

## Introduction

**W**ould you like more money? Sure you would. So would we all. Well, you can have it—if you’re willing to work for it. And we don’t mean taking a second or third job. No, in this case, the “work” involves doing a better job of managing the income you already have.

We’ve presented many workshops where the word *managing* produces nothing but blank stares. And no wonder: 43% of American families spend more than they earn each year, while 42% make only the minimum credit-card payment each month.

That’s not “managing.” That’s dogpaddling furiously to keep your head above water.

Actually, it’s worse. It’s really a form of slavery. Debt slavery. When all of your money goes to pay the interest on your debt, you have no room to maneuver. You can’t have the things you want without adding to your debt and your interest payments. You’re stuck in a ruinous debt cycle.

## Put It On the Card

**W**e know how it happens. In 1985, we were in our late 20s, living in Pittsburgh. We were newlyweds and were definitely not high flyers. In fact, we were the last among all of our friends to own a VCR. We couldn’t figure out how they could afford it.

Well, it turns out that they couldn’t. They ran up big credit-card bills. Or some who were in sales jobs might have had a good year and spent all their extra income on nice things.

Despite being bankers and having, as a result, a more keen awareness of money than non-bankers, we got ourselves into a situation where our credit-card debt was making us nervous.

Two quick examples illustrate how it happened. We were driving a used car, and it needed a brake job. Bang! An unexpected expense of \$200. We “put it on the card.”

The next month, the dishwasher suddenly stopped working. It couldn’t be fixed, so we washed dishes by hand for a couple of months. But, of course, we eventually broke down and put a new dishwasher on the card.

---

*“Credit is a powerful tool if used properly and an incredible slave driver if it’s used incorrectly.” —Tom Petro*

---

And so it goes. Life is expensive, and these ordinary events can happen to

anyone, regardless of where they are on the economic ladder. People who are not in a position to have “new” everything have “used” everything. And used things, like used cars, wear out and break down more frequently than (most) new ones do.

That’s where many people start, and it just begins to layer in, building debt (and interest due) month after month. And we haven’t even included discretionary debt like choosing to eat at a fine restaurant or taking the family to Disney World. Nor have we mentioned the devastating effect of losing your job or getting hit with an enormous medical bill.

One way or another, each year millions of people find themselves in a place where the only way to get by is to max out their available credit. Once you get near that point, the burden of monthly interest reduces your financial options to zero. You can’t get ahead. You can’t shed this burden. You don’t like being here, but you’re stuck.

## Yes, You Can!

One of the all-time classic movies is *The Wizard of Oz*. We've always loved the fact that Dorothy had the power to get home to Kansas all along. Had she discovered the power of her ruby slippers early on, there would have been no story. No flying monkeys. No "I'm melting! Melting!"

Well, if you're enslaved to your debt, you're like Dorothy. You have the power to break your chains—you just don't know it yet. Equally important, if you're just starting out, you have the power to avoid shackling yourself to your monthly credit-card and loan payments.

To put it another way, if you're on the "going-nowhere" treadmill, you have the power to get off. And if you're relatively young, you have the power to avoid getting on it in the first place.

How? By using the system presented in this book to *take control* of your personal finances.

Is it easy? No, it is not. Just as no diet will work unless you change your eating habits, no financial management program will work until you fundamentally change your money habits. You can't take charge of your financial life and continue to buy whatever you want whenever you want it. So, if you aren't ready to restrain such impulses, you might as well stop reading right here.

If you *are* ready, however, we have some very good news for you: Gaining financial control may be hard, but it's not as hard as you might think. And, better still, it gets easier and easier as time goes on. (Because you'll have more money!)

## Developing “The System”

**I**ronically, we completed developing the material that led to this book on the Fourth of July, Independence Day. Our sources were our own experience, of course, and the wonderful guidance we got from Chris Oliver, our financial counselor back in Pittsburgh.

From the beginning, we agreed that the system had to be genuinely “do-able.” No absolutely drastic changes. Just a few important changes around the margins. We knew from personal experience that even marginal changes, if you stick with them over time, can produce significant results.

### Small Changes, Big Results

For example, ask yourself what you pay for a cup of coffee when you stop in at WaWa, Dunkin Donuts, Starbucks, or some other place on your way to work. Multiply that figure by the number of workdays in a month. Then compare it to what you’d pay at a store like Walmart or Costco to buy in bulk (coffee, cups, and lids).

We think you’ll be amazed (as we were) at the available savings. So, yes, we brew our own coffee at home and take it with us before we head out for our jobs.

The point is that we haven’t given up “commuter coffee.” We’ve just found a less expensive way to buy this small, optional pleasure. (Or in Tom’s case, required “caffeine fix.”)

That’s the kind of marginal change we’re talking about.

As another example, consider a working couple’s need for two cars. The natural instinct if you have only one car is to buy a second one and take on a second car payment. Thanks to Chris Oliver’s sage advice, however, we didn’t do that. Instead we sucked it up and took turns driving each other to and from work—all the while energetically saving for a second car.

At the end of four years, we had enough money saved to buy a second car—and to pay *cash* for it. No loan. No debt. No interest. And no car payment.

This is not “the impossible dream.” We’re just like you, and, applying the system you’ll learn about here, we did it.

## Financial Freedom

The best way to imagine financial freedom for yourself is to add up the non-mortgage debt payments you must make for one month. Look at the total and imagine what it would feel like to have that much money each month to use any way you please. Saving for college or for a new car. Taking the family on a trip. Buying new clothes and shoes. Anything. And the next month, you get to do it again.

Financial freedom means having choices. Choices you don’t have right now because you must pay so much of your income to the credit-card companies. And you get nothing for it other than a moment of instant gratification.

You’re not even getting the use of the money, since it’s already been spent and exchanged for “stuff” you thought you wanted (but are probably now tired of having).

Getting control of your finances and gaining financial freedom also means having the chance to fulfill your dreams. Remember, a fantasy is

### Frightening Facts About Credit Cards

- The typical credit-card purchase ends up costing 112% *more* than if you’d paid cash. So a \$100 credit-card purchase actually costs \$212.
- If you make only the minimum payment due on your credit card, it will take you 22 years to pay off your balance in full.
- According to *Forbes* magazine (2009), the average credit-card debt for each American household is \$9,797.

something you can think about, but a *dream is something you can achieve*. Having financial freedom makes dreams possible.

But you've got to have a goal, a plan, and apply persistent action and hard work. Achievement, it is said, is the result of laboring greatly, over an extended period of time, in the same direction. And, of course, like all journeys this one begins with a single step—laying out your Master Plan.

## Your Master Plan

We've given it a grand name, but a Master Plan is essentially just a list of clear objectives. They can be short-term, medium-term, or long-term. Or a mixture of all three. These are the things that you're striving for. They're the dreams that become possible as you gain more and more financial freedom.

Here are some examples you might want to consider:

- I want to build a “rainy-day” fund to cover my expenses for three to six months, so that I can sleep at night if I lose my job.
- I want to stop paying so much of my income for interest. So I plan to pay off all my loans and credit cards.
- Then I want to start making extra payments on my mortgage loan. (The interest you can save by paying off mortgage loans early is simply amazing.)
- To make sure I have a comfortable retirement, once I've got the rainy-day fund built up, I want to save 10% of my after-tax income for retirement in a 401(k) and IRA.
- I want a child-free vacation at the Atlantis Resort in the Bahamas.
- I want to remodel my kitchen.

## Non-Financial Master Plan Goals

Of course, your Master Plan goals do not have to be exclusively financial. In his book, *The Dream Manager*, Matthew Kelly identifies twelve areas to explore for setting goals for your Master Plan, along with examples of each one:

- 1. Physical**      Run a marathon.  
Look and feel healthy.
- 2. Emotional**    Buy my own home.  
Be in a great relationship.
- 3. Intellectual**    Go back to school.  
Learn another language.
- 4. Spiritual**      Develop greater inner peace.  
Study Scripture.
- 5. Psychological** Strengthen my will power.  
Overcome a fear of heights or flying.
- 6. Material**        Get a new car.  
Put a new roof on the house.
- 7. Professional**    Get a promotion.  
Become the best at what I do.
- 8. Financial**        Pay off all credit card debt.  
Start a college fund for my children.
- 9. Creative**        Write a book.  
Take a painting course.
- 10. Adventure**     Visit Australia.  
See U2 live in concert.
- 11. Legacy**         Volunteer for my favorite charity.  
Raise my children with a healthy sense  
of who they are.
- 12. Character**      Develop more patience.  
Do what I say I will.

We encourage you to explore a broader array of your dreams when putting together your Master Plan. (To learn more about Matthew Kelly's ideas for setting Master Plan goals, visit [www.thedreammanager.com](http://www.thedreammanager.com).) But remember that the key to fulfilling your dreams is to gain financial freedom.

Imagine how good it will feel having that rainy-day fund to fall back on. Imagine how relaxed you'll be, knowing you can pay your bills without going into debt. Imagine an end to the stress of dealing with bill collectors.

Finally, imagine how much more you'll enjoy your vacation or new kitchen knowing that it's paid for. Imagine the joy that will be yours when your good financial fitness allows you the freedom to explore your larger life dreams.

## The Road Map to Financial Freedom

There has always been a close relationship between time and money. For example, if you start saving for retirement early in time, your money will have more time to grow. If you don't start until you're 45, you'll never be able to match the returns of someone who began at 25. And, if you relentlessly pay off debt, the amount of money you free up to spend on other things will grow over time.

Nothing about saving money is ever quick. But time and money are a powerful combination. If you're diligent and patient, you'll be amazed at what is possible.

You didn't get into debt instantly. It took time. It's logical that it will take you time to get out of debt. Most people should figure on two to three years. And no, that doesn't mean living on just bread and water in the years to come.

But gaining financial freedom *does* mean changing the way you live, starting with how you think about money. That's why the next section of this book is called "Money Myths."

That's followed by the "7 Principles of Financial Freedom." This is your road map. This is "the system," and we'll show you how to make it work in your own life. We'll show you how to manage your credit and how to become a saver.

## Overview of the 7 Principles

The Principles of Financial Freedom shown nearby are not numbered randomly. They actually form a sequence of steps that build upon each other. In other words, it's important to do things in the right order.

First, you make a budget. That will help you see, possibly for the first time in your adult life, where the money's going.

Next, you give yourself a cash allowance and make it a line item on your budget. This is not an obvious step, but it's important because it's a convenient way to gain control of what you spend on things like commuter coffee, vending machine snacks, beer and pizza with your co-workers, movies, and things like that.

You go to the ATM for cash once on payday, and that's it until your next payday. You can spend the money on anything you want. But when it's gone, it's gone—until you get paid again.

The same concept applies to the next principle: Restricting the use of your debit card. You do this by limiting its use to groceries and gasoline. No more card swipes to pay for doughnuts at the WaWa or 7-11. That comes out of your cash allowance.

### 7 Principles of Financial Freedom

- #1: Make a budget and stick to it.
- #2: Give yourself an allowance.
- #3: Restrict the use of your debit card.
- #4: Establish "cash-reserve" accounts.
- #5: Start paying off your debts.
- #6: Pay yourself first.
- #7: Live within your means.

You might think that paying off your high-interest credit cards would be the next step, but it's not. The next step is to start building up targeted "cash-reserve" funds while continuing to pay the minimums on your cards.

Cash-reserve funds can be aimed at anything you like. But here are some helpful suggestions:

- Automobile Repairs and Inspections
- Clothing for Work
- Home Repairs and Appliances
- Vacations and Fun (Very important.)
- Tuition and Books

The goal is to build these funds up so that you never have to use your credit card to pay for these things. That's how you get

---

*"You want to find things that are not terribly painful to do without in your life, to free up the cash you need to start your cash-reserve accounts."* —Kris Messner

---

off the credit-card-debt treadmill.

Once you've built robust cash-reserve accounts, you

can start paying off your debt, starting with the card or loan carrying the highest interest rate.

Pay off your debts, then start "paying yourself first." That means putting aside money for your retirement.

Finally, and you should start doing this right away, "Live within your means." In fact, you should try to live *below* your means. Pay cash for almost everything, and spend less of it than you actually have.

## **“But I Don’t Have Any Extra Money”**

We get that a lot. We respond by making two points. First, the more money you can put into your cash-reserve accounts, the better. But it doesn’t have to be a huge amount. If you have five accounts and can put \$10 into each of them each pay period, for a total of \$50, you’ll be surprised at how that can add up.

Second, everyone can find extra money to fund these accounts. Everyone. You just have to focus your attention on your spending and be willing to make a few tweaks. Seriously. If you apply yourself, you can probably find anywhere from \$50 to \$200 in “extra cash” each month.

## **Looking for Savings**

Our friend, Joan, gave us a good example of what’s possible. Before the “Great Recession” of 2007-2009, Joan made a nice living as a successful real-estate agent. Then she saw most of her income disappear as the real-estate market froze.

So, she began cutting costs.

Joan has a big-box freezer in her garage. She emptied and unplugged it. She raised all of her thermostats in the summer by about 8 degrees to save money on air conditioning. (She used a fan instead.)

Then she went around the house and unplugged many of the appliances that suck up electricity even when they are “off.” (They’re called electricity “vampires.”)

She stopped going to restaurants and began making all her meals at home. She started batching her automobile errands to save on gas.

She then shifted her wardrobe so that she wears things she can wash instead of things that need to be dry-cleaned. She’s closed the forced-air registers in rooms she doesn’t use.

All of these actions have helped her significantly reduce her cost of living.

Joan was forced to do this because she was essentially out of work. Imagine what extra cash someone who has a steady paycheck could find by taking similar steps in his or her home.

The truth is that you have all kinds of extra money; you just have to look at how you're using it. You only have to make changes on the margins to substantially affect your financial future.

Why heat or cool an unoccupied room? Why leave all the lights on? Why go out to lunch every day when you could easily "brown-bag it" several days a week? (It would probably be better for both your wallet and your waistline!)

#### **Even More Ways to Save!**

For more money-saving ideas, please see "Principle 7: Live Within Your Means" later in this book. Once you get into the swing of things, it's amazing how many expenses you can cut without reducing your quality of life.

### **Celebration Points: Milestones and Rewards**

We have saved the best part of the system for last. Namely *rewards*. If you have established and stuck with the system, giving yourself a reward when you reach a certain milestone does no harm at all. In fact, doing so can go a long way toward encouraging your continued success.

So, when you reach the milestone of completely paying off your highest-interest credit card, give yourself a reward. Go out to dinner with your significant other. Buy yourself the pair of shoes or power tool, or take on one of the non-financial goals that's been on your wish list.

Just be sure to pay cash!

## The Way Forward

Finally, here comes the carrot and the stick. The stick is that if you do not take action now, you'll continue to be miserable. You'll continue to be chained to the debt treadmill. And in the future, it will only be worse.

The carrot is that being debt-free is a great place to be. Many people have been enslaved by debt for so long that they can no longer imagine what it's like to have real financial freedom and choices.

We are living proof that this can be done. *You can do this.* But you've got to start. You've got to take that first step: Changing the way you think about money. That's what we'll cover next in "Money Myths." What you learn there is sure to surprise you.

