically 6 months. If you suspect that it will take longer for you to find another job not only should you try to keep more in your savings but consider an in-between job to help you with your expenses and explain the gap in your resume.

6 months of savings can feel a little daunting. It is important to start your savings journey have a goal to save 1 month of savings in the next 3 to 6 months and keep going up from there. Wherever you are in your life you should have at least 3 months of your expenses saved up. 3 months is the bare minimum and will help with surprise expenses and will help you get on your feet if you lose your job.

How to calculate this 6-month number:
Go back and look at your expenses. Take a look at your necessary expenses and total them up. Rent, utilities, phone, and food are some of the costs you would need to cover if you lose your job. Take Fred; his monthly expenses total $1,900; if Fred takes out his eating out expenses and his transportation expenses, his monthly expenses total 1,160. Looking for 3 to 6 months of savings, so Fred should aim for approximately 3,500 to 7,000 in his savings. Remember these savings should be easily accessible through your savings account or through easily liquidated investments.

Suppose you have impulse control issues and you view your savings account as additional money for spending. A method to not touch your savings as savings is to open a savings account at another bank. Through direct deposit, Fred can send $50 to $100 of his paycheck to his separate savings account. After 3 years, he will have 3 to 6 months of expenses in his savings account. While three years is a long time, it is important not to get discouraged in your savings venture, maybe through a bonus or tax refund Fred can add a lump sum to his separate savings account. Once you have that 3 to 6 months of savings Fred can be confident that he is protected if something goes wrong.

It is also important to start saving at a young age. The younger you start saving the better your saving habits will be. Let’s take a look at an example of a younger gentleman and what a difference it will make:

Joey is 18 years old. He is a senior in high school and works part-time as a waiter. Working part-time, he makes $1,000 monthly in wages and tips after taxes. He still lives with his parents, and the only expense is going out with his friends and his car payment. His car payment is $250 a month, with $50 a month for gas. The rest is spent eating out with friends. Let's say Joey saves $400 a month in 1 year; he will have $4,800. If he had kept his job during college and the same savings plan, Joey would have funded his savings account to $24,000. Don’t get discouraged with your savings. Keep saving as much as possible; eventually, you will reach your savings goal.

One way financial planners help people build savings is through a “Forced Savings Product” this fancy product is a whole life insurance policy. The Insurance Company acts as a separate bank account. They will offer a life benefit when you die and provide an amount you can borrow from after a certain level of funding is achieved. If you are interested in this sort of product, reach out to a financial planner, and they can design this type of savings product for you. However, as we went through with Fred above having a separate savings account with another bank Fred is able to have immediate access to these funds in an emergency. Fred also doesn’t need to ask the insurance company for permission to borrow from his separate bank account. This product should be in addition to your savings, and not replace your savings.

Try to make saving fun. Look at your personal savings account as a game. How high can you get the number? Keep yourself motivated by rewarding yourself when your savings reach a certain number. Remember saving is hard work and without these rewards, it can become more difficult to save. When you reach a certain number, buy yourself a treat. For example, if you reach $10,000, you will go to the bar with your friends. At $20,000, you will buy that laptop you wanted. At $50,000, you will take a vacation. Your reward for sauvignon should always be less than your total savings, if you saved $50,000 doesn’t mean you should go buy a sportscar.

Don’t give up hope if you are just starting your savings journey; keep saving and increase your savings goal. Just because you have your 6-months of savings doesn’t mean that you are done. If you want a house you will need 20% for a down deposit. If you want to buy a car, typically, you will need a down deposit of a couple of thousand dollars. Remember, the more you finance, the more you will spend. We will discuss compound interest and other financial concepts in a later chapter.

Saving for retirement:
Experts agree the amount you will need in retirement would be less than your current salary. However, how much you need and how you will be using your retirement income is up to you. To everyone, retirement looks different. To some, it means moving to another country, to others, it is downsizing and no longer having a mortgage. This information is not in lieu of a financial adviser. A financial adviser can help you plan and build a program for what you need and achieve the retirement you are looking for.

Below we will look at some retirement programs that may be available to you.

401K
A 401K program is a retirement savings account. We use 401K plans to save and grow our savings for retirement. We use a 401K over a regular savings account for tax savings. Your 401K uses pre-taxed money to save and grow. You pay income taxes on the withdrawal when you take funds from your 401K. The expectation is when you are withdrawing, your income will be lower than your salary, and as such, you will be paying fewer taxes. The maximum contribution you can make in 2023 is $22,500, increasing yearly. If you are 50 and over, you can put in additional money through a catch-up provision. You can find additional information on the IRS.gov website for the most up-to-date contribution limit.

You can only access it when you are 59.5 years old. While you can withdraw from your 401K at any time, doing so before 59.5 will cause a 10% penalty fee on top of Income taxes. There are a few exceptions to this rule, including being a first-time home buyer: you can take $10,000 out without penalty. You can also take out medical expenses and money to pay IRS without penalty.

Important factors to consider when reviewing your 401k: What is the company match? The Typical company match is 50 cents for every dollar for up to 6% of your income. Review your employment contract and benefits package to see what your match is. do you get more or less? Typically the match has a vesting period. The vesting period can be as long as the company likes, however, typically between 1 to 5 years depending on your benefits. A company uses a vesting period to retain its employees. Make sure you look up and understand the vesting time for the match; otherwise, your company match may be lower than you think if you leave your job.

Roth 401K

Like a 401K, except that the money you put in is after taxes, this makes your withdrawals tax-free. If your company offers a Roth 401K, you should consider it to have some tax-free income during your retirement. It is beneficial to contribute to a Roth account when income taxes are low, and you can pay your taxes upfront.

Individual Retirement Accounts (IRA)

Similar to a 401K, however, the annual contribution limit to an IRA is $6,500 with a catch-up provision of $1,000. You contribute to an IRA on your own accord. It can be separate from your 401K account. If you contribute to a 401K, you can hold a separate Roth IRA. Please note your Roth IRA has an income limit, so make sure you review that you are within the income limits before investing in a Roth. In 2023 your modified adjusted gross income must be under $153,000 if you are single and $228,000 if you are married. If your modified adjusted gross income is under the limit using a Roth is a great way to diversify your retirement savings to make sure you have tax-free income during your retirement.

Chapter 5
Debt

One of the most significant issues facing your savings plan is debt. You may have credit card debt, personal loans, a mortgage, and student loan debt. Debt can be the most destructive item in any savings plan or budget. However, in the day we live in. Americans are bombarded with advertisements to buy things, and open new credit cards to finance them; Add on, to the recent Covid Pandemic, and more Americans are living with debt than ever before.

Review your loans and itemize them by interest rate. Your highest-interest loans should be on top with your lowest-interest-rate loan on the bottom. The higher the interest rate the faster you should pay off the debt.

Below we will meet Karen. She loves shopping and using her credit card to finance her shopping spree. Let's see an example of how debt could increase with just the minimum payments, and something relatively cheap can become more expensive.

Karen opened a new credit card this month. She used it to purchase a new microwave for $200. The minimal payment on the credit card is just $25 dollars every month, and the interest rate is 25% APR (Annual Percentage Rate). For the first month, Karen paid the minimum of $25, and she didn’t use her credit card for the next month. Her bill is now $179.17. With just paying the minimum payments, Karen will eventually pay off that $200 balance in 8 months by paying an additional $22 in interest. This assumes that Karen isn't using her credit card in those eight months.

As we mentioned above Karen loves to use her credit cards. Karen goes on a shopping spree every month and spends $1,000 while only paying off the $25 dollar minimum. Karen will never be able to pay off her total credit card balance and her credit score will also decrease. We will discuss how a lower credit score can make life more difficult when looking to open more loans.

These examples are using relatively small amounts; if Karen has $5,000 in credit card debt and is keeping with the monthly payment of $25, it would take Karen 250 months or close to 21 years to pay off that debt. The total interest Karen would have paid was $21,000; more than 4x the original balance. If you are not careful, credit cards could end your financial security. It is essential to pay off these higher interest balances first and control how much debt you have.

While having a significant amount of debt can be dangerous to anyone's financial future, using credit cards does have its benefits. These benefits include:

Extra level of security on payments - If you lose or your credit card gets stolen, you are not responsible for the charges made on the card. Identity theft totals 1,700,000 cases a year with 400,000 of those cases including credit card theft. Credit card theft is one of the most common forms of identity theft in the US.

Points - The credit card company gives you points that can be coveted into rewards or future payments on your credit card.

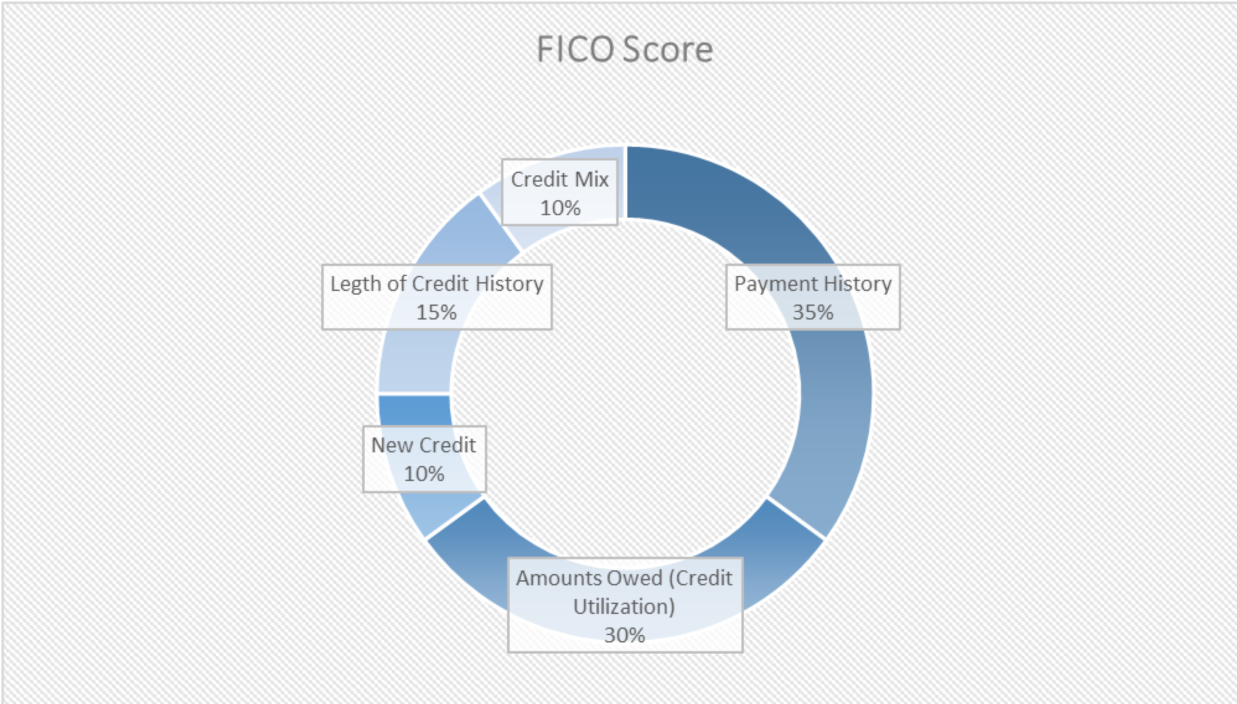
Payment installments - Some introductory offers provide 0% APR for the first six months allowing you to finance a large purchase for six months with no interest payments. Make sure you understand the rates before you go into an installment loan through a credit card company. The last thing you want is to have an uncontrollable level of debt and be stuck making payments for the rest of your life.

Note: If you have difficulty controlling your spending habits, a good rule is: don’t put anything on your credit card that you can’t afford to pay outright. You don’t want to get into a situation where you are adding thousands of dollars to your card while only being able to afford hundreds of dollars.

While in the example we used with Karen, the credit card interest rate was 25%, you will be able to find cards with interest rates of 16% to 30%. Credit card companies make their money through interest, so the more debt you defer, the more money the credit card company makes. In addition to the interest, some cards have an annual fee. These fees are like servicing costs of the card. Typically, cards with annual fees have better points and rewards. Some Credit card companies offer concierge services with their annual fee.

To get a Credit Card with better rewards, you would need a good credit score. A credit score is a rating of how well someone is able to pay off their debt. Currently, there are three rating agencies: Experian, Transunion, and Equifax. These rating agencies provide a FICO score for consumers. A FICO Score is your creditworthiness meaning how much credit lenders are willing to provide you. Your creditworthiness gives you access to credit cards with better rewards, larger loans, and better interest rates, and it can even help you get a job.

So what does your FICO Score comprise of? See the chart below:



Payment History (35%): How do you pay? Do you pay on time?

Try to pay your balance on time, and don't miss payments.

Amounts owed (30%): What percent of your total credit are you using?

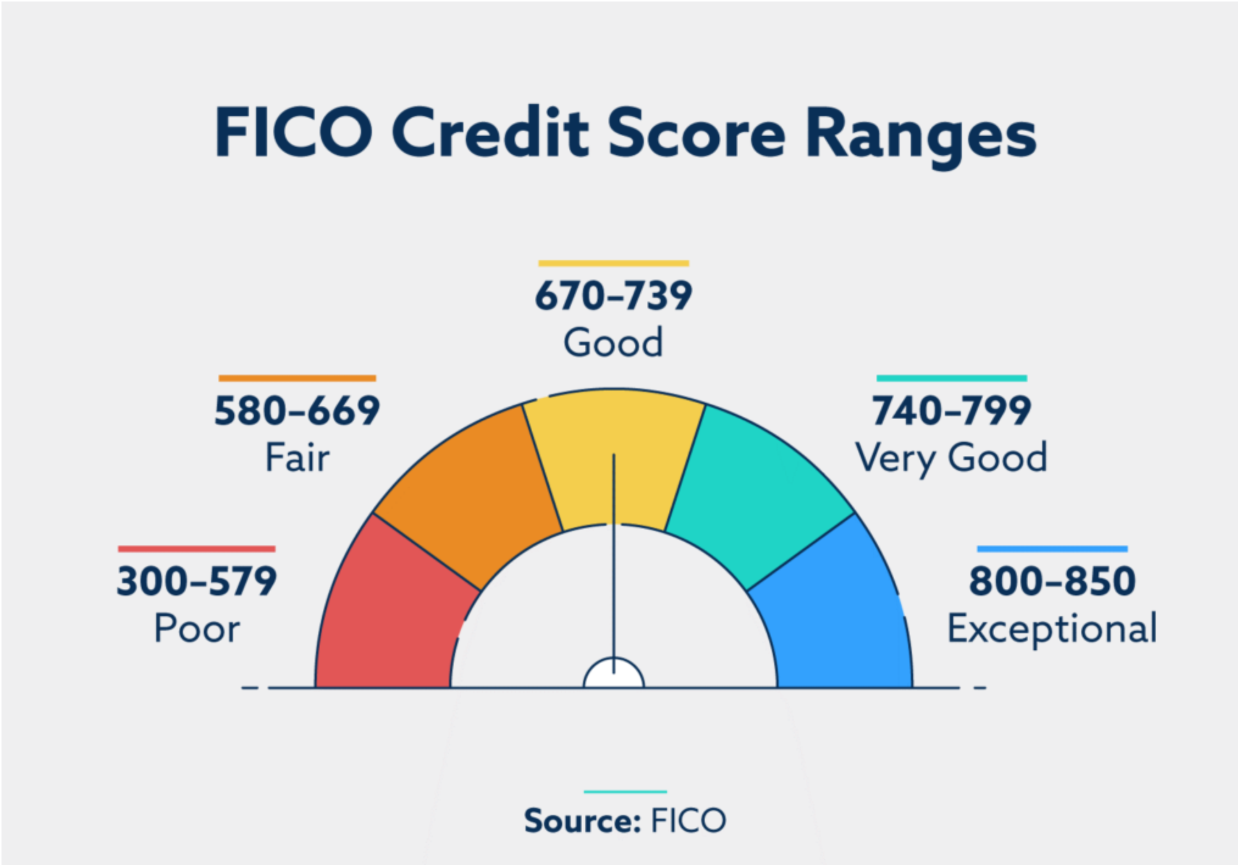
Try to keep this around 20% maximum for credit cards.

Length of Credit History (15%): how long have you had credit/loans?

Credit Mix (10%): What kind of loans do you have?

New Credit (10%): How many new loans/credit cards do you have?

Now that we know what your FICO Credit Score comprises. Let's look at what the score ranges and what it means:



300 - 579 is poor, indicating you are slow to pay your bills
580-669 is fair
670-739 is good
740-799 is very good
800 - 850 is exceptional

Personal loans

If you have a significant amount of credit card debt, you can get a personal loan to consolidate the debt into monthly payments. This is a good way to consolidate multiple cards into one loan with a much lower interest rate. If you get a personal loan, this is not an excuse to increase your credit card debt. While the interest rate may have been lowered, the debt remains and eventually needs to be paid off. You can relate a personal loan as a type of mortgage where there is no underlying asset supporting it. If your credit rating has been lowered due to slow payments or not paying your debt, some personal loans would need to secure the debt with an asset of yours. This asset can be anything that you own that has value.

The last resort to end the debt and all the interest payments are Bankruptcy. Bankruptcy lasts on your credit report for 7 to 10 years, and while it isn't impossible to get loans after bankruptcy, it will be difficult. You would likely need to provide more of a deposit or secure the loan with assets. You can find more information on Bankruptcy through the link: www.uscourts.gov/services-forms/bankruptcy.

Student loans:

Student loans are like most debt. The concerning thing is that once you borrow student loans, the only way to get rid of them is by paying them off. Student loans are exempt from bankruptcy, and typically need a guarantor, aka your parents, when taking one out. There are two types of student loans federal student loans and private student loans. Federal student loans typically don't need a cosigner, have repayment grace periods, and fixed interest rates. Private loans have both variable and fixed interest rates and may be cheaper overall than federal student loans. Student loans typically have similar interest rates as personal loans.

Chapter 6
Making More Money

Are you still struggling to save money? Going month to month increases your credit card debt vs your savings account. The Issue maybe you are not making enough money to support yourself. If you are looking for a pay raise or to make more money, there are multiple avenues that you can go down. This isn't a get-rich-quick scheme, and as you probably realized through this guide everything you need to do will require additonal work.

The first thing: Look at your current career path. What are your 3-year, 5-year, and 10-year plan? What career do you see yourself in? Do you need more education?
Take the space below and write out your career path and goals.

Don't worry if you didn't use all the space or if you need more space. This is your workbook and is designed to help you. You can even move this work to another notebook or piece of paper. Make sure you reference your goals once a week and keep them in mind.

What are the steps for you to reach your goals? Try writing down what you need to reach your goals, be as detailed as possible, and use an extra sheet of paper if necessary. Detail what you need to do from the end of the week to the next year. Again, details are your friend, and if need be, take your time to research your field and what you need to master it.

This is your long-term goal now. What about the short term? How do you immediately increase your income?

Getting a second job. If you're currently working a 9-5 job, adding another job to the mix is easy. Nights at retailers, restaurants, services, or bartending, even having a side gig including photography, blogging, or something you can work on on the weekend. Depending on your time and current income, you can invest in yourself by starting a side business, and while income may not come immediately, it could be a reliable source of income in the future. Remember you cannot harvest the seeds you just planted.

Education. Sometimes getting a raise at work just depends on getting additional education. While getting a college education, a master's or Ph.D. will help with your long-term goals; you can show your employer or prospective employer dedication by taking classes or courses through Coursera, Udemy, Khan Academy, and many other online classes. Try to relate the course you're taking to what you currently do or want to do. If you want to be an accountant, while the graphic design class may be fun, it won’t help you in your current situation and may be more of a burden on your finances than a benefit.

Sometimes getting a raise can be as easy as a change in your work ethic. When at work, are you focused at work? Can you pick up additional hours/shifts? Working a salary job coming in early and leaving late shows your employer your dedication to the company, at your annual review, you can renegotiate your work contract. Depending on the economy, you can also find another job, and switching jobs is a great way to get an immediate raise. Or leveraging a job offer to get a raise at your current company.

Chapter 7
A Start to Investing

Once you have your emergency fund and have reached your savings goals. You will notice that your money just sitting in your bank account is not doing anything. At this point take your additional savings and start investing that money. Nobody has a foolproof way to make money while investing. For one, you have economic cycles where economic booms and depressions happen. Before investing make sure you review the stock or investment. Nothing beets due diligence. Below we will review some concepts that should help you on your investing journey.

Dollar-cost averaging: investing funds consistently to increase your shares in an investment and not worry about investing at a particular time. This investment method typically works best with volatile stocks if you want to build up your shares in an expensive stock over time.

Compound interest:
Compound interest can be calculated using the formula $FV = P*(1+R/N)^{(N*T)}$, where FV is the future value of the loan or investment, P is the initial principal amount, R is the annual interest rate, N represents the number of times interest is compounded per year, and T represents time in years. With compound interest, an initial investment increases significantly over time. Using compound interest investing early makes the most significant difference for your future funds. Take the below example:

If Bill invests $1,000 in an investment that averages 5% a year after 20 years without adding to the investment the $1,000. In the first year, Bill has $1,050 second year totals 1,102.50… to 20 years later, where the investment comes to $2,653.30.

When investing it's important to do your research. Before you invest in a company, read the analysis on the particular stock, review the financials, and read the management discussion and analysis. The SEC has plenty of tools to start your investing journey. You can find tools at https://www.investor.gov/. If you need help reading financial statements, you can use the following link to learn how to read a 10K or a 10Q. It is good practice to read an entire annual report and quarterly report before your start investing.

https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/how-read.

Let's review some key concepts in financial statements that you may come across when reviewing the financials of a possible investment.

Management discussion and analysis - A summary of what has happened in the period. Management will discuss what caused the results and if they met their expectations.

Balance sheet- a snapshot of the current operations. Under the assets section will see the company's cash, Account receivables (owed to the company from the company's clients), Inventory (current amount of merchandise), Property plant, and equipment (the value of the company's building and machinery, if they have any). In the Liabilities section, you will find the amount of debt and, if it's due in the next year or after, The account payables (how much the company owes its suppliers). The Equity section shows the difference between the assets and the liabilities. The balance sheet will always equate Assets = Liabilities + Equity.

Profit and loss - The company's operations over a specific time period. You will see the number of sales. If the company made money, the level of profitability includes after-operations or operating income and taxes or net income.

Cash flow statements - how much money the company made after its operations (operating cash flow), investments made in the period (investing cash flow), and the changes in financing or financial debt (financing cash flow). At the end of the cash flow statement, you will see how much cash the company made or lost in the period.

Principal - your initial investment

Options - An options contract gives an investor the right, but not the obligation, to buy (or sell) shares at a specified price at any time before the contract's expiration.

Futures - A futures contract is the obligation to sell or buy an asset at a later date at an agreed-upon price. Futures contracts are a true hedge investment and are most understandable when considering commodities like corn or oil.

Arbitrage - Arbitrage is the simultaneous purchase and sale of the same or similar asset in different markets to profit from tiny differences in the asset's listed price. It exploits short-lived variations in the price of identical or similar financial instruments in different markets or forms. This arises from market inefficiencies.

FX - foreign exchange, the difference between one currency to another.

Sin Stocks - A term used for stock relating to Alcohol, Tobacco, and other stocks that seem socially wrong.

ESG - Environmental, social, and governance (ESG) investing refers to a set of standards for a company’s behavior used by socially conscious investors to screen potential investments. Environmental criteria consider how a company safeguards the environment, including corporate policies addressing climate change. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company’s leadership, executive pay, audits, internal controls, and shareholder rights.

Large Cap - Large cap (also called "big cap") refers to a company with a market capitalization value of more than $10 billion. Large-cap is a shortened version of the term "large market capitalization." Market capitalization is calculated by multiplying the number of a company's outstanding shares by its stock price per share.

Mid Cap - Mid-cap (or mid-capitalization) is the term that is used to designate companies with a market cap (capitalization)—or market value—between $2 and $10 billion.

Small cap - A small-cap stock is a stock from a public company whose total market value, or market capitalization, is about $300 million to $2 billion.

Chapter 8
Financial Terms and Definitions that will Help

GDP - Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a country's economic health. See below on how GDP is calculated:
GDP = Consumption (C) + Government spending (G) + Investments (I) + Net exports (NX).

Nominal GDP is an assessment of economic production in an economy that includes current prices in its calculation. In other words, it doesn't strip out inflation or the pace of rising prices, which can inflate the growth figure.

Real GDP is an inflation-adjusted measure that reflects the number of goods and services produced by an economy in a given year, with prices held constant from year to year to separate the impact of inflation or deflation from the trend in output over time. Since GDP is based on the monetary value of goods and services, it is subject to inflation.

GNP - GNP includes the aggregate value of goods, such as cars, houses, food, and drinks, as well as the value of services, such as legal and medical fees, produced and purchased by a nation during a given time. The market value of these outputs is added together to calculate GNP.

Inflation - Inflation is an economy-wide, sustained trend of increasing prices from one year to the next. An economic concept, the rate of inflation, is important as it represents the rate at which the real value of an investment is eroded and the loss of spending or purchasing power over time. Inflation also tells investors exactly how much of a return (in percentage terms) their investments need to make to maintain their standard of living. Think of Inflation as more dollars chasing fewer goods.

Hyperinflation - Hyperinflation is a term to describe rapid, excessive, and out-of-control general price increases in an economy. While inflation measures the pace of rising prices for goods and services, hyperinflation is rapidly rising inflation, typically measuring more than 50% per month.

Deflation - Deflation is a general decline in prices for goods and services, typically associated with a contraction in the supply of money and credit in the economy. During deflation, the purchasing power of currency rises over time. Think of Deflation as fewer dollars chasing goods.

Recession - A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth mean recession.

Unemployment - The unemployment rate represents the number of unemployed people as a percentage of the labor force (the labor force is the sum of the employed and unemployed). The unemployment rate is calculated as (Unemployed ÷ Labor Force) x 100.

Underemployment - Underemployment is a measure of the total number of people in an economy who are unwillingly working in low-skill and low-paying jobs or only part-time because they cannot get full-time jobs that use their skills.

Monopoly - A monopoly is a market structure where a single seller or producer assumes a dominant position in an industry or a sector.

Oligopoly - An oligopoly market consists of a small number of large companies that sell differentiated or identical products. Since there are few players in the market, their competitive strategies depend on each other.

Monopolistic competition - an imperfectly competitive market with the traits of both the monopoly and competitive market. Sellers compete among themselves and can differentiate their goods in terms of quality and branding to look different. In this type of competition, sellers consider the price charged by their competitors and ignore the impact of their prices on their competition.

Perfect competition - occurs when there is a large number of small companies competing against each other. They sell similar products (homogeneous), lack price influence over the commodities, and are free to enter or exit the market.

Capitalism - Capitalism is often thought of as an economic system in which private actors own and control property in accord with their interests, and demand and supply freely set prices in markets in a way that can serve the best interests of society.

Free Market Capitalism - Any economy is capitalist as long as private individuals control the factors of production. A purely capitalist economy is also a free market economy, meaning the law of supply and demand, rather than a central government, regulates production, labor, and the marketplace. Companies sell goods and services at the highest price consumers are willing to pay, while workers earn the highest wages companies are willing to pay for their services. The profit motive drives all commerce and forces businesses to operate as efficiently as possible to avoid losing market share to competitors.

Marxism - a social, political, and economic philosophy named after the 19th-century German philosopher and economist Karl Marx. His work examines the historical effects of capitalism on labor, productivity, and economic development, and argues that a worker revolution is needed to replace capitalism with a communist system. You can learn more about his work by reading his book: Das Kapital.

Communism - At its most basic, communism is a philosophy based on the equitable distribution of wealth among a nation's citizens and common ownership of all property. In particular, it called for the control of the means of production, such as manufacturing and agriculture, by the working class, or proletariat. Its ultimate goal was achieving a classless society, at which point the state (or government) would "wither away."

Socialism - Socialism encompasses a broader spectrum of political beliefs but shares communism's emphasis on a fair (if not necessarily equal) distribution of wealth among citizens and public ownership of the means of production (though not necessarily all of them). “The problem with socialism is that you eventually run out of other people's money.” - Margaret Thatcher

Afterwords

Thank you for finishing this book. Working on your budget can be difficult, but, know you are not alone. Keep coming to Critical Guides for additional resources and more guides. Keep working hard and saving what you can while paying off that debt. Eventually, your debt will be reduced and your saving will be bolstered. If you need additional help or have some commentary please drop us a line on our website.

While some people bring you down by trying to minimize your accomplishments having economic freedom is much more important than buying that new TV or spending a ridiculous amount of money on a vacation. You are in control of your finances and you can make the difference in your own account. Nobody needs to know your budget, they don't need to know the underlying details of your financial plan. This is for you! We hope to have provided you with the tools necessary to improve your finance and live a happier more successful life.

While we are providing this book for free we do have a merch store, buying a product will help us maintain our server costs and allow us to provide more resources to you. Don't worry if you can't afford our merchandise. The best compliment you can give us is sharing the guide and our website.

Thank you again reader and keep coming back to criticalguides.org for more resources and information.