

How to Be Financially Secure



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HOW TO BE FINANCIALLY SECURE

Being wealthy is not a guarantee of happiness, yet a lack of financial resources can certainly bring unhappiness, particularly in extreme poverty. Winning a lottery, or receiving an inheritance windfall, is not the only way to obtain money. Wise management of regular earnings is a more dependable way to secure financial independence.

The story has been told many times of people who have received a windfall inheritance, or have won lottery, yet in a few years' time they are broke! They have squandered their money by poor management. They don't make wise decisions with their money.

Basically, there is nothing wrong with money. In fact, money in itself is unimportant. It really isn't the most vital thing in life. Family and friend relationships or good health are far more meaningful issues in attaining happiness. Nevertheless, we live in a material world; therefore money becomes a necessity for survival. However, if we accumulate wealth for the purpose of greed, interested only in our bank balance, we won't find happiness. The legendary story of Scrooge depicts a miserable rich man. He found happiness when he gave away some of his wealth to help those who could not help themselves.

Do you find you have too much 'month' at the end of the money? Paying bills can be a painful chore. There never seems to be enough cash. Do you find you are always short? This seems to be normal in most households, but this you can change if you wish. An over-simplification of wise financial management is as follows:

MAKE MORE MONEY THAN YOU SPEND.

Or to put it another way:

DON'T SPEND MORE MONEY THAN YOU EARN.

To accomplish this, self-discipline is needed. **A budget discipline.** Many just spend, spend, spend then complain about being poor. The wise and thrifty person will set a budget and live within its boundaries. This may require a little sacrifice at first, but it does work. If persistent, the time will come when this sacrifice is no longer necessary. Naturally a budget will not work if the income is inadequate to cover basic necessary expenses. If this is the case, another strategy is required.

The very first consideration is to study and train to enter a job that will pay good wages. Some go to university and enter professions. Others do a trade. It is important to be skilled at something. The unskilled usually receive less income.

The wise person will even look for ways to earn extra money. This may require giving up some personal time now, but allow more leisure time in the future because of an improved financial standing. A budget discipline allows an amount for living as well as an amount for investment. Make it a rule to stick with the budget at all times.

To be strong is difficult, but there is tremendous benefit to be achieved in the long run. Examine the following points.

1. Set your immediate and future needs and goals. Write them down and work toward their accomplishment. Don't put it off to a later time. Do it now.
2. Don't be mentally lazy. Look for new ways. Be prepared to learn. Gain knowledge in training for income producing work.

3. Always be on the alert. Be progressive.
4. Make wise plans in an organised way.
5. Respond to new ideas and opportunities as they emerge before you. Don't look for the easy way out, rather, be ambitious.

Responsible saving

It appears almost impossible for some to earn sufficient money, let alone save any! As for investment, well, this seems absolutely out of the question. However, saving may not be as difficult as you think. Be determined to save.

If you begin when you are young, you have a tremendous advantage. Time is on your side. The first dollar is the hardest to earn. If you begin early, you won't have to wait until you are sixty-five to retire. If this is your desire, you can stop regular employment well before retiring age and enjoy a guaranteed income for the rest of your life. It may be unwise to depend on the pension. With the population living longer, governments may not be able to support the aged as they do now, simply because there will not be enough funds. This is one reason why we have employer-sponsored superannuation funds, which may well replace the pension. There are some who take the attitude that they may not reach retirement age, and say; "Why bother saving?" Yes, about 12% won't make it, but about 88% will. Therefore, the odds in favour of reaching retiring age are much greater. Out of those who do reach this grand age, most have not achieved financial independence and will apply for the pension.

To succeed, step number one is the most vital. Be prepared to accomplish this goal.

SAVE 10% OF YOUR INCOME FOR INVESTMENT PURPOSES.

This is a starting point. This is a **must!**

Excuses for not saving

Age 20 - 30 "I don't earn enough - I'm just beginning".

Age 30 - 45 "I have a family and a mortgage".

Age 45 - 55 "I have young people to educate and parents in a nursing home".

Age 55 - 65 "I want to travel and enjoy life before I retire".

Age 65 - 75 "I'm on a pension".

Age 75 - 85 "I'm living with my children".

Age 85 "You can't take it with you".

Set up a special bank account and save 10% of your pay each pay day. Follow this rule.

PAY YOURSELF FIRST.

Most people pay the bills and perhaps bank what is left. This isn't the wisest procedure. Pay yourself first. Put the 10% aside first - then live on what's left. Most people live up to what they earn. Some big wage earners have nothing to show for their big income. Give them a rise, and they still don't save a cent. Those who carefully plan their budgets will be able to put aside 10% of their pay if they do it **first**. Set your goal. Make it a rule to not use this money for anything but investment. Some choose to give to their charity or church first. This is a noble choice but after that it is wise to then pay yourself.

WORK FOR YOUR MONEY - THEN YOUR MONEY WILL WORK FOR YOU

This is how financial experts explain it. Your money will work for you if invested. If you spend your money, it's gone. Investment is money working for you twenty-four hours a day.

The three laws of financial management are as follows.

1. Spend less than you earn
2. Invest savings wisely
3. Allow investments to grow (leave them alone)

Let's take an example. If 10% of your wages is as little as \$40 per week, and you invest at a rate of 10%, in twenty years your bank balance will be \$119,132. This is \$41,600 of your own money and \$77,532 interest, which makes \$77,000 you wouldn't have, if you hadn't saved. Even considering taxation, you will still be well ahead. 10% is not always possible to secure but you can see how the principle works.

Over this time period inflation and wages will probably increase, and interest rates will fluctuate. Compared with the past, due to these variables, the final amount will probably be much greater than we have calculated. If you are able to save a larger amount, you will achieve financial security earlier. By far, the interest return will be better than wages.

Let's look at another example. If you work for 35 years and invest as little as \$100 per month (less than \$25 per week), in a tax sheltered investment, at the end of the 35 years you will have accumulated \$580,000. This is based on a return of 12% and an initial deposit of \$1,000. Your weekly income from interest would exceed \$1,100. For most people this is enough to live on for the rest of their life. 12% is hard to arrange in lower interest times but whatever the current interest rate is it places you in an advancing position. Smart people, wisely planning for the future are doing this.

Limit your spending

In our younger years we tend to spend more than we earn. We buy the latest clothes, Hi Fi systems, flash cars, expensive holidays and more. Usually we borrow to get what we want. It's all very nice to have everything, but unfortunately, there's a price to pay. Not only do we have to pay back what we have borrowed; we must also pay a staggering amount of interest. Lending institutions become rich loaning money to people who must have every conceivable material thing, **now!**

If you follow a simple rule, you can save yourself many thousands of dollars. Here it is: **"Don't borrow money to buy items which will not make you money"**. Yes, pay cash for consumables like clothes, cars, holidays, etc. Borrow money only for a house or business investment, or for items that do not lose value, but actually appreciate over a time period. Limit your spending in line with your income and you will be much better off in the long run.

Marriage and children add extra expense to living, but as we mentioned before, there are more important things in life than money - marriage and children for example. If there is a shortage of money, it does put a strain on the marriage. Sometimes it's better to wait a few years before having children. This can be a preparation time when both partners can work and save for the time when children will come into the home. This eliminates the sudden financial burden. Later on in life when the children are grown, it becomes easier for husband and wife to save. The wife often goes back to work. The extra income is not needed quite as much as in the earlier years, but it helps prepare for retirement. At retirement there is no earning, therefore investments or a pension become the sole source of income.

Starting a saving program at any time in life is wise, but most benefit comes if you begin when you're young. If you start saving 10% of your income at 22 years of age, and increase your savings as wages increase, at retirement your investment will grow to over \$1,000,000. If you follow the

same plan, but don't start until your mid-forties, your investment will grow to approximately \$250,000. This isn't encouraging news if you are nearing retirement, but if you are young, you have the bright prospect of achieving financial success, providing you save and start at an early age. Try the 10% method and persevere. You won't be sorry. Remember - **pay yourself first!**

Conserve your cash

Most people believe their income is inadequate. To a large degree, this is untrue. More likely, it's a matter of how the funds are managed. There is a tremendous amount of wastage that can be avoided without too much effort and without upsetting quality of life. If the cost of living can be cut by as little as \$25 per week, based on a 10% interest rate, this amount properly invested, could grow to \$74,457 in twenty years. This is an increase of \$48,457. It could buy a car, or two! If you follow these saving and investment plans, there is the possibility you could become financially secure in as little as 20 years.

What can you do to cut costs? Here are a few suggestions: -

- 1.** Give up smoking if you are a smoker. First of all for your health's sake, and secondly to improve your bank balance. Work out how much better off you would be in ten years if the amount you spent on cigarettes were invested.
- 2.** Don't drink alcohol. This is hard for many Australians to accept, but really, it's unnecessary. Your health is better if you don't drink and so is your pocket.
- 3.** Eating at home is much cheaper. If you do eat out, don't choose the most expensive restaurants, except for very special occasions.
- 4.** Don't gamble. The odds are stacked against you. The gambler is encouraged by an occasional win, but in the overall analysis, he/she loses. Governments are the big winners from gambling.
- 5.** Avoid buying the most expensive clothing. Fashion insists we must wear the right name brand with the right labels. Fashion doesn't have to dictate to you, it can keep you poor. Sure, buy quality clothing, but look around. Some places sell the same products at a better price. The latest fashion might look trendy now, but if you are smart with your money today, in the future you will be able to buy what you want - without sacrifice.
- 6.** Choose a hobby or sport that doesn't take all your money. Some pastimes are totally consuming, such as motor racing. Unless somebody else sponsors you, it will require every cent you have. If you want to conserve your money, look for a cheaper alternative.
- 7.** The same is true of leisure activities, such as entertainment. Look for the most economical. Then, at vacation time, a camping holiday can be good fun. Maybe you won't have the prestige of flying to an overseas resort, but it can be just as pleasurable.
- 8.** If you already have debts, make it your first project to eliminate them. Pay them out quickly so you can start investing. Consolidate all your debts into one, for easier repayment. A credit union or bank can arrange this for you. If you qualify, some lending institutions may even let you add your loans to your mortgage, which will drop the interest rate. If your debt situation is hopeless, because of a failed business venture, and it has become an impossibility to repay, you may have to declare bankruptcy. This is unfortunate for the creditors, who may never be paid, but it's a fact of life that unforeseen circumstances can sometimes cause big or small businesses to collapse. There's no shame in bankruptcy. At least you've tried. In a few years' time you can start again. You will be a lot wiser and more likely to succeed.
- 9.** You don't have to own the latest car, or build a swimming pool. Some of these things are nice, but you can do without them. Sacrifice these items in the beginning, and in several years time you may be in a better position to afford them.
- 10.** A motor vehicle is a modern day necessity. A brand new car is very nice, but to buy one is not the best economical move. Borrowing to buy a car isn't a good idea either, unless it's used in your work to make money. Using it to earn an income is a tax deduction. But for pleasure, or travelling

to work, it becomes a non-profit expense. Buy a car you can afford, but first have it checked out by experts for defects to ensure reliability.

11. Another way of saving is to conserve electricity. Switch off unused lights and heaters. This caution can result in considerable saving.

12. Don't borrow money unless you have an emergency. Live within your means.

If you follow these twelve points, you will not experience hardship. Rather, it's good economic management. Don't be a spendthrift. Be thrifty. Change your spending habits, and you will change your life - for the better.

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FINANCIAL SECURITY BUDGET

1	AFTER TAX TOTAL INCOME PER MONTH	\$ CREDIT
2	<u>TOTAL EXPENSES PER MONTH</u>	<u>DEBIT</u>
3	Investment (10% of income)	\$
4	Rent or Mortgage	\$
5	Motor Vehicle Expenses	\$
6	Food	\$
7	Clothing	\$
8	Electricity	\$
9	Telephone	\$
10	Entertainment	\$
11	Insurance	\$
12	Motor Vehicle Repayments	\$
13	Creditcard	\$
14	Debts	\$
15	Charity	\$
16	Other Expenses	\$
17		\$
18		\$
19		\$
20	Reserve account	\$
21	TOTAL EXPENSES	\$
22	BALANCE (subtract 21 from 1) {credit reserve account}	\$

How to use the budget

1. Calculate your **yearly income**. (After tax)
2. For a **monthly** amount, divide this figure by 12 for insertion in line 1.
3. Calculate your **yearly expenses** and itemise them.
4. For a **monthly** amount divide each item by 12 and place them in the appropriate lines of the budget.
5. Add your expenses to ascertain your living financial needs.
6. Deduct this amount from your income. The balance is either surplus or deficit. Surplus can be used as you please. Deficit indicates -
 - a. Insufficient income or
 - b. Excessive expenses.

Requirements

1. Account - for paying bills.
2. Account - for investment

Rules for success

1. Pay yourself first - (investment account)
2. Don't spend money you don't have (avoid credit)
3. Live within the budget
4. Be positive about becoming financially secure.
5. Be patient. The budget doesn't work overnight, but will, if you persist.

Keep a record of your spending.

The following chart can help.

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FINANCIAL SECURITY BUDGET MONTHLY PROGRESS

MONTH _____

		CARRIED FORWARD FROM LAST MONTH	DEDUCTIONS & ADDITIONS THIS MONTH (red ink for deductions)	BALANCE IN ACCOUNT
1	Investment account (10%)	\$	\$	\$
2	Rent or mortgage	\$	\$	\$
3	Motor vehicle expenses	\$	\$	\$
4	Food	\$	\$	\$
5	Clothing	\$	\$	\$
6	Electricity	\$	\$	\$
7	Telephone	\$	\$	\$
8	Entertainment	\$	\$	\$
9	Insurance	\$	\$	\$
10	Motor Vehicle repayments	\$	\$	\$
11	Creditcard	\$	\$	\$
12	Debts	\$	\$	\$
13	Charity	\$	\$	\$
14	Other expenses	\$	\$	\$
15		\$	\$	\$
16		\$	\$	\$
17		\$	\$	\$
18		\$	\$	\$
19		\$	\$	\$
20		\$	\$	\$
21	Reserve Account	\$	\$	\$
	TOTAL	\$	\$	\$

Where to invest your money

Put your savings into a high interest bank account. Higher interest yields from other institutions are attractive, but there is the possible element of risk. Look for safe investments.

Investing in the share market

If you choose to invest in the share market, choose safe, reputable companies. Generally speaking, the share market is extremely volatile. Some people have become rich investing this way but many have failed miserably. It is high risk investment.



Investing in a business

A business venture can be very exciting and very profitable. It can also fail. In fact, figures show that about seven out of ten businesses crash after only a few years of operation. The message is this, if you want to make money by going into business, be sure you have a workable business plan. Do your homework. Study a small business management course. Be as sure as you can that it will work before you take the plunge.

Those who succeed in business know where they are going. They keep their finger on the pulse at all times. They serve their customers well. They anticipate changes. They are progressive and they have capital. No one should ever consider starting a business without a very healthy reserve of funds. If you can operate a business from home, where you have no overheads, that's different, especially if you do it as an extra to your normal job. But, if you put your life and money on the line, be sure to examine every possible aspect of your business venture.

When you go into business you are your own boss. This is good, but it doesn't mean you can take it easy. Most business people work long hours - longer than if they were on wages. Some end up with less profit than if they received regular pay. Others make big money, but don't have time to spend their profits. They become slaves to their business.

Yes, some business ventures succeed, but some don't. If you are sure it will work, steam ahead. What I am saying is - exercise caution. If all barriers are down and you believe you will succeed, then follow the rules and you will achieve sweet success.

Investing in property

Many have become wealthy through the sale of property and others have failed badly. Investment properties can be profitable over time but in the meantime loans need to be serviced and properties maintained. To invest this way one needs to fully understand the property market.

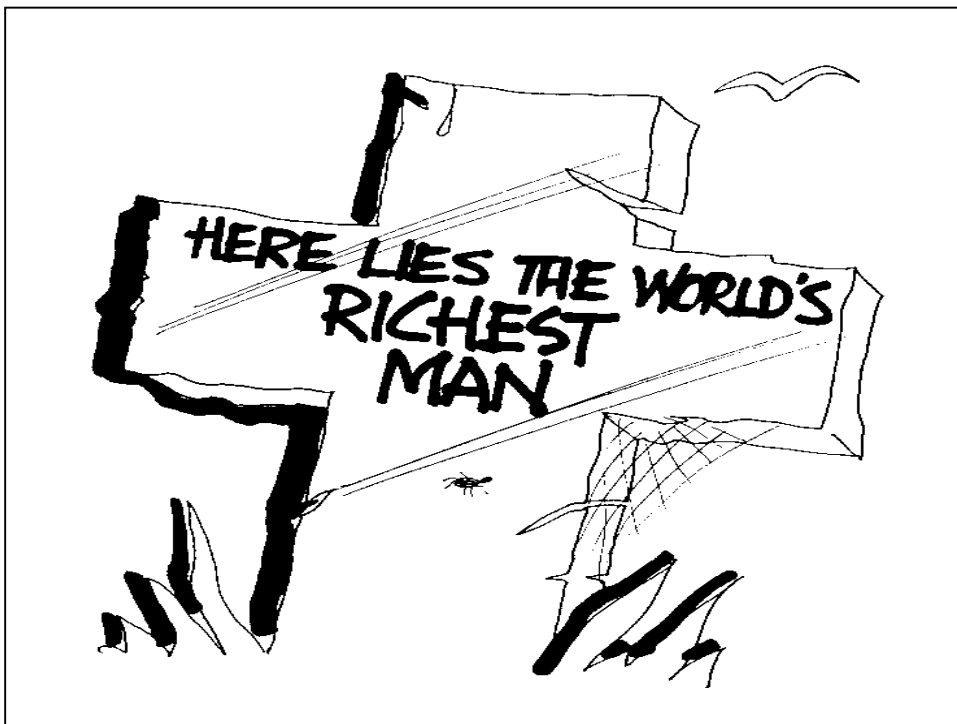
Purchasing your own home

Purchasing your own home is not just a purchase, but an investment - a very wise investment. Approach this purchase as if you are doing a business deal. Don't let emotional feeling cloud your thinking. Be analytical. Be logical.

Sometimes renting is better for some people. Only you know your particular circumstances. Generally speaking however, it's usually better to buy than rent. If you are saving for a home deposit, rent as cheaply as you can. This is a time to sacrifice so that you will be better off in the future. When you do make a purchase, don't begin with a dream home. To be tied down with a massive mortgage can cause a lot of hardship. Buy a modest home at first and enjoy life. Avoid the poverty of an excessive mortgage. If you pay a little more than the rent you were paying, this probably won't be too difficult. Buying a home is like having to save. You have a home at the end of your repayments worth a lot more than when you first bought.

How to be financially secure - and happy

You now have knowledge on how to become financially secure. Yes, this information, if followed, can improve your financial situation. But will riches bring happiness? No! Riches alone are not the keys to fulfilment. Remember though, poverty does not bring happiness either.



It's wise to be responsible in finance and in all aspects of our lives, particularly the areas we have covered in these sections.

I remember attending the funeral of a good friend who was killed in a motor accident. He was a businessman who had succeeded. He was financially independent, but chose to continue in business, because he loved his work. Some people let money destroy them. They become proud, arrogant, belittling and think they are better than others are - but not my friend. He had higher values in life than money. In fact he was always giving money to those in need. He was a happy man. One reason for his happiness was his practise of benevolence. Selfish people are not happy from the heart. If you become financially secure, remember those in need, such as the poor, the disadvantaged, or those who cannot help themselves. Share some of your money with them. Only as you give will you discover true happiness.

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Disclaimer

This information is based on the experience and knowledge of the author. He believes that those who follow the principles outlined in this section will find their lives greatly enhanced. However, he assumes no responsibility for reader's personal choices.

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