

## The 10 Immutable Laws Of Money

Money – we all want it, but few of us are willing to sacrifice to get it. Those that have it generally don't understand it, and those that don't have it come up with excuses why they can't get it. If this sounds confusing – it is.

For all that we have accomplished in the United States in the last 200 years we have failed miserably at teaching our children the basics of money management. I am not talking about stock and bond portfolios – I am talking about the basics of spending less than you make, understanding of credit, and how to balance a check a book.

We are inundated daily with credit card commercials that show how great life can be – just charge it. We are enticed to buy things that we don't really need though the use of zero percent financing – but only while it lasts. We are motivated to consume anything and everything in pursuit of the American dream but no one ever talks about the consequences of our actions.



## The Secret To Wealth

I could literally be kicked out of the financial community for divulging the one secret that has been so closely guarded by the credit card companies, the mortgage companies, the banks and WallStreet for so many years. This secret, of course, is the true road to wealth and happiness. It is irrefutable, undeniable and absolutely achievable. If you implement this one secret in your life – you will be rich...you won't be able to stop it.

### **The Secret: Spend Less Than You Make**

That's right. This is the one secret that no one wants you to know because it hurts the economy. If you save money that means there is less money circulating around the street buying washers, dryers, refrigerators, big screen televisions and X-boxes. The more you save – the less the credit card companies make. It is in NO ONE's interest, but your own, to save money and now you know why it is such a closely guarded secret.

## The 10 Laws Of Money

### 1) *Money Doesn't Grow On Trees*

My father used to always tell me several things – all of which I am beginning to find out weren't exactly true – such as; *"When I was your age I had to walk uphill to school in the snow – both ways!", "I could go to a double feature and eat all the popcorn and soda I wanted for a nickel and have change left over!"* and, of course, my personal favorite; *"Where do you think that comes from – money doesn't grow on trees!"*

What my father was trying to teach me was to respect the effort that goes into making money in the first place. My whole life my father worked two jobs, and sometimes three, to support me and make sure that I had everything I needed – not always everything I wanted – but always what I needed. As a young boy, of course, I didn't fully understand the impact of what he was trying to teach me until I got a family of my own.

People generally work very hard for their money but then squander it by making bad financial decisions. You must learn respect for the money you make and one of the best ways to do this is by using an *"envelope system"* for a few months.

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The “*envelope system*” is easy. Simply cash your paycheck and put all the money into envelopes for rent/mortgage, car notes, food, utilities, entertainment, etc. Then go ahead and begin living your life. What the envelope system will show you is where you are squandering your money and help you focus on the areas of financial distress so that you can cure the problem.

Oh, by the way, there is no borrowing from one envelope to cover a shortfall in another, when the envelope is empty then you are out of luck until next month...so make sure you don't spend too much of your “*food*” money eating out.

## **2) *Wants Always Exceed Needs***

It is always surprises me when I council people on financial planning the sheer look of horror that comes across their faces when I mention the word “*budget*”. It is almost as if I have just asked for them to amputate both arms.

However, a budget is the only way to achieve financial success in your life...you have to spend less than you make. I hear all the time; “*You don't understand – I needed a new car*”, “*...we needed a bigger house*” or “*...we just have to have our annual vacation.*”

The difference between a “*want*” and a “*need*” can sometimes be small and insignificant, but, most of the time they are on different planets. Did these people need a new car – maybe, but they could have bought a 2-year old car that looks great and saved 30% on depreciation. Did they really need a bigger house or could they have gotten by in the one they are already in. These are all the questions that you have to ask yourself.

- FOOD
- SHELTER
- UTILITIES
- TAXES

These are your needs – everything is a “*want*”. Keeping the “*wants*” under control is a huge first step in your financial wealth. So, before you buy something tomorrow – stop and think about it – is it a “*want*” or a “*need*”.

### **Your Life Is Worth 60%**

In planning your life, and spanning the gap between “*wants*” and “*needs*”, build a budget after analyzing your spending patterns keep your committed expenses at or below 60% of your gross income. That's right – that leaves 40% of your gross income just hanging out in the wind...well, more on that in a minute.

Now, 60% is not a magic number but it is a realistic goal to work toward and, at any rate, it's a good place to start. However, once you start using this method, you really won't need to track your expenses because your checking account balance is generally equal to the amount of money you can spend. The key is keeping a lid on those committed expenses.

### **What About The Remaining 40%?**

That 40% is what you paid yourself, and your family, with first. Let's look at an easy example:

Joe makes \$100,000 per year and is in a 25% tax bracket. Once he is paid, \$14,000 goes into his company retirement plan, pretax, OR 14% of our 40% goal.

Joe then deposits \$333 into a Roth IRA each month, automatic deposit, for he and his wife, that is another \$8000 a year total, using up another 8% of the goal, but, since this was an AFTER-TAX investment we need to adjust upward by adding the taxes back in which would make \$8000 valued at \$10,000 ( $\$8000 * 1.25\%$ ) or 10% of our 40% target.

Finally, Joe also has an automatic withdrawal deposited into his investment account of another \$1050 per month which after adding our tax rate back in, is roughly the balance of our savings goal of 40%.

Joe then has a final net paycheck he deposited into his bank account which is equivalent to 60% of his gross pay after all deductions. Each month Joe spends everything in his bank account. He doesn't have to worry about saving anything because it has already been done and Joe learns not to miss the money piling into his savings accounts because he never got to see it in the first place.

The real secret to building a budget that really works isn't tracking what you spend, any more than counting calories is the secret to losing weight. The key is creating a sustainable structure for your finances, one that balances spending and income and that leaves enough room to handle the unexpected.

### 3) The Poor Are Debtors

This is a simple rule – “*You can not borrow your way to wealth...period*”. You will never see a late night infomercial on how to build your way to wealth by swapping debt between low interest credit cards.

For a lot of people, part of the difficulty in reducing committed expenses comes from the need to make big monthly credit card payments. If you're carrying a substantial amount of non-mortgage debt, I'd suggest using the 20% that would otherwise go to retirement and long-term saving to aggressively pay down your debt -- but only *after* you cut up those cards.

Every dollar in interest that you *don't* pay is just like getting a guaranteed, risk- and tax-free return on your money equal to the interest rate on the debt. When your debts are paid off -- and it won't take long using 20% of your gross income -- immediately redirect that money into savings.

Here are 15 signs that indicate you are not managing your financial life correctly and are hindering yourself from becoming wealthy:

- 1) *Your credit card balances are rising while your income is decreasing.*
- 2) *You are only paying the minimum amounts required on your accounts, or maybe even less than the minimums.*
- 3) *You're juggling bills. For example, you apply for another credit card and use cash advances from it to pay an existing card.*
- 4) *You have more credit cards than a successful gambler has poker chips.*
- 5) *You are at or perilously near the limit on each of your credit cards.*
- 6) *You consistently charge more each month than you make in payments.*
- 7) *You are working overtime to keep up with your credit card payments.*
- 8) *You don't know how much you owe and really don't want to find out.*
- 9) *You have received phone calls or letters about delinquent bill payments.*
- 10) *You are using your credit card to buy necessities like food or gasoline.*
- 11) *Your credit cards are no longer used for the sake of convenience, but because you don't have money.*
- 12) *You are dipping into savings or your IRA to pay your monthly bills.*
- 13) *You are hiding the true cost of your purchases from your spouse.*
- 14) *You're playing the card game by signing up for every credit card that sends you an unsolicited offer.*
- 15) *You have just lost your job, or are fearful that you are about to, and are concerned about how you will pay all your bills.*

The first step in becoming wealthy is to quit using credit cards – of any type, for any reason.

## The Credit Card Rollup Solution

If you want to get rid of your credit card debt – no matter how large – the following method will work in no time. You just have to get serious about doing it.

*Step 1) Sit down and cut up all of your credit cards – ALL OF THEM.*

*Step 2) List the balances for each card from LARGEST to SMALLEST and the minimum payment for each.*

*Step 3) Pay the minimums for each card on the list and 5 times the minimum for the smallest card balance.*

*Step 4) Repeat each month.*

Don't worry about paying off the debt with the highest interest rate first. This approach gives you some quick wins. It's like losing five pounds in the first week of a diet.

*Step 5) When the smallest credit card has been paid off ROLLUP all the money you WERE paying on the smallest credit card and apply all of it to the next card on the list INCLUDING the minimum payment you were already making on that card.*

By the time that you get to your last credit card – which will be the one with the highest balance you will be putting huge chunks of money on the card each month. Before you know it – you will be debt free.

*Step 7) When you are finally free of all of your credit cards – reward yourself. Take the next two months of payments you were using to pay off your last credit card and buy yourself something.*

*Step 8) After you reward yourself – it is time to get back to saving. ALL OF THE MONEY that you used to pay towards the credit cards – now goes into savings. You have a lot of ground to make up and this is a good way to get there.*

### 4) Moral & Physical Hazards Don't Apply

I was watching "**Fear Factor**" the other night and it dawned on me that people will do anything for "*quick and easy money*" – "**Sure, Joe, I will eat those South American Hissing Cock Roaches for \$50,000.**" Yet, these same individuals won't do the financially smart things and sacrifice their "*wants*" in order to save that same \$50,000.

In America we have been raised to be financially lazy. We are unwilling to do what is necessary to become rich yet we will play the lottery, which is nothing more than a poor man's tax, in hopes of becoming a millionaire. Yet the sad statistic is that 80% of lottery winners are broke again within 10 years because of bad financial management.

Like David Letterman, I should start a segment on "*Streetwork with Lance Roberts*" called **Financially Stupid Human Tricks** and highlight some of the things that we are enticed to do by lenders in the name of "*financial management*" such as;

#### **Use A Home Equity Loan To Pay Off Credit-Card Debt**

Lenders love to tout home equity loans and lines of credit as a way to pay off your plastic. You'll even see some personal finance journalists parroting the company line that such loans make sense, because home equity rates are typically lower than the interest rates you'd pay on your cards -- and the interest is usually tax deductible.

Americans have been taking this advice with a vengeance and have borrowed a total of \$701.5 billion from their home equity as of the end of 2004, according to the Federal Reserve, which was up from \$416.2 billion in 1997. Low home equity rates, and stubbornly high credit-card rates, have convinced millions that this is the way to go.

The only way this maneuver really helps you, however, is if you stop using your credit cards to run up debt. Otherwise, you're just digging yourself a deeper hole.

Unfortunately, the ability to live within their means is beyond many people. Nearly two-thirds of the people who borrowed against their home equity between 1996 and 1998 to pay off credit cards had run up more card debt within two years, according to a study by Atlanta research firm Brittain Associates.

### ***Borrow From Your 401(K)***

Companies don't have to offer a loan feature with their 401(k) retirement plans, but according to the Employee Benefit Research Institute, most of them do. Eighty-three percent of American workers covered by 401(k) plans can borrow against their accounts, and about one in five participants have an outstanding loan.

People who borrow from their workplace retirement funds, meanwhile, love to think it's a smart move, since when they repay the loan they're essentially paying interest to themselves rather than to a credit-card company or other lender.

This is true, but 401(k) borrowers also could be putting their retirements at risk. If they lose their jobs or get fired, the loan must be repaid, typically within 60 days. If that's not possible -- and often it's not, since people who lose their jobs don't tend to have a lot of cash sitting around -- the outstanding loan balance is taxed and penalized as a premature distribution. That can equate to a penalty of up to 40% or more, depending on your tax bracket, in taxes and penalties in addition to the amount that you borrowed.

It gets worse, since you can't put that money back. Whatever the money you borrowed might have earned in future years is gone forever. If you had borrowed \$7000, the average outstanding loan balance, and assume an 8% return, that loan could cost you more than \$75,000 in future retirement funds.

Never touch your 401(k) plan -- like your home equity. If you screw everything else up in life you will have a roof over your head and food to eat.

### **Stretch To Buy A House**

Beware, homebuyers. Everyone around you is conspiring against your financial best interests.

Your real estate agent wants you to buy the most expensive house you can: the higher the price tag, the bigger their commission -- why do you think they always show you a house that can't afford first...this is because when they show you the house you CAN afford -- you will only remember all the nice things that were in the house you couldn't afford. The next thing you know you are stretching to buy a home way out of your price range.

Furthermore, your lender is in cahoots, as well. Not only will a larger loan rack up more fees and interest, but also the lender knows you'll move heaven and earth to pay your mortgage even when you're falling behind on other bills.

Your friends and family also may get into the act, telling you it's okay to stretch to pay that mortgage, since your income will eventually rise and make the payments more comfortable. Maybe, maybe not, but anyone who's been house-poor knows the emotional, psychological and financial stress of stretching too far.

Buying too much house should mean giving up other things you want: vacations, eating out, a college fund for your kids, a sufficient retirement kitty. However, what it means to most, intentional or not, is piling on ever more debt, as you borrow to try to maintain your lifestyle.

### **5) The Best Things In Life Are Free**

Too often we equate spending time with a loved one or with our family with going somewhere and doing something that can quite quickly become very expensive. However, isn't the purpose of the outing just to spend time communicating and interacting with those that we care about the most?

Learn to be creative. Board games at home, sports in the front yard, water balloon fights, \$0.99 cent movie rentals and homemade popcorn, theme nights such as "*Stay up as late as you can*" or "*Slumber party*" -- it really doesn't matter what you do, you can still have a lot of fun and in a lot of cases -- it won't cost you a dime.

## Laugh At Your Neighbors' Overspending

Petty? Yes! Helpful? Definitely!

After all, trying to keep up with the Joneses may be what got you into financial trouble in the first place. Realizing that the Joneses aren't as well off as they seem -- and are struggling with debt-related stress as well -- can make keeping up with them a little less attractive.

The average family of four has \$100,000 of debt between mortgages, credit cards, car loans, etc. That means that 50% of all families have even more than that in debt. Currently, consumer debt is at historic highs while personal incomes are not increasing fast enough to cover the shortfall.

So, using your neighbors financial stupidity as a measuring stick for your own successful money management is a great way to keep you on track for your goals. Go ahead, deride the neighbors for financing everything they buy or feeling superior for winning a better mortgage rate, thanks to lower debt loads.

Never underestimate the power of bagging on someone to make yourself feel better – just not to their face. You do still want to be invited to dinner every now and then.

Remember that your peace of mind is, ultimately, what living frugally is all about. You are living today for what you want tomorrow. So, whether you're paying off debt, saving more or simply living within your means, you're trying to avoid the fear and stress that plague people who aren't in control of their spending. Remembering that can help you avoid burnout, stick to your plan and get you to your goal that much quicker.

### 6) Money Can't Buy Happiness

That ole' cliché is only spoken by those that don't have money and are unwilling to go get it. It is true, however, that *"Money can't buy happiness"* but it sure can buy a whole lot of ***whatever comes in second***.

### 7) There Is No Such Thing As Five Easy Payments

Don't get sucked in by finance schemes. To many times people try and rationalize that they will use this credit card or that financing plan because it has zero percent interest. It doesn't matter. If you can't afford to pay cash for the item immediately on the spot then you have no business buying it...it is most likely a *"need"* versus a *"want"* anyway.

Debt is debt in all shapes, forms and fashions and ultimately it is the fine print that gets you and keeps you one step further away from attaining your financial goals.

### 8) A Wad In Your Pocket Is Better Than Your Pants In Wad

Unfortunately, 50% of all Marriages in America end in divorce. The number one reason is financial distress. We all want the good things in life and we generally make emotional decisions versus logical ones. If you want to get out of debt and be free of the financial stress that comes along with it here are seven radical realities to get your pants out of a wad and put a wad in your pocket.

- Reduce Housing Costs.** Do you really need a pool in the backyard? Do you really need two extra bedrooms that are being use to store clutter and junk? People generally buy way more house than they need. Reducing your monthly mortgage payments by dropping the size of your house can put a lot more cash into your pocket.
- Drop A Car.** Gas, maintenance, car payments -- imagine the money you could save if you gave up one household car, or found other ways to commute and run errands. Or trade in your car on a two or three year old car to reduce your monthly car notes.
- Get (Another) Job.** You don't have to work nights and weekends forever, but if a part-time job gave you an extra \$300 a month, that's \$3,600 you can put toward debt this year.
- Quit Your Vice.** Your indulgences can add up fast. Giving up your smoking habit can save you thousands of dollars a year. Eating out can add up fast too – so brown bag your lunch and start cooking at home. It isn't convenient – but it's the financial smart thing to do.

- ☑ **Live moderately.** Shifting priorities, and locations, can help downsize your lifestyle. .
- ☑ **Let the kids go public.** According to the Council for American Private Education, the average cost of private elementary and high school is about \$4,689 a year. You are already paying for public school in your annual school taxes – might as well get some bang for your buck. Don't think your child will learn as well as they would in a private school? How about taking some time out of your schedule to work with them at home – it's free and you will create a lot more with your child than just a smart kid.
- ☑ **Tap Your Crap.** Garage sells, EBAY and a host of other avenues these days offer you outlets to get rid of all that crap you have accumulated over the years – and it may just generate a few extra bucks towards paying off debt.

I understand your initial reactions to most of this but once you start adopting some these guidelines you will begin to discover other avenues to begin to live within your means and begin to take the steps required to live a happy and wealthier life.

## 9) Dress For Success

All too often I see people driving expensive cars, dressing in \$1000 outfits and wearing enough jewelry to make Mr. T jealous – yet they don't have a penny saved to their name and enough debt to declare themselves a federal deficit.

If you ask those who've already become millionaires what their lives are like, you might be surprised. I highly recommend the new book, *"The Millionaire Mind,"* by Dr. Thomas J. Stanley, author of the best seller *"The Millionaire Next Door."* He surveyed nearly 1,000 of the nation's millionaires, and what he found may surprise you.

First, he sorted out those who were *"balance-sheet"* millionaires and those who simply lived an affluent lifestyle while burdened with debt. Balance-sheet millionaires tended to own their homes without a mortgage, while those who merely lived a wealthy lifestyle carried jumbo loans. Millionaires with assets between \$2 million and \$5 million live, on average, in homes that are valued at \$355,000 (based on the Internal Revenue Service database figures).

The millionaires in his survey tend to have started businesses, and have built their wealth by finding a profitable niche. They tend to love what they do and are motivated by building the business, not by building wealth.

They live comfortable lifestyles, but are not wasteful. In a fascinating example, most of the millionaires in the survey report they buy expensive shoes, but almost all have them resoled. For the most part, they remain married to supportive and responsible spouses who run economically productive households -- from clipping coupons to buying household supplies in bulk. **Bottom line: They spend less than they earn.**

When it comes to investments, these millionaires look to the stock market primarily as a place to grow capital once their businesses have matured. **They are not speculators in the markets, rarely visit a casino and almost never buy lottery tickets.** Of course, you might figure that they don't need to speculate, since they're already wealthy. But perhaps these stable qualities are the reason they got wealthy in the first place.

*However, if you put a pair of pantyhose on your head and ask for money – that generally works as well.*

## 10) Live Like No One Else Today

If you live like no one else today – you will be able to live like no one else tomorrow. Rich is good. Retiring that way is easy. You just have to commit to a lifestyle of being financially smart and of being a good saver. This, of course, will cause you to be a sworn enemy of the credit card companies, a villain to the banks and ultimately ostracized by the "Jones'" for not keeping up with them.

But in the end it will be you that is laughing all the way to the bank with a wad of cash in your pocket, an emergency fund in the bank, a steady income from your investments to live on and not a worry in the world. Now, wasn't the sacrifice in the beginning worth it?

## ***Disclaimer & Contact Information***

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