

LAURA J. McDONALD & SUSAN L. MISNER

GOLDEN GIRL *finance*

**10**  
WAYS  
TO STAY  
**BROKE...**  
**FOREVER**



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# 10 Ways to Stay Broke . . . Forever

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*Why Be Rich When You Can  
Have This Much Fun?*

**Laura J. McDonald and  
Susan L. Misner**

**WILEY**

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To our wonderful families, supportive husbands and “golden“  
readers who allow us to go for broke every day . . . to give it  
our all, share our voice and build a community that inspires,  
impassions and propels our lives.

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## A World of Debt Gone Wild

We're baaaaaaack! Only one year after the fantastic response to our first book, *It's Your Money, Honey: A Girl's Guide to Saving, Investing, and Building Wealth at Every Age and Life Stage*, we are back, and this time not just for the girls!

Our mission has always been to help more women take ownership of their finances and gain control of their financial destiny. This has not changed. Following the publication of *It's Your Money, Honey*, we were thrilled, gratified and uplifted by the huge outpouring of support from our readership, the financial community and the public at large. What surprised us the most was the volume of wonderful feedback we received from male readers. It seems they have been reading over your shoulders, ladies!

Well, gentlemen, forgive us if we have neglected you. We recognize that just because the financial industry has long been dominated by men, that certainly does not mean that *all* men have a grasp on their personal finances. As a result, we made sure that this time around, our book focuses not only on women, but on *everyone* who wants to gain more control over their financial destiny.

The rise in household debt across Canada is a serious issue that affects every woman, man, child and pet. Yes, even our furry friends suffer the consequences. (You know that look you get when you try to substitute a cheaper brand of kibble . . .) We wanted to tackle the issue of dealing with debt in a way that motivates *all* our readers to improve this critical area of their life.

Once we decided to focus our new book specifically on debt management, the question we faced was how to approach it. How could we take a potentially boring topic and make it fresh, relevant and motivating for our readers? Inspiration came from an article we published on our website [www.GoldenGirlFinance.com](http://www.GoldenGirlFinance.com), in November 2011. It was called (you guessed it) “10 Ways to Stay Broke—Forever: Why Be Rich When You Can Have This Much Fun?” (Kudos to the brilliant gal behind this witty prose, Ms. Tara Struyk!)

The article received hundreds of thousands of views in just a couple days, tons of glowing comments and thoughtful emails from readers (male and female) expressing their appreciation for this clever take on a rather overhyped subject. We realized there would be no better way of approaching our second book and addressing the topic of debt management than to take one of our most popular articles and really run with it. Indeed, the response to our “10 Ways to Stay Broke” article is an ideal example of how we engage our readership in a fun and sometimes irreverent way. But there is always a message to our madness! Under our charming and witty exterior (if we do say so ourselves), we deliver vital information and tips to those readers whom other financial media fail to reach.

The Task Force on Financial Literacy found that, overall, the commitment to financial education is uneven across the financial sector and its industries. And when financial education is provided, it tends to be technical, overly complex and written in obscure, jargon-filled prose. As a result, it often fails to reach the very people for whom it is designed.

This is where Golden Girl Finance comes in.

Golden Girl Finance is a platform to educate, inspire and motivate people into taking ownership of their finances, by putting a fresh, modern and feminine spin on financial literacy. As the voice of female finance for numerous national online, print and television platforms, as well as through our signature web property [www.GoldenGirlFinance.com](http://www.GoldenGirlFinance.com), the Golden Girl Finance brand reaches millions.

of readers, engaging and propelling them into financial action.

The same mission drives this book. We hope that by reading these words, you will be inspired to think and feel differently about your personal debt. For one thing, we want to take away the shame and stigma around talking about debt. Struggling with how to get your finances under control can be an incredibly stressful and lonely experience. We want to fling the doors open and shine a light on these dark and scary topics and show you how proper debt management, living within your means and accumulating cash rather than spending it are your keys to living a much richer life.

There has never been a better time to talk about debt. If you've ever thought you were alone in your struggle to pay the bills, you could not be more wrong. The personal debt load of Canadians is growing at a frightening rate. Household debt-to-income ratios have never been higher. And it's not just individuals—entire countries are struggling with unsustainable levels of debt. It seems we have become a society far too dependent on borrowing to solve our problems and fund our desires. We are living in a world of debt gone wild.

It is time to get back into balance—countries, households and individuals. This book will help you to examine the daily financial decisions you make that end up having a profound long-term impact on your financial stability and sense of security. Every day you make decisions that will either keep you in debt, put you further into debt or, ideally, get you out of debt and back on the path to building wealth. Most importantly, we approach these lessons on your terms. We start with the basics, help you to understand the key principles and show you how to build a healthy and solid foundation for your future.

Do you remember the Occupy Wall Street protests of 2011? Their participants wanted corporations and governments to take responsibility for the global financial crisis, the ensuing lack of accountability and the growing disparity between rich and poor. The Occupy protests became a global movement and an outlet for the frustrations of the “99 per cent” of the population around the world who were tired of government overspending and corporate greed taking a toll on their economy. Our economy. The Occupy movement was successful in voicing our collective desire for governments and corporations to get their act together and be more accountable, more far-sighted and more responsible in their financial decision-making.

But as our dear old granny used to say, what is good for the goose is also good for the gander. It is high time we all *personally* took a little more responsibility when it comes to our finances. Stop overspending and get those debt levels under control. Get our own act together! Occupy our chequing accounts!

And maybe, just maybe, together we can turn this economy around. One credit card statement at a time.

Laura and Susan

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# Introduction

## Cash Flow Mojo

So. You have no savings or investments—and you haven't even thought about retirement! But hey, you have a new car, a beautiful new house and enough power suits to last you until you're 100 years old. Plus, you still have plenty of available credit. Who cares about the bottom line when life is this good?

It's a good question, and one that many people aren't forced to consider—until it's too late. Check out the top ways you can keep the charade going and stay broke! Yes, broke! If you're lucky, you'll die before anyone notices . . .

### 1. Finance Everything

Live for the now. If you can get a loan or buy something on credit, do it. This should be easy; after all, your salary isn't nearly big enough to cover all your “needs.”

### 2. Pay the Minimum—on Everything

Take a look at your credit card statement. It should tell you how long it will take you to pay off the balance if you make the minimum payment. Shoot for a time frame that's longer than you can even imagine living. That should do it. Now go have fun!

### 3. Spend It All

Financial advisers tend to recommend that you save up for things you want. That's impractical if you want things *right now*—now isn't it?

### 4. Buy a Huge House

Why have a smaller house when you can afford the mortgage payments on a bigger one by choosing the longest amortization possible? If you're lucky, the market will rise, giving you some extra equity to spend!

### 5. Buy a New Car

Car models don't change much year to year, but you can't put a price on that new-car smell. Ideally, you should be sporting a new ride every two or three years and financing it (of course!) for the longest term possible. If you do this for long enough, you may end up owing more than your car is even worth. That's okay—you'll look great doing it!

### 6. Take a Vacation

Pull out your credit card and go somewhere nice. There's nothing better than getting away from it all and you totally deserve it! After all, you want to be able to brag about this for years to come. (Plus,

you look great with a tan . . .)

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## 7. Buy More Toys

A great car is important, but what you *really* want to shoot for is a motorhome pulling a truck, pulling a trailer with two ATVs inside (and possibly a boat, too). Then you'll know you've arrived—and you can arrive on any terrain you want!

## 8. Pay More When You Can

Rather than worrying about saving a dollar here and there, just do what is most convenient. Coupon shopping around and waiting for things to go on sale is such a pain—and why bother for only a few dollars? After all, time is money!

## 9. Shop Every Day

Treat yourself whenever you get the chance. After all, nothing feels better than coming home with something new at the end of a hard day. If you can't find a use for what you've bought, you can always add it to your gift closet. You do have a gift closet, right?

## 10. Eat Out

Treat yourself to dinner out at least a few times a week. It's convenient, it's relaxing and your time is worth something—even if you wouldn't have spent it working.

## You Earned It?

That feeling of being on top is something only money can buy. Don't miss out. Money is made to be spent. After all, you earned it . . . right?

Reality check.

Okay, *wrong!* This is where common sense (finally!) kicks in. If there's anything that feels amazing it's knowing you have money in the bank. The ultimate luxury is not a new car, designer wardrobe or scarlet-soled shoes; it's savings pure and simple. Don't you know that excessive spending went out of style with shoulder pads, teased bangs and “Dynasty”?

## Here's Looking at You, Kid

What you just read? That was the venerated article we spoke about . . . the namesake of this book and the one that ignited a flame in the broke(n) hearts and bank accounts of our readers.

Now, we are not here to judge (well, maybe the teased bangs). We know you work hard. You spend a huge portion of your life caring for other people. You rarely do anything for yourself. So when it comes to splurging on the latest iPad or splashing out on a five-star hotel for the holidays, *of course you deserve it!* There is no question. Buying new things makes you feel great . . . for awhile anyway. And then two things happen: the novelty wears off and you need another fix. And, if you bought the item on credit, you don't feel great when you have to pay off the balance—especially if you lack the cash to pay it off in full and must pay interest. If you go into debt over a purchase, you will never fe

quite as amazing as you would if you could afford the item outright.

Buying something you don't have the cash for means you can't afford it. You know this intellectually, but sometimes we like to rationalize things in our head and fool ourselves into thinking we can afford them. We confuse having room on the credit card with affordability. But deep inside you know the difference. It starts out as a niggling twinge of guilt. It grows to the kind of back-of-your-head stress that you might be able to control by day. By the middle of the night, however, it wakes you up and refuses to let you sleep. The bigger the debt, the bigger the stress. How will you pay for it? What will you not be able to pay for as a result?

The guilt. The remorse. The regret.

Every time you put down that piece of plastic, you might want to think about whether or not purchasing the item and adding to your debt will cause you regret later. Then think of Humphrey Bogart at the end of *Casablanca*: "Maybe not today, maybe not tomorrow, but soon and for the rest of your life."

Okay, maybe that's a bit dramatic, but if you've ever loaded yourself up with debt and struggled without the cash to cover it, then you know how boarding a plane to Lisbon in the middle of the night might seem like not such a bad idea.

## It's Not Just You

Speaking of Lisbon . . . if you've read a newspaper over the last few years you probably have heard about Europe being on the brink of disaster. Each month nervous investors (and some relatives) watch to see which European country might go bankrupt or cause the euro to collapse.

While the European debt crisis may seem like something far away and complicated, at the heart of it, it's very simple. These countries did not bring in enough income, through taxes or other sources, to pay for their programs and the business of running their governments. They spent more than they earned. So they did what a lot of people do when they are short of cash: they borrowed. They issued bonds to investors, promising to pay back the money with interest. When that wasn't enough, they borrowed from other governments and banks. The more they borrowed, the more interest they had to promise in order to convince someone to lend them more money.

After awhile, these countries owed so much that they couldn't even afford to pay the debt servicing costs—otherwise known as interest payments. What happens then? Two choices: either a country gives up and goes into bankruptcy, or an organization, such as the International Monetary Fund (IMF), agrees to bail them out on the condition that the country goes on an austerity program—cutting way back on their spending. The equivalent of cutting up their credit cards.

So you see, if the entire country of Greece can go on an austerity program, so can little old you. Better yet, you can start your program *before* you find yourself teetering on the edge of bankruptcy.

## The Ultimate Luxury

But we do like nice things, don't we?

Imagine for a moment that you could have the most powerful and lasting luxury good on earth. Something that would make your life stress-free, boost your self-confidence and even make you irresistible to the opposite sex. You must have it, right? Are you pulling out your credit card right now? Stop right there! This luxury is the antithesis of credit card spending. It is called surplus cash.

flow and it is the ultimate luxury.

We're not kidding. Spending less than you earn can actually make you happier, healthier and feeling groovier than a weekly deep tissue massage at the best spa in town. Knowing you have money in the bank puts a spring in your step. It relaxes you and increases your personal magnetism. It gives you the *mojo*.

Skeptical? Think about someone—yourself or someone you know—who struggles with cash flow anxiety. You know the symptoms: nervous, awkward and constantly tallying up numbers mentally while praying the credit card transaction will go through. Not cool. Not calm. Not confident.

Cash flow anxiety comes when your mind is constantly preoccupied with making it through to the next paycheck. It causes bags under your eyes from sleepless nights wondering how you can shift your credit card and overdraft balances between one another. And it causes you to lose your grip on reality when, despite your absolute lack of cash, you still find yourself seriously fretting about upgrading to the new iPhone or leasing a nicer car.

If you think the mental gymnastics required for this kind of rationalizing and creative financing don't take a toll on your physical and emotional health, you're fooling yourself. Think of it as a bad date. If you wake up in the morning and feel empty, it just wasn't worth it. We think you deserve better. You deserve to have the peace and energy that comes from living an honest and free life unconstrained by the perils of debt.

You need to turn your cash flow anxiety into cash flow *mojo*.

## **Time Is a Luxury, Why Not Cash?**

Of course you've heard that time is money. More is always better, right? Having a surplus of time has a very similar effect on a person as a surplus of money. It's healthier and keeps you out of desperate situations.

Think for a moment what it feels like when you have a shortage of time. You are running late for an appointment. You rush around, can't find your keys, forget your phone. You drive like a maniac to your meeting, worrying about being late and freaking out over traffic or road construction. You pull into the closest parking lot and get into a fight with the machine that spits out your credit card. When you finally arrive at your appointment, you apologize profusely when the meeting starts and again when it ends. And you spend the rest of the day feeling like a general loser.

Now think about what it's like when you have extra time. Ahhh . . . is that the sound of birds singing? You've calmly gathered everything you need before heading out the door. You might leave early enough to walk to your appointment, getting a little burst of those happy-feeling endorphins, and giving you time to think about what you want to say and accomplish in your meeting. You arrive with a few blessed extra minutes to pick up a coffee, check your texts and respond to any urgent email. You are calm, in control and a pleasure to be around.

As you can see, time *is* a luxury. It can have a huge effect on the way you feel about yourself and the way you present yourself to the world. The cash flow *mojo* works the same way. With surplus cash you can be free from being a slave to interest payments and the need to allocate your disposable income toward previous expenditures. (Who wants to pay for yesterday's stuff? So boring.) You can liberate that precious headspace for more noble pursuits (homemade nachos, anyone?).

Surplus cash gives you the liberty to buy gifts and treats for yourself outright and pay for vacations in advance, so they can be truly enjoyed without the stress of looming bills hanging over every purchase.

colada.

Surplus cash means you can use your credit card the way heaven intended you to use it. Pay your bills on the card, earn points or cashback bonuses and use your cash to pay off the balance *in full* each month, avoiding interest charges entirely.

Most importantly, surplus cash becomes the foundation upon which you build your long-term financial security. By investing it in a long-term savings plan you will allow your savings to grow thanks to the beauty of compound interest. Don't be surprised to feel your own confidence grow right along with it.

Having regular surplus cash will lead you to true financial independence—increasing your ability to have the experiences you always dreamed of: taking time off work, changing careers, becoming a philanthropist or travelling the world.

You deserve this.

Have we convinced you yet? If yes, then you are probably wondering exactly how you are going to attain this remarkable luxury of surplus cash. Fortunately for you, we are only at the beginning of the book. However, just to give you a glimpse into what's coming up, we will tell you this much: there are really only two ways to get more cash—by earning more and spending less.

Ouch, right?

Don't worry, honey. We are going to focus on spending smart and increasing your knowledge so that you can become more intuitive about making decisions that keep you out of debt and help you create more surplus cash in your life.

Sound good? Let's get started . . .

# Finance Everything

*Live for the now. If you can get a loan or buy something on credit, do it. This should be easy; after all, your salary isn't nearly big enough to cover all your "needs."*

In 2007, just prior to the financial crisis that set off a global recession from which the world has still not fully recovered, an innovative web-based loan broker called Lending Tree released a television advertisement. It featured a smiling, clean-cut, white, middle-aged man enjoying an affluent-looking life in the burbs. He said something like this: "I'm Stanley Johnson. I've got a great family. I've got a four-bedroom house in a great community. Like my car? It's new. I even belong to the local golf club. How do I do it?" As he skims his backyard swimming pool, Stanley cheerfully says, "I'm in debt up to my eyeballs." While he calmly barbecues a meal for his wife and three children, he leans into the camera and says, "I can barely pay my finance charges." Finally, he rides off on his lawn tractor and through his perma-grin, pleads: "Somebody help me."<sup>1</sup>

We don't know where Stanley is now, but we are here to help you! Let's start with an explanation of the various types of financing that exist.

## More than Just Credit Cards

There are so many ways to get into debt! Many people unwisely use their high-interest credit card for all their financing needs, but there is a whole range of credit options, some of which might be more appropriate for your situation. Let's examine them.

### 1. Term Financing

This is a loan provided by a bank or financial institution that requires you to pay back the funds on a specific payment schedule. The interest rate is not typically fixed and is subject to change along with the bank's lending rates. Term loans are typically structured for one to 10 years at most. Term financing is useful for small businesses that need help getting up and running. *Use only when necessary.*

### 2. Personal Line of Credit (PLC)

The good thing about PLCs is that, like credit cards and unlike loans, they only put you into debt when you use them: you can keep a PLC hanging around for years. Just don't confuse having access to cash with actually having cash. If you draw on your PLC you will owe interest. Usually the interest rate will be lower than the rate on your credit card (think, 15–20 per cent lower!), making it a better choice for making a big purchase that you need to pay off over time. If you can't seem to shake off your credit card debt, shift your balance! Use your lower-interest PLC to pay off the higher interest card first, then pay off the PLC as soon as you can. *Use strategically.*



### 3. Home Equity Line of Credit (HELOC)

This is one of those slightly worrisome forms of financing that often gets overused and is much abused. Basically, it is a way of creating a line of credit using the equity you've accumulated in your house. Interest rates on HELOCs are typically 0.5–1.0 per cent above the prime interest rate. Many people use a HELOC as a way to consolidate all their outstanding debt—including credit card debt, car loans and other personal loans—into one package. Other people use it to fund major purchases, such as home renovations or vacations.

While it is called a line of credit, a HELOC is really a second mortgage in disguise. Your home is your collateral and either your original mortgage will be amended to reflect the new debt or a second mortgage will be placed on your home. You cannot sell your home until you've paid back the HELOC debt in full. *Use cautiously.*



#### Beware of Easy Money

Because interest rates have been so low for the past several years, the easy access to cash through a HELOC has been irresistible to many homeowners. According to a 2011 poll, more than one-third of Canadian homeowners have set up a HELOC.<sup>2</sup> Yet a 2012 survey revealed that 29 per cent of those polled would have trouble making their mortgage and debt payments if interest rates were to rise by two points. If rates rose by three or four points, 58 per cent would be in trouble.<sup>3</sup>

Furthermore, if house prices decline,<sup>4</sup> home equity will plummet too, potentially leaving heavily mortgaged homeowners in a perilous “negative equity” situation . . . meaning the amount they owe on their home could potentially be more than their home's selling price. Yikes! Remember that little ol' housing crisis in the United States? Negative equity was a major contributing factor to the meltdown.

### 4. Peer-to-Peer Lending

This is the new kid on the block when it comes to debt financing. Also known as P2P lending (how high and cool is that?), financial services websites such as [www.IOUCentral.com](http://www.IOUCentral.com) connect investors with borrowers for both short- and long-term financing. Typically, P2P lending is used by small businesses looking for investors, but hey, your case to seek funding to buy a modest, one-bedroom villa in the Bahamas might have real merit! *Use for business.*

### 5. Credit Cards

Oh, come on—you know this one! A little too well, perhaps? Credit cards are awesome when you use them correctly. By “correctly,” of course, we mean using them to pay bills and purchase items, collecting your points and then paying off your balance with cash before the monthly due date. That way, you get all the benefits and pay none of the interest. We would also like to point out one little-known fact when it comes to credit cards. If you're willing to forego the perks and benefits, most banks will switch your card to a lower interest-rate version if you simply call and ask. They don't usually advertise these cards, but they exist. Oh yes, they do! Not that you need a lower interest rate because you pay off your credit card balance in full every month before the due date, isn't that right? *Use only as advised.*

### 6. Payday Loans

What do you mean you don't have an emergency fund? If your basement floods or a car tire blows out and you don't have cash to take care of it, you might turn to a payday loan provider to borrow some

quick funds. The provider will take a look at your last paycheque to determine how much they are willing to loan you—usually not more than \$1,000, and never more than they think you can afford to pay back on your next payday, when it will be automatically debited from your chequing account. Along with a hefty surcharge for the privilege of using their services, of course: anywhere from \$17 to \$25 per \$100 borrowed. *Proceed with extreme caution (or not at all). Can turn into a very bad habit!*

## Rainy Days

Cash flow mojo comes from having the security and confidence of knowing you have access to cash when you need it. Your own stash of cash—it's not borrowed. You never need security and confidence more than when faced with a crisis. Yet 92 per cent of Canadians say they would need to rely on some form of debt to raise \$2,000 for an emergency.<sup>5</sup> Apparently using credit has become more popular than saving for a rainy day. No wonder everyone needs those posters reminding them to stay calm!

### 🔑 Golden Rule: Emergency Fund

Thou must have an emergency fund. You need enough money to cover at least three months of living expenses'six would be better. Stash the cash in a high-interest savings account with its own separate debit card and keep the card in a safe spot away from your wallet. This way, you won't be tempted to use the money for non-emergencies (cashmere sweater sales at Holt Renfrew are *not* technically emergencies). See "Liquidity Ratio," below.

## The Financial Fitness Assessment

Anyone who has ever joined a gym has likely gone through that horrible hazing ritual, euphemistically called "the fitness assessment." You know what we're talking about. The one where a super-buff 20-year-old watches while you jog on a treadmill, weakly attempt a chin-up and prove how many push-ups you can't do, before they bring out a medieval-looking set of calipers to pinch the fat under your arm. *Shudder.*

Rest assured, we would never subject you to such indignities. We have our own instruments of torture. Because if there is one point on which we agree with the gym rat, it is that in order to measure your progress, we need to know where you are starting from. These five financial ratios will shine light on what is really going on with your financial situation. Are you overspending, and if so, where? We need to locate exactly where the imbalance is taking place in order to help you find your balance.

### 1. Net Worth

**Goal: Positive (or at least trending positive).** Think of this as a temperature reading of your financial health. Regardless of how much you earn (or don't), how much you owe (or don't), and how good things might appear on the surface (big home with a shiny new car in the driveway), the calculation of your net worth cuts right through the mystery and lays bare the truth about how financially sound you are.

The calculation is very simple:

assets (what you own) – liabilities (what you owe) = net worth

Just to make sure you don't forget anything, these are the three categories of assets:

- **Liquid assets.** This always makes us think of the bottle of Patrón Gold tequila stashed in our

freezer, but that's not really relevant here. Liquid assets means anything that is already cash or could be easily turned into cash. This includes money in your chequing and savings accounts and the value of all your investments, including stocks, bonds, mutual funds, exchange-traded funds (ETFs) or guaranteed income certificates (GICs) that you hold in trading accounts or tax-free savings accounts (TFSAs).

- **Long-term assets.** This includes the investments that are blocked off for you to use at some future date and that you cannot easily convert into cash. For example, investments within a registered retirement savings plan (RRSP), registered education savings plan (RESP), registered retirement income fund (RRIF), a life insurance policy or a pension plan.
- **Hard assets.** No, your enviable butt does not count, though it certainly ought to be worth something! We're talking about your bottom *line* here. These are tangible things you have accumulated that contribute to your wealth. Examples include your home, vehicles, jewellery, artwork, electronics, appliances, furnishings, vintage wines and anything else you could conceivably sell for a pretty penny. The caveat here, however, is that you may only include the value of items you *own* and not those you lease or rent.

Now for the uncomfortable part: your liabilities. Make a list of everything you owe money on: the mortgage on your home or cottage, those things you lease or rent, student loans, credit card debt, personal loans, lines of credit, department store cards, unpaid taxes and the money you still owe your dear old dad for the loan he gave you last year.

Once you've totalled everything up, simply take the value of your assets and subtract the value of your liabilities. Do you get a negative number or a positive number? Ideally, you want this number to be positive.

Don't panic if your net worth is negative. Many people who have recently bought a house and are in the early stages of paying off a giant mortgage have a negative net worth. Your goal is to gradually move this number into positive territory. Keep making those payments and check your net worth again in six months' time, or annually. Think of it as your weigh-in moment at Weight Watchers.

### **Checklist: Ways to Improve Your Net Worth**

- ✓ Buy instead of rent. Increasing market value will give your assets a boost. Buyer beware however: decreasing market value will lower the value of your assets.
- ✓ Pay down your mortgage faster and lower your liabilities.
- ✓ Eliminate credit card debt from your life and reduce your liabilities.
- ✓ Pay off your car loan as fast as possible in order to reduce the value of your loan (liability) faster than the value of the car (asset) depreciates.
- ✓ Put your money into savings and investments and let the powerful effects of compound interest grow your principal and increase the value of your assets.
- ✓ Take the free money! Many employers offer RRSP contribution-matching plans. Opt in and up your assets in the easiest, most painless way possible.

## **2. Debt-to-Income Ratio (A.K.A. Total Debt Service Ratio, A.K.A. TDS)**

**Goal: Less than 40 per cent.** So let's go back to that liabilities column (oh, come on!). We all have some form of debt. Your debt-to-income ratio reveals whether or not your debt is at a healthy

manageable level for you. Put simply, this formula compares how much money you've got *coming* with how much you've got *going out* every month.

From the list of liabilities in your net worth calculation, write down how much each of these debts costs you on a monthly basis. For example, your monthly credit card balance, the amount you pay on your mortgage or rent each month and your annual tax bill divided by twelve. Now add up your gross monthly household income. Start with your gross monthly salary (before deductions) and add your spouse's gross monthly salary. Add any other monthly income you regularly receive. This is your total gross monthly income. (Hopefully it's not too gross.)

Now divide your debt total by your income total and multiply by 100 to get a percentage:

$$(\text{monthly debt payments} \div \text{monthly income}) \times 100$$

Got it? The lower the number, the better off you are. The bank considers a debt-to-income ratio (total debt service ratio, as they sometimes call it) of 40 per cent or higher to be a sign of trouble. At that level, you are carrying more debt than is realistically sustainable given your income. Life starts to get very stressful. If anything happens to reduce your income, you could find yourself in a very awkward situation with your creditors.

Given that 40 per cent is the high-water mark for debt-to-income ratios, it might shock and appall you to learn that the average Canadian household's debt-to-income ratio is a whopping 163 per cent. Seriously. So, yeah, this is a problem.



### Government Debt Gone Wild

Think you've got debt stress? Try being the government of the United States. Through taxes and investments, the country generates *a lot* of income: we're talking \$2.17 trillion in 2011.<sup>7</sup> Yet in 2011, the U.S. government spent \$3.8 trillion. Just look at all those zeroes:

U.S. tax revenue: \$2,170,000,000,000

Federal budget: \$3,820,000,000,000

New debt: \$1,650,000,000,000

National debt: \$14,271,000,000,000

Budget cuts: \$38,500,000,000

Numbers like that are mind-boggling. So let's bring this down to our terms, shall we? If we remove a bunch of those zeroes, here is what this budget would look like in your household:

Annual family income: \$21,700

Money the family spent: \$38,200

New debt on the credit card: \$16,500

Outstanding debt: \$142,710

Family budget cutbacks: \$385

It's a disaster, right? No family could survive for long on this budget without going bankrupt—and neither can a country. Now you can see why so many governments around the world are struggling with colossal debt crises. They need to earn more, spend less or both.

With government leaders acting so irresponsibly, is it any wonder that citizens aren't inspired to live within their own means? We as individuals must lead the way. We begin with getting our own houses in order. When we set the standard of financial stability for ourselves, we will expect the same standard from the officials we elect. Perhaps Mr. President might appreciate a copy of this book, hmmm?

## 3. Housing Expense Ratio (A.K.A. Gross Debt Service Ratio or GDS)

**Goal: less than 32 per cent.** Are you familiar with the term “house poor”? You're house poor when

too much of your disposable income goes toward your housing costs, leaving you with very little money at the end of the month for savings or other expenses. The term can apply not just to homeowners but to renters as well. Fortunately, this handy little expense ratio will measure how much you can reasonably afford to spend on housing.

Start with your gross monthly household income. This is the sum you arrived at previously when you calculated your debt-to-income ratio. Take your monthly mortgage payments (if you own) or your monthly rent (if you rent). Add to that any other regular monthly expenses associated with your home, such as utilities, taxes, insurance, condo and maintenance fees. Now, divide your monthly housing costs by your gross monthly household income and multiply by 100 to get a percentage:

$$(\text{Monthly housing costs} \div \text{monthly income}) \times 100 = \text{housing expense ratio}$$

The lower your percentage, the more affordable your housing situation is for you. The general rule of thumb is that anything that causes you to spend more than 32 per cent of your household income is *not* affordable and is putting you under a financial strain.

Take note that sometimes banks and financial advisers will call this ratio the “gross debt service ratio”—or “GDS,” because they do love their acronyms. When you are considering buying a home or renting a new apartment, they will often reverse this ratio by taking your gross monthly household income and multiplying it by 0.32 in order to give you a maximum figure of what you can afford:

$$\text{gross monthly income} \times 0.32 = \text{maximum amount to spend on all housing costs}$$

This will give you a guideline of what house price or rent you can consider when hunting for a new place to live.

## 4. Savings Rate

**Goal: 10 per cent or more.** For years, Canadian banks and financial advisers have drummed it into people's heads that they should be saving at least 10 per cent of their income every month. That's 10 per cent gross income at the very least—10 per cent of net income for the gold star. Unfortunately, for just as many years, Canada's average personal savings rate has been well below 5 per cent of annual income.

Now let's talk about you. Yes, you. To calculate your savings rate, take the amount of money you put into savings during one month and divide it by your monthly income. Multiply by 100 to get the percentage:

$$(\text{savings per month} \div \text{monthly income}) \times 100$$

In this equation, a bigger number is better. We don't want to put anyone on the spot here, but if your savings per month is zero and you'd like to know how much you *should* be putting aside in savings (as a minimum), just reverse the equation:

$$\text{monthly income} \times 0.10 = \text{minimum dollars to save each month}$$

If you've decided to be a real keener and save more than 10 per cent (we're so proud!), just multiply your monthly income by the percentage you want to save and you'll get your magic dollar figure.

## 🔑 Golden Rule: Automatic Withdrawals

Putting money aside into a savings account is never easy. There is always something more urgent, more demanding or more immediately gratifying that gets in the way of our best intentions. But imagine for a moment what you would do if you found out that your employer had implemented a mandatory savings plan, by which 5 or 10 or even 20 per cent of your paycheque would be automatically deducted and placed into a savings account for you. Before you say “I quit,” remember, this is how you build wealth. You would make sacrifices. You would get by. You would figure it out. Best of all, you wouldn't have the stress and guilt of not adhering to your savings plan anymore: *it would just be taken care of*. Now go to your nearest bank and request a savings account with automatic withdrawals to coincide with your paydays. Go on, get!

## 5. Liquidity Ratio

**Goal: 6 or higher.** Last one, we promise—and then you can put away the calculator for awhile.

Remember the liquid assets you added up in your net worth calculation? (You're still thinking about the tequila in the freezer, aren't you? So are we!) A high level of liquid assets is an indication of healthy cash flow and, depending on your other long-term assets, potentially a strong financial situation. Basically, your liquidity ratio will tell you how long you could live off what you've presently got in cash, if life came to that. Which it won't. But the point here is to give you that feeling of cash flow mojo, baby.

Liquid assets are the ones you turn to in good times (a weekend getaway, a baby on the way, a down payment) and bad times (furnace conks out, car battery dies, bailing your high school buddy out of jail). Come to think of it, liquid assets *are* a lot like tequila, hmmm.

To calculate your liquidity ratio, start with the value of your liquid assets and divide by your monthly debt payments. (You previously added up your monthly debt payments when calculating your debt-to-income ratio.)

value of all your liquid assets ÷ monthly expenses = liquidity ratio

Ideally, your liquidity ratio will be six or higher. This means you have six months' worth of expenses on cash standby at all times. At least half of this should be placed into a dedicated emergency fund. Maybe throw a bottle of tequila in there too, just in case.

## So Now What? The Rehabilitation Plan

Okay, so you faced your fears, bit the bullet, gritted your teeth and did the calculations. Good for you! We commend you for your bravery. As they say in the 12-step programs, the first step is admitting.

So now what? What if you came out with a negative net worth, a debt-to-income ratio above 40 per cent, a housing expense ratio of more than 32 per cent and savings and liquidity ratios of zero? As we warned you in the Introduction, you really only have two strategies: earn more and spend less. How you choose to implement these two strategies is a matter to be determined by your own preferences and circumstances. You may want to enlist a professional financial planner to help you come up with tactics that work for your specific situation.

But hey, we're not going to leave you hanging! Here are a few thoughts on ways to earn more and spend less that might help to kick you into brainstorming gear. Remember, constraints just mean we have to be more creative.

## Earn More

Okay, so the first part of the equation is earning more. Easier said than done? That's up to you! Here are some tips to increase your worth:

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- **Ask for a raise.** Make a business case to your boss to explain why your salary ought to be increased or request a performance-related bonus that you will work toward.
- **Find a new job.** Radical, yes, but sometimes checking job websites and meeting new people in your industry can uncover an opportunity for a higher-paying role that you didn't even imagine existed.
- **Moonlight.** More people than you realize take on extra jobs to get them through a tough financial spot. Maybe it's answering phones at the gym on the weekend or helping out at your sister-in-law's store in the evening. A regular supplement to income can make a big difference.
- **Create.** There's no reason to give away your talent when you can charge for it. Thanks to the online selling community, there is a 24/7 market out there of buyers. Build bookshelves, knit baby blankets, make jam. Make anything, make it well and get out there and sell it.
- **Teach.** Find a paying gig where you can share the expertise you've acquired. Teach classes at your community centre or offer online instruction. Whether it's how to make great cocktails or how to fix a car engine, focus on what you know best and can share with the world.
- **Sell your stuff.** As above, if you want to get all karmic about it, create more space in your life for the goodness to flow by clearing out old furniture and clothing. Be ruthless—do you really need that car or could you make do without it?
- **Learn a trade.** Further to the moonlighting concept, get some training and credentials to amp up your earning power and you might just end up launching a small business. Examples include yoga instruction, nutrition counselling, landscaping, catering, jewellery-making and bookkeeping. Sorry, guys, golfing probably isn't one of them.

## Spend Less

And now comes the second part of the equation . . . spending less. Here's how to create some savings:

- **Lower your interest rates.** This is one of those areas in life where those who ask, get. Interest rates are rarely carved in stone: there are always other accounts, other credit cards, other forms of loans and other financial institutions that you can choose from to get a better rate. Start by calling up your current financial institution and asking if they can do a little better on that interest rate for you. Ask them what your options are in terms of lowering your rate. Maybe you need to switch to a different form of financing. Find out what their competitors are offering. Often you can get a better rate just by moving more of your liquid or long-term assets into the same financial institution.
- **Pay less, more often, on your mortgage.** While this may feel like you are spending more, by paying off your mortgage as quickly as possible, you will end up wasting less money on interest. One way to do this is to shift your payment schedule from monthly to biweekly, adding a couple extra payments per year.
- **Never pay interest on your credit card.** Never carry a balance. Always pay off your monthly balance with cash. If you don't have the cash to buy an item, then you can't afford it. Put it back. If for some reason you must carry a balance, use a line of credit or other lower-interest form of credit to pay off the higher-interest credit card.
- **Evaluate your taxes.** Have you ever thought to yourself, something's missing? Deductions, we mean. So many of your financial decisions have tax implications and you would be wise to pay a

little money to a tax adviser who can show you the way to a big, fat refund. Or, you could just give more of your money to the government. Whatever.

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- **Consider consolidation.** If your debt-to-income is seriously straining you, it might be time for a debt consolidation, putting everything into one easy-to-pay loan. The lower interest rate will mean you can pay down your principal faster and waste less money on interest, getting you to your debt-free goal faster.
- **Invest for income.** Certain investment products, such as bonds or dividend stocks, provide cash distributions to their investors on a regular basis. When putting money into your savings, consider investments such as these (either the direct securities or mutual funds or ETFs that hold these types of securities). Keep in mind, dividends and investment income are taxable as part of your annual income.
- **Don't buy stuff you don't need.** Someone had to say it.

## Finding Your Cash Flow Mojo

Now let's get back to our *raison d'être*, shall we? The purpose of all these ratios and ways of earning more, spending less and saving more of what you've got is to move you away from the nasty cash flow anxiety that sucks your energy, keeps you awake at night and turns you into a jittery, short-tempered, stressed-out basket case, toward the cool, soothing, sexy vibe of cash flow mojo.

As we wrote in the Introduction, a positive cash flow is one of life's greatest luxuries. Certainly, it's the greatest monetary one. The confidence you gain when you have money in the bank to handle an emergency or to spend when opportunity knocks, well, to borrow from a certain credit card advertising campaign, it's priceless.

Money is a problem only when you don't have enough of it. But “having enough” is a concept entirely of your own making. It depends on the lifestyle you choose and the decisions you make about how you want to live. It is determined by the neighbourhood you reside in, the type of car you drive, the schools you send your kids to, the clothes you wear, the gifts you buy, the vacations you choose . . . the list is endless.

Every one of these lifestyle choices is also a financial decision. You can choose to live beyond your means, digging yourself and your family ever deeper into debt. Or, you can choose to live within your means, slowly tucking away cash and building your wealth. This book is for those who choose wealth. Choose cash flow, baby. Choose life!

## Five Steps to Positive Cash Flow

Every journey begins with a single step and your path to cash flow mojo starts right here! The first five steps are as follows:

1. Define your net monthly income—the amount *after* taxes and deductions. Add any other income you regularly receive each month.
2. Define your monthly expenses. Pull out your bank and credit card statements. Add up all the money you have spent. This is more than just debt servicing; this includes your shampoo, your gym fees, the school fees, the parking tickets, you name it. Get it in there.
3. Compare the two figures. Make adjustments so that income exceeds expenses. (Hint: earn more, spend less.) Take note of what you decide to cut out on the expenses side and/or what you need to



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