

The 5 Essential Steps to Drastically Reduce Your Debt and Replace it With Wealth



Becoming Debt Free May Not Be as Difficult as You Think...

This 'easy to read' report reveals how you can pay off your debts and leave Money Stress behind. It will provide you with common sense solutions in a language that everyone understands.

David Wright
Founder



What others have to say about David Wright...

David,
I just wanted to thank you for your hints and tips emails.. I have been reading them as they arrive and they have helped me a lot! They have made me think differently about my finances.

Because of them, I have a different mind-set about money and have steadily started to save for the first time in my life! - In the past, I would struggle from pay to pay, and spend every cent.

Thanks again (and keep up the good work!!).

Best Regards, D Nebe.

David,

Thanks for your newsy emails and hot tips!

You know, there is another fellow in the market selling his expertise in cash-flow positive property investing who literally calls himself "Australia's wealth coach".

However, I've got to say that in my opinion, you are the true 'wealth coach'. Some of the tips in your emails are easily enough for people to revolutionize the way they handle their money and incomes. It's really cutting edge stuff for most and I'm impressed with your service to the community.

Gregory J - Process Engineer.

Hello David,

I'm one of your many fans out there and I just wanted to say thank you for your tips and hints - they are helpful and insightful and your website is totally great too.

Thank you again for this great on-line service you have provided.

Kind Regards - M James.

David,

I just want to say thank you for your emails every week. Being a sole parent struggling on very little cash your budgeting tips have helped me enormously. Although I am not taking that well earned cruise just yet, I am certainly getting my finances back on track. Keep up the good work.

B. North, Carrum, Vic

Introduction



Hi there,

I'm David Wright.

I have written this report so you can see that anyone can learn how to become successful with money. This is not the end of the story though. The secrets contained in this report will get you started but you will need to become passionate in your pursuit of further information.

The secrets I give you are simple and logical, but for some reason many people never take the time to find out what they are let alone apply them. By reading this report and applying it to your life, you will place yourself at the top of the queue for achieving financial independence.

Please be aware that the Secrets revealed here are not exclusive and are not exhaustive. I included what I consider to be the key points. Get these right and you are on your way! Keep in mind that success with money is as much a journey as it is a destination.

This report is one of the many pieces I have written on managing money. Much more information is available at my web-site www.simplybudgets.com.au.

As a person who desires financial freedom you will be aware that there are many people out there claiming to have the secrets to eternal wealth through this method or that. I have been careful not to include any information about how to earn money but instead have deliberately focussed on giving powerful information about how to manage what you currently earn.

That's a lot easier than chasing the elusive 'pot of gold' – the next pay rise, a better paying job, winning the lotto and the list goes on.

Good Luck with applying these secrets to your life.

David Wright
Founder
Simply Budgets

About the Author

David Wright is the founder of **Simply Budgets**. He grew up on a small farm in central Queensland, Australia and after completing high school, spent five yrs training and working in a Metal Trade before deciding to change careers. He trained and became a Secondary School Teacher and for 20 yrs taught Manual Arts at various State Schools in South East Queensland.

After reaching the top of the pay-scale as a school teacher David realized that nothing was going to improve financially unless he found a new and more effective way to manage his finances.

Driven by a desire to do better, David spent thousands of hours developing and fine-tuning a system to sort out his financial affairs. The system he developed worked so well he felt he just couldn't keep it to himself.

Built on real-life experiences, Simply Budgets has produced some amazing results in people's lives. It is based on sound financial principles that David accidentally rediscovered by approaching the subject from a totally different angle. It is this unique focus that makes Simply Budgets simple, different and very powerful.

David now markets the Simply Budgets system that allowed him to take control of his own family's finances and has helped thousands of other people to take control of their finances as well.

His story, advice, observations and system have been featured in magazines and newspapers such as **The Courier Mail, The Daily Telegraph, The Financial Review, PC Authority, The Sunday Mail, Money Magazine, Independent Financial Advisor** and various other publications.

His **Simply Budgets Money Hints and Tips** (available for free from his web-site) are continually helping people better understand how to take charge of their personal finances and he regularly receives messages of thanks from his readers who now number in excess of 30,000.

David has addressed audiences at seminars and expo's and has lectured on Taking Financial Control at 'Cashflow Clinics' in various locations around Australia, New Zealand and the USA. He travels widely teaching the Simply Budgets system with a goal to set up a network of finance industry professionals to further utilise his system helping people to take control of their finances.

David has appeared on Australian Television on Channel Nine's '**A Current Affair**' and '**Brisbane Extra**' and Channel Seven's '**Today Tonight**'. He has been interviewed on radio in Australia on stations such as **4BC, 4EB, 3AK, 5DN, 6PR** and the **ABC**. He has given radio interviews in the USA on shows such as **Business of Success** and **Wall Street in the Morning**.

The Simply Budgets software program has sold over 24,000 copies including orders from countries such as UK, USA, Canada, New Zealand, Chile, Denmark, Singapore, South Africa and New Guinea to mention a few.

He is happily married, has three children and enjoys restoring and riding classic motorcycles and playing piano and guitar.

Powerful Secrets to Dispose of Your Debt and Replace it With Wealth.

In case you hadn't noticed it; 'Debt' is a four letter word. 'Wealth' is not!

Debt is one of the oldest problems people have faced throughout the history of the world. The problem is that we are all born with nothing that we can call our own but we have immediate and ongoing needs, wants and desires to satisfy. It is inevitable then that at some point in our lives we will find ourselves in debt. However, the amount of that debt varies dramatically. Some people manage it well while for others it becomes a major burden.

This e-book is all about helping you get out of debt. Before we start though, you need to be aware that there are two clearly definable types of debt; GOOD debt and BAD debt!

For a lot of people, the thought of debt being good may seem a bit odd, however once you have learned how to use it correctly you will realise that debt **can** be good. In fact, most wealthy people have used debt as a major part of their wealth creation strategy.

When you see the word debt used in this document, please read it as 'bad debt'.

If you follow what is presented in the following pages you will be able to turn your finances around and create a whole new positive financial direction away from debt and toward prosperity.

Very few people accidentally achieve what they want. Wealth does not arrive by accident. If it does, it departs by accident as well!

Getting Started

Understanding the Task Ahead

To solve any problem, you first need to understand what the problem really is. In many cases people have a tendency to confuse the result of the problem **as** the problem itself.

Please be really clear that with financial problems, the numbers on your bank statement are NOT the problem. They are evidence that there **is** a problem but they are not **the** problem! The real problem is the reason why the numbers got so bad in the first place.

There are four 'E's' that combine to make up that reason. They are;

1. Emotions
2. Education
3. Environment
4. Earnings

Most people only focus on the fourth 'E' and therefore do not achieve the breakthrough they are hoping for. We will look at each one of them as we methodically go about establishing and executing your recovery plan.

As we set out to tackle this process there are two clearly identifiable tasks that need to be undertaken.

1. Pay off the debt.
2. Change the behaviour that caused the debt.

To achieve both these objectives you need to know exactly what your current 'state of affairs' really is.

It quite possible you see your current financial situation as being attributable to one unfortunate set of circumstances that just happened to go against you. It is not unusual to feel this way but please be open to the idea that the circumstances could have been totally different and you would still have come to a place of having too much debt, maybe not right now, but at some other time in the future.

The process you are about to undertake will help you identify exactly what needs to be done to get you out of your current situation and if you continue to follow the process, never fall into debt again.

Establish your current position

Current Financial Position

You need to make a list of your assets and liabilities. In doing this we will identify exactly where you are up to right now so you know how serious the problem really is.

There are a number of ways you can do this. You could draw up a grid like the one shown below (or perhaps print the one shown below). You could make a spreadsheet on your computer or you could download the one I have created for you from my web-site. It is not important how you do it but it is extremely important that you do it!

To download the one I created for you, go to www.simplybudgets.com.au/SnapShot.xls and then enter the detailed information about your assets and liabilities.

Assets

Write the value of all your assets and total them so you know the value of what you own.

Assets	
Description	Amount
Home	
Land	
Cash	
Savings	
Shares	
Superannuation	
50% of Motor Vehicle(s) value	
Total Assets	

Liabilities

Write the amount you owe for each of your debts. Use the Interest Rate% column to record the interest rate for each of your debts.

Liabilities		Interest
Description	Amount	Rate %
Credit Card		
Credit Card		
Store Card		
Store Card		
Hire Purchase Payout		
Mortgage		
Mortgage		
Automobile Loan(s)		
Personal Loan		
Personal Loan		
Total Liabilities		

Your Net Worth

Transfer your totals for Assets and Liabilities from above to the spaces below and calculate your Net Worth by subtracting Liabilities from Assets. Hopefully you will not get a negative number but if you do at least it is good to know exactly what the score is.

Assets \$ _____

Liabilities \$ _____

Net Worth \$ _____ (Subtract Liabilities from Assets)

One Step Backwards – Two Steps Forward.

Now you know what the facts are regarding your financial situation it is time to look at one simple strategy that may have always looked like a bad choice in the past and now see it in a different light.

Cash up your non-essential possessions

If you made a list of the purchases you have made in the past that now contribute to your debt problem it is almost certain that the 'things' you purchased are now worth a lot less than you paid for them. If you are suffering from debt stress it may well be time to cut your losses in order to expedite your recovery.

If you were to hold a garage sale, how much money could you take for your efforts? Ask yourself how much 'stuff' you have got that you could do without if you had to. What **do** you really need? You may not like the thought of selling stuff at all let alone for less than you paid for it but if you are to get out of debt then this is probably an essential part of what you need to do. Give it some serious thought!

Cash down your highest interest rate debts

Selling 'stuff' for less than you paid for it may seem like an unacceptable option but you may be very surprised to find it could save you a lot of money. If you sell a \$1000 item for \$500 and pay this off a high interest Credit Card you could be much better off than it first appears when you consider the interest you could save.

The example below shows a \$5000 Credit Card at 21% paid off at \$31.10 a week over 5 years.

Loan Amount:	<input type="text" value="5000"/>
Annual Interest Rate:	<input type="text" value="21"/> <input type="button" value="▲"/> <input type="button" value="▼"/> %
Loan Period:	<input type="text" value="260"/> <input type="button" value="Payments"/> ▼
Payment Frequency:	<input type="text" value="Weekly"/> ▼
Payment Amount (P+I):	<input type="text" value="31.10"/> <
<input type="button" value="Calculate"/>	
Total interest: \$3,085.36	

Paying \$500 off the debt saves \$837 in interest and 43 weeks in repayments. This means you effectively took \$1337 from the garage sale (the \$500 cash and the \$837 saving in interest).

Loan Amount:	4500
Annual Interest Rate:	21 %
Loan Period:	217 Payments <
Payment Frequency:	Weekly
Payment Amount (P+I):	31.10
Calculate	
Total interest: \$2,248.70	

When you think about it like that, selling a \$1,000 item for half price (\$500) in a garage sale and paying the money off the Credit Card, you actually make money on the deal! You get back \$1,337 from selling an item that cost you \$1,000. That's a \$337 bonus! Now can you see why selling 'stuff' is a good idea?

Another example might be the family car. Most people find that if they were to sell a car they should not have purchased, they can't pay out the loan so they feel like they are trapped with high repayments and no way out.

However, if you purchase a \$30,000 car and borrow the full amount at 12% over 5 years, the repayments would be \$667 a month with total interest of \$10,040.

If you sold the car for a \$5,000 loss (\$25,000) and purchased a \$15,000 car with some of the proceeds and paid the remaining \$10,000 off the loan (now down to \$20,000) and continued the repayments at \$667 a month, you would have the loan paid off in just under 3 years and save \$6,684 in interest. This is exciting because you only lost \$5,000 on the sale of the car. You are better off!

Admittedly you don't have quite as flash a car, but when you compare the value of a \$15,000 car after 3 years loan payments and a \$30,000 after 5 years loan payments, you probably find that at the point of being debt free you are probably driving cars of similar value and you saved yourself 2 years of debt.

If you take the same car loan example from above but reduce the loan payments to keep the 5 year loan, the repayments will drop to \$445 a month and you will save \$3,350 in interest. Your \$5,000 loss was really only a \$1,650 loss and you had \$222 a month less to repay. \$222 a month could make a big dent in another higher interest rate debt!

From what you have read above, it is clear that you should be selling whatever you can possibly do without. It will reduce your pain considerably!

Now you must go ahead and decide what you are going to sell and how. You may hold a garage sale for some of these items and others may require advertising.

The cash you bring in from the sale of this 'stuff' should be paid off your highest interest rate debts where possible although if particular items have loans against them then you may have to repay those specific loans. If you have freed up some repayment money you will now be able to use it to pay off those higher interest rate debts.

Create a Recovery Plan

You may have heard people talk about how important it is to set goals and then focus on achieving them. Without officially calling it 'Goal Setting' essentially this next step is all about making plans and then seeing them through!

'Snowball' the repayment of your debts

Repayment Snowballing is a strategy you will now use to dramatically speed up the process of paying off your debts.

A snowball starts off the size of a golf-ball as it rolls down a snowy slope. From these humble beginnings it gathers more speed, snow, momentum and power as it rolls. It grows into a huge boulder of snow many, many times larger and more powerful than when it started.

Repayment Snowballing is the same principle but applied to repaying your debts. You will begin slowly, gaining momentum as you go. By the end of the process you will be rapidly knocking debts out of your way that were previously like insurmountable mountains. To achieve this you will channel all of your surplus cash and surplus cash flow that was identified in the previous step into repaying your debts.

There are a few different opinions on how best to implement the Repayment Snowballing strategy so let's have a look at which one will save you the most time and money. There are basically two trains of thought.

1. Pour any surplus cash and cash flow into paying off your **smallest debt first** and then when that debt is paid off, add (or snowball) that repayment onto the **next smallest debt** until it is also paid off. Continue this process, always adding the repayments from the paid-off debts to the next smallest debt until all debts are cleared. (At which time you could give yourself a big pat on the back and swear to never put yourself through such agony again!)
2. Pour any surplus cash flow into paying off your **highest interest rate debt first** and when you've paid that debt off, add (snowball) that repayment onto the **next highest interest rate debt** until it is paid off. Continue this process, always adding the repayments from the paid-off loans to the next highest interest rate loans until your debt repayment is complete.

These two methods look very similar! The point of difference between the two is whether you should tackle the **smallest** debt first or the **highest interest rate** debt first. The reason there are two trains of thought is that while one is clearly a better option financially, the other has emotional benefits that some feel outweigh the financial benefits.

Mathematically it is easy to show that tackling the highest interest rate debt first will save you more money.

From an emotional point of view though, clearing a debt quickly can give you a sense of actually achieving something. This can do wonders for your sense of enthusiasm and provide crucial motivation to stick to the plan with a positive frame of mind.

Look at this example:-

John and Mary have a Store-Card debt of \$10,000 at 21% interest. They are making \$200 per month repayments that will not see the debt repaid for about 10 years. The total interest will be about \$13,800. They also have another debt of \$5,000 at 7% interest with repayments of \$200 per month which will clear the debt in about 2 years and 3 months. The total interest will be about \$900 for this debt. Total interest paid will be about \$14,700.

Thinking about Repayment Snowballing, if John and Mary committed an extra \$200 a month to loan repayments they have the two options from above to consider.

If they tackle the **highest interest rate loan first** and snowball the repayments, they will be out of debt in 2 years and 7 months with a total interest of \$3,643. The smaller debt would have been paid out 4 months earlier on it's original payout date.

Apply extra payments to this debt first.

Lender	Product	Original Debt
ABC	Store Card	\$ 10,000.00

Final Payment Date: 16/02/2011
Total Interest Paid: \$ 3,643.08
Original Payout Date: 09/07/2018
Original Interest Payable: \$ 14,392.56

You Could Save \$ 10,749.48 and 7.40 Years

Find The Next Debt to Clear
Print
Clear and Return to List of Debts
I'm Finished

Ranking	Lender	Product	Original Debt	Paid Out by	Original Payout Date	Payment Then Applied To	Total Interest Charged
2	A Bank	Credit Card	\$ 5,000.00	18/10/2010	18/10/2010	ABC	\$ 420.17
1	ABC	Store Card	\$ 10,000.00	16/02/2011	09/07/2018		\$ 3,222.91
Your debts would be paid off in the order shown above for best results.							\$ 3,643.08

If they tackle the **lowest balance loan first** and snowball the repayments, it will be paid out in 13 months with total interest of \$206. The other loan will be paid off in 2 years and 8 months. Total interest paid over both loans would be about \$4,224.

Apply extra payments to this debt first.

Lender	Product	Original Debt
A Bank	Credit Card	\$ 5,000.00

Final Payment Date: 17/03/2011
Total Interest Paid: \$ 4,224.82
Original Payout Date: 09/07/2018
Original Interest Payable: \$ 14,392.56

You Could Save \$ 10,167.74 and 7.32 Years

Find The Next Debt to Clear
Print
Clear and Return to List of Debts
I'm Finished

Ranking	Lender	Product	Original Debt	Paid Out by	Original Payout Date	Payment Then Applied To	Total Interest Charged
1	A Bank	Credit Card	\$ 5,000.00	15/08/2009	18/10/2010	ABC	\$ 206.80
2	ABC	Store Card	\$ 10,000.00	17/03/2011	09/07/2018		\$ 4,018.02
Your debts would be paid off in the order shown above based on your repayment priority.							\$ 4,224.82

So, John and Mary may have felt great when they paid off the smaller loan in just over one year using the second strategy, but that satisfaction cost them \$581 in extra interest.

Clearly the strategy of always paying surplus money off the highest interest rate debt first has distinct financial benefits. You be the judge for yourself which strategy you prefer! Either will accelerate your journey out of debt but focussing on the higher interest rate debts first will save you more money and time.

I have developed a software package called 'DebtBuster' that allows you to enter all the details of your debts and calculate the best way to pay them off. It also allows you to compare different re-payment priorities on your various debts to see what impact focussing on different debts will have on the amount of interest you eventually pay. Go to

www.simplybudgets.com.au/debtbuster to review this software.

Without software like this to fine-tune and plan the process you will be left guessing what you can achieve but if you simply remember to always make any additional payments off the highest interest rate debt and when any debt is paid out snowball the repayment that became

free onto the remaining debt with the highest interest rate. The most important part of the process is the 'snowballing'. If you keep the repayment money flowing off your debts rather than spending it on something new when a debt is cleared you will achieve amazing results over time.

Credit Safeguards

Prior to the introduction of Credit Cards last century, nobody died because they did not have one. You can live without credit too. You are now going to use Electronic Funds Transfers or real money to make your purchases and pay your bills on time every time.

Below are a number of basic 'credit safeguards'.

You should use all that are appropriate for your situation.

Use Cash

There is no better way to stop spending money you don't have then to choose to only spend cash. At the start of each week you place a predetermined amount of cash in your purse or wallet and that is all you can spend. When it is gone, it is gone.

It is obvious that you can not spend more than you planned to spend if you operate this way. The only way people spend more than they earn and get in to debt trouble is through the use of Credit and Charge Cards.

You can't accidentally apply for a personal loan and spend it. It is plastic cards that cause the damage! Becoming a 'cash only' person will immediately stop the accidental overspending that was occurring.

Don't worry about not getting fly-buy points. The benefit they bring is not worth the grief the Credit Card debt brings.

Use a Debit Card

If you really need the convenience of a Credit Card to make certain payments that just can not be made in any other way, apply for a Visa Debit Card. Such a card allows you to make Credit styled purchases but using your own savings funds rather than the banks credit funds.

There is still the danger that you will spend money you were not meant to spend when you have a card attached to your savings money so it is a great idea to have the Debt Card draw from an account that is NOT your primary savings account. That way you can only spend your spare money!

Disengage your Credit Cards

If you are like a lot of people, you will have automatic periodical payments being charged to one or more of your Credit Cards. Insurance payments and internet services are a couple of examples of common automatic Credit Card payments.

Wherever possible, change this so you either pay by an automated electronic funds transfer from a savings account or if this is not possible, use a Visa Debit Card as described above.

If you can't use either of those options and can't avoid using a Credit Card you should make sure there is only one Credit Card used for all of your automatic periodical payments. This might mean you will need to contact several 'service providers' to change the details they have on file so they all charge the same card, but it will be well worth the 'hassle' because this then means you can put all of your other cards out of service.

For the one Credit Card you keep in service, set up automatic funds transfers from your savings account to your Credit Card account for each scheduled periodical payment being charged to the card so a deposit is made on each day a payment is charged out. This will mean that the balance of that Credit Card does not accidentally increase when you are trying to decrease it.

Freeze your Credit Cards

It is quite likely that you have already paid down some Credit Card debt after holding a garage sale or selling off some 'stuff'. Even if you have not done this, any available credit you may have is dangerous. You would not give a loaded gun to an angry person. It would be asking for trouble. Do not have loaded Credit Cards available or you will shoot yourself down financially again!

Contact your banks and card issuers and find out how you go about freezing your credit cards. You must not have the ability to make purchases using money that is not yours. From this point forward you will only spend money you DO have rather than money you DO NOT have.

With the possible exception of one card that you may need to keep for the automatic payments referred to above, cut your credit cards up or return them to the bank saying you will no longer be making any purchases and asking to make them 'payment only' facilities. That is, if at all possible put a freeze on the ability to make purchases.

Reduce your Credit Limits

If your banks will not freeze your cards so they can not be used, then you will have to do it for them.

There is a template in the appendix at the rear of this book that you can photocopy, fill in and submit to your various banks to reduce the Credit Limit for every one of your Credit Cards. They MUST all be full! Reduce the credit limit down to the amount you owe. The only exception would be the Credit Card reserved for automatic payments mentioned above. For that card you can easily calculate the credit limit necessary to allow for the automatic payments, so reduce its credit limit accordingly.

Each time you make a payment off your Credit Card, be sure you can not get access to that money again. Use the template again and again to reduce the available credit so the card is always full! If you pay off \$100, then you must also lower the credit limit by \$100. You will not be able to succumb to a moment of weakness if you have no access to the money you paid off.

Don't Pay 'Over Limit' Fees

Important Note Regarding Credit Limits; When you choose the amount for your reduced credit limit (from above), make sure you allow room for interest charges that will be added to your balance during the month. You do not want to incur extra fees because you overlooked this and your balance went beyond the newly reduced limit as a result. Check for the timing of payments and interest charges and choose an appropriate Credit Limit that will avoid penalty fees while making use of the card impossible.

Take Legal Action; It is amazing the number of times a bank has charged a customer an over-limit fee when the transaction that caused the limit to be exceeded was actually an automatic payment that the bank transacted on the customer's behalf.

A limit is a limit, so when a bank approves a purchase that takes your balance beyond the limit who is at fault? It is clear that the bank's computers would be in the best position to know how much credit is available and whether or not a purchase or payment will incur a fee or not. When a bank honors an attempt to make a purchase using credit, you would have to assume that the only reason the transaction was approved was because Credit was in fact available.

I would strongly encourage you to write a note to your Credit Card provider informing them that under no circumstances do they have permission to make a payment on your behalf if it takes your Credit Card beyond its Credit Limit and nor do they have permission to honor a payment that takes your Credit Card beyond its credit limit. Have two copies of the note, sign them both and have them both countersigned by a bank staff member and keep one original copy for your records. It may be worth paying a small professional fee to have a solicitor prepare the note and present it on an official solicitor's letter-head.

It may not stand up in court, but if you do find over-limit fees charged to your account you are in a much better position to contact your bank and have the fees refunded.

Close Store Accounts

Store accounts are like wolves in sheep's clothing! For some reason, a person with problem Credit Cards will go and get a store card convincing them self it is different! Credit Cards, Store Cards, they are the same poison; just with a different name!

Contact any stores that you hold Store Cards or Charge Accounts with and remove your ability to 'book up' any more purchases. Lower your credit limit so the account can no longer be used for purchases and continue to lower the limit as you pay the debts down.

Rid yourself of 'Easy Access' Money.

Banks and similar institutions have more recently produced loan products that have re-draw facilities and lines of credit that allow you easy access to the money that you have paid off your loans.

Have the courage to take the steps necessary to rid yourself of all 'easy access' money.

If you have a 'line of credit' or a 'redraw facility' attached to a loan or a mortgage and you have proven yourself to be a bad risk with money in the past, you need to place yourself out of harm's way. Get rid of these facilities. This may mean re-negotiating a mortgage or loan. There are likely to be costs associated with this action but these costs may well be worth paying in the longer term.

Many people have mismanaged these re-draws and lines of credit and spent years making no progress at reducing their loans as a result. If you don't have it you can't use it!

Keep in mind that there is always more than one way to solve a problem. Using money is the first solution people instinctively consider because that is what our society has conditioned us to believe. However there is always another way! When money is not so easy to access you will find a way to solve your dilemma without money.

What Else Could You Do?

Once you have carried out all of the suggestions from above that are relevant to you, stop and consider if there is still a way you could sabotage yourself by spending money you do not

have. Do whatever it takes to remove every possible way you could spend money you do not have.

You are most likely your own worst enemy when it comes to money so you must be careful to close off every possible way that you could cause yourself more debt in the future.

Emotions and Debt.

Finally, let's get to the bottom of the real issue of why many people have problems with debt.

The reasons why you accumulated your debt(s) all seemed justifiable to you at the time but let's look at the underlying causes behind those debts.

If you lost money taking bad investment advice from a friend or you had acted on an impulse without getting all the facts before throwing money at something that turned out to be a bad investment, the underlying reason might be something like this.....

Common sense would say to get a second opinion or to take some time to check out other options but you did not take either of these actions. Why not?

Could it be that as humans when we hear of a 'great opportunity' we really want it to be that 'silver bullet' we have been looking for and we do not want to hear otherwise? If we check the opportunity out too much we might find that it is not so good. That would be a disappointment! We want it to be a great opportunity so much that we convince ourselves it needs no further research. "Yeah, maybe it is a bit optimistic", but it sure brings some excitement into our world and if it works it will be wonderful. We do not want to hear that it is flawed or that it may not work.

Rather than getting a second opinion or giving ourselves time to think it all through we make a decision to go for it because it fulfils a need for excitement that is lost if we analyse it too much or get second opinions. Let's face it, someone else may not see it the way we do!

In the end the underlying reason for the bad decision is an emotional one. The need for some excitement!

In many cases, a person who has debt problems got into debts for emotional reasons.

Here are some common examples that demonstrate how emotions play a big part in acquiring debt;

- My job sucks and I need some retail therapy on the week-ends to help me forget the **stress** of work. I now have a huge Credit Card debt from trying to hide from the real issues as a result of this!
- My car was looking daggy and the engine was starting to worry me so I upgraded to a new car. I couldn't take the risk of the old one costing me a fortune in repairs. Now I **feel really good** driving the latest sporty model. It is beautiful to drive and so much better than my old one. It's OK to have something special like this considering how hard I work and all I ever seem to do is pay bills. I have to have something in my life to make it all worthwhile.

- I felt **depressed** since breaking up with my partner so decided a makeover would make me feel better. It was only \$250. I had no money so used the Credit Card. I felt a lot better for a while but now I am not sure how I am going to pay off the debt because my Credit Card has gotten out of hand since the break-up.
- I feel like we are just going nowhere financially so I have a bit of a punt on the horses and throw a few bucks at the pokies hoping a win will get us out of debt. It gives me some **hope** and some **excitement** and one day I might just hit the jackpot! I hate our debt. It makes me feel **depressed**. The **excitement** I get from having a bet helps me **feel better**. I'm not a compulsive gambler though; I just have a bit of a flutter every week.

In each of these examples spending money was seen as the way to fix 'feelings'.

Then there are situations where the emotional pressure is quite obvious and often quite difficult to manage....

- My kids saw a puppy at the pet shop. It was so **cute**. They begged me to buy it and in the end I just **couldn't say no**. It was \$800 and now I need to buy a lead, a collar, a bowl, a brush and tins of puppy food each week as well as heartworm and tick and flea treatment on a regular basis. The Credit Card was already full so God only knows how I am going to pay for all this stuff. It was just so damn cute!
- Our dog picked up a tick while playing in the bush behind our yard. No-one noticed it until she took ill and we started investigating why. I had to rush her to the vet. It was touch and go for a few days. We nearly lost her. I told the vet to do whatever it took to save her. "Spare no expense. That dog has been with us for 12 years and we **love** her to death!"

You can see how emotions become intertwined with money in both of these examples. They are not easy situations to deal with. You need to be careful to avoid the chances of situations like this arising in the first place. (Avoiding pet shops in the first example and taking the time to regularly care for and check over your pet in the second example.)

For some people (usually extreme examples), emotions have totally overtaken all rational thinking and the reasons for spending money are seen as being outside of their personal control! Circumstances or a compelling situation caused it to happen! Not only that, often there is a sense of surrender to the debt; i.e. "What the heck. I give up!"

Here are two examples;

- My neighbour was a slob and always playing loud music late at night. If it wasn't loud music he would be tuning his car up in the garage when I was trying to watch TV. There were wild parties on the week-ends till all hours and rubbish everywhere in the street in the mornings. In the end **I'd had a gut full**. I moved out of my flat even though I still had 3 months lease to go. I lost my bond as a result and I had to purchase some new furniture because the new flat is smaller and my old furniture didn't fit. Not only that, now I have to buy a security system for my car because there is no lock-up car accommodation at the new place either.

The move cost me \$1,500. The Credit Card was already up to \$10,000 but what the heck! **I could not stand it there one more day**. That guy is a pain and if I see him in the street I will tell him what I think of him. He cost me \$1,500!

- My best friend came to visit from overseas. I had not seen her for 20 years. I had no money but there is no way I could have her visit without making a fuss of her. I took her to the city where we went out to dinner and the movies. I paid for some posh accommodation and we went to a rock concert. We had a great time even if it did set me back \$2000 by the time I paid for all that stuff, gave her a few farewell gifts and sent her on her way. Let's face it; **I didn't want her thinking I am broke!**

What else could I have done? You just have to forget about money sometimes. After all, you could be dead tomorrow!

You can see in these two examples that there would have been much more rational and appropriate responses that would have led to much better financial outcomes, but emotions overruled logic. **Unless you can stay rational you will invite more debt into your life.**

Finally there are situations where what should be good decisions become bad ones for emotional reasons....

- We were determined to get off the rental roundabout. We went looking at display homes and signed up to get our own home built. We worked out we could easily afford a 150 square metre home but then we decided that it would be a good idea to get the gardens all done and a pool put in at the same time. Let's face it, the kids are getting older and if we don't hurry up and get a nice place for them to enjoy now they will probably be grown up and gone by the time we can afford it later on. **We want them to have the good things we never had as kids!**

After reading these examples it is recommended that you take some time to identify how emotions have been influencing your financial journey in the past.

Exercise.

Use the example provided below to attempt to write down the reasons behind each of your debts (use the examples above as a guide). Try to identify the emotions behind those debts. For each one, see if you can write an alternative action you could have taken that would have been a better alternative given the benefit of hindsight.

1. Debt _____ Reason _____

Emotion _____ Alternative Action _____

Use the above exercise to help yourself in the future when you are faced with making financial decisions. If you understand what is happening in the background you should be a lot more capable of making rational and sensible financial decisions that keep you away from debt.

Summary.

This document has set about giving you some of the solutions to solving debt problems.

You should have many things to think about. I recommend you read this report a number of times until you understand what it is saying and you know what it is saying so well you could have written it yourself.

Financial health is a journey not a destination and you must enjoy the journey. Too many people are so focussed on the destination that they miss the pleasures of life along the way.

The common cause of this problem is financial stress! If you take action on the information in this document you will reduce the amount of financial stress you encounter dramatically and you will be setting yourself up for a healthier financial future!

Action:- There is much more where this came from!

Visit www.simplybudgets.com.au to subscribe to the regular 'Money Hints and Tips' e-mail series I publish regularly.