

Money Myths

There's a silent black-and-white comedy video of a film dating from the early 1900s showing various men attempting to fly. They strap on homemade wings or get into other contraptions and literally take a flying leap, flapping madly. Inevitably, they end up crashing into a heap at the bottom of a cliff or at the end of a ramp.

Why would they do this? In the absence of any scientific testing of their equipment and with no evidence that their devices would work, they attempted to fly anyway. (And they invited photographers to film them!)

We know the answer. They did it because of what they *believed*. They really believed that if they flapped their balsa wings fast enough, they could fly.

“The aphorism, ‘As a man thinketh in his heart, so is he,’ not only embraces the whole of a man’s being, but is so comprehensive as to reach out to every condition and circumstance of his life.”
—James Allen, *As a Man Thinketh*

Here's an example of something we all know to be true but rarely apply in our lives: Beliefs drive behavior, and behavior drives results.

To put it another way, what you believe about money and your financial life directly impacts how you handle that money and how you manage your financial life. It is simple human nature.

But what if your beliefs about money are wrong? Let's take it a step further: What if it turns out that everything you think you know about money and your relationship to money is untrue?

How can you possibly break the chains of debt slavery if what you believe about money is basically a lie? (That may be too strong, so let's just say it's "false.") Or at least it is for a lot of people.

10 Money Myths

We're going to have a lot more to say about this topic in a moment. For the time being, take a look at these 10 Money Myths and see if any of them apply to you:

1. All my money problems would go away if I made more money.
2. My present financial condition is because of things outside my control.
3. Money has value in and of itself.
4. I spend my money based on my needs.
5. Going into debt opens up choices for me now instead of having to wait until later.
6. I know where I spend my cash.
7. My checkbook balance is a good indicator of my financial situation.
8. I can't afford to plan for my retirement.
9. Sticking to a budget limits my freedom of choice.
10. Two people can live more cheaply than one.

The Catalyst

If you're going to gain financial freedom, you've got to change the way you think about money. If we can achieve that, then this part of the book will have done its job.

But before we move on, it's important for you, our readers, to have some idea of how this book, and the series of workshops that preceded it, came to be.

Let Tom tell the tale:

Kris and I are both bankers. But what prompted us to write this book was finding out that one of my employees had to go out and secure a “payday loan”—a small, short-term loan with very high fees—to pay his bills.

It broke my heart in so many ways. But it was mostly that one of the people that I care deeply about, someone who was part of our own bank family, was having so much money stress that he had to use a payday loan to get by.

It spoke to me on many different levels. As the CEO of the company, I knew that we work very hard to pay our people competitive wages and to provide good health and educational benefits. Yet all the work we do to care for our folks was insufficient in the case of this individual employee.

It also troubled me to think, “We’re bankers, and if we’re not expert at managing our own money, then how in the world can we ever carry out our job of helping other people do the same thing?”

So I decided it was crucial to share what Kris and I know from our own personal financial-management experience with employees of Fox

An Interest Rate of 304%!

We recently saw a TV ad for a payday loan. A very pleasant spokesperson said, “Got ‘the shorts’ between now and your next payday? No problem. We’ll loan you \$300 to get through the next 10 days. And the cost is just \$25. If the loan helps you avoid just one over-draft fee, it will have paid for itself. Come see us today! You’ve got nothing to lose!”

But you do have something to lose, of course. The \$25 fee works out to an annual interest rate of 304%. Anyone who opts for such a loan is obviously intent on solving a very immediate problem, like paying the rent. But what happens the next time?

Chase Bank, many of whom already know these principles, but some of whom do not. It's not an exaggeration to say that the whole thing just poured out of me.

Then I passed it to Kris, and she made many important contributions, edits, and improvements. And so the workshops we offer to bank employees and to members of our community were born. And now we've captured it all in this book so we can reach an even wider audience.

The two of us feel passionately about this "mission," and we are so grateful to have gotten good advice so early in our careers. We want to give others the same gift.

Exploding the Myths About Money

Now, let's take a look at each of these 10 myths in turn and seek out the truth. The results may surprise you.

Myth #1: All my money problems would go away if I made more money.

This is the most insidious money myth of all. It's hard to get your arms around it because everyone tends to think, "I'm just one pay raise away from being in good financial shape." Or, "All I need is a promotion and a 10% raise, then I'll be fine."

If you're honest with yourself, you know that isn't going to happen. If you look back, you probably said the exact same thing before each of your last five pay raises.

So where did the extra money go? Inflation? Sure. But we all know the truth:

The more we make, the more we spend.

We know a lot of people, for instance, who live in million-dollar homes. But because they've spent all their salary

increases (and then some), they have no furniture. They have no free money.

It doesn't matter where you are on the income ladder: Spending *always* increases with income unless spending habits are brought under control.

So, if you're waiting for your next pay raise to be able to make ends meet, we hate to be the bearer of bad news: You will never arrive. You will never get there. And deep in your heart, you know it.

The spending bar keeps moving higher and higher with our rising income. The more we make, the more we spend.

More money won't solve your problems. You need to take control of the money you're already making.

Myth #2: My present financial condition is because of things outside my control.

For some of us, it's a very hard truth to accept, but the fact is, even though we may not exercise it, each of us has control over our financial situation.

That's what our friend Ben was doing as he wrote the check for his last car payment. He planned to keep the "expenditure" in his budget, but instead of it going for the car loan, he'd put a third of the amount into his rainy-day fund and apply another third to accelerate payments against his credit-card debt. The remaining third would be used to boost his cash allowance and add to his "fun" account.

He figured that having paid off his car loan, he'd earned the right to visit Seattle's Best once or twice a week on his increased allowance. And he and his wife planned to spend a weekend in Myrtle Beach to celebrate paying off the loan.

Ben put the car-payment check in the mail.

Two days later, he was rear-ended by an uninsured driver. Thankfully, he wasn't injured, but the car was totaled.

Because it was an older car, the Kelley Blue Book value wasn't very high. Ben had taken good care of his car, and he had expected to be able to drive it for five or six more years—years that would be car-payment-free. The car was thus worth far more to Ben than its book value.

The settlement check was pretty lousy—far less than what it would take to replace that car. So Ben would need another car loan. And, of course, because the other driver was uninsured, the payment came from *his* insurance company, so his policy's deductible was subtracted from the amount of the check.

“We are solely responsible for how we spend our money. We control the choices we make along the way that determine how well prepared we are for the unexpected.”—Tom Petro

Bad things *do* happen, things over which we have no control. Being rear-ended by an uninsured driver is pretty close to the top of the list.

Having your dishwasher or refrigerator die may be a notch or two lower on the pain meter, but it is still not a trivial event.

But none of this changes the fact that we are solely responsible for how we spend our money. We control the choices we make along the way that determine how well prepared we are for the unexpected. No one else but you is accountable for the financial choices you make.

Think about this for a moment. How do you spend your money? What are you using your money for? Every choice you make is driven by your system of beliefs about money. If you think your financial situation is hopeless, if you believe your financial path is outside of your control, you will make wrong choices about how to use your money.

Your wrong choices will lead you further into debt and further into a place of hopelessness and despair. But if you accept accountability for how you spend your money, you will find that you can take charge of your finances, make consistently good choices, and discover the path to financial freedom.

By changing your incorrect beliefs about money, you can take charge of your financial situation and be prepared when the unexpected financial disruption comes into your life.

Change and Motivation

If you don't take control, who will? That paycheck is made out to you and no one else. Do it for yourself, for your kids, for your life partner. There's nothing more debilitating to a relationship than money problems. When both people get on the same page regarding a plan and are working toward a common objective, it actually builds intimacy in the relationship.

Myth #3: Money has value in and of itself.

Gold and silver (and copper and nickel, for that matter) have value as metals because you can add them to products or otherwise make something out of them. But they have *no intrinsic value* as money. Nor does paper money.

The reason money of any sort “works” is that everyone is willing to exchange it for goods and services. Some of those goods and services may have value. Some may not. Some may be just “stuff.”

Money, of course, is a substitute for time. We trade our time for money every day. And we buy time whenever we hire someone to mow the lawn or baby-sit or clean the gutters. We trade our time doing what we do well to pay others for doing what they do well—things we could never do in a million years, like changing out a transmission.



"I'm putting all my money into 'things.'"

It is our *time* that is precious, not our money. After all, none of us ever gets enough time. It is not elastic, meaning that it does not increase with demand. No matter how many days you want, you will only get the number allotted to you. So how you spend them matters.

That's what retirement is really all about. Everybody has the same choice: You can choose to live paycheck-to-paycheck, spending everything you make, or you can choose to store up money (time) to be used in the future.

Can you retire at 55? Sure you can—if you start planning and saving for it when you are much younger. We have a friend, Jim, who did exactly that. He's 60 now, and he spends the time he saved for on the things he enjoys—volunteering at the

hospital and church, playing with his grandchildren, and traveling the world with his wife.

He can do all this because when he was 25 or so, he set a goal of retiring at 55. He created a financial plan, and he stuck to it.

Now our friend enjoys the fruits of financial discipline while other people his age are having to work 10 or 20 more years before they retire, if they can ever retire at all. By creating and sticking to a financial plan, Jim now trades his money for time—to do the things that he really wants to do in life.

Money has no value in and of itself. It only can be exchanged for things of value—or for time.

Myth #4: I spend my money based on my needs.

No you don't! Like all of us, you spend your money based on your *wants*. And advertising agencies on Madison Avenue and elsewhere are being paid a lot of money to constantly create those wants and dangle them in front of you.

Open the door to your garage and take a look. How many items in there do you still use? Almost by definition, if they're in the garage, you or a family member has tired of them and put them out to pasture.

But here's the irony: Fully 70% of the American economy is based on consumer spending. So, if you don't do your part and trade a major portion of your time on this earth for things you want but don't really need, the economy will falter.

That being the case, is it any wonder that so much effort is expended to persuade you to buy, say, some kind of food dicer or slicer when you already have a food processor with a complete set of blades and disks?

We all know the truth: Emotions drive our spending habits, not real needs. That's why we buy the \$95 shirt or blouse when the \$35 version would do just fine. It's why the kids simply must have the \$150 athletic shoes instead of the \$40 pair.

We're not saying don't buy what you want. We're saying just stop and think before you whip out your wallet and "put it on the card."

Consider Your Car

Here's an even bigger example. You need a car to get to work. No question about that. But do you need—really *need*—a brand-new car? (Brand-new cars lose 30% of their resale value as soon as you drive them off the lot.) We definitely don't want to sound like your parents, but please think about it.

As we write this, a brand-new Acura TSX lists for about \$29,000 (5-speed automatic or 6-speed manual). It is one cool car, no doubt about it. On the other hand, a year-old "pre-owned" Toyota Camry LE lists for \$17,400.

"Tom and I know that our readers aren't going to stop buying stuff, any more than we are. The key is to get everyone to free up just 2% to 5% of their take-home money to accelerate debt repayment and build cash-reserve accounts. It is quite do-able. We're not suggesting you need to save half your paycheck." —Kris Messner

They will both get you to work in style, but the price difference is \$11,600. And that's just the spread between the "list" prices. If you do your homework, you can almost certainly get the used car for a lower price, while there

may be less dealer flexibility on the brand-new car.

Here's the kicker. If you buy the brand-new Acura and finance it with a four-year loan at 5.2%, you will pay \$268 per month *more* than if you bought the pre-owned year-old Camry. In other words, repaying that extra \$11,600 will cost you \$12,864 (\$11,600 plus \$1,264 in interest).

For many people, cars are about much more than basic transportation. All we're saying is that before you go for the

hot new car you want, step back and think about what this indulgence (and, yes, it is definitely an indulgence) will really cost. Then ask yourself, “Is it truly worth it to me?” And then ask yourself, “What can I cut back on or do without to be able to pay for it?”

Dealing with “Indulgences”

Plays by the ancient Greeks, and later, the Romans, often promoted the theme of “all things in moderation.” Wine? Of course, but with the proper, moderate, dilution with water. Women, well, let’s not go there. The point was, “Everything in balance.”

As Tom readily admits, a few years ago, his addiction to music CDs was approaching the “Out of Control” line. (Tom is a jazz guitarist who has a huge enthusiasm for any kind of music.)

Recognizing the problem, we set up a new procedure. Now Tom empties his pocket change into a dish at the end of each day. When the dish is full (it takes about three months), we take the coins to the grocery store and dump them into the coin counter.

But instead of opting for folding money, we opt for iTunes points. So we can buy downloadable music from that site. You can also get “e-cert” numbers for online merchants that include Amazon, Borders, CVS, JCPenney, Lowe’s, and Starbucks. And, if you chose any non-cash option, you don’t pay the 8% for the automatic sorting.

Myth #5: Going into debt opens up choices for me now instead of having to wait until later.

Taking out a loan to start a business does indeed have the *potential* to open up choices for you in the future. But that’s not what most people mean when they recite this myth. What they mean is going into debt by using their credit cards to buy what they want *now* instead of saving for what they want and paying cash for it *later*.

The promise of instant gratification is what makes credit cards so seductive. And yet, what do we all buy with them? Anyone who has strolled around a residential neighborhood in summer, when the garage doors are open, knows the answer. We buy “stuff.” So much stuff that there is no longer room to park the cars in the garage. (For a humorous, but profanity-laced, monologue on “stuff,” visit YouTube.com and do a search on “George Carlin” and “stuff.” It is one of the late comedian’s classic performances.)

Your Future in Perspective

Borrowing money means that you have to use part of your future income to pay back what you owe. This means you will have less money to spend on what you want in the future. You will thus have *less*, not more, freedom of choice.

Look at this month’s credit-card bills and ask yourself, “If I only paid cash for what I bought, how much of my paycheck would I be free to spend on things today?” Your answer will ultimately be determined by decisions you made a year or more ago.

Today is the “now” that was your future back then, and you are living with the aftermath of the financial decisions you made at that time.

Credit provides the illusion of freedom of choice right “now,” today. After all, who can resist the ads that shout, “No payments for 24 months”? It’s seductive to believe that we can have it now and pay for it later without any additional costs or consequences.

Just a Dollar Down and a Dollar a Week!



The revolving-credit problem for American consumers didn't begin with our generation. It clearly dates at least as far back as the 1920s. That's when big-ticket items, like refrigerators, began to be sold like automobiles—on credit.

Before that, buying on credit was considered somewhat shameful. The folksinger Woody Guthrie captured it all in his song, later made famous by The Limelighters, *A Dollar Down and a Dollar a Week*. "A Dollar a Week" is the old-time equivalent of the "minimum monthly payment" on your credit card bill. That number often doesn't seem too bad when you're considering a purchase.

But let's look more closely at the fine print. Your monthly credit-card payment includes both a **principal payment**, which reduces what you owe, and an **interest payment**.

The minimum principal payment differs with every card, but it's generally between 2% and 4% of the outstanding balance. So let's say your outstanding balance is \$8,000, the minimum principal repayment is 2%, and the interest rate is 19%. Your minimum payment for the month will be \$286.67.

Don't worry about working out the arithmetic right now. We've already done it for you here, and we'll explain the details in a later section. The key point is this: Of that \$286.67 monthly payment, \$160 will go toward paying down your principal, while \$126.67 will go for interest.

What you won't find in the fine print is far more discouraging: If you only pay the minimum each month, it will take you 22 years to pay everything off. And by the way, this assumes that you won't be putting any more charges on your credit card for the next two decades.

But there *are* consequences. As anyone who is buried beneath a mountain of credit-card debt knows all too well. Credit-card debt is a terrible hole. And we don't just stumble into it. We choose to walk into it, and the path leads deeper and deeper over time. The problem is that once you're deep in debt, it can be very difficult to escape.

We're going to show you how to do it, but first we've got to continue exploding myths.

Myth #6: I know where I spend my cash.

We'd like to suggest that you do *not* know where you spend your cash.

Here's a quick reality check. Think about, say, a week ago Thursday. Where did you spend your money or swipe your debit or credit card? How much was the gasoline fill-up? Did you remember the dry cleaner? What about the pizza slice you picked up or the bottled water you bought from the vending machine?

You can't remember, can you? That's not some kind of mental defect. None of us can remember.

A cup of coffee here, a candy bar there, a newsstand magazine, a box of cookies from some charitable organization's fund drive—there's no way to remember everything. But it still all adds up.

That's why, as we'll discuss later when we get to the "Principles of Financial Freedom," giving yourself a cash allowance is so important. It frees you from ever having to record each and every daily expenditure. It's simple: You can spend your allowance on anything you want. But when it's gone, it's gone until your next payday.

Myth #7: My checkbook balance is a good indicator of my financial situation.

Automated Teller Machines (ATMs) have been placed in convenience stores for decades. But it is only when we began helping people visualize the path to financial freedom that we began to notice a particular human behavior.

We'd be standing in line at the check-out counter and see someone go up to the ATM, put in his card, tap the screen, and pull out a receipt a moment later. The individual would look at it and either put it in his pocket or toss it into the trash. These folks never withdrew any cash.

Bankers that we are, we wondered, "What's going on?"

It turns out that these people, most of them young, were checking their account balance to see how much fun they could have during the coming weekend. Do I have enough in my checking account to go to the Eagles game? Can I take my girlfriend out to dinner at that restaurant on Two Street, or do we have to dial it down a bit? In other words, "What's my current financial situation?"

You kind of want to drench them with a bucket of ice water in hopes of waking them up. Hello! A checking account balance tells you how much you have *left* to spend, not what you're going to *need* to spend. Which includes "minor" things like your rent, your car payment, health and auto insurance, credit-card debt... the list goes on. Not to mention, unplanned expenses like car repairs, household appliance repairs, and disposing of a tree that was felled by last week's thunderstorm that also took out your electric power.

Here's the bottom line: If your checkbook is your only financial-management tool, you're in big trouble.

Myth #8: I can't afford to plan for my retirement.

The fact is, you can't afford *not* to plan for your retirement. If you retire at 65, statistically, you could easily have another 20 years to live. You should figure that you'll need between 70% and 100% of your former salary to maintain your current lifestyle in retirement.

Where's the money going to come from? Social Security? Many people aren't aware of this, but Social Security is designed to cover only about 40% of the income you'll need in retirement.

Again, where's the other 60% going to come from? Unless you're in line for a big inheritance, it can only come from your own savings and investments.

You might be saying, "Who cares? I'm just starting out. Retirement is a long way off."

That's precisely the point. In all likelihood, you're going to need hundreds of thousands of dollars in savings to be able to retire in comfort. The only way to amass that kind of retirement fund is to start saving *now*.

When it comes to money, if you think you have it bad now, you cannot imagine the future hell that is waiting for you, courtesy of your wrong thinking and incorrect beliefs about money. "Who cares?" you say. That future is a long way off. Precisely. That's why it's so important to plan right now.

Taking Advantage of Compound Interest

There's a very practical reason to begin immediately. It's called the "Miracle of Compound Interest," and it simply means earning interest on the interest you've earned in the past.

For example, suppose you're 25, and you invest \$1,000 in a mutual fund IRA that earns an average of 8% a year. At that rate, your money will double every nine years. By the time you're 65, that \$1,000 will have become \$32,000.

If you wait until you turn 26 to start investing \$1,000 a year, you'll have just cost yourself \$32,000 in retirement savings.

Please, pause to contemplate this. Time and money. It is such a powerful “iron law,” that delaying by even a single year can cost you big time when you're ready to retire. Who knows what the cool cars will cost when you retire, but an extra \$32,000 has to help. And when you retire, if you've been smart about saving and investing, you can treat yourself to a brand-new car, knowing full well how much it drops in value when you drive it off the lot. It's okay. You've worked for it, and you deserve it.

Another way of referring to the “Miracle of Compound Interest” is “the time value of money.” It is because of this that you can't wait until you pay off your credit cards to start saving for retirement.

Make time work *for* you and start putting some money, no matter how small the amount, into a tax-deferred retirement account today. At the very least you should strive to get the maximum available match from your employer's 401(k) plan.

The Latte Millionaire Plan

Several years ago, financial columnist Scott Burns introduced a concept he called the “Margarita Millionaire Plan” to explain how you could accumulate a million dollars by retirement if you gave up and salted away the money you'd save by giving up just one margarita a day. He recently updated the idea to substitute a latte for the margarita.

Here's how it works: If your latte habit costs about \$3.50 a day, that's \$24.50 a week, \$105 a month, and \$1,277.50 a year. Assuming that at age 25 you begin investing that sum each year in a simple domestic stock index earning a long-term average of 10%, by the time you reach 67, what Burns calls the “Latte Growth Fund” will total \$983,614, or close to a million dollars.

That's the power of compound interest over time, in this case 42 years of saving just \$3.50 a day.

Myth #9: Sticking to a budget limits my freedom of choice.

There's this false notion that if you have a budget, it restricts you and takes away your freedom. After all, a budget takes choice away, doesn't it?

Many people wrongly conclude, "If something I want is not in my budget, then by sticking to my budget I can't have what I want. That would seem to limit my choice."

The truth is, a budget actually *gives* you freedom. It empowers you. Once you begin to take control and actually plan how you're going to spend your money, you end up with more money left over that you can actually spend the way you want to. That's real freedom.

Developing and sticking to a budget gives you more control over the important choices in your life.

The Benefits of Having a Financial Road Map

Would you get in your car and drive to San Diego without a road map or GPS system to help you navigate? Probably not. So why does it somehow make sense to go through your life without a financial road map to help you make wise choices about your money?

The late management guru and author, Peter Drucker, once said, "If you cannot measure it, you cannot manage it." Clearly, if you want to take charge of your financial affairs and put yourself on the road to financial freedom, you need a way to measure how you use your money. You need a budget.

A budget is a financial road map. It's a tool that helps you make correct choices so you can go from living paycheck to paycheck to a place of financial freedom. Without this kind of financial road map, like every one of us, you'll simply be driven

by impulse to spend, spend, spend. And do you know what you'll buy? Things you want today but won't care about tomorrow.

We are slaves to our impulses and self-driven wants. Slaves are not free. Slaves are captives. We are often financial captives to our poor financial choices until we decide to make better choices with our money. But sticking to a budget can fix all that. It is the path to financial freedom.

Myth #10: Two people can live more cheaply than one.

In a subtle way, this final “Money Myth” is a variation on the very first myth, “If I only had more money....”

Here's where the fallacy lies: Clearly, if two people with jobs move in together, each will have lower monthly expenses. That's because they will each be paying half the mortgage or rent and half of the utility bills.

The problem is that when you both have more discretionary money, you'll each *spend* that extra money. (You know you will!)

The only way two people can live more cheaply than one is if they mutually agree on their financial priorities and develop a joint plan to reach their financial goals, including a joint budget. Otherwise, with competing financial priorities, the two will dig a deeper financial hole together than either of them would individually.

A moment ago, we spoke of the power of compound interest. Well, combine that with what's possible when two people with jobs share not only expenses but also priorities, and you'll not only guarantee a comfortable retirement, you'll both arrive at true financial freedom faster than you would have ever dreamed possible.

The Next Step

It's our hope that we've helped you change the way you think about money by exploding these ten insidious myths. We cannot say it too often: Beliefs drive actions, and actions determine results. And, when it comes to breaking the chains of credit-card debt and achieving financial freedom, the most important belief of all is: I can do this!

Yes you can! And as we next turn to the "7 Principles of Financial Freedom," we're going to show you exactly how.