THE OBSTACLES YOU FACE, HOW TO GET ON TRACK AND HOW TO STAY ON TRACK FOR GOOD

GET YOUR FINANCIAL HOU$E IN ORDER

A Blueprint for Financial Success

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Introduction

Are there things in your life that you would like to accomplish but haven't gotten started on a plan to achieve them? Have you made money decisions in the past that didn't align with your values? Do you feel like your finances are out of control or like you don't have access to help? Have you ever told yourself *I'm just not good with money*?

Don't worry, you're not alone. In fact, according to a 2015 survey released by the American Psychological Association, 72% of Americans reported feeling stressed about their money at least sometime during the past month[1]. In fact, disagreements over money between couples are often cited as a leading cause of divorce.

And it's no wonder. The number of financial decisions that we're forced to make on a daily basis has never been higher, yet most us struggle with basic numeracy, or the ability to apply financial concepts to our everyday lives.

When we start a new job, for example, we must choose from a menu of employee benefits like health insurance, spending accounts, and retirement savings plans. We're asked to decide how much we want to save and how to invest the money, often without any prior experience or access to help from a professional.

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[1] *http://www.apa.org/news/press/releases/2015/02/money-stress.aspx*

As a result, we often can't begin to make sense of the overwhelming number of options available to us. And therefore, we end up losing confidence that we can make any real progress towards improving our daily money habits, let alone that one day we'd be able to accomplish our longer-term goals.

Even basic household budgeting decisions like how much we can afford to pay for monthly living expenses such as housing, transportation, childcare, and food can be daunting.

It's not our fault.

For many of us, the struggle is real. FINRA studies show that basic financial literacy has declined since 2009 and that 63% of US adults fail to correctly answer more than 3 of 5 basic financial questions[2]. Everyday money management skills aren't taught in schools, and most college students receive minimal, if any, real personal finance education.

As a result, we've been left to learn from our parents, peers, online resources, and any services that may be available through our employee benefits at work.

We often receive conflicting advice from a personal finance industry that that tells us to place retirement security ahead of our current lifestyle. We're advised to stop spending our money on expensive lattes and instead to sacrifice today to have a better tomorrow.

[2] *http://www.usfinancialcapability.org/results.php?region=US#financial-knowlege*

Sometimes we're told to make paying off debt our primary focus. Or it's recommended that we buy insurance that protects our families should the unexpected arise without much discussion of how much or what type. These sound bites, while well-intentioned, can be confusing and misleading.

We feel as if we're doing what we've been told to do to get ahead. We got a good education, but we took on student loan debt to finance it. And now we're struggling to find jobs that pay. We've delayed making major lifestyle decisions like settling down and buying homes.

We hear reports that the future of Social Security and Medicare are uncertain, and income tax rates must eventually rise to cover future government spending obligations. We're told that we're on our own when it comes to planning for the future.

It's kind of depressing.

So, we search the internet for tips, listen to podcasts, read countless personal finance blogs, and turn to financial gurus on television to have our spending choices 'approved or denied.' They tell us to 'buy buy buy' or 'sell sell sell' the latest hot stock or to spend years eating rice and beans while we pay off all our debt before we can even begin to think about doing anything else. We do these things in a desperate effort to answer the question *Am I doing the right things*?

It's exhausting.

Eventually, we decide that we just can't figure it out on our own. So we engage the help of well-meaning but out-of-touch financial professionals who pitch us complex products that we don't understand. Or they use financial jargon that kind of makes us feel like we're being lectured by our parents.

Our lives feel out of our control and out of balance. Simply put, *we haven't been prepared to handle decisions involving money, so we end up feeling like we're bad at it*.

This book is intended to highlight some of the pitfalls that traditional financial planning hasn't adequately addressed for the next generation so that you can begin to understand how to overcome them.

We want to help you understand that there are four key obstacles that are preventing you from reaching your financial goals. Then we will reveal the four steps that you need to take to finally get on track, and stay on track, for good.

Chapter 1: Your Financial Junk Drawer

Until the mid-nineteen nineties, financial information wasn't widely available to the average person. Instead, it was largely limited to industry professionals and distributed to the public by a handful of publications and media outlets. Financial professionals were the only means available to access financial advice and to obtain financial products.

Today, we suffer from the opposite problem. Because we can search for virtually anything on the internet and can engage in transactions like investing money, buying insurance, or creating a will from the convenience of a smart phone app, many of us experience the paralyzing effects of "information overload."

Many of us lack the basic ability to apply what we find to our lives in an effective and meaningful way. We're busy living our lives and don't have time to become experts in this stuff.

We try our best to make good, educated choices using what's available but ultimately, decision fatigue sets in and we procrastinate. We start to feel overwhelmed. We fail to realize that no decision is actually, in fact, a decision.

Things have gotten way more complex over the past several decades, some due in part to changes in technology, benefits offered by employers, higher education, the need to engage in retirement planning, and our healthcare system.

Think about it; we spend money on things today that didn't exist just a few years ago, and now we seemingly can't live without them.

To add to the situation, we also tend to accumulate a lot of financial junk over time. Consider all the different financial accounts that you have. You probably have one or more checking accounts, a savings account of some sort, maybe a few retirement accounts with a current or former employer, and an investment account someplace else.

If you're married, double all of that because odds are your spouse or partner has a bunch of the same stuff, and chances are it didn't all get combined when you got married. You probably have a few joint accounts as well.

You likely have several types of insurance like health insurance through one or both of your jobs, homeowners or renter's insurance, car insurance, and maybe some life or disability insurance.

If you're like most people, you have credit cards, student loans, mortgages, car payments, and if there are kids involved, maybe even a college savings plan too.

It gets complicated. You've accumulated each of these slowly over time out of necessity, and each plays a specific role in your financial life.

But It gets harder to keep track of everything over time as you get increasingly busier living your life. All of our "money stuff" gets jumbled up into a giant swirl of confusion.

Think of the junk drawer in your kitchen. We all have one. And it seems to attract more and more stuff as time goes by until you suddenly reach a point where you can barely close it. There are three distinct problems with the junk drawer:

1. You don't really know what's in it – If you're like most people then you've probably gone to the store to buy something only to discover later that it was in the junk drawer all along. Happens all. the. time. Paper clips, postage stamps, those little sticky things that you use to hang stuff on the wall, and whatever THAT thing is - we end up spending money unnecessarily to buy things we already have because stuff is hidden away in the junk drawer.

2. It's a hot mess – If you don't know what's in the drawer, then you surely can't get the best use out of its contents or space. Last time you opened a wine bottle, did you use the electric opener that lives in your junk drawer? Did you remember that there were batteries in there when you needed some? Is there a better use for the entire drawer itself?

3. Disorganization is overwhelming – How many times have you thought about organizing your drawer only to open it, look at the mess, get

> overwhelmed and think “eh, not today” while closing the drawer. Out of sight, out of mind.

You get the idea. We tend to approach our finances in much the same way. We lack organization around the many moving parts in our financial lives, all competing for our immediate attention, and it prevents us from getting the best use out of any of them.

What’s worse is that it may even cause us to make mistakes by looking at each thing separately rather than as a part of a comprehensive financial toolbox. Add in a dose of information overload, and we get overwhelmed to a point that we fail to take action towards our goals.

Committing to becoming financially organized is a critical first step. It’s only when you know what you’re working with and can see everything together in one place as elements of a complete strategy that you are able to begin to make any real progress.

Chapter 2 – Goals Aren't Numbers

If you have ever spent any time with a financial professional, I'd be willing to bet that somewhere early in the conversation the inevitable question was asked: *How much money will you need for______?*

Then, like a deer in the headlights, you quickly try to think of a reasonable number that will not sound too high to be attainable but one that will still provide you with enough to accomplish the thing in question. Quick, how much is that?!

After all, that is the million-dollar stress-inducing question, isn't it? *Will I have enough to live the lifestyle that I want*?

This conversation is often centered around retirement but can apply to other goals as well. How much do you need? What's a good answer? Maybe the professional has run some calculations for you based on your current income and spending habits and has come back to you with his own number. Was it $1 million? $2 million?

How many multi-millionaires do you know personally? These seven-figure numbers just aren't relatable to us because we can't think of a single person that we know who has saved this much, or at least who has told us about it.

It reminds us of the commercials with the people walking around carrying a big orange number underneath their arms.

The implication is that this is the price tag for what they "need" to retire. This is *their* number.

But numbers aren't goals and goals aren't numbers. Goals are ideas; they are the possibilities of what our lives *might* look like in the future based on the decisions that we make today. And these tend to change over time. And that's *fine.*

It's not just about retirement. For the past thirty years, the personal finance industry has largely focused on helping people create wealth for retirement and then managing their wealth while in retirement.

However, most of us make the majority of our major life decisions involving money somewhere between the ages of 18 and 40, long before we begin to think about retirement – we're only just getting started.

Think about all the decisions we make in those years: where will we attend college, what are we going to study, will we take on student loan debt, will we continue on to get a master's degree, will we take on even *more* student loan debt, what job are we going to take once we graduate, how much should we earn, should we negotiate salaries, *how* do you negotiate salaries, what about employee benefits, where are we going to live, with whom are we going to partner or ultimately marry, will we have kids, should we buy a house, *when* should we buy our first home, should we start a business, what about changing jobs, when should we sell our house and buy another…

All of these decisions involve dollar signs and can have major downstream effects on your ability to reach your financial goals.

Yet historically, traditional financial planning has mostly focused instead on trying to predict and plan for the needs of the far future - like how much you "need" to retire in 40 years or the amount you will "need" to send your newborn to college in 18 years, rather than addressing all of these fast-paced and often irreversible money decisions that you are making in your life **right now**.

If you dig into the question a bit, what you're really being asked to do is to predict the minimum amount that your life is going to cost you further into the future than your entire life experience. If it feels overwhelming and imprecise, well, it is.

Consider this - the iPhone in your pocket didn't exist a decade ago. You will be buying things in retirement that haven't even been invented yet. The world will be a totally different place.

How can you possibly know how much you're going to need to support a lifestyle that you can't imagine today? Who's to say how long it will last? How could I, as a financial planner, know whether your number is right or wrong?

This method makes the future feel like a foreign place: one with which is hard to identify. As a result, it's difficult for you to justify committing resources that could be used to support the important things in your life today to a future that feels like a far-off abstraction. We **just. Don't. Know**. No wonder it stresses us out.

Guessing your future "need" also invokes a feeling of scarcity. Needs imply minimums – *What is the minimum amount that is required to run your life? What is the minimum amount you are willing to accept?* Doesn't seem like a particularly desirable thing to plan.

A better question might be *What things are coming up in my life over the next three years and how am I preparing for them, financially?*

We much prefer to approach planning from a place of abundance. "Wants" imply possibilities and opportunities. *Tell us what you want your ideal life to look like. Let's see how we can help you live the best life with what you have.* Feel the difference?

Trying to guess the amount you will need to reach your goals is holding you back because it's unknowable. It leaves you feeling frustrated and overwhelmed. Instead, focus on what you want your ideal lifestyle to look like in the future and then we can discuss how to use your money to achieve it.

Chapter 3 – It Takes Money to Make Money

The recent advent of online “Robo Advisors” has made it easier than ever before to invest money completely online without ever having to talk to a human being. But Robo Advisors aren’t really robots nor advisors.

A computer algorithm suggests an investment portfolio for you using basic information that you provide about your comfort level with risk, your time horizon, and how much you wish to have in the future.

It doesn’t matter what your personal situation is. The only “advice” that they can give you is to invest the money that you tell them you have.

There is no other information about your personal situation considered beyond the necessary information to open your account and whatever responses you provided to their questionnaires. Regardless of how you answer those questions, the “advice” remains unchanged: invest.

Go to any Investment Advisor and tell them *I have some money I’d like to talk with you about* and compare their recommendation. The solution, more often than not, will be for you to invest the money with the objective to achieve a higher rate of return than wherever it currently resides.

In no time, out will come the charts and graphs comparing the past performance of whatever investment strategy is being prescribed against a major market index like the S&P 500. Ultimately, you will receive a recommendation to put your money into the investment.

Generally, the Advisor will ask for things like your household income and prior experiences with investing along with questions like *How long will this money be invested?*

He may even offer a basic level of education on investing, explaining how risk and return go hand in hand or how the stock market works and why you must diversify your investments - emphasizing that in order for you to achieve your long-term goals, you must be willing to take on the risk of the financial markets.

The Advisor will run some calculations, putting all of your information into his software. This allows him to give you a range of possible outcomes at various risk levels and the probabilities of maintaining a sufficient level of income to meet your "needs" throughout your lifetime. Sound familiar?

The process is really no different than the online Robo Advisor experience; it's merely administered by a human being. The advice remains the same: invest.

While there is nothing inherently wrong with this process or advice, there is a very important variable missing from this discussion. *Your goals*.

Was there a discussion about your current level of protection? Your need to pay off debt? Upcoming life events like buying a home or relocating? Is investing the best use of this money right now? Would it be better to invest in furthering your education, so you could earn a higher salary?

We realize that we're painting with a broad brush here, and, as financial professionals ourselves, we don't mean to imply that all other Investment professionals are doing you a disservice.

But even in the cases where your goals have been discussed, it still traditionally goes the *How much do you think you will you need to retire* route. We have already agreed that this is unknowable because **goals aren't numbers**.

There are a few additional problems with this approach. One, as we have already discussed, is that the future is unknown. If we try to invest with the intention of reaching a specific goal number that will provide us with an income in the future to pay for needs we can't identify, how can we possibly choose the right strategy?

Another issue is that if the outcome in the Advisor's scenario doesn't work out, or if the possibility of success is too low, the conversation likely turns towards a discussion about taking on more risk in the portfolio.

This is often the Investment Advisor's only solution. Or they can perhaps try to sell you on a different investment option or strategy.

They'll ask you to consider one that promises a chance of a higher rate of return vs. your current strategy (or the one he initially proposed) or one that claims to "beat the market" on a consistent basis or offers some guarantee against losses while providing market-based returns.

It's important to recognize that taking on more risk doesn't *guarantee* higher returns. Surely there is a correlation between risk and return over very long periods of time, but the only *guaranteed* outcome that taking on more risk will produce is that you'll experience more risk.

And most of us don't like the way it feels to watch our investment values go down with the market even if only temporarily.

It's a tough situation to be in. Take on too much risk and we face losing our hard-earned savings to bad investments, high fees, or failed strategies. Take on too little risk and face the rising cost of living that will take a big bite out of what we've saved over time.

We can't control what the markets will do, only how we respond to them when they misbehave. We *can* control, however, the amount of money that we are setting aside each month to help fund the goals that we've set for ourselves.

The more that we save towards our goals, the greater the likelihood we will achieve them without having to rely on the returns of an unpredictable market.

This is one of the *only* variables that we can control directly ourselves. We know intuitively that people who are good savers tend to be more financially successful in the long run.

The only sure-fire way to be certain that you'll have more money in the future, and a shot at accumulating enough to help provide the lifestyle that you want, is to focus on the rate at which you are saving money today. Rather than the rate of return you're earning on the money itself. Better to earn a little on a lot over time than a lot on a little.

Chapter 4 - Everything Can't Be Tied for First

Have you started saving for retirement? Purchased a home? Are you saving for your kids' college fund? What about fully protecting your income from accidents, sickness, job loss, death, lawsuits, and other hazards? Are you still paying student loans? What about credit card debt? Do you have an emergency fund? If not, *why not*?

Like most of us, you've probably started working on at least a few of these items. Maybe you're paying off debt, or you've started saving in a company-sponsored retirement plan like a 401(k).

You have folders of papers, spreadsheets that track your budget, and online banking apps that give you 24/7 access to your accounts.

Maybe you even manage to save a little at the end of the month after all the bills are paid, yet it doesn't seem to make a difference. You just don't see your situation improving.

How do you know if you're doing things in the right order?

Do you find yourself asking things like *Should I be saving for retirement while I still have student loan debt? Can I afford to buy a house if I don't have an emergency fund? Should I be saving for college for my two kids if I have credit card debt?*

These are important questions to consider, and there isn't really a definitive answer. All we know is that there are lots of things that we want to accomplish in our lives and that there are things we should be doing with our money to make them happen. But we often lack a clear set of priorities so we don't know if we're doing the things that get us closer to reaching our goals in the right order.

It may be that you haven't fully considered what it is that you're trying to accomplish. Maybe you have a lot of different ideas, but you haven't put them in the order that you'd like to accomplish them.

Or maybe you haven't put specific parameters around them like by when you'd like to cross the items off your bucket list. Some of your goals are approaching faster than others and the odds are that there's just not enough money to do everything all at the same time.

Or maybe you've been unsure of which steps to take so you haven't started doing anything at all because you're afraid of making a mistake. We know that not everything can be tied for first place, but how do we choose? The fear of regret can be a powerful motivator.

More commonly, we find ourselves without clear direction. We just do things here and there that we feel are probably good ideas.

Those things might seem like common sense based on things we've read or overheard our friends or family talking about. But all of that is simply information without any clear plan of action or direction.

Take saving for retirement or making extra payments towards your debt for example. How do you know that you're doing either of those things correctly?

If you're saving regularly, are you doing it in the right places? Are you getting the most out of your benefits at work? Are you fully protected? There are probably things you haven't even considered.

Often, we make a series of individual decisions without a clear sense of our priorities or any regard to how these decisions may impact other areas of our financial lives.

In some cases, we try to do everything all at once. Again, we're doing this without a clear set of objectives or measurements surrounding what actually defines success. In the end, we get frustrated when the realization sets in that we *just can't do it all*.

Without a clearly defined set of priorities like defining what the most important things are to you (your **values**) and a deep understanding of what specifically it is that you want to accomplish (your **goals**), it's little wonder that you find yourself not making the progress towards living your ideal lifestyle.

You may find yourself busy doing lots of things but doing none of them particularly well.

Financial planning is a lot like math. There is a correct order of operations to achieving financial success, but not knowing how to put those steps in the right order can be what's standing in your way.

Consider the following problem:

$$2 + 1 \times 2 \div 2(5 + 2)^{2} - 1 = ???$$

Did you get 440 as an answer? If so you forgot about the order of operations. The acronym PEMDAS helps us remember in which order to do the steps in the calculation:

$$2 + 1 \times 2 \div 2(5 + 2)^2 - 1$$

$$2 + 1 \times 2 \div 2(7)^2 - 1$$

$$2 + 1 \times 2 \div 2(49) - 1$$

$$2 + 2 \div 2(49) - 1$$

$$2 + 1(49) - 1$$

$$2 + 49 - 1$$

$$51 - 1 = ??$$

The correct answer is 50. The purpose of this example isn't about the math though, so don't worry if you couldn't remember how to solve the problem. The point is that there is a certain order of operations that must be followed to reach the correct answer each and every time. The same logic should be applied when approaching your financial goals.

If you get the steps in the wrong order or focus on trying to accomplish everything all at once, it's likely that you won't reach the outcomes that you want. Having clearly defined objectives and following the steps in a specific hierarchy of importance is the best way to reach long-term financial success.

Chapter 5 - Your Financial House

Traditional financial planning largely focuses on your **balance sheet**, which is an organized way to account for your current financial status.

Your balance sheet consists of two parts - your assets (the things you own) and liabilities (the things you owe). It reflects your past money decisions as a cumulative assessment of your choices around saving and spending.

Subtract your liabilities from your assets and you'll arrive at your **net worth**, which is the best measure of your financial health. This is what you will rely on one day to provide you with the income you need to support your ideal lifestyle after you've retired.

Younger people like us, however, may not have accumulated much in the way of assets – *yet*. Or we may have debt that exceeds our assets, resulting in a negative net worth. That's okay for now.

As we go through the planning process, we encourage you to keep note of your progress by measuring the increases in your net worth over time.

Cash flow is the lifeblood of your financial world and foundation of your planning efforts. It is the thing that provides for your current lifestyle and allows you to save for the future.

Having a strategy in place to manage it effectively helps you build up assets on your balance sheet so that when you're ready to stop trading time for money one day, you can generate income from those assets to continue to support your lifestyle.

Cash flow is often ignored in financial planning discussions, but we think it deserves your full attention.

Much of our financial stress comes from basic cash flow challenges. Paying our monthly bills, taking care of ourselves and our families, buying the stuff we want, and making payments towards our debts all while trying to find money to save can be challenging.

Financial Planning for the next generation must address the opportunity to help you properly manage your cash flow to create assets on your balance sheet while you pay down debts.

When assets go up and liabilities go down, net worth increases, improving your overall financial health.

Our primary job as advisors is to help you move as much of your cash flow onto your balance sheet as possible and keep it there.

It's our job to help you make smart financial choices that minimize the amount of money going out the back door to things like lifestyle, taxes, debt payments, and missed opportunities.

More often than not, money that could have been invested and growing, instead, is spent on things that decline in value over time.

And because your cash flow provides you with your current lifestyle and helps you to build assets for the future – it's our job to help ensure that both remain fully protected.

There are four domains that make up your financial house. Cash flow is the foundation while assets and liabilities (and your net worth) represent the walls, with a roof of protection over all them to guard against outside elements that seek to do harm to your planning efforts.

A focus on these four domains, with an extra emphasis on protection and cash flow, lead ultimately to a place of financial balance.

In the following chapters, we'll show you how to get the steps in the right order to build a financial plan that will help you get your financial house in order once and for all.

Chapter 6 – Protect Yourself (Before You Wreck Yourself)

It's important to recognize that your biggest financial asset at the early stages of your career is your *ability to earn an income*.

If you are 30 years old with a household income of $100,000 per year, at a minimum over the next thirty-five years you will earn over $7.3 million dollars, assuming a 4% annual cost of living increase and no other raises, bonuses, promotions, or job changes! Congratulations, you're already a multi- millionaire!

And this is just the minimum. In all likelihood, you will see increases in your income throughout your career beyond the cost of living as you gain experience and reinvest in yourself to improve your skills.

This number is the price tag for all of your goals. And while we can't put an actual dollar amount on the value of a human life – you are most certainly irreplaceable - we can compute the value of income lost to job loss, injury, illness, or death.

We can also account for the associated negative effects on your ability to create wealth and achieve your goals.

Therefore, it is critical to protect your future income from all of the perils that can threaten your financial future before any other planning can be done.

Protection takes on many forms and doesn't just include replacing your income if you get sick or pass away. It exists to help insulate you from the hazards of everyday life.

Things such as losses incurred from medical bills, lawsuits, failed business dealings, and property damage from storms, fire, and floods can all be protected.

It can also provide for the handling of your affairs if you become unable to handle them yourself, the eventual transfer of your property to others, and the care and well-being of minor children in the event of your death.

It is incredibly unlikely, though, that any other threat to your future – not lawsuits, hospitalization, or the loss of your home or car – will have as severe an impact on your future, or as high of a price tag, as the permanent loss of your income.

You've likely already done at least some planning in this area. For example, most states require that you buy at least some minimum level of auto insurance coverage to legally drive a car.

You may have health insurance through your job, or even some basic life or disability insurance. Maybe you've even created a Will using a DIY online tool.

This stuff isn't fun to think about. It's not uncommon for young people to walk around blissfully unaware of just how exposed their finances are to the everyday risks that we all face.

That won't ever happen to me you say, *I'm healthy* or *I'm a careful driver*. But as we all know, it only takes a second to change an outcome forever.

Consider a sudden, unforeseen event like a car accident. There are only three possible outcomes:

1) You are unhurt or suffer only minor injuries from which you recover.

2) You survive but are permanently disabled and unable to work.

3) You pass away.

All three of these situations require the utilization of one or more protection strategies to ensure that your financial life continues as planned regardless of the outcome. But because the future is unknowable, we have to protect against all three possibilities.

If you caused an accident that injured or killed someone else, we can expect that they might need to replace the income that their family would lose. In that event, they may file a lawsuit against you. How would you pay for that?

We believe that protection **must** come first in the journey towards financial success. It doesn't make a lot of sense to direct financial resources today towards saving, investing, or debt repayment at the expense of a strategy that helps to ensure that there will *be* a tomorrow.

A sound protection plan can help provide you with the financial confidence that your ability to produce the income needed to fund all of those goals in your life will not be interrupted.

It can help you to avoid a major negative impact on your lifestyle if the unthinkable happens.

Your future is dependent upon today – without today there can’t be a tomorrow. Your plan to achieve financial success starts with making sure that your todays are fully protected.

Chapter 7 – Pay Yourself First

Though traditional financial planning has historically focused on the assets on your balance sheet and the rates of return that they can produce, which exist largely outside of your control, one thing that is well within your control is your ability to save.

While assessing your capacity to put money towards your goals, it's worth first examining the amount of income you can produce.

You can look for ways to increase the amount that you are saving through modifications in your spending habits.

You can also optimize your cash flow items like how much you withhold from your paycheck for taxes, raising the deductibles on your homeowners or auto insurance, or refinancing debt. Every little bit helps.

But the truth is, no matter how much you're told to be frugal and watch what you spend on frivolous expenses, you can't cut your way to prosperity.

There's a limit to just how many of your expenses that can be reduced. A more effective strategy to help increase your savings rate may be to seek out ways to increase your income.

Consider that the difference in a starting salary of $50,000 per year and $55,000 per year yields over $400,000 in cumulative earnings over a forty-year career if your income rises 4% per year and you receive no other increases.

If you were to save this additional $5,000 per year in an investment that produced an average compound annual rate of return of 7%[3] over the same time period, you could add an additional $1,000,000 to your balance sheet. The key is starting early and being diligent.

If you're not able to negotiate a raise or find a higher paying job, other opportunities exist. It's never been easier to find a side hustle to add to your income through the internet, your local network, or even right in your own neighborhood.

If you're struggling to find a way to save, try to look for these opportunities. Even a few hundred extra dollars a month can give you the jump start that you need.

As we have mentioned, one of the few things in your financial life that you can exert direct control over is the amount that you are proactively setting aside to be used towards longer-term goals.

This is easier said than done. Most of us tend to approach our monthly cash flow in the following way.

We receive our paycheck and immediately spend on our lifestyle expenses; housing, food, clothing, etc. Then we pay our taxes and debts so Uncle Sam won't put us in jail for tax evasion and our house or car won't be repossessed by the bank.

If anything is left over, we may set it aside for a future purchase, vacation, retirement or another goal. But on average, we

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[3] *For illustrative purposes only. Does not represent the actual performance of any specific investment and is not guaranteed*

Americans only save about 5% of our overall income. This is not a sufficient amount to accomplish everything on our to-lists and is a major contributor to why most fail to achieve their financial goals.

You should always begin by paying yourself first. If this is difficult when you're just starting out, try treating yourself as any other bill or creditor. Make a payment from your checking account to a separate savings account dedicated to long-term wealth creation.

Better yet is to do this automatically, like a company retirement plan does by taking the money directly from your paycheck before you ever receive it.

You can do the same via direct deposit, or you can simply set up an ACH transfer to automatically move a predetermined amount from your checking account on pay day to your separate wealth creation account. Out of sight, out of mind.

If you still feel like you can't afford to do this, try spending only cash for an entire month on all your discretionary items like groceries, gas, or other small items that you purchase.

Then set your coins aside and add them to your wealth creation account at the end of the month. Start small – something is better than nothing, and you might be surprised how quickly they can add up.

Consider this – if you start today saving just 2% of your income and increase it by another 2% each year, you'll reach 20% in just ten years. If you're 30 years old today, by age 40 you can be saving $1 out of every $5 that you earn. You may even receive increases in income along the way which can help you get there even faster.

We recommend a long-term savings rate between 15 and 20% of your income. This may sound like a significant amount, and it is – but it's also doable over time with some focus.

If you're struggling with this, ask yourself this question: *Can I afford to live on 80% of my income?* Sounds better, doesn't it? Psychology tells us that framing the issue in this manner can help make it easier to commit than trying to convince ourselves to save 20% of our already stretched incomes.

The more of your income that you can save, the less you will need to rely on the unpredictable nature of the financial markets to help you achieve your ideal lifestyle. The sooner you begin, the easier it will be.

Creating great savings habits early on is one of *the* most important steps you can take, apart from full protection. And it's one of the biggest predictors of your long term financial success. That's why we place becoming a great saver by paying yourself first as number two in the steps to getting your finances on track.

Chapter 8 – Stash That Cash

Once you've committed to the process of saving at least 15% - 20% of your income, you must decide *where* to stash your newfound wealth.

It's not enough to simply increase your net worth over time; attention must be paid to maintaining a balance between your short and long-term savings, paying careful attention to setting aside funds for life events.

A key consideration to where we should place our savings is the degree to which the funds are kept liquid. This is defined as the ability to quickly access the money without paying taxes, penalties or experiencing market losses.

There are several distinct advantages to having liquid funds available for life events when they occur. First, having life event funds gives you options.

If most of your net worth is tied up in a retirement account, for example, you will incur taxes and penalties when you take the money out before you reach age 59 ½, though there are a few exceptions.

Other types of investments may subject your funds to market volatility and could be temporarily down in value when you need them. The potential to incur penalties and fees is also a consideration.

The same goes for any equity you may have in real estate, like your home. If you owe less on your house than it's worth you have equity, but that's not easily or quickly converted to cash.

Business assets are often illiquid as well and can require valuations, appraisals, and experts to help facilitate a sale.

Appropriate places to keep life event funds can include bank accounts, short-term investments, and other similar places that keep your funds safe and available until you need them.

Permanent life insurance policies can accumulate cash value which you can often borrow on a tax-free basis. We'd also include life insurance cash value in this category as well.[4]

This is a good spot in our conversation to point out that life events aren't always negative. You've probably heard that you need to maintain an "emergency" or "rainy day" fund, but in reality, there are times when having access to these funds can help you take advantage of positive opportunities when they come along too.

What if you receive an invitation for a family member's destination wedding? Or what about a last-minute invite for girls' beach weekend? Have you ever said no to an experience like this because it just wasn't in the budget?

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[4] *Policy benefits are reduced by any outstanding loans and loan interest. Dividends, if any, are affected by policy loans and loan interest. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under 59 ½, any taxable distribution from the policy may also be subject to a 10% federal tax penalty.*

Maybe you want to buy a new home, a new car, start a business, or quit your job to stay at home with your kids. Having ample liquid savings and investment assets accessible can help make these things possible.

Another advantage is that maintaining liquidity can potentially help you boost your cash flow, freeing up funds from your income to be used elsewhere in your plan.

If you maintain sufficient liquid assets, you can do things like raise the deductibles on your health, homeowner's, or auto insurance since you now have the funds on hand to pay the costs of your deductibles should you need to file a claim.

Or maybe it makes sense to use some of your resources to pay down or refinance debt, potentially lowering your interest costs and your monthly payments. Again, this cash flow can be repurposed to a higher and better use.

Maintaining liquidity also gives you the advantage of responding to emergency situations without having to go into debt.

Instead, you'll have the funds on hand to finance replacement or repair costs when the roof leaks, or when the car needs to be repaired unexpectedly, or an appliance breaks down.

We suggest striving to keep nine months to one year of your income available in life event funds. Like we said earlier about saving 20% of your income – at first glance, this appears to be a big number, and it will take time to accumulate - that's ok.

It’s about taking the necessary steps and building the necessary habits. Understand that there are ample advantages and going without can be risky.

Maintaining liquid assets on your balance sheet helps to provide you an enhanced degree of protection. It helps you avoid debt when the unexpected occurs, and it can help you take advantage of opportunities in your life or can help you achieve shorter term goals.

It reduces the likelihood that you will incur taxes, penalties, or market losses when you need to access the funds. And best of all, it gives you options and flexibility when the unexpected happens – both good and bad.

Most importantly, it can simply help you sleep better at night, providing you with the financial confidence of knowing that you have the funds available should an unexpected expense arise without disrupting your cash flow or other savings habits. For these reasons, this is the third step towards getting on track for good.

Chapter 9 – Get Yourself Free (of Debt)

I think it's fair to say that most of us don't like debt. We spend a lot of time worrying about making monthly payments and trying to come up with the best strategies to get rid of it for good.

Part of this is because no one likes to pay for things that have happened in the past. When we use debt to finance a purchase, the gratification has often long worn off by the time that the bill comes and we have to actually pay it.

Some debt can be helpful. Take a mortgage, for instance. Most of us would be unable to buy a home without borrowing money from a bank. And doing so allows for us to live in the house while we pay for it. Imagine how good it's going to feel one day when you finally pay it off.

Same goes with student loans. They give us the opportunity to finance education which can, in turn, help us increase our knowledge and skills to qualify for a higher paying job.

But debt can also be destructive when it's not used in a responsible way. Many of us have turned to credit cards with high-interest rates at points in our lives to purchase things that we otherwise couldn't afford. This increases the costs of the purchases substantially.

Sometimes this happens through conscious spending choices that we make, and sometimes it's due to situations outside of our control like job loss, divorce, or emergencies that we can't cover.

Regardless of how it comes to be, debt creates a liability on our balance sheets that slows our progress towards reaching our goals. And it can rob us of cash flow that could be better used other places.

Going back to our earlier discussion of priorities, it may surprise you that we put debt last in the steps. But there is a reason for it, which we will explore.

Certain financial experts advocate becoming debt free at the expense of all other financial goals. While intuitively this may make sense since eventually it will free up money that you can put towards other goals, there are still a few problems with this approach.

The first is that if you divert too much of your income towards paying down your debts, it's quite possible you are not leaving enough available each month for your necessary expenses.

I have personally seen cases where well-intentioned people put nearly all of their income towards credit card bills or other debt while simultaneously going over budget and adding to the balances as a result.

Clearly, this isn't sustainable and makes it virtually impossible to ever be free of the burden of these expensive monthly payments.

A second consideration is that if you're putting all of your money towards your debts, you're not doing the first three steps in the process.

As we have discussed, you must protect your biggest asset first. If you become sick or hurt and unable to work, how will you produce the income needed to make your debt payments? This is a good recipe for personal bankruptcy.

The second and third steps focus on creating the necessary habits to become a great saver and to balance the accessibility of short and long-term savings.

If we put the goal of debt repayment ahead of creating liquidity or building long-term wealth on our balance sheets, it's very likely we will reach that goal – only to find ourselves debt free and broke. That's a place you would rather not be.

Consider Stacey and Dan. Stacey has accumulated $50,000 on her balance sheet through good savings habits and has approximately $50,000 in credit card and student loan balances outstanding.

Dan, on the other hand, has successfully paid off all of his debts and did so at the expense of steps 1 – 3. He has no debt and no assets.

Stacey has a plan in place to repay her debts over time while continuing to build wealth and liquidity on her balance sheet. She also has options. She could choose to repay the debt with her income or her assets.

If she encounters a financial emergency or opportunity she has the means to take advantage of it. She can also carry higher deductibles on her insurance and potentially pay less in income taxes[5], which helps boost her cash flow.

Dan, on the other hand, enjoys none of these advantages. And should he experience an unexpected situation, he may well find himself right back in debt again!

It's this behavior that perpetuates a cycle of debt that can be incredibly hard from which to break free. Both Stacey and Dan have the same net worth (assets minus liabilities), but Stacey has many more options and can sleep better at night while Dan may be totally unaware of the risk he is taking as he celebrates reaching his goal.

Which person would you rather be?

It is for these reasons that living debt free is the last in line in the steps to getting on track for good. It's surely an important goal, and one that with some effort can be obtained, but it must be subordinate to the other three steps for you to truly reach your goals over the long term.

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[5] *Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.*

Chapter 10 – Get Your Financial House in Order

By now you should have a good understanding of the four obstacles standing in the way of you finally reaching a place of financial success.

Disorganization makes it hard to determine just where you stand with all the various elements of your financial life. This lack of clarity makes it hard to get started towards your goals.

Trying to guess an amount that you're going to need in the future instead of determining what you want your ideal lifestyle to look like turns goals into numbers and makes it difficult to determine if you are on track. It makes your future feel scarce and minimalized vs. rich and abundant.

Focusing on your rate of return over the amount you are saving can lead to excessive risk-taking and dissatisfaction with investment performance. This can derail your long-term savings strategy.

And lastly, lacking a clear set of priorities around what you wish to accomplish and knowing which steps to take in the correct order can lead to frustration, confusion, and less than desirable outcomes.

Here is a recap of the four steps that you can take to get on track and stay on track for good:

Step 1) Protect Yourself – You must fully protect your biggest assets from all of the threats and hazards of life to ensure your plan continues to be funded regardless of what might happen along the way.

Step 2) Pay Yourself First – The amount of money that you save is one of the only things you can directly control, and by focusing on increasing your rate of savings to 15 – 20% of your income over time, you will help to ensure that you set aside enough to meet your long-term goals without over-relying on the rate of return on your investments.

Step 3) Stash That Cash – Where you save is just as important as how much you save. Keeping a balance between short-term liquidity and long-term growth potential can give you flexibility and help to ensure that you don't incur losses or pay penalties if you unexpectedly need to use the money.

Step 4) Get Yourself Free (of Debt) – Debt must come last in these steps because though paying it off leads to a feeling of freedom and allows for you to put the cash flow allocated to payments to a higher and better use, placing it ahead of the other steps can lead to a never-ending cycle of debt, or worse, you may end up debt free and broke.

We hope that you now feel more clear and confident about the path forward and that you have enjoyed learning what steps you need to take to get your own financial house in order.

Follow these steps while on your financial journey. If you're unsure of how to proceed, consider seeking the help of a qualified professional who can help walk you through the steps and apply them to your unique situation. If you can't find someone, contact us. We have financial advisors ready and willing to help you.

As you make progress and begin to see positive results, it will help to reinforce the process and give you the encouragement you need to stay on track. In doing so, we believe that you will finally get your financial house in order for good.

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