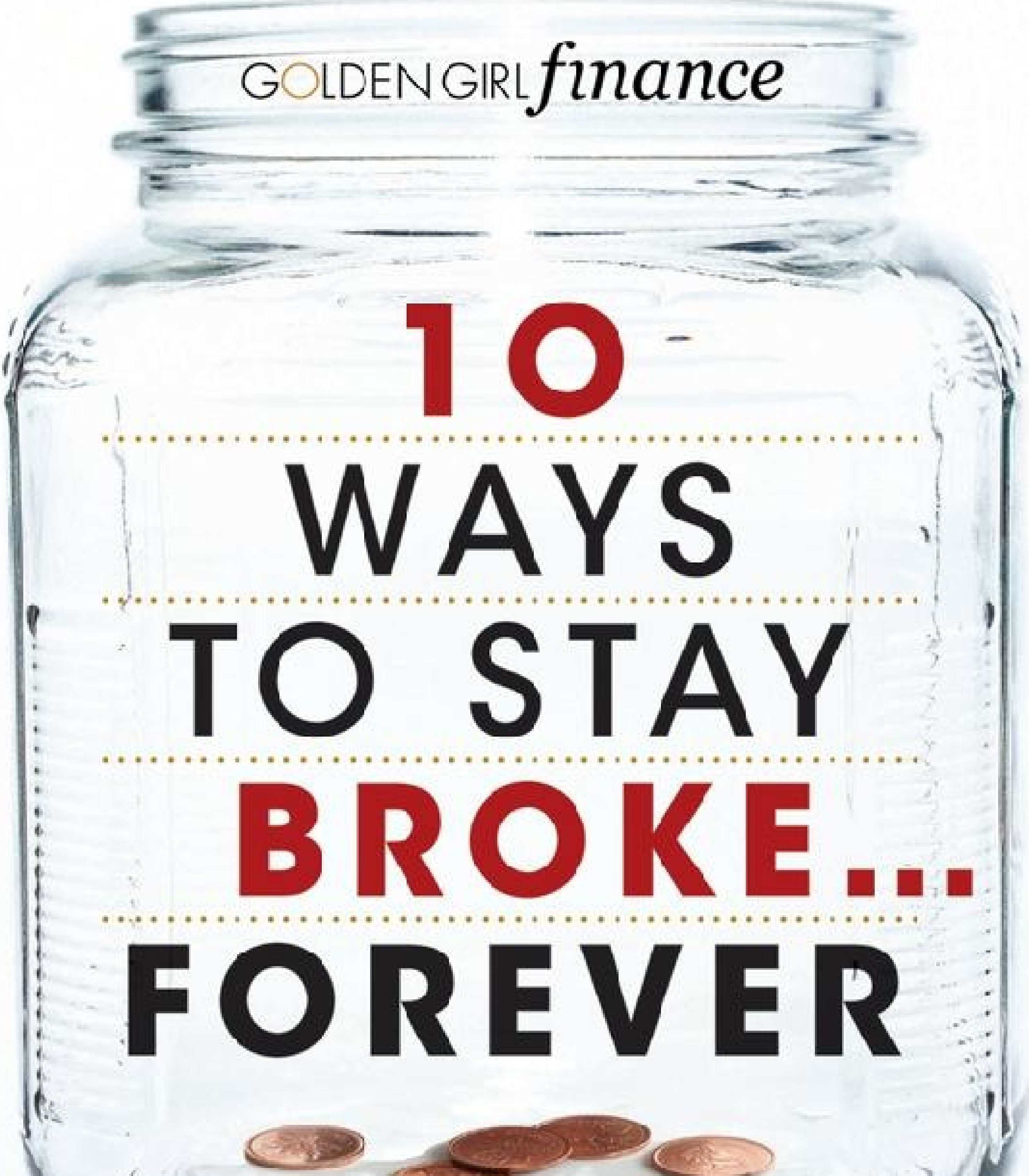
**Laura J. McDonald & Susan L. Misner**

Golden Girl *finance*



# 10 Ways to Stay Broke... Forever

# Contents

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

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

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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.

# 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 of 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, 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, 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 t think and feel differently about your personal debt. For one thing, we want to take away the shame ar stigma around talking about debt. Struggling with how to get your finances under control can be a incredibly stressful and lonely experience. We want to fling the doors open and shine a light on thes dark and scary topics and show you how proper debt management, living within your means ar 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 yo struggle to pay the bills, you could not be more wrong. The personal debt load of Canadians growing at a frightening rate. Household debt-to-income ratios have never been higher. And it's n just individuals—entire countries are struggling with unsustainable levels of debt. It seems we hav become a society far too dependent on borrowing to solve our problems and fund our desires. We ar living in a world of debt gone wild.

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

Do you remember the Occupy Wall Street protests of 2011? Their participants wanted corporatio and governments to take responsibility for the global financial crisis, the ensuing lack accountability and the growing disparity between rich and poor. The Occupy protests became a glob movement and an outlet for the frustrations of the “99 per cent” of the population around the wor who were tired of government overspending and corporate greed taking a toll on their economy. *O* economy. The Occupy movement was successful in voicing our collective desire for governments ar corporations to get their act together and be more accountable, more far-sighted and more responsib 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 high time we all *personally* took a little more responsibility when it comes to our finances. Sto overspending and get those debt levels under control. Get our own act together! Occupy our chequi accounts!

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

Laura and Sus

# Introduction

## Cash Flow Mojo

So. You have no savings or investments—and you haven't even thought about retirement! But hey, yo have a new car, a beautiful new house and enough power suits to last you until you're 100 years ol 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. Chec out the top ways you can keep the charade going and stay broke! Yes, broke! If you're lucky, you'll di 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 al 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 th balance if you make the minimum payment. Shoot for a time frame that's longer than you can ev 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 yo 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 choosin the longest amortization possible? If you're lucky, the market will rise, giving you some extra equi 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. Ideall you should be sporting a new ride every two or three years and financing it (of course!) for the longe term possible. If you do this for long enough, you may end up owing more than your car is even wort 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 al and you totally deserve it! After all, you want to be able to brag about this for years to come. (Plu 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, pullin a trailer with two ATVs inside (and possibly a boat, too). Then you'll know you've arrived—and yo 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 fe 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 wit something new at the end of a hard day. If you can't find a use for what you've bought, you can alway 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 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 b 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 amazin it's knowing you have money in the bank. The ultimate luxury is not a new car, designer wardrobe o scarlet-soled shoes; it's savings pure and simple. Don't you know that excessive spending went out 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 ar 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 huge portion of your life caring for other people. You rarely do anything for yourself. So when comes to splurging on the latest iPad or splashing out on a five-star hotel for the holidays, *of cours you deserve it!* There is no question. Buying new things makes you feel great . . . for awhile anywa And then two things happen: the novelty wears off and you need another fix. And, if you bought th item on credit, you don't feel great when you have to pay off the balance—especially if you lack th 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 th intellectually, but sometimes we like to rationalize things in our head and fool ourselves into thinkir we can afford them. We confuse having room on the credit card with affordability. But deep insid you know the difference. It starts out as a niggling twinge of guilt. It grows to the kind of back-o your-head stress that you might be able to control by day. By the middle of the night, however, wakes you up and refuses to let you sleep. The bigger the debt, the bigger the stress. How will you pa 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 n purchasing the item and adding to your debt will cause you regret later. Then think of Humphre Bogart at the end of *Casablanca:* “Maybe not today, maybe not tomorrow, but soon and for the rest c your life.”

Okay, maybe that's a bit dramatic, but if you've ever loaded yourself up with debt and struggle without the cash to cover it, then you know how boarding a plane to Lisbon in the middle of the nig 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 hea 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 it, it's very simple. These countries did not bring in enough income, through taxes or other sources, pay for their programs and the business of running their governments. They spent more than th earned. So they did what a lot of people do when they are short of cash: they borrowed. They issu bonds to investors, promising to pay back the money with interest. When that wasn't enough, th borrowed from other governments and banks. The more they borrowed, the more interest they had 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 servicir costs—otherwise known as interest payments. What happens then? Two choices: either a countr 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 wa 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 yo 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 eart Something that would make your life stress-free, boost your self-confidence and even make yo irresistible to the opposite sex. You must have it, right? Are you pulling out your credit card righ now? Stop right there! This luxury is the antithesis of credit card spending. It is called surplus cas flow and it is the ultimate luxury.

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

Skeptical? Think about someone—yourself or someone you know—who struggles with cash flo 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 th next paycheque. It causes bags under your eyes from sleepless nights wondering how you can shi your credit card and overdraft balances between one another. And it causes you to lose your grip o reality when, despite your absolute lack of cash, you still find yourself seriously fretting abo upgrading to the new iPhone or leasing a nicer car.

If you think the mental gymnastics required for this kind of rationalizing and creative financin don't take a toll on your physical and emotional health, you're fooling yourself. Think of it as a ba date. If you wake up in the morning and feel empty, it just wasn't worth it. We think you deserv better. You deserve to have the peace and energy that comes from living an honest and free lif 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 ha a very similar effect on a person as a surplus of money. It's healthier and keeps you out of despera situations.

Think for a moment what it feels like when you have a shortage of time. You are running late for a appointment. You rush around, can't find your keys, forget your phone. You drive like a maniac t your meeting, worrying about being late and freaking out over traffic or road construction. You pu into the closest parking lot and get into a fight with the machine that spits out your credit card. Whe you finally arrive at your appointment, you apologize profusely when the meeting starts and aga 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 bir singing? You've calmly gathered everything you need before heading out the door. You might leav early enough to walk to your appointment, getting a little burst of those happy-feeling endorphins, an giving you time to think about what you want to say and accomplish in your meeting. You arrive wit 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 th way you present yourself to the world. The cash flow mojo works the same way. With surplus cas you can be free from being a slave to interest payments and the need to allocate your disposab income toward previous expenditures. (Who wants to pay for yesterday's stuff? So boring.) You ca 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 vacatio in advance, so they can be truly enjoyed without the stress of looming bills hanging over every pi colada.

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

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

Having regular surplus cash will lead you to true financial independence—increasing your ability have the experiences you always dreamed of: taking time off work, changing careers, becoming 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 attain this remarkable luxury of surplus cash. Fortunately for you, we are only at the beginning of th book. However, just to give you a glimpse into what's coming up, we will tell you this much: there a 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 tha 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 . . .

# 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.”*

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

We don't know where Stanley is now, but we are here to help you! Let's start with an explanation o 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 f all their financing needs, but there is a whole range of credit options, some of which might be mo appropriate for your situation. Let's examine them.

### 1. Term Financing

This a loan provided by a bank or financial institution that requires you to pay back the funds on specific payment schedule. The interest rate is not typically fixed and is subject to change along wi the bank's lending rates. Term loans are typically structured for one to 10 years at most. Ter financing is useful for small businesses that need help getting up and running. *Use only whe 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 you use them: you can keep a PLC hanging around for years. Just don't confuse having access to cas with actually having cash. If you draw on your PLC you will owe interest. Usually the interest ra will be lower than the rate on your credit card (think, 15–20 per cent lower!), making it a better choi for making a big purchase that you need to pay off over time. If you can't seem to shake off yo credit card debt'shift your balance! Use your lower-interest PLC to pay off the higher interest card full, 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 muc abused. Basically, it is a way of creating a line of credit using the equity you've accumulated in you house. Interest rates on HELOCs are typically 0.5–1.0 per cent above the prime interest rate. Man people use a HELOC as a way to consolidate all their outstanding debt—including credit card debt, c loans and other personal loans—into one package. Other people use it to fund major purchases, suc as home renovations or vacations.

While it is called a line of credit, a HELOC is really a second mortgage in disguise. Your home your collateral and either your original mortgage will be amended to reflect the new debt or a secon mortgage will be placed on your home. You cannot sell your home until you've paid back the HELO 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.[2] 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.[3] Furthermore, if house prices decline,[4] 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 hi and cool is that?), financial services websites such as www.IOUCentral.com connect investors wi borrowers for both short- and long-term financing. Typically, P2P lending is used by small businesse looking for investors, but hey, your case to seek funding to buy a modest, one-bedroom villa in th 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 us them correctly. By “correctly,” of course, we mean using them to pay bills and purchase item collecting your points and then paying off your balance with cash before the monthly due date. Th way, you get all the benefits and pay none of the interest. We would also like to point out one littl known fact when it comes to credit cards. If you're willing to forego the perks and benefits, mo banks will switch your card to a lower interest-rate version if you simply call and ask. They don usually advertise these cards, but they exist. Oh yes, they do! Not that you need a lower interest rat because you pay off your credit card balance in full every month before the due date, isn't that righ *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 o and you don't have cash to take care of it, you might turn to a payday loan provider to borrow son quick funds. The provider will take a look at your last paycheque to determine how much they a ~~willing to loan you—usually not more than $1,000, and never more than they think you can afford~~ pay back on your next payday, when it will be automatically debited from your chequing accour Along with a hefty surcharge for the privilege of using their services, of course: anywhere from $17 $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 cas when you need it. Your own stash of cash—it's not borrowed. You never need security and confidenc more than when faced with a crisis. Yet 92 per cent of Canadians say they would need to rely on som form of debt to raise $2,000 for an emergency.[5] Apparently using credit has become more popul 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, euphemistical 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 pus ups you can't do, before they bring out a medieval-looking set of calipers to pinch the fat under yo arm. *Shudder*.

Rest assured, we would never subject you to such indignities. We have our own instruments o torture. Because if there is one point on which we agree with the gym rat, it is that in order to measu 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 yo financial health. Regardless of how much you earn (or don't), how much you owe (or don't), and ho good things might appear on the surface (big home with a shiny new car in the driveway), th calculation of your net worth cuts right through the mystery and lays bare the truth about ho 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: th mortgage on your home or cottage, those things you lease or rent, student loans, credit card deb personal loans, lines of credit, department store cards, unpaid taxes and the money you still owe yo 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 your liabilities. Do you get a negative number or a positive number? Ideally, you want this number be positive.

Don't panic if your net worth is negative. Many people who have recently bought a house and are the early stages of paying off a giant mortgage have a negative net worth. Your goal is to graduall move this number into positive territory. Keep making those payments and check your net worth aga 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 interes 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 hav 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 deb costs you on a monthly basis. For example, your monthly credit card balance, the amount you pay c your mortgage or rent each month and your annual tax bill divided by twelve. Now add up your gro monthly household income. Start with your gross monthly salary (before deductions) and add yo spouse's gross monthly salary. Add any other monthly income you regularly receive. This is your tot 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:

(monthly debt payments ÷ monthly income) × 100

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

Given that 40 per cent is the high-water mark for debt-to-income ratios, it might shock and appa 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.[7] 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 whe too much of your disposable income goes toward your housing costs, leaving you with very litt ~~money at the end of the month for savings or other expenses. The term can apply not~~ just homeowners but to renters as well. Fortunately, this handy little expense ratio will measure how muc you can reasonably afford to spend on housing.

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

(Monthly housing costs ÷ monthly income) × 100 = housing expense ratio

The lower your percentage, the more affordable your housing situation is for you. The general rule thumb is that anything that causes you to spend more than 32 per cent of your household income is *n affordable* and is putting you under a financial strain.

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

gross monthly income × 0.32 = 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 ne place to live.

## 4. Savings Rate

**Goal: 10 per cent or more.** For years, Canadian banks and financial advisers have drummed it in people's heads that they should be saving at least 10 per cent of their income every month. That's 1 per cent gross income at the very least—10 per cent of net income for the gold star. Unfortunately, f just as many years, Canada's average personal savings rate has been well below 5 per cent of annu income.

Now let's talk about you. Yes, you. To calculate your savings rate, take the amount of money you p into savings during one month and divide it by your monthly income. Multiply by 100 to get t percentage:

(savings per month ÷ monthly income) × 100

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

monthly income × 0.10 = 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 multip 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 abo the tequila in the freezer, aren't you? So are we!) A high level of liquid assets is an indication o healthy cash flow and, depending on your other long-term assets, potentially a strong financi situation. Basically, your liquidity ratio will tell you how long you could live off what you'v presently got in cash, if life came to that. Which it won't. But the point here is to give you that feelin 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 dow payment) and bad times (furnace conks out, car battery dies, bailing your high school buddy out 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 you monthly debt payments. (You previously added up your monthly debt payments when calculating you 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 expense on cash standby at all times. At least half of this should be placed into a dedicated emergency fun 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 yo 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 p cent, a housing expense ratio of more than 32 per cent and savings and liquidity ratios of zero? As w warned you in the Introduction, you really only have two strategies: earn more and spend less. Ho you choose to implement these two strategies is a matter to be determined by your own preferenc and circumstances. You may want to enlist a professional financial planner to help you come up wit 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 an spend less that might help to kick you into brainstorming gear. Remember, constraints just mean w 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! He
are some tips to increase your worth:

- **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 financia 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 bab 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 you 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 fo 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 yog 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 o loans and other financial institutions that you can choose from to get a better rate. Start by callin 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 swit 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. 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. Whatevs.

- **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, consid 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 earnir more, spending less and saving more of what you've got is to move you away from the nasty cash flo anxiety that sucks your energy, keeps you awake at night and turns you into a jittery, short-tempere 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 the greatest monetary one. The confidence you gain when you have money in the bank to handle ar emergency or to spend when opportunity knocks, well, to borrow from a certain credit card advertisir campaign, it's priceless.

Money is a problem only when you don't have enough of it. But “having enough” is a conce entirely of your own making. It depends on the lifestyle you choose and the decisions you make abo how you want to live. It is determined by the neighbourhood you reside in, the type of car you driv 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 you means, digging yourself and your family ever deeper into debt. Or, you can choose to live within you means, slowly tucking away cash and building your wealth. This book is for those who choose wealt 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 fir five steps are as follows:

**1.** Define your net monthly income—the amount *after* taxes and deductions. Add any othe 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, you 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