



Chapter ONE

The Path That Led You Here

COPYRIGHTED MATERIAL

The Path That Led You Here

Okay, it's happened. You've lost your financial freedom and now you have to start making changes to get back on your feet. It's easy to make excuses, and there may be some legitimate issues that spurred your run of bad luck. You may have lost your job or were confronted by medical bills that you just couldn't pay. That happens in life and it doesn't seem fair. Unfortunately "fair" plays a minuscule role in the world of personal finances. Regardless of the reason, now, not later, is the first day of your financial life and you need to take charge. You and only you must be in charge from this day forward.

If you're reading this book, debt, spending, and overall unfortunate cash management probably prompted your tumble off the cliff. You're not alone. Millions of people take that same fall every year. In this country debt is as prevalent as shopping malls, but the insidious thing is you don't see it—you don't advertise or brag about it. You keep debt to yourself. You sit in your bed at night thinking about it, wondering how it got this bad. The debt is always there, like a bad habit that's nearly impossible to break. You hide it as best as you can because you don't want anyone to find out. It's somewhat embarrassing, and it's frustrating because most people don't know what to do about it once it occurs. You didn't mean to get into debt; there was no plan—"Hey, I think I'll get into debt this year." Some folks

even rationalize debt as part of our culture, by thinking that everybody is in debt.

Most people don't wake up to find themselves anchored by debt. Debt is usually a slow accumulation (unless you recently purchased a new house or incurred an immense expense) caused by purchasing products, services, or other things that you may have not needed or expected. With that being said, let's investigate and discuss the factors that may have helped cause your financial situation.

Who the Heck Are the Joneses, and Why Are You Trying to Keep Up with Them?

Most of us don't like to think of ourselves as materialistic or competitive consumers trying to keep up with our neighbors, friends, and work associates. But face it, when the guy at work drives up in a new Lexus and you're driving a six-year-old car, that pang of envy is real. You start to wonder how on earth he got the money to buy a luxury car—and yes, think about the words we use to describe cars: hot, awesome, cool. Maybe you start to associate those words with the owner. He may not have been cool last week, but with everyone checking out his new wheels he certainly fits the description now.

That feeling is natural, but it doesn't mean you have to buy a new car. Most people won't, but they may start to check out prices for new cars just to get familiar with the market. The car becomes a status symbol, just as does a cup of java from a gourmet coffee shop. Everyone knows

The Path That Led You Here

where the coffee came from because the logo is prominently displayed on the cup. I understand that comparing the purchase of a cup of coffee and a car is a stretch, but the point is that these things are being observed by you and by others. Maybe you were purchasing coffee at a local coffee shop for a dollar cheaper each morning, but now that you notice everyone at work with their gourmet brands you decide to do the same. You just increased your spending outflow by five dollars each week, or \$260 each year. It may not seem significant, but you know things tend to accumulate.

It's somewhat sad that what was deemed a simple household staple has been transformed into a status symbol. I take my hat off to the marketers who branded Starbucks. When a simple cup of coffee defines who you are and where you are going in life, it becomes apparent that we are in trouble as a society. Think about it for a second—does a cup of coffee from McDonald's exude a feeling of luxury like a cup of coffee from Starbucks? The coffee beans are probably comparable and may have come from the same farm in Colombia or wherever they were grown, but the logo on the cup makes all the difference—it signifies status. Yep, we are in trouble.

That's how easily the "keeping up with the Joneses" dilemma begins. If you're a woman you probably know what kind of perfume, lipstick, clothes, and shoes your friends wear. If they are buying brand labels then you probably are too, even if you don't make the same amount of money as they do. A woman I work with

Power Up

confided that she would never think of showing up to a party in anything other than a suitable brand label. That got me thinking, she used the word “suitable,” which means among other things: adapted to a use or purpose, qualified, proper. She needed to feel equipped to be among that company. If she did not wear the designer clothing, then she may become unqualified or unfit to be in such company. The pressure in her mind to wear that clothing was enormous, enough to make her spend beyond her means and, as she told me later during a cathartic moment, enough to make her go into serious debt. You see, it’s that simple. If you happen to associate with people who make more money and you want to keep up with them, then you may become desperate and start using your credit cards for things that you simply cannot afford. It’s a trap. Nobody purposely laid the trap, but our society has evolved into this dilemma, and we are the victims. As a result, we are going broke trying to maintain our memberships in a perceived class of people.

Men are no different. The large majority of them may not be fascinated with clothes and jewelry, but just talk to them about their “toys.” They will be happy to entertain you by chattering about their top-of-the-line golf clubs, fishing equipment, electronics, cars, motorcycles, even garden equipment. If a neighbor down the road purchases a John Deere riding mower, you can be sure most of the men have seen it or heard about it. Again, it doesn’t mean all the men in the neighborhood will rush out to buy a riding mower,

The Path That Led You Here

but they may take a peek at the push mower in their garage and start wondering what it would take to replace it.

Adding to the Cart

Most of us have seen it: you order something online and the next thing you know the manufacturer or web site such as Amazon is immediately luring you into another purchase—adding to the cart. I've seen it where you are one click away from checking out and the retailer throws one or two last offers at you. Intrusive—yes. Obnoxious—yes. Smart—absolutely. From the retailers' standpoint, they are trying to get one last bite of the apple. That doesn't only happen online, though. It happens when you purchase a set of earrings and suddenly notice the pendent that goes with those earrings or the wallet that fits perfectly with your new handbag. It never ends. If you buy an MP3 player or a cellphone you can get a waterproof case, in the event that you absolutely need to speak with someone while lounging in the tub or pool!

Adding to the cart is one way to get into serious debt. Just think about it: Almost everything that you buy has an accessory. If you own a guitar, then you have to have a case, guitar picks, a strap, song books, and extra strings; if it's electric, then you need an amp, cords, and maybe a fancy gizmo that changes the sound of the guitar while you're playing it. It's nearly impossible to buy one thing without getting a half dozen other things that add to the price.

Power Up

The other day I was in a national sporting goods store buying boots, bindings, and a snowboard for my kids. It took some time, but with help from a fellow shopper and the salesperson, I found what I thought was the perfect equipment. Upon finalizing the sale, the clerk tells me I should get “insurance” for the snowboard. Amazingly, the cost of the insurance matched to the penny the savings I received from the discounted sale price. Of course I said no thanks and inquired why I would need insurance on a snowboard. The answer I received was interesting. The sales clerk told me the insurance covers the board if it cracks. The fact is that the board is designed not to crack. It is meant to take a beating. The sales clerk justified trying to sell me insurance saying it includes one free waxing of the board, which costs the same as the insurance.

Here’s the funny part. The free waxing had to be done immediately upon purchase. The board already came with a factory coat of wax, which is probably better than what the store would put on it. More importantly, if I wanted the upgraded coating rather than the plain old wax, that was more money. You see what I mean—so much for being free.

Say you are about to shell out \$2,000 for a 60-inch flat-screen TV that can be mounted on the wall. You’re probably psyching yourself up thinking, that’s not too bad; I can probably afford those monthly payments. Then you realize the wall mounts cost extra, and the latest and greatest cables (to give you the clearest picture possible) are also extra. Then

The Path That Led You Here

there is the surround-sound system that will fill your room with exquisite sounds. Why not go for that, right? I mean if you are going to do it, do it right the first time. (People actually say these things to themselves. Maybe you remember saying it.) When you get the total charge, that original \$2,000 has been blown out of the water. Between the TV, cables, wall-mount brackets, surround-sound system, and the dreaded sales tax, you're at \$3,000. Now, who has the guts to walk away? The salesperson entices you further by offering an interest-free credit card to put the purchase on. Wow! That's awesome. Not really. What the salesperson neglected to tell you or maybe didn't realize, and you didn't read the terms of the offer, is that after 12 months if you don't pay the balance off in full the interest is tacked on at a rate of 28%. That's from day one of the purchase date and going forward! Great deal? Probably not—after you get done making the minimum payments over the next eight years and have paid for the merchandise about two and a half times over. That's it right there in a nutshell for many people. They can't say no. They are in the present, they are excited, and they have already talked themselves into making the purchase. All the salesperson has to do is give a reassuring smile and join the excitement. Heck, they'll even congratulate you. Remember, that's their job, to sell the product and to sell the joy of the purchase. You won't hear a salesperson ask if you'll be able to afford these products six months down the road. That's up to you to figure out *before* you enter the store or go online.

Emotional Buying

I have a story for you. A friend of mine went through a divorce a while back. The split up was not contentious, but it did leave him wracked with guilt. You see, his son was just turning 13 and my friend thought he should be there for him and do a father-and-son thing together, to help him through this difficult and confusing time. Because of work he could rarely see him during the week but he did have time on the weekends. My friend thought that it would be a great idea to buy his son a dirt bike. He was handy with engines and he conjured up images of him and his son sharing great times together, getting dirty and greasy, and really having a ball. There was a place not too far from the apartment he was renting where they could take the bike out.

He had \$1,500 saved and put that toward a \$4,000 dirt bike—yes, \$4,000. He apparently did not do his homework and found that the dirt bikes his son favored were delivered in what the motorcycle world calls “race ready”—meaning the manufacturer used state-of-the-art components, from the shocks to the handlebars. What my friend also didn’t count on were the accessories added to the “cart”: a helmet, motorcycle boots, gloves, eye protection, and a jersey with the company’s logo and colors. After all was said and done, he took a loan out for around \$3,000. It was a loan he couldn’t afford, but in his mind he just couldn’t let his son down.

Now let me make it clear that his son did not ask for the bike; he did not make his father feel guilty or less of

The Path That Led You Here

a father because they couldn't share those motorcycle moments together. As a matter of fact the dirt bike was a surprise gift. My friend was so caught up in his emotions, the feelings of guilt and worthlessness as a father and husband, that he lost sight of reality—financial and personal. He never sat down and fully thought out the money that he would be spending and the consequences. It's a sad story really. He couldn't afford to keep the bike and it was repossessed, which left him spiraling further into depression from the embarrassment of his financial challenges being communicated to his child courtesy of the repo man.

A number of things can set people off on a spending binge, from guilt to sheer irresponsibility, from sadness to a sense of entitlement. You know how it goes; you had a tough week at work so on the weekend you splurge on clothes, jewelry, sporting equipment, the latest electronic gadget, or whatever turns you on. You deserve it, right? (Maybe you deserve it, but that's not the point, is it? The real point is, can you afford it? That's what you should be asking yourself.) There is actually a name for this type of thinking: It's called "retail therapy." You rationalize why you deserve that new coat or pair of shoes when you already have coats and shoes. What you should do—and listen very carefully—is take a deep breath and calm yourself down. Think clearly and ask yourself whether you really need those things. The bottom line is that you don't and you're only damaging your finances and yourself because you are spending while your emotions are running at a fever pitch. The best suggestion is to stay out

Power Up

of the stores all together unless you have a specific item to purchase. If that is the case, find what you need and get out the front door as fast as you can. Walking around a store aimlessly is going to cost you money because the chance of your buying something you don't need is extremely high. Run, don't walk.

Everyone gets emotional, and it doesn't matter if the emotion is sadness or happiness—you want to respond to it. If you are sad, you want to find a cure for it and for many shopping is a temporary fix. But after the shopping and spending is done, you look at what you bought and the money spent and you find that you're still not happy. You may have been temporarily pleased with yourself while shopping, but the aftermath is a disaster. If you are happy you want to share that happiness, maybe celebrate by buying something you don't need and can't afford. Once you realize what you have done, that happiness quickly evaporates. You see, emotional buying is a losing business; you can't win. It's important to stop and think clearly before you react to the emotion. If you are sad, perhaps you can call a friend, play a game, or go for a walk with your pet. Do something that doesn't cost you.

Buying What You Can't Maintain

This is the money needed for expenses you incur, but you don't think about or realize it until it's too late. Let me explain: I was driving down the road the other day and watched a young man pass me in a huge truck he had tricked

The Path That Led You Here

out. You've seen those trucks—lifted five feet off the ground, behemoth tires, and two pairs of shocks for each wheel, with fancy rims and an exhaust system that creates a deafening roar. What stood out though were the tires; they were nearly bald, and I mean so worn down that belts of metal were visible. I came to a conclusion—he couldn't afford new tires. What started out as a great idea, at least to him, purchasing tires that probably cost \$300 to \$400 apiece, now became a financial burden that posed a safety risk. I began to notice other trucks and SUVs with tires worn down to unsafe levels. There's no reason not to replace your tires, especially when you are carting your loved ones around. Laziness, maybe? Trying to save a buck? I don't buy it. Too many people purchase things without thinking about how much it is going to cost to maintain them properly.

Maybe you've done the same thing and it cost you in ways other than financial. It not only costs you money but it also costs you sleep and even a sense of decency. A person in my insurance agent's office lived in a house he couldn't maintain because he could barely afford the mortgage. His landscaping became a mess, the paint on the house started to fade and chip, and the pool morphed into a mosquito retreat. Neighbors started to complain and he and his family felt embarrassed. It was all because (by his own admission) he wanted to live in a certain neighborhood and live up to certain standards. He could get the mortgage but he never thought further ahead, or maybe he didn't want to think further ahead, about how he would maintain such a house and its

Power Up

trappings. Well, those trappings caught him and it cost him dearly. These are the financial burdens that you bear if you don't use your head and seriously realize that there is always a price to pay. You have to find the price that suits your monetary situation.

Think about the things that people buy and maybe you bought that must be maintained. The list could nearly be infinite, but we'll take on a dozen or so: pets, pools, hot tubs, motorcycles, cars, landscaping, motorhomes, firearms, computers, boats, vacation homes, lawn mowers, appliances, sporting equipment, clothing. Let's not forget, although you do not buy them of course, children. When you have a child you immediately have to spend more money to take care of her or him. So you get the picture. Think before you buy. Remember that once the purchase is made you will probably have to sink more money into that product to keep it functioning properly. Once you pay the price of acquisition you have to pay again and again. It never ends.

We will elaborate on these subjects later in the book. For now, I want you to start thinking positive and consider how you can become a better money manager. First, though, I want to introduce you to a major influence that persuades you to spend.

The Influence of Advertising

From the moment we wake to the moment we rest our heads on a pillow, we are barraged by advertising. Every

The Path That Led You Here

waking moment we are confronted with some type of communication telling us how we are supposed to look. What to spend our money on. What we need to buy and why. Yes, advertising is influencing this culture, and unfortunately negatively influencing our finances and ultimately our outlook. It is changing the way we think and what we will have in the future in regards to resources.

For example: How can anyone in America possibly leave their house or function throughout the day without a bottled water? Bottled water is safer, it keeps our hunger satiated so we won't want to eat more food, and as a consequence it makes us healthier. That's the message and I'm sure you've heard it or read it. Oh, and don't forget that many health professionals recommend that we drink at least eight glasses of water a day to ensure healthy skin and body hydration. The truth is that there is no concrete science that backs that claim. Sure, it's okay to drink water, but if you want a cheeseburger all the water in the world is not going to prevent you from eating that burger. Just think about all those plastic bottles that aren't recycled; they sit in landfills for an eternity or litter our streets and waterways. What happened to tap water? Think about it—you are *buying* water. You may even be buying tap water in a plastic bottle. Seriously, one of the largest brands of bottled water clearly states on the label in small print that the product is derived from the New York City Public Works Department.

Advertisers are professional persuaders. They are paid to stimulate your “buying mechanism.” We all have this

Power Up

mechanism; it goes off in our brain and in our heart and it tells us that we need that product, whether it's bottled water or an SUV. Look at how many Americans bought into the SUV message—it's safer for you and your family (especially your kids) and you can fit the whole neighborhood in the back seats along with the groceries; how convenient. Every family should have one, and heck you can see over everyone else because the seats are so high up. After you drive an SUV you'll never be able to go back to a little car—you won't feel secure. What the advertisers didn't tell you was that these vehicles get terrible gas mileage and their cost is sometimes exorbitant, although you can lease one for a sweet deal, as long as you qualify and don't dare go over the mileage limit. Of course, the dealer will penalize you if you try to get out of the lease. It's there, I assure you. Don't be fooled. Nothing in this world is free. If you notice, some of the worst drivers on the road are SUV people. They barrel down the road as if they were driving a sports car. That's because they think they really are safe and that nothing can hurt them. They bought into the image created by the advertisers, even if they couldn't afford the vehicle. You see, the advertisers persuaded them that they could not afford to *not* buy the vehicle. Parents with one or two kids lumber down the road in these monsters even if they are over their heads in debt. How do they afford the gas? Put it on the credit card. How do they afford to pay for those huge tires when they are worn down? Put it on the credit card. Now, I'm not trying to make generalizations here. Some people can

The Path That Led You Here

afford expensive SUVs, but I think there is enough evidence and enough people trading in their SUVs because they couldn't afford the gas or maintenance to make the statement.

Think about advertising or selling methods at your grocery store. As I approach my grocery store I can smell fresh-baked goods. In Paco Underhill's book *Why We Buy: The Science of Shopping*, he calls the first few steps into a retail store the "transition zone." It's where shoppers transition from the outside world to the retail space. In my grocery store the bakery is to the left, and it has fresh-baked bread for sale in bins about 15 feet in front of me as I walk into the store. Like most other shoppers, I grab a loaf even if I don't need it, because I rapidly think to myself of the multiple ways I can use that loaf—for dinner, sandwiches, breakfast. I am then funneled off to the left, where the bakery and other products are located. Only the most determined and focused shoppers will take a detour to the right or go straight past the bins and find the exact aisle where the exact product they need is located. Those shoppers probably have a list and are intent not to pick up extra items that they don't need. Lesson learned: Make a list and stick to it; you'll save money and time.

Advertisers tell us that the cereals they are peddling are great for your kids, and they have commercials of kids laughing at the breakfast table to prove it. The sun is shining and mom is happy not harried trying to get to work or get the kids to school. Everything is wonderful and the

Power Up

kids are getting a nutritious meal, right? Maybe that happens on television, but in my house it's pure havoc with yelling, screaming, rushing, and the occasional threat of harsh discipline from medieval times! What about all that sugar and corn syrup and the lack of protein and fiber? Advertisers don't want you to think too hard—don't read the ingredients; just think of the convenience and the happy expression your child will have while filling up on sugar. You don't want advertisers telling you what to buy. You need to manage your money and educate yourself on products, and you need to come to grips with how you spend your money.

It doesn't end with commercials. Think about the television shows you and your kids watch. Kids watch shows where young girls, probably between 10 and 13, dress in the very latest fashions. Now they want the same clothes and they don't want us to buy from Kmart. No, that designates a cheaper style of clothing, not name brands. Many parents fall prey to their kid's insistent pressure and buy fashions they can't afford. Maybe they'll get a store credit card and charge it. The kids are happy but the parents are left struggling to pay the bill. Television shows may influence you in the same manner. If you're a man and you watch golf and see the top golfers with name-brand shirts and clubs, you probably want the same thing. I've seen NASCAR fans (men and women) modify their cars or trucks to look like their favorite driver's car. That can cost a small fortune. It happens; television

The Path That Led You Here

coerces us to buy certain products and certain “looks”—as in fashion design. What about product placement of items in movies or on television shows? Advertising is everywhere and you don’t even know it. It is subliminal and your subconscious is absorbing the message of “buy me” loud and clear.

Advertisers build brand identity, like Nike and the swoosh. It’s called brand recognition, and advertisers want you to be loyal to that brand. NASCAR is a brand; so is the NFL, just like Gucci or Chanel. They want you to covet their brand, and that is very dangerous for a consumer at all levels. It’s what we’ve been talking about all along—this desire to have something, to need this product regardless of the cost. You know you really can’t afford it, but that doesn’t matter. Other people have it and are enjoying it, so why can’t you? That’s an out-of-control buyer’s mentality. A girlfriend has just purchased a Coach bag and is showing it off. If you are a woman and also love Coach bags, then your heart rate is going wild and you can’t wait to go buy one. After all, these bags say something about a person. The brand describes you and it gives you a sense of worth, which makes you feel good. Of course, when you get the credit card bill and only have enough money to make a minimum payment or no payment at all, then that sense of worth goes out the window.

You don’t have to be loyal to any brand. Try buying grocery store-brand products. Most of them are no different from the name brands and are less expensive. They

Power Up

may even be produced in the same factories as the name brand but with different packaging. They also don't pay excessive costs for packaging—notice how plain their packaging is. And if you are worried about what your neighbors or friends might say if they see those products in your pantry, I have two words for you—who cares! That's right, who cares. You are out to build your own brand—a brand-new you who is smarter and savvier and understands that money is worth more than its monetary value. You are out to build yourself back up from financial crises.

Let's use the cliché that money doesn't grow on trees. We've all heard that a million times, but it is the truth. Money is a precious commodity, and I want you to start thinking that way. Money is not earned just to buy and accumulate material things, as advertisers would like you to believe, and it may or may not buy peace of mind. Money is to be earned, respected, and saved so that when an emergency does occur, or when you need to purchase something that you really do need, you have it.

Okay, so we went over the many reasons why your financial situation went up in flames. Materialism and coveting name-brand products is rampant in America. It's not healthy, financially or otherwise. We know that the purchase, the act of buying is a temporary fix—you feel good while you're doing it but then the bright feelings turn grim after you realize you didn't practice good judgment. Keeping up with the Joneses and adding to the cart is tempting, but it doesn't pay off in the end; it only costs you. Stop for just a moment. Do you really want a

The Path That Led You Here

materialistic item, whether it's a car or a piece of clothing, to describe you? Aren't you more than that? If you were stripped of all your materialistic possessions, would you be nothing? No, my friend, you are more than the possessions you buy or covet. So now let's move on and learn how you can change your financial habits and your motivations to buy. It's time for the next part of your empowerment.

