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Money Management Secrets For Eliminating Your Debt And Increasing Your Wealth

Dan Eggertsen: Hi this is Dan Eggertsen. I'd like to welcome everyone to the call today. I'm here with my father, Karl Eggertsen. Hey Dad, how you doing?

Karl Eggertsen: I'm doing real good Dan.

Dan Eggertsen: All right great. Are you ready to start answering these questions people have been submitting about money management?

Karl Eggertsen: Yep I'm ready Dan.

Dan Eggertsen: All right. Well we've been getting questions for a while now and I've kind of boiled it all down to the three really important questions that I keep seeing over and over again. So I'm just going to start right now.

Karl Eggertsen: Okay.

Dan Eggertsen: The first question we got is, "I have a hard time managing my money and saving as much as I should. Can you give me a few steps or rules that can get me started?"

Karl Eggertsen: Yeah I can start off with a couple but the first thing I wanted to say is this is an extremely important topic. It's really the core, fundamental basis of peoples' financial lives because it really starts with your income and your check you get every week or every month and what your expenditures are and how you handle the money that you make.

Dan Eggertsen: Right.

Karl Eggertsen: Most Americans go through 12 to 16 years of education, plus. But it's not required in most schools. In fact, I really don't know of any colleges where it's required to learn money management unless you're in an MBA program or studying finance or something. Most people don't really learn it well. I know when I came out of school I was getting a pretty good paycheck but I really didn't have a clue about a lot of things, even the banking and the checking and so on and managing the expenditures.

It's extremely important. It's not that difficult. It's not a rocket science but it takes some basic understanding of a few basic principles and it takes some discipline and sticking with it. So first steps, some tips to getting on a good path to managing your money. First step is to take inventory of all that you own and all of your debts. That would determine your net worth which is important as a starting point.

Then going from there, once you determine your net worth and you know what you own and what your debts are you can determine your net worth and then you could begin to establish, do a little dreaming with your family as far as what your goals should be that you want to have in your life and what your basic needs are too. Of course that comes first. Then your long-term goals should be established because that kind of gives you that motivation and inspires you and gets some emotion and passion into the importance of managing your money month by month, day by day even.

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The things that people could think about for example are the dollars per month that they would like to have at retirement, you know a stable income source. How much money would they like to have at retirement, being realistic? How much do you really need to be able to enjoy life? Then another thing would be financial reserves and that's really your portfolio of securities, any real estate you might accrue during your working life.

That would be called your financial reserves; something to fall back on for emergencies as well as vacations, for college for your kids, for retirement. Then insurance protection, that's the other important thing. It's for catastrophic happenings that could wipe you out financially in a minute. You want to make sure that you have that too. So those are three things people could think about. So take inventory, establish your net worth, and develop specific dollar goals for your life.

Then develop a cash flow statement. That would be using like your bank, bank statements, credit card statements and they can help determine where your money's going. Then your expenditures, you have different kinds of expenditures, some that are absolutely required like paying the gas, electric bills. Then there's discretionary which is, you go out with your credit card and you impulse buy or you buy things that you don't really need but you kind of want.

This cash flow statement will also show you how much money you're putting into savings and any investments. This cash flow statement will help you get a handle on where your dollars are going and the kind of things that you can find is, if your income equals your expenditures, that's a good sign assuming that you have your savings and investments in there also because if they're not, you're not saving anything. You're not investing but your income equals expenditures. You're treading water. You're not getting ahead toward your future financial goals.

Dan Eggertsen: Right.

Karl Eggertsen: So that would be the time to start prioritizing, "Gee where am I spending my money. I've got to start putting some into my 401K and into my savings account and that type of thing." So if your income is greater than expenditures then that should really be zero. So you

want to make sure that if your income is greater than your expenditures, you want to make sure you're not missing any expenditures because it really should be zero assuming that you're considering everything that you should be.

So it's a good check to make sure you haven't missed some expenditures or that you've included something that you should have. Expenditures greater than income, that's trouble. That shows that you've got to cost cut. That you've got to get control of your financial life and being that you've established some goals there should be some motivation to start doing something because you now have a handle on where your money's going and you can start looking at where you can cost cut and start putting some money away for the future.

Dan Eggertsen: Okay.

[06:48.9]

Karl Eggertsen: Okay so those are a few of the tips to starting to better money management. It can really get you a handle and position to go forward and start doing some good things.

Dan Eggertsen: Excellent. All right well, well said and some of this plays right into the next question we've gotten. "Can you give me some tips for setting up a household budget? I'm not sure how to start." So how does all this work for creating a budget?

Karl Eggertsen: Okay. Tips for a household budget, that would really start with what we just actually talked about which is interesting is the cash flow statement really is your first step because that's looking at your daily, day to day expenditures and it's kinds of a, the way we looked at it was just to get a handle on, you know statically where you are at a point in time based on your last statements for your bank and your credit card.

It gives you a handle on your cash flow. So what you can do then for establishing a budget, a budget is really a plan for the future; something to abide by, to stay within. So using your cash flow statement results and financial goals, you can establish budgets for each of category of your expenditures and you can project what your expenditures are going to be over the next year or two.

So therefore you have a benchmark, you know benchmarks for your expenditures and also your savings and investments. Besides expenditures on this category list in your budget that you're listing things like utilities, like car payments, like mortgage payment, food all that kind of stuff. Some of these are fixed, some are discretionary expenses but you also want to include how much you're going to be saving every month and how much you're going to be putting into your investment accounts like a 401K or an IRA.

It establishes a powerful tool to help you stay on track and to adjust as required to reach your goals. It can also help you plug holes in your budget. If you're off track it shows where you can cut back; usually on discretionary expenses. You don't want to cut back on your needs because you got to pay your gas, you got to buy your food but there're some things you can cut back on and you can reprioritize some things.

You can cut some things and you can adjust to keep your needs being met and your planned dollars to savings and investments to meet your long-term goals. So this really gives control, day to day control or month to month control as well as long-term over the next year or two. And you would update this every year or two as things change because things are always going to be changing.

Dan Eggertsen: Right.

Karl Eggertsen: Needs are going to be changing, utility rates are going to be changing, gas costs are going to go up or down, other things can come up to change. So you need to update that budget. But that's really critical for people to stay healthy financially and be very happy when it comes time to retire that they are in a position where they can retire comfortably and enjoy life.
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Dan Eggertsen: Yeah the sooner you can create a budget that you can stick to that's realistic, the more money you can start to put away in investments and other things. It just opens the doors that way for savings and investments. It's pretty simple math you know, income minus budget expense and the rest is left over for other stuff. Okay.

Let's move on to the third question. This is an interesting question because this is a problem that has lead to some of the financial problems that this country's had and a lot of people continue to have, "I have a lot of credit card debt, but I'm not sure what strategy to take to pay it down or if I should pay it down. Maybe I should invest first." How do you address that question?

Karl Eggertsen: I think that's another question that's extremely important. It's caused people to go bankrupt. It's caused this country to darn near go bankrupt recently here. So it's a very important question but in the case of a person with credit card debt, the best way to look at it is, how much interest are you paying on the credit card? I've seen some credit cards as high as 27% recently.

Let's say it's 18%. Somebody's paying 18% on the debt that they have on their credit card. Let's take a look at what their alternatives are. If they didn't pay that off like in a lump sum or as fast as they could, where could they put the money to do as well as that? Reliably and prudently with an investment you can bank on, you'd be hard pressed to find anything to do that unless you're listening to these people who are promising things that are too good to be true and they usually are.

10% investment return is a good rule of thumb when it comes to stocks. When it comes to real estate, real estate basically is more like 6% or 7% but there's some leverage that you have with real estate. But the point is, 18% if you pay that off as quickly as you can, it's like you're making 18% on your money. You're making 18% on your money versus 10% in a portfolio of securities. Now if you have a loan, and you won't find many credit cards with a 5% interest rate but if you have some kind of a loan of 5%.

Dan Eggertsen: Like a home mortgage or something. Yeah.

Karl Eggertsen: Something like that or some other kind of loan that you have, and you're only paying 5% on it, in that case I would say that that would be a case where you could seriously consider, continue to make the payments as required on the statements every month on the loan, but you don't go out of your way to pay it off any quicker than you really have to.

Dan Eggertsen: Just pay the minimum payments right?

Karl Eggertsen: Yeah so you pay the minimum payments and assuming that that's going to still pay it off but it's going to take longer, and you can instead put your money in investments where you're going to, on the average annually, you'd be getting more like 10% which would be twice that. So it's kind of the way to look at. What could you do with the money instead of paying off that credit card real fast?

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Where could you put your money that you'd be 18% and I can honestly say I wouldn't recommend anybody that I care about jumping into an investment that's promising greater than 18% because it's not very likely, especially in today's world.

Dan Eggertsen: Yeah.

Karl Eggertsen: So that's kind of the way to look at it. You got to kind of weigh, working up with this money other than just paying off this credit card but I say anybody that has an 18% or more credit card interest rate seriously look at paying it off as quickly as you can.

Dan Eggertsen: And maybe we can kind of a little rule of thumb here that any loan that's 8% or greater – I'm just throwing out a number – 8% or greater, you want to try to pay that off before investing that money. Any loan that is less than 8% you can safely, rather than pay that off you can invest that money because if you invest along with my dad's investing strategies and my investing strategies, you're probably on average going to make 8% to 10% on that money over the long-term.

Karl Eggertsen: Yeah. Over the long-term on the average. That's the way it's been historically. Now of course that's no promise of the future and that's always on any credible, prudent investment company. Anything that they tell you they always have at the bottom, "History does not guarantee that things will be the same." Especially in today's world, this has been a very unusual time. Things have been a lot different. But I think that's a good rule of thumb.

You want to just take a look and see what your options are to do any better than paying off that 18% or whatever that credit card is. But if it's that high of an interest rate, I'd just say pay it off as quickly as you can still keeping your family and your budget meeting your basic needs. But pay it down and in the future control that credit card and pay it off every month.

And as much as possible write checks where you can write checks or use a debit card so you can see what your running balance is every time you buy something. Pay that off every month so

you don't have that interest and buildup into fairly large debt into a credit card because that's the worst kind of debt.

Dan Eggertsen: Yeah it sure is.

Karl Eggertsen: Okay?

Dan Eggertsen: Well Dad you hit all these questions really well. These are some very important principles and tips that my dad has shared that everyone needs to be aware of and needs to start practicing in day to day life and thank you so much, Dad for your time.

Karl Eggertsen: I wanted to add just one thing here Dan.

Dan Eggertsen: Oh sure Dad.

[16:38.4]

Karl Eggertsen: Just one thing. There's one exception and it just came to mind. If you have a 401K and normally it doesn't have to be one or the other. It doesn't have to be 100% pay off the credit card or 100% invest. Usually it's kind of you're weighing how fast you want to pay off that credit card, how much more you want to put into it relative to what your other options are. But a 401K for example, if it has a matching contribution, up to 5% of your contribution, make that 5% contribution the best you can assuming that you can do that because you're getting 100% on your money.

Dan Eggertsen: Right.

Karl Eggertsen: You're getting 100% of your money so in that kind of a situation, you might want to slow down the pay off that credit card and get that full matching of 5% and pay that credit card down at the same time as quickly as you can. But you're getting 100% on your money that you're putting into that 401K up to that 5% matching.

So that would be an example of an exception, you know there's always exceptions to the rule and that would be one of them. But things like that again, it gets back to just weighing what you can get for a certain amount of money someplace else instead of putting it all on paying off that credit card. So it's usually it's not just one or the other completely. You kind of prioritize how much more you'd want to put here than there based on the relative interest.

Dan Eggertsen: Okay.

Karl Eggertsen: Okay?

Dan Eggertsen: Sounds great Dad. Well thanks for that extra little tip and I appreciate everyone's time and we will talk to you next time Dad.

Karl Eggertsen: Okay you take care, Dan.

Dan Eggertsen: Thanks a lot.

Karl Eggertsen: Okay bye.

Dan Eggertsen: Bye.

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