HOW TO DUMP YOUR DEBT

...Without Living on Baked Beans!

David Wright,
Founder
Simply Budgets

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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 years training and working in a Metal Trade before deciding to change careers. He trained and became a Secondary School Teacher and for twenty years 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 software 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, that original 'Simply Budgets' system has produced some amazing results in people's lives and David has since gone on to develop other resources dedicated to helping people improve their financial direction.

The Simply Budgets software system has sold over 26,000 copies around the world and has 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.

David has addressed audiences in various locations around Australia, New Zealand, England and the USA. He has been interviewed on both radio and television in Australia and the USA on shows such as'A Current Affair' and 'Today Tonight'.

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

This is David's first book and not surprisingly it is dedicated to helping people get out of debt.

> "You have powers you never dreamed of. You can do things you never thought you could do. There are no limitations except the limitations of your own mind." - Darwin P. Kingsley

> "The greater danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it." - Michelangelo

Publication

YOUR COMMENTS

If you would like to discuss any aspect of getting rid of debt or make comments on this book David would love to hear from you.

You can contact David via e-mail:

admin@simplybudgets.com

Read more about David's work on his website.

www.simplybudgets.com.au

'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. The amount of that debt varies dramatically from person to person.

Some people manage it well while for others, debt becomes a major problem.

This 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.

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

The largest amounts of money
disappear on the smallest of purchases.

Part 1
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 five 'E's' that combine to make up that reason. They are;

1. Emotions
2. Education
3. Environment
4. Earnings
5. External Forces

Most people only focus on the fourth 'E' and often blame the fifth. As a result they do not achieve the breakthrough they are hoping for. We will look at each 'E' 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.

Before you start, it is worth making the point that you possibly 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 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.

PERSONAL STOCK TAKE

It is now time to identify where your strengths and weaknesses lie. To achieve this you need to have a personal 'Stock Take'.

In the same way that any business carries out a 'stock take' to find out exactly where they are up to, you also need to measure your current position in order to plan the most appropriate way to go forward from here.

You need to know what your strengths and weaknesses are and exactly what your starting position is so you can work **with** your strengths, work **on** your weaknesses and measure and monitor your progress as you move forward.

As much as possible, we will base this 'stock take' around the 'Big E's so the first step is to identify what your emotional skills are around financial matters. If you can’t control your emotions you can’t control your money. **Money is an emotional thing.**

Next you need to identify how much you actually know about money. If you have no financial skills you have little hope of changing direction. Knowledge in action is power!

After that we will look at where you spend your time. This will reveal the external pressures you are subjected to and what needs to change to remove those influences from the equation.

Finally we will look at the numbers themselves so we know exactly how bad things really are.

These four steps combined will give you a complete Stock-Take of the financial ‘you’ and allow you to establish a clear picture of exactly what the problem is. Not just the numbers, but the actual problem behind the numbers! You will be in a position to clearly state what caused the debts and what needs to be done to eliminate them permanently.

So, it's time to get started...

1. Current Emotional Position

Let's look at how you deal with your feelings when it comes to money. Can you say ‘no’ to the little voice in your head that says you need something when your bank balance says you can’t have it? Do you spend money to make yourself feel better? Do you spend money to try to impress or attract other people? How do emotions impact on your financial well-being?

You need to know what you will do when your feelings get involved. There are certain to be situations that tempt you to move away from the recovery plan you are about to create. You need to know what you will be feeling and have a plan for how to deal with those feelings. If you do not get this right you will sabotage yourself and everything else you do will be a waste of time and energy.

How Emotions Contribute to Debt Problems.

To get to the bottom of the issue of why some people have problems with debt and others do not, you need to look at the reasons behind the reasons! The reasons why you accumulated your debt(s) all seemed justifiable at the time. Now let’s try to reveal the underlying root causes behind those debts.

For an example, 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 explained something like this…..

You know 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?

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. i.e. The desire for some excitement!

In many cases, a person who has debt problems got into debt 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 weekends 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 need 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 paralysis 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 possibility that situations like this might arise 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 weekends 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 had to purchase additional furniture because the new flat is smaller and my old furniture didn’t fit. I also have to buy a security system for my car at the new place.

The move cost me $1,500. The Credit Card was already up to $10,000 but what the heck! **I could not stand living 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 that 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!**

We have probably all made decisions like one or more of the examples I have given here at some time or other. The important thing is that we begin to recognise what is going on and learn from the mistakes.

(I do hope each of these examples are easily recognisable to you as poorly made choices based on an emotional rather than rational basis!).

EMOTIONAL STOCKTAKE

Now it is time for you to find out how emotions have been influencing your financial journey.

EXERCISE 1

As best you can, please write down the reasons behind each of your current debts using the examples on the previous pages 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.

	Exercise 1: Emotional Stockade
1	Debt-
	Reason-
	Emotion-
	Alternative Action-
2	Debt-
	Reason-
	Emotion-
	Alternative Action-
3	Debt-
	Reason-
	Emotion-
	Alternative Action-
4	Debt-
	Reason-
	Emotion-
	Alternative Action-
5	Debt-
	Reason-
	Emotion-
	Alternative Action-

(You will find a larger list in the appendix at the end of this book.)

EXERCISE 2

Overcoming Emotional weaknesses involves making rules for yourself so you know before a situation arises what you will do when it occurs. Please read the list of emotions and their opposites below

Exercise 2: List of emotions and their opposites			
Pessimism	Optimism	Apprehension	Enthusiasm
Unsure	Sure	Unworthy	Worthy
Uncomfortable	Comfortable	Disorganised	Organised
Shame	Pride	Sadness	Joy
Fear	Confidence	Anger	Calm
Boredom	Excitement	Careless	Careful
Frustration	Satisfaction	Difficulty	Ease
Confused	Clear	Intimidated	Confident
Pressured	Relaxed	Pessimism	Optimism
Patient	Impatient	Risky	Safe
Abundance	Scarcity	Pain	Pleasure
Betrayed	Faithful	Bitter	Satisfied
Selfish	Sharing	Cursed	Blessed
Resentful	Grateful	Discontented	Contented
Worried	Carefree	Agitated	Placid
Greedy	Generous	Victim	Victor
Exposed	Protected	Nervous	Relaxed
Vulnerable	Safe		

Choose 10 words from the list above and write one sentence for each to describe how you currently feel about money or the relationship between yourself and money. Feel free to use a derivative of the word. e.g. enthusiasm enthusiastic.

(Don't just think about this. It is imperative that you actually do it!)

10 Sentences Describing Your Feelings About Money.

1	
2	
3	
4	
5	

(There is a larger template in the appendix at the end of this book.)

If you have used mainly words from the 1st or 3rd column of the emotions list then you have negative emotions around money and need to make a conscious effort to change your attitude about it. The more negative words you have chosen the more work you need to do in this area. Without addressing this issue, even if you do get out of debt you will more than likely go right back there. Your emotions will be working against you all the time.

Study what you have written and search within yourself to identify when, how and why these emotions emerged in your life. For each sentence you wrote above using a negative emotion, now write a new sentence using the opposite positive emotion to replace the negative one.

For example, if you wrote the following.

‘I am afraid that I will end up broke at retirement age because of the amount of debt I am in and how hard it is to get out of debt.'

Then you would re-write the sentence like this….

'I will retire with plenty of money because debt is not the controlling factor in my life and I have the strength and the ability to easily overcome it once and for all.'

(There are 10 lines in the appendix at the end of this book just in case it was all bad!)

1	
2	
3	
4	
5	

IMPORTANT ACTION

Transfer each one of these sentences to its own small card (business card size would be good). Carry these cards with you and read each one at least 5 times every day until these new emotions have replaced the old negative ones that are currently controlling and limiting your financial life. Ideal times would be at each of your 3 meals, morning tea and before bed in the evening.

Combat Your Emotional Weaknesses

Now please take some time to create a series of alternative actions you will use when the emotions you identified earlier threaten to ruin your debt recovery plan and/or your future financial journey.

Here is an example of how your alternative actions might look.

When I find myself feeling ______________________________ I will ______________________________.

OR

When I find myself in a situation where ________________ ______________ is happening I will ____________________ ______________________.

Write your alternative actions down on paper and if at all possible hang them in places where you will see them often. You should rotate them on a regular basis.

Every time you feel one of the emotions that sabotage you becoming a controlling influence simply make a conscious switch to the alternative action rather than the one you would previously have made.

You should now be in a position where you are regularly going to be telling yourself that you are no longer controlled by negative emotions and you have alternative actions that will empower you over those emotions. You have made a huge step forward!

2. Current Educational Factors (Your Financial Literacy)

If the term, ‘A Trap for young Players’ ever had any meaning, then it certainly does at the end of each school year when thousands of High School graduates join the real world of life after school.

During the course of the first few years after leaving school the majority of these young adults will fall into financial traps that will have a negative impact on the rest of their lives. Some of these traps will come from well-trained, highly practiced smooth operators who play on their prey’s naivety. Other traps will be more subtle, brought on by social expectations and perceived peer group pressure.

Statistics tell us that the majority of school graduates will not reach retirement age in good financial shape. This is a tragedy because there is plenty of evidence to suggest that this should not be the case. We all know that anyone could become wealthy by retirement age after 40 years of consistent work and sensible management of their finances. Unfortunately, the fact remains that only a small percentage of the population manage to achieve this outcome.

One of the major contributing factors to this sad state of affairs must be the lack of financial education delivered in schools. During the 12 or so years in the education system almost nothing of any real practical use was taught, demonstrated or presented to most of us.

There are two facets to financial education and both seem to have either been neglected or are completely missing. They are:

- **Teaching the benefits of being good managers of money.**
- **Teaching how to be good managers of money.**

Without any doubt, these two topics would have to be among the most important life skills every human being should master.

One of the reasons for the lack of effective financial education in schools is quite likely a direct result of a lack of available curriculum and teacher expertise in this field. The small percentage of the population who actually have achieved mastery over their financial destiny would most likely be people in business and not those employed by the various education bodies around the country. Is it any wonder then that every year we have another graduation of financial lambs ready for the slaughter?

As a matter of urgency, anyone who knows they are not satisfied with their financial direction should make gaining financial education a number one priority.

KNOWLEDGE

At this point it would not be easy to measure what you know and don't know about money; however there are some basics that everyone should know.

The Australian Government provides a website to help with this.

Go to

http://www.understandingmoney.gov.au/tools/Consumer/healthcheck

I would encourage you to visit this website and take in the information there. You must make it your mission to educate yourself about money and financial principles. Reading books on the topic of money is one of the easiest, safest and cheapest ways of doing this. Below are some books I would recommend.

The Road to Financial Freedom

Rich Dad Poor Dad

CashFlow Quadrant

Please note that it is not how many books you read that is important, but how much you take in and apply to your life that will have the most impact. A book case full of 'nice reads' will not help you much whereas one good book read over and over again until you understand it so well you could write it yourself will have a more powerful impact.

BELIEFS

Another facet of your financial literacy involves what you believe about money. No doubt you have formed opinions and come to conclusions about how money works and does not work. These thoughts make up your beliefs about money and you hold on to them dearly. They have guided you faithfully to your current financial position.

Whether they are true or not is irrelevant. You hold beliefs and they will not change unless something happens to prove them wrong. In the meantime they will continue to faithfully guide you in a direction you can not change unless you change your beliefs.

The good thing about a belief is that you can change it in an instant. Here is an example; I personally believed that if I walked through red-hot coals my feet would burn. At a seminar I attended I walked through a bed of red hot coals and my feet did not burn. I changed my belief straight away because I had irrefutable evidence.

Here are some common beliefs people hold about money:

- You have to work long and hard to become rich.
- \ You need money to make money.
- Rich people are selfish and greedy.
- It is impossible to save money and raise a family.
- I am no good at budgeting.
- You are either born with money or you will never have it.
- It's too late for me because I did not go to University.

But, these beliefs are only true if you believe them.

Good advice for most people would be to stop telling yourself you are no good at money management and that if 'this or that' were different you would have more money or be more successful.

Mark Twain said,

"We do not deal much in FACT when we deal with ourselves".

We constantly tell ourselves that we are no good at this or no good at that. We are too short, too tall, too thin, too fat, don't have time, we're just not perfect. But then let's face it, is anyone perfect?

What benefit would being perfect have anyway? The fact is that most people who are high achievers actually have had to overcome an imperfection to succeed. For example, swimming champion Grant Hackett is an asthmatic. If you look you will find that there are thousands of examples of people who logically should not have achieved what they did; people who have overcome limiting beliefs, physical restrictions, mental afflictions, turbulent childhoods and more.

I once watched a video of a man playing guitar by laying it on the floor and using his feet and toes to play because he has no arms. In almost every area of life the people who have stood out as extraordinary had a great reason not to be!

What beliefs do you hold about money that are not true?

A baby elephant is held captive by a rope pegged to the ground.

As it grows to adult hood it believes that the rope is stronger than it is and it will never challenge that belief even though it clearly could just snap the rope in an instant. Our beliefs about money bind us in a similar fashion.

3. Current Environmental Influences

Where you go

Where you spend your time will have a major impact on how much money you inadvertently spend each week. For example, if you go to a Shopping Centre to pass time on the weekend you will almost certainly spend money that would not have been spent had you gone for a walk in the park instead.

Make a list of all the places you went over the last two weeks and try to recall what things you spent money on in the places you went.

Set it out chronologically day by day. Here is an example of how it might look.

Sunday

Church - offering

Shops – coffee, bread, magazine, newspaper

Home

Service Station - fuel

Footy Grounds – food, beer

Corner Store – 'take-away' meal, soft drink.

ebay - book

Monday

Work – food at the canteen

Shops – food for dinner

Home

Pub – beer, pokies, nibblies

and so on for two weeks…

When this is done take a good hard look at what you have recorded and try to determine what effect the places you go to have on your spending habits.

Below the list you made, write down the changes you need to make. It might be that you will still go to the same places but you will make changes to what you do while you are there.

For example, you might be going to the shops every evening to pick up something for dinner. The issue might be that you are also popping some chocolate and other extra items into the basket every afternoon when you are shopping.

You might realise that you need to plan you shopping for groceries so you have a shopping day where you have made a list of all the week's meals and you only go shopping once for the ingredients you need for the whole week. That way you only make one set of impulse 'junk-food' purchases in a week rather than seven!

Who you go with.

While we are looking at the topic of environment, ask yourself the following questions;

Do most of your friends have incomes similar to you?

Do they live in homes similar to yours?

Do they drive cars similar to yours?

Do they have similar expectations of life as you?

Unless you are an exception, you probably answered yes to these four questions. Of course it is not a coincidence that most people hang around with people like themselves. What would happen though if you started associating with people who are not like you?

For the 20 years that I was a high school teacher I saw so many students who were influenced by peer-group pressure. One group would be a pleasure to talk to, always helpful and happy while another would be out on the oval smoking behind the bushes and causing trouble with a lot of negative energy. No doubt this was a carry-over from their home lives.

Occasionally I would witness a student moving over to the wrong crowd and it was always a negative outcome. This might have been caused by a family break down, difficulty managing the changes that came with puberty or perhaps just searching for acceptance. Before too long they would be heading in the wrong direction and getting into all sorts of trouble. I never witnessed someone from the wrong crowd choosing to move over to the other side and changing their life for the better but I am certain that this would be possible; just that nobody chose to do it!

What relevance does this have to you and your finances? Ask yourself the question, "What would happen if you began to associate with people who earn twice as much as you?" "Would you start to earn more money?" "Would you start to manage your income more wisely?" "Would your finances improve?" “Would your debts disappear?”

Evidence shows that the answer to these questions is that “yes” there would be positive financial outcomes. Of course, if you currently associate with people who earn similar incomes as you and you start moving in different circles, you will more than likely feel a bit like a misfit for a while, but sooner or later it is most likely that your income will gravitate upwards towards the level of the new people you mix with and many of your previous financial and household budgeting problems will be left behind in the process.

Of course you won’t want to become a snob and dump your friends simply because you are hoping for a higher income but you might want to consider that maybe you should make some new friends as well as keeping your current ones. The fact is, your current friends have already imparted all of their financial wisdom to you and if you want to move away from debt and towards a wealthier life then you will need to do something different than what you have done in the past.

Consider this, some Scientists believe that a frog can turn into a fish, or a sparrow can turn into an eagle or maybe an elephant can turn into a hippo. These strange transformations sound a bit outrageous so the scientists justify their claims by explaining that it takes a lot of time for the changes to occur. They call this the ‘Theory of Evolution’.

One of the intriguing things about the Theory of Evolution is that if it is true, logic tells us that there must be animal species alive right now that are in ‘transit’ between one form and another. (Would a Frog become a Frish or a Fog?)

Scientists find it hard to produce these ‘transit’ animals to prove their theory; however there is another form of evolution that is going on around us all the time that is a lot easier to prove. It is the Financial Evolution that occurs during a person's journey to personal wealth!

There are people who are ‘in transit’ all around us. They are evolving from poor people to wealthy people and like the theory of evolution that scientists talk about, the crucial factor in their Financial Evolution is time and environment. Like the ‘evolving’ animals that we never seem to see, these people are inconspicuous in their daily lives. They don’t look any different to you or I, but the difference is that time will produce the results for all to see.

It is time that allows small amounts of spare cash to grow into large amounts of spare cash. It is environment that promotes change from one financial position to another.

Ask yourself this question. “If a rich person hangs around with poor people will he or she become richer?” I’m sure you must come to the conclusion that the answer is NO because this is the wrong environment.

Now ask yourself the question “If a poor person associates with wealthy people (who just happen to have positive attitudes and well-developed success habits), is there a chance that he or she will become richer?” Obviously this is the right environment for a positive outcome and you would have to be naïve to answer NO.

Considering nature again for a moment; if a sparrow hangs around with eagles will it grow into a bird with the abilities of the stronger species? Obviously not; a Sparrow physically does not have the wings of an Eagle or the strength and other physical attributes of an Eagle.

So, you could be excused for having debt problems if you did not have the same attributes as a wealthy person but the fact is that you are no different to any other person whether they are poor or wealthy.

You ARE an Eagle so you CAN choose to fly with the Eagles if you really want to. You just need to make the changes that are necessary. You are not a Sparrow so you don't need to act or think like one. You just need to put yourself in the right environment and give yourself time to evolve.

CHANGING YOUR ENVIRONMENT

Expose yourself to a different environment by considering joining a group or a club where you will find successful people giving back to the community. Serve beside them and see if they don't rub off some good information and experience that will assist your personal and financial growth.

Regularly spend time with people who have a positive mental attitude who do not spend their time getting their kicks from comparing or criticising other people.

4. Current External Forces

There will always be external forces that influence people's financial circumstances. The world has become a much smaller place and when one country's economy sneezes, the others catch a cold.

Boom times come and go. Property markets rise and fall as do share markets. Oil reserves become undersupplied and when demand increases, prices skyrocket. Droughts cause food shortages and prices go up as a result. Wars come and go causing uncertainty.

All kinds of external forces that you do not have control over can seemingly appear out of nowhere and if you have your finances geared too heavily they may well cause debt problems to emerge as a result. However, as suggested earlier, many people point to the changing circumstances as the sole cause of their debt problem rather than accepting that it just exposed or crystallised the underlying cause of the problem.

If you compare money with air you will learn some interesting truths. Like air, money is all around us. However, we cannot live without air but we can live without money. Strangely, people do not spend their time hoarding air and treating it like they will run out unless they grab every bit they can get access to. We all understand that we will not suffocate unless we do something really stupid. Air is always there and we just use it as required. When we decide to exert some extra energy we just breath in and out more often and the air is there allowing us to push our physical boundaries as hard as we like.

On the other hand people treat money as if they just can't get enough and it will run out tomorrow if they don't devote all their time and energy to stressing about it. We shy away from building our financial muscles based on our fear that there will not be enough money and we choke ourselves as a result! This keeps us firmly locked in our financial state, believing that it will not and can not change.

We can make noises to the contrary, but we cannot break free of the bondage which comes from our mental state around money rather than a shortage of it. When you can treat money like you treat air you will have moved a long way in the right direction towards leaving your debts behind. Seeing money in your bank account does not mean you have to spend it, just like noticing that there is no breeze blowing does not cause you to panic about having to breathe in and out in a frenzy because you are worried that there will not be enough air to go round if you don't!

Clearly something changes when we stop talking about air and start talking about money!

Legally I can not give the advice to try feeding some $20 notes into a shredder, but if you were to consider doing this, ask yourself how you would feel? Could you do it? Most people would break out into a cold sweat at the thought but they are happy to go out and spend money on stuff that has little or no value in no time at all. They may as well have shredded the money!

5. Current Financial Position

You now need to make a list of your assets and liabilities and then your income and expenses. This will allow you to get an accurate picture of where you are up to from a 'Cash-Flow' point of view and an 'Equity' point of view. You will then know exactly how bad the money part of the problem is.

(You will find more complete versions of all the following lists in the appendix at the end of this book. Alternatively, use the spreadsheet at **www.simplybudgets.com.au/SnapShot.xls)**

ASSETS

Write the value of all your assets and total them..

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

LIABILITIES

Write the amount you owe for each of your debts and total them so you know the value of what you owe. Use the Interest Rate % column to record the interest rate for each of your debts.

Liabilities		
Description	**Amount**	**Int Rate %**
Credit Card		
Credit Card		
Store Card		
Store Card		
Hire Purchase Payout		
Mortgage		
Mortgage		
Car Loan		
Personal Loan		
Personal Loan		
Other		
Other		
Other		
Other		
Total Liabilities		

(See the lists in the appendix at the end of this book. or the spreadsheet at **www.simplybudgets.com.au/SnapShot.xls)**

YOUR NET WORTH

Transfer your totals for Assets and Liabilities 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	($)
Subtract Liabilities from Assets for Net Worth	$

INCOME

Write the amount you would normally receive for each income source and the frequency it is received. The frequency is the number of times per year. E.g. Weekly = 52, 2 Weekly = 26, Monthly = 12, Quarterly = 4 etc.

Multiply the 'Amount' by the 'Frequency' to determine the Annual Total for each income. Add all the totals to determine your Total Annual Income

Income			
Description	Amount	Frequency	Annual Amount
Wage 1			
Wage 2			
Wage 3			
Total Annual Income			

(See the lists in the appendix at the end of this book. or the spreadsheet at **www.simplybudgets.com.au/SnapShot.xls)**

REGULAR EXPENSES

Almost all of the expenses that we **have** to pay in our lives are repetative and fairly predictable. I refer to these as Regular Expenses.

For your Regular Expenses list write the 'Amount' you would normally spend on each expense that applies to you. Write the 'Frequency' it is paid. The frequency is the number of times per year. E.g. Weekly = 52, 2 Weekly = 26, Monthly = 12, Quarterly = 4 etc as above.

Multiply the 'Amount' by the 'Frequency' to determine the Annual Total for each expense. Add all the totals to determine your Total Annual Regular Expenses.

Regular Expenses			
Description	Amount	Frequency	Annual Amt
Accountant (Tax Return)			
Accountant-(Tax Variation)			
Alcohol			
Ambulance Subscription			
Anniversary			
Baby Sitting / Childcare			
Bank Charges			

(Yep, you can make this task easier by using the spreadsheet at **www.simplybudgets.com.au/SnapShot.xls** or the appendix at the end of this book.)

‘LONG TERM' EXPENSES

So many of the items we have come to depend on in our everyday lives will need to be replaced during the years ahead. You can ignore these items for quite some times but eventually they will catch up with you and bring you down unless you have money saved up to replace them.

Write the expected cost of replacing each Long-Term expense listed below. Divide the replacement cost by the life span to calculate the cost per year for each item. E.g. A $1,200 Refrigerator over 10 years would be $120 a year. Add all of the ‘Cost per Year’ amounts to give a ‘Total Cost per Year’ at the bottom.

Long Term Expenses			
Description	**Life Span (Yrs)**	**Cost**	**Cost/Yr**
Computer Equipment Replacement	3		
Carpet/Flooring Replacement	10		
Furniture Replacement	10		
Hot Water System Replacement	8		
Refrigerator Replacement	10		
T.V. Replacement	10		
Washing Machine Replacement	10		
Her Drivers License	5		
His Drivers License	5		
Car 1 Battery	3		
Car 1 Tyres	2		
Car 2 Battery	3		
Car 2 Tyres	2		
Car Replacement	5		
Other			
		Total Annual 'Long Term' expenses	

(You can use the spreadsheet or the list in the appendix.)

EXPENSES TOTAL

Transfer your totals for Regular and Long-Term Expenses to the spaces below and calculate your Expenses total.

Annual Regular Expenses	$
Annual Long-Term Expenses	$
Total Annual Expenses (Regular + Long-Term)	$

YOUR NET CASHFLOW

Transfer your totals for Total Annual Income and Total Annual Expenses from the previous page(s) to the spaces below and calculate your Net Cash Flow by subtracting Expenses from Income.

Total Annual Income	$
Total Annual Expenses	$
Net Annual Cashflow	$

CRITICAL POINT

You can not have a negative number! If you do, go back and cut out whatever expenses it takes to resolve this issue. If that is impossible you need to complete the steps outlined in this book as quickly as possible. **You are going backwards!**

UNDERSTANDING WHY YOU ARE WHERE YOU ARE

In the previous steps you identified exactly how much debt you are dealing with and what personal attributes you have to work with on your new journey out of debt and into prosperity.

You now need to get really clear about the factors that have previously worked against you and what ammunition you have that can be used in the recovery process. From this you will be able to identify what tools you need to develop or acquire to move ahead faster and with more certainty.

1. Identify your Weaknesses

If you have completed the exercises from the previous step you will already have an idea of your weaknesses but now it is time to actually list them down.

You previously made a list of all of the debts you are repaying and why each of these debts occurred. You went to the trouble of identifying the emotional reasons for these debts. Now you will add to what you have already written by listing what you feel was the weakness that caused (or allowed) the debt to occur.

Example #1 Car Loan $55,000

Emotional reason for this debt – depression – buying a new car made me feel good.

Weakness – I feel that I tend to spend money whenever I am feeling down and can't seem to find a way to get on top of things.

Example #2. Credit Card $10,000

Emotional reason for this debt – not sure; it is from lots of small purchases – I think I feel secure when I have money in my wallet so I often use my Credit Card to make small purchases that I could make using cash but I want to keep the money in my wallet.

Weakness – I have a problem with my credit card. I use it to avoid spending 'real' money. I might have $50 in my wallet all week-end but spend it 3 or 4 times over with my credit card to keep it there so I feel safe.

2. Identify your Strengths

O.K it's not all bad! You must have some strengths to draw upon so now it is time to lay them out on the table as well. If you doubt you have any then ask yourself why you are not in twice as much debt. You have exercised some controls in the past. Now it is time to identify what you know and do that is financially responsible.

Think about the times you have walked away from spending money that you were very tempted to spend. Think about the emotional strengths you have.

The best way to do this is to imagine you were called upon to help someone you have never met before who is in a lot of debt. What would you tell them to do? What changes would you suggest they make in their daily habits and in the way they manage their affairs?

It is always easy to fix someone else, but hard to fix ourselves so really try to get this. You will see that you do have strengths, you do know what to do and you could be financially responsible if you could take your own advice.

Once you have spent some time actually thinking about what you would say to someone else, make a list of suggestions you would give yourself. These will form the basis of the rules you are about to make in the next step.

Here are some examples;

Suggestion #1 Sell the car and purchase a cheaper one even if it means taking a loss!

Suggestion #2 Cut up the Credit Card!

3. Make rules that focus on your strengths.

Now you have a clear picture of the weaknesses you need to overcome and what strengths you have, it is time to make some rules. Rules will protect you from struggling to make decisions when you are not sure how to make a decision. The rule will automatically provide the answer.

Example 1.

Weakness; When I carry money I spend it.

Solution; Don't carry money I can't afford to spend on 'stuff'

Rule; I will only ever put money in my wallet that I intend spending however I like.

Example 2.

Weakness; I use my Credit Card to avoid spending cash because I like seeing cash in my wallet. It makes me feel like I am OK financially.

Solution; Try carrying no cash in my wallet so I feel broke. Then I will be afraid to use my credit card because I will feel like I can't afford to spend any money at all.

Rule; I will not carry more than $5 in my wallet so I do not feel like I have lots of money.

***Alternate Example 2.**

Weakness; I use my Credit Card to avoid spending cash because I like seeing cash in my wallet. It makes me feel like I am OK financially.

Alternate Solution; If I don't carry my Credit Card with me I will be forced to spend the cash in my wallet and then I will see the money disappearing rather than it sitting there leaving me in denial about how much I spend.

Alternate Rule; I only use cash to make general purchases and my credit card lives at home and only gets used to pay bills I have planned to pay on credit.

Take the time to look at your list of debts and think about the weaknesses you have already identified and make a rule for each one. These rules will protect you so **make sure you do not skip over this. It is pivotal in your change of direction.**

4. Summary

You should now have quite a lot of written information about yourself, about what you have spent in the past, the emotions that trigger your spending, your strengths and weaknesses and the alternative responses and rules you will use to protect you from yourself in the future.

Re-visit this information on a regular basis. You will get what you focus on so you need to stay focussed on this information until it becomes second nature to apply it.

Money is so much easier to spend than it is to earn so spend it wisely ensuring the value you get from spending it truly representgs the effort that went into earning it! David Wright

Part 2

Taking Action

You have now gathered the facts, analysed them all and made rules for the journey ahead.

It is time to take action! This is where you have to actually stop talking about getting out of debt and actually carry out the tough decisions you have decided to make.

You may have noticed that up until now no mention has been made of bankruptcy. The purpose of this book is to avoid bankruptcy and still get out of debt. Some people reading this book may feel they are not in a position to avoid bankruptcy. Clearly everyone is better off if it is avoided. If you think bankruptcy is your most likely outcome but have read this far just in case, keep an open mind as you read the following pages.

Step 1. NEGOTIATE BETTER DEALS

Reduce Your Fees and Charges.

You have probably heard the saying; “If you don’t ask you don’t receive”! You are now going to find out how true this really is.

The goal is to reduce the interest rate you are paying on your credit facilities. You already have the list of all your debts that you made earlier. It is now time to see what you can get by asking!

Visit or phone your lending institutions and say that you are looking for a better deal and ask what they can offer you. If you are not happy with their response simply say you are “thinking of paying off and closing your Loan or Credit Card account(s)”. You would like to know how to go about doing that. Can they give you all the details? Say you have been wondered how you could get an accurate final payment balance so you know how much to pay.

The staff member you speak to has been trained to respond in a way to encourage you to keep your account open. They will initially ask you what you will do in an emergency if you don’t have the loan facility or credit card. (You could respond by asking if they ever thought of putting out a fire by throwing fuel on it but this may well go right over their head!)

You will reject their comments about needing to keep the account open and reply that you don’t think ‘that’ will be an issue and you intend having money put aside in savings for emergencies anyway.

They will most likely then start offering you a better deal. Maybe they could lower or drop the annual fees? Would you keep the account open if the interest rate was lower?

Play dumb and allow them to offer as much as possible and then when you have allowed them to ‘squirm’ as much as possible say that considering they are so keen to keep your business maybe you will accept their offer and re-consider your position. Maybe you will keep the account open after all!

If you do not get a favourable response, simply hang up the phone and dial again or visit another branch office and try again. You will get a different operator/staff member and perhaps a better offer.

Please be clear about the above information. You may need to have nerves of steel and the patience of Job. You will be put on hold while the operator 'talks to their supervisor' and tries hard to get you to just give up. Be patient and have refreshments on hand!

If this does not work, you should try a more direct approach. Phone or visit and announce that you are experiencing financial difficulty and wonder if they can offer you some respite in the form of a better deal. Of course you could try this strategy straight off, but then again you might prefer to keep holding this card close to your chest for if it is needed after trying other less 'challenging' methods first!

Refinance Options.

Almost certainly you have already explored the option of borrowing money to repay your high interest rate debts but if you have not already done so, you should seek the help of a reputable finance broker who can look at your financial current financial position and investigate the possibility of consolidating your multiple debts into one lower interest rate loan.

If this is possible it will give you immediate relief. Please be warned though that if you do manage to consolidate some debts into a lower payment loan, you must not then back away from your commitment to get out of debt. Just because some pressure has been removed you MUST apply the pressure to yourself to keep pursuing the goal of getting out of debt.

Step 2. ONE STEP BACKWARDS – TWO STEPS FORWARD

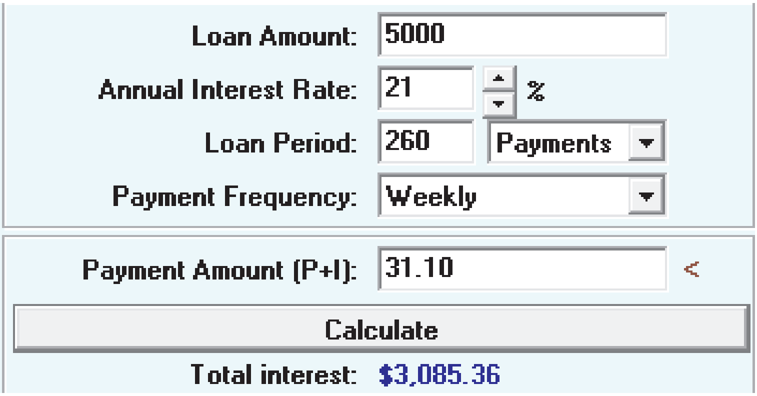
'Cash up' your non-essential possessions

You already made a list of the purchases you have made 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' have you got that you could do without if you had to? What do you really need?

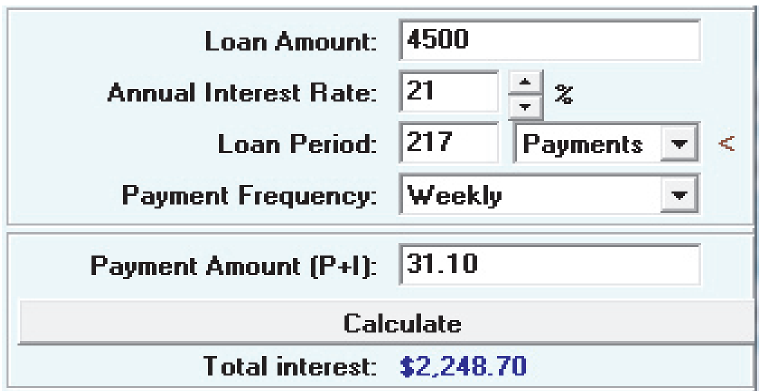
'Cash down' your highest interest rate debts

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.



Paying $500 off the debt (see below) 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).



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!

Go to **http://simplybudgets.com.au/products/1b2f.xls** to use my 1 Step Backwards – 2 Steps Forward calculator to see how much you could be saving by selling off your 'stuff'.

With that information you can 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 some items you sold 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 in the next step ‘Create a recovery plan’.

Step 3. 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 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 this humble beginning 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 began.

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.

In response to the numerous requests I've received from people asking me to show them the quickest way to get out of debt I developed software I called 'DebtBuster' that does all the calculations to work out the fastest and most efficient way to apply the snowballing principle.

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. It also looks at the possibility that you may be able to make better use of the money you have previously been paying.

Look at this example:

John and Mary have two debts.

Store-Card:- $10,000 at 21% interest. $200 per month payments.
Personal Loan:- $5,000 at 7% interest. also $200 per month payments.

The Store Card will be paid off in 10 years with interest of $13,960. The Personal Loan will be paid off in 27 months with interest of $420.

Thinking about Repayment Snowballing, if John and Mary committed an extra $200 a month to loan repayments they have the two repayment strategy options I described on the previous page to consider.

DebtBuster has worked out the following:-

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

They will save $10,746 in total interest compared with paying the debts out normally.

If they tackle the **lowest balance debt first** and snowball the repayments, it will be paid out in 13 months with total interest of $206. The Store Card will be paid off in 2 years and 8 months. Total interest paid over both loans would be about $4,225.

They would save $10,165 in total interest compared with paying the debts out normally.

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 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 strategy has the potential to hugely accelerate your journey out of debt but focussing on the higher interest rate debts first will save you more money and time.

Go to www.simplybudgets.com.au/debtbuster for more information on the DebtBuster software.

Once you decide which strategy you intend using it is time to move to the next step and include your chosen repayments into your plan.

A 'Roadmap for your Money'

Most advisors at this point would tell you to prepare a budget. Interestingly they would never tell you how to actually do that!

No doubt you have already made attempts at preparing a budget and no doubt these attempts have failed.

In your attempts, you probably set your budget out the same way most people have done in the past. If you did, at the top of a piece of paper you wrote down what you earn each pay and then you listed where the money goes on a per pay basis. By subtracting total expenses from total income you would come up with a total that was your spare money!

Here is an example of what this might look like.

A Simplified Standard Budget (Per Week Amounts)		
Income	*$600.00*	Running Balance
Groceries	-$150.00	$450.00
Rent	-$200.00	$250.00
Petrol	-$50.00	$200.00
Entertainment	-$30.00	$170.00
Telephone	-$25.00	$145.00
Electricity	-$10.00	$135.00
Car Repairs	-$20.00	$115.00
Insurances	-$35.00	$80.00
Clothing	-$20.00	$60.00
Remaining		$60.00

The problem with preparing a budget this way is that it only proves that you **should be able to** pay all of your budgeted expenses. It doesn't show you **how to pay them** and that is why it fails every time. You can prove on paper over and over that you should be able to make ends meet, but when the bills arrive the money is rarely there to pay them. It's very frustrating to say the least!

You are about to learn and use a much better system that will show you **how to pay your bills** on time every time.

Starting with a 'Clean Slate'

In a perfect world you would have no bad debts hanging over your head.

Reality for people suffering from debt problems though is that this is not the case and the bill that is screaming at you the loudest is the one that gets paid this week. Unfortunately this has a self-perpetuating effect.

When you pay your overdue bills with this week's pay you can not pay this week's bills and so are creating the overdue bills of the future by postponing them.

What you need to do is to stop going round in circles and start with a clean slate and a plan. (Overdue bills obviously need to be dealt with but unless you start living a life in which you pay all your bills on time every time you are going to continue going around in circles aimlessly).

The sooner you start with this 'clean slate' the sooner you can start feeling better about yourself and the fact that you have started managing your money properly. You will begin to see improvements in almost every aspect of your life when you take control of your finances. This has a flow-on effect that is likely to improve your ability to earn more and the outcome will be that you will recover sooner.

While you are depressed you are unlikely to impress anyone, including your employer. Your productivity and your income will remain in the doldrums and you will remain trapped. ‘Starting over’ will allow you to break out of that cycle!

Starting with a ‘clean slate’ means you will put all of your overdue accounts to one side and create a Cash Flow Plan that shows how you will pay all of your future predictable expenses from today forward, on time every time. It will show how much you will spend, when you will spend it, what you will spend it on and why.

Only when you have worked out how you can live from today forward with a basic but stable existence devoid of the stress caused by having bills you can’t pay will you go back and construct a plan to pay off the debts of the past. This might sound a bit callous and certain to cause anger and unpleasant reprisal from the people you have outstanding accounts with but it is imperative that you do it this way. The next section in this book will cover how to approach the people who you are going to upset based on this strategy.

You are now going to systematically go through the essential predictable expenses that you pay for on a regular basis and chronologically list them on a calendar in such a way that you can identify your bank account's 'worst day of the year' before the day arrives. When you know the date of your lowest account balance for the year you can work backwards to calculate the daily balances that will make sure you avoid having bills to pay and no money to pay them with on this and every other date in the future.

As you can imagine, this is extremely powerful information! You can more easily avoid disaster when you have a Roadmap for your money! This 'Roadmap' is your ideal **'Bank Statement in Advance'** that you will endeavor to follow or exceed during your financial recovery period and beyond.

I personally would not have achieved financial success if I had not done what I have just described above. It is the **MASTER KEY** to unlocking your successful financial future. I originally used a calendar and a calculator, marking all my expenses on the calendar to create my spending plan. Now I use a computer to do the calculations. You can save yourself a lot of time and effort by using the Simply Budgets software system.

If you really want to do it the hard way, here is how to do it manually.

Calculating Your Roadmap

Start by making a list of all your essential predictable expenses that fall within a yearly cycle; the ones you know how much they usually cost and how often they occur. These are the expenses we all fondly call BILLS! (It is probably a large list.) Make sure you include the amounts you calculated for the repayment of your debts in the previous section on ‘Snowballing the Repayment of your Debts’.

Simply Budgets

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John and Mary Citizen (Sample)

Regular Income and Expenses Worksheet

Description	Amount	Date	Annually	1/2 Yearly	4 Monthly	3 Monthly	Monthly	4 Weekly	Fortnightly	Weekly	Other	Use Credit Card
EXPENSE												
Accountant (Tax Return)	$100.00	04/02/2005	*									
AmbulanceSubscription	$90.00	24/02/2005	*									
Annual Holiday Money	$1,000.00	27/09/2004	*									
Birthday - John	$80.00	28/11/2004	*									
Birthday - Mary	$80.00	06/02/2005	*									
Birthday - Peter	$80.00	24/07/2004	*									
Birthday - Sally	$80.00	06/02/2005	*									
Car 1 Service	$200.00	10/09/2004				*						
Car 2 Service	$200.00	12/08/2004		*								
Car Loan	$114.00	24/07/2004							*			
Child Sponsorship	$32.00	13/07/2004					*					
Christmas Shopping Fund	$500.00	03/12/2004	*									
Clean Carpets	$85.00	24/02/2005	*									
Clothes - Summer	$400.00	26/09/2004	*									
Clothes - Winter	$400.00	26/03/2005	*									
Electricity	$110.00	10/09/2004				*						
Fathers Day	$50.00	27/08/2004	*									
Groceries	$150.00	16/07/2004								*		
Insurance - Car 1	$280.00	27/10/2004	*									
Insurance - Car 2	$180.00	25/06/2005	*									
Insurance - Health	$130.00	05/08/2004					*					
Insurance - Home Contents	$180.00	13/08/2004	*									
Insurance - Life	$53.00	29/07/2004					*					
Internet Access Fee	$10.00	29/07/2004					*					
Mothers Day	$50.00	26/04/2005	*									
Personal Loans	$110.00	17/07/2004					*					
Pet Registration	$12.00	26/06/2005	*									
Petrol Money	$60.00	13/07/2004								*		
Pets Checkup	$50.00	07/02/2005	*									
Registration - Car 1	$490.00	25/10/2004	*									
Registration - Car 2	$490.00	20/06/2005	*									
Registration - Trailer	$50.00	16/07/2004	*									
Rent	$320.00	16/07/2004							*			
School - Back to School Books	$100.00	10/01/2005	*									
School - Book Hire Scheme	$300.00	10/02/2005	*									
School - Uniforms	$150.00	16/01/2005	*									
Telephone	$150.00	24/09/2004				*						
Telephone - Mobile 1	$15.00	20/07/2004					*					
Telephone - Mobile 2	$15.00	03/08/2004					*					
Union Fees	$130.00	12/08/2004	*									
Vehicle Breakdown Insurance	$48.00	10/03/2005	*									
Wedding Anniversary	$50.00	06/10/2004	*									

You will be giving a copy of this ‘Roadmap’ to the people you negotiate a repayment plan with (for overdue accounts) so be sure you do not include items that would be considered luxuries while you are in this period of having to deal with repaying overdue accounts.

Go to http://simplybudgets.com.au/free-gifts.html to download a worksheet that will help you with this task.

For all the expenses you decide you need to include in you plan, list the description, the amount, the date the next time they are going to occur and the frequency they occur on.

You should end up with something that looks like the example on the previous page.

Because this list is made up solely of predictable expenses it can be used to generate a ‘Roadmap’ for the next year that will identify on any date where you are on your yearly cycle. As a result your ideal savings balance can be predicted for any date in the next year before it begins.

To be successful at paying all these expenses you need to go from a ‘start date’, through a year and back to where you started one year later without ‘crashing’ anywhere in between.

If you end the year with more money in your account than when you began, you have put more money in than you needed to and could have done something else with the surplus (like paying off debts).

If you ended up with less money, even if you had been lucky enough to make it through the year, you are going backwards and will have overdue bills at some time in the future!

Here is how you do the calculations.

1. Calculate the total cost of all of the expenses on your list for a whole year and divide by the number of pay days you have in a year. (52 for weekly, 26 for fortnightly etc.) Let's say you got $654 for your answer.

2. On a calendar mark all of your pay days with a +$654 (answer from 2 above with a plus sign)

3. Mark all of the regular predictable expenses from your list on the calendar for the whole year with a minus sign (yes this is a big job but is essential).

   e.g. Groceries -$150 every Saturday, Christmas Shopping on the 12th of December -$500, Telephone Bill -$120 on the 5th of each month, Electricity -$250 on the 21st of every third month starting next month, and so on.

4. Start from Zero and add all of the plus numbers and subtract all of the minus numbers, working your way through the year day by day. Write each day's closing balance on the calendar in pencil. (Days with no transactions have the same balance as the previous day) Don't worry if you have any negative numbers at this stage. You will know when you have done the calculations correctly because the balance on the last day of the year will be zero like the first

day was.

5. After you've done the whole year, look through all the day's closing balances to find the largest negative number (e.g. -$500). If you add the positive value of that number (e.g. $500) to every day's total you previously wrote in pencil for the whole year your lowest point in the year will then be $0.00 instead of the example of -$500.

You need to decide how close to that $0.00 point you are comfortable with when it occurs. If you decide you would be happier with a $100 lowest point then you would add $100 to your number. In this case then you would add $600 to each day's totals instead of $500. Your year would then start and end at $600. I will use $500 in the examples that follow.

You now have the perfect bank statement in advance for the next year for all of your essential predictable expenses. If you can stay ahead of those projected balances by depositing at least the calculated deposit amount or more each pay day and spend the amounts (or less) that you wrote down for each expense you will always have money to pay your bills on time when they arrive.

The only possible obstacle you might now have to overcome is this; **do you actually have the amount of money your plan shows as the required 'opening balance' in a bank account somewhere?** (In the example above it was $500.) If not, you will need to find a way to overcome this shortfall.

It may be that you have the ability to deposit more money each pay than the plan is asking for. In fact it is imperative that you do so. If this is not the case you must go back and work out what you can reduce in the list until you do!

Assuming you do have surplus income available, go back to your calendar and replace the opening amount ($600 in the example above) with the amount of money you do have available and adjust the balances leading up to your first pay day downward accordingly. Then replace the amount shown as the deposit on the first pay day ($654 in the example above) with your full pay amount. Adjust the balances between this pay day and the next pay day when you will once again replace the amount shown with your full pay amount.

Continue to do this until you find that the balances you are adjusting no longer need adjusting. That is, depositing extra money each pay has allowed the initial shortfall to be caught up and the target balances have now fallen into line with the original plans targets. TAKE NOTE OF THE DATE THIS OCCURS AS IT IS EXTREMELY IMPORTANT. I will explain why in the next section.

Now you have prepared a 'Roadmap' for your money you must take great care to follow it. As stated earlier, it is the Master Key to you taking control. If you do not stick to this plan you will be placing everything you have set out to achieve in jeopardy.

PLEASE NOTE

You can expect that there will be an amount of fine-tuning in the early stages of living with your 'money roadmap' and it is unfortunate that you may have to do all of the calculations more than once until you get the transactions right. Time spent making sure you have thought of everything in the first step is crucial if you want to avoid wasting time here!

Yes this process is time-consuming, but it absolutely works miracles. If you want to, you can simplify the process of creating your financial roadmap using the Simply Budgets software system but it can be done manually the way I described above if you are happy to do the calculations

(Visit www.simplybudgets.com.au to review the software I have developed for this purpose).

Your plan should look something like what I have shown on the next page for a full year into the future. This then shows that you can do a complete cycle and end up in the same healthy financial state you started in. It will then be clear that you have really done your homework and know exactly where you are going, what you can and can't afford and that you plan to pay (and are capable of repaying) your past overdue accounts.

The other important factor here is that if you follow this plan you will not be forced into living on Baked Beans because you accidentally ran out of money!

John and Mary Citizen (Sample)

Budget Report

Date	Description	Budget Income	Budget Expense	Actual Amount	Account Balance
15/07/2010	Opening Balance	$1,500.00			$1,500.00
15/07/2010	Opening Balance L/T	$0.00			$1,500.00
17/07/2010	Child Sponsorship		$36.00		$1,464.00
17/07/2010	Petrol Money		$80.00		$1,384.00
18/07/2010	Marys Income	$600.00			$1,984.00
20/07/2010	Deposit	$1,565.43			$3,549.43
20/07/2010	To Long Term		$46.93		$3,502.50
20/07/2010	Tfr - Overseas Holiday		$25.00		$3,477.50
20/07/2010	Tfr - Daughters Wedding		$25.00		$3,452.50
20/07/2010	Tfr - Education Scholarship Fun		$20.00		$3,432.50
20/07/2010	Tfr - Car Repairs		$20.00		$3,412.50
20/07/2010	To Cumulative Savings		$140.00		$3,272.50
20/07/2010	Registration - Trailer		$65.00		$3,207.50
20/07/2010	Groceries		$200.00		$3,007.50
20/07/2010	Rent		$320.00		$2,687.50
21/07/2010	Personal Loans		$200.00		$2,487.50
23/07/2010	Telephone - Mobile 1		$35.00		$2,452.50
24/07/2010	Petrol Money		$80.00		$2,372.50
25/07/2010	Govt. Family Payments etc.	$200.00			$2,572.50
27/07/2010	Groceries		$200.00		$2,372.50
27/07/2010	Rent		$320.00		$2,052.50
28/07/2010	Birthday - Peter		$100.00		$1,952.50
28/07/2010	Car Loan		$350.00		$1,602.50
31/07/2010	Petrol Money		$80.00		$1,522.50
1/08/2010	Marys Income	$600.00			$2,122.50
2/08/2010	Insurance - Life		$65.00		$2,057.50
2/08/2010	Internet Access Fee		$36.00		$2,021.50

Calculating Your Overdue Account Repayment Offers

Once you have your 'Financial Roadmap' worked out you can go to your list of overdue accounts that require repaying and calculate the 'offers' you will be making to these Creditors.

If you had no difficulty coming up with the amount of money required to 'kick-off' your plan you can start making repayments off your overdue accounts immediately. If you had to go back and adjust the start of your plan so all your income was used in place of the lower calculated amount creating a 'catch-up' period, then you can not start repaying these overdue accounts until after this 'catch-up' period has ended. If this was the case you would have recorded the date as instructed earlier. Only after this date will you have surplus income that you can use to repay the debts of the past.

The Calculation.

(Example Follows)

Step 1. List all of the overdue debts you have to repay and calculate the total amount you owe.

Step 2. Divide the amount of each overdue debt by the 'total' amount from Step 1 and write the answer beside each one (It will be a decimal amount less than 1).

Step 3. Subtract the amount shown on your 'Money Roadmap' as the deposit from your total income to reveal your surplus income (Also previously calculated in Current Financial Position).

Step 4. Multiply this surplus income amount from Step 3 by each of the decimal amounts you calculated in Step 2 and write the amount beside the decimal amount for each overdue debt. This is the dollar amount you will be offering to pay every payday for each overdue debt.

Example

Step 1		
Overdue	Electricity Account	$500.00
	Car Repairs Bills	$800.00
	Vet Bills	$1,600.00
	Rent	$1,000.00
	Total Debt	$3,900.00

Step 2				
Overdue	Electricity Account	$500.00	$500/$3900	0.128205
	Car Repair Bills	$800.00	$800/$3900	0.205128
	Vet Bills	$1,600.00	$1600/$3900	0.410256
	Rent	$1,000.00	$1000/$3900	0.256410

Step 3	
My Income	$700.00
Deposit shown in my Money Roadmap	$654.00
Surplus Income	$46.00

Step 4	
Overdue	Electricity Account $500/$3900 =.128205 x $46= $5.90 per pay
	Car Repair Bills $800/$3900=.205128 x $46= $9.43 per pay
	Vet Bills $1600/$3900=.410256 x $46= $18.87 per pay
	Rent $1000/$3900=.256410 x $46= $11.80 per pay

You can download a calculator to simplify these 4 Steps from my web-site at http://simplybudgets.com.au/calculators/creditor.xls

(Note: You may have to round these numbers up or down a few cents.)

If all has gone correctly with your calculations you should be able to divide the amount you owe for each overdue account by the amount you are offering to pay each Creditor every payday to reveal the number of paydays before you will have the debts cleared. If you do this calculation for each debt you should get the same answer (that is all your overdue accounts will be paid off on the same date!)

In the example above it calculates as follows; $500 owing / $5.90 per pay = 85 pays!

(I hope yours is not this long!)

Please Note;- The above calculations do not include the payment of any interest, You are simply going to offer an amount that does not distinguish between the debt and the interest. If interest is insisted upon it will mean that the debt will take longer to repay because you can not pay any extra each week!

Present Your Repayment 'Deal' to Your Creditors.

Make one copy of your 'Financial Roadmap' for each overdue account and then call your creditors and make an appointment to meet each one to discuss your situation.

Take a copy of your Financial Roadmap with you to the appointment and present your offer. First make sure you explain your Financial Roadmap and point out how it shows only essential items you need to pay for to live your life. Make a point of showing the amount required to cover these basic expenses each pay and disclose the amount you actually earn.

Show the list of overdue accounts you have to repay and explain how you have calculated the fairest repayment distribution you can manage based on your surplus income so everyone gets a fair and proportionate amount each payday.

Your report will show them that you intend paying all your future bills on time every time from now on and you are going to repay your outstanding debts in installments based on the surplus income left over after meeting your basic needs as detailed in your money roadmap. It will be clear that you can not do any better than that!

Your strength in negotiations will come from the position that if your creditors do not accept your carefully planned offer it is possible that they will get much less than what you are offering. (If you were declared bankrupt they will get little or nothing.) Your offer is to repay all the money over a specified time so they should be able to see your logic quite easily!

Keep in mind that when you approach a creditor like this, any offer you make should be on your terms and not theirs. For example, you may have a $1,000 debt being charged at 35% p.a. You might offer to pay $50 a week for 22 weeks which would mean $1,100 paid off a $1,000 debt. This represents an interest payment of 10%. You do not need to consider their interest rate at all. Just make them an offer! If you make it clear that you are in serious financial trouble and they may get nothing, there is a strong chance they will accept your offer.

Once again, if you do not ask, you do not receive! Be persistent!

The key thing to remember here is that loans with higher interest rates are loans that the lender has considered to have a higher risk of falling into default. This is why they charged a higher interest rate! They must earn more from the people who do fully pay out their loans to cover the losses they make from the people who default. The higher interest rate is like an insurance premium for the lender.

Yes, you signed the documentation and borrowed the money. You therefore have an obligation to make the repayments, but if you have done everything in your power to meet this obligation and have failed to do so, then you can be consoled by the fact that the lender has already factored your problems into their costings.

Step 4. PROTECTING YOURSELF FROM YOURSELF

If you have done everything suggested up to this point you have now completed all of the basic requirements to begin your new life! You should have a new start with a clean slate and you should have begun paying off your debts. You should feel pretty good about the fact that you are no longer going around in circles and you are heading in the right direction.

Here is a quick look at what you should have achieved so far.

You should have:

• Looked at five E's Emotion, Education, Environment, Earnings & External Forces.

• Identified the extent of the problem and what needs to be achieved.

• Identified your personal Strengths and Weaknesses.

• Made new financial rules to operate under.

• Sold off everything you can possibly do without.

• Paid down your high interest rate debts.

• Freed up as much spare income as possible.

• Created a 'roadmap' for your day to day cash flow.

• Negotiated repayment terms with your creditors.

Warning; you are now facing your most dangerous period!

One of the hardest things for any human being to do is 'change'.

Up to this point you have engaged in a lot of 'once only' activities designed to get you pointed in the right direction and in as good a financial state as possible and that is great.

However, now you are planning to live a different day to day life than you used to and that means changing habits rather than performing some 'one time only' tasks. This is a lot harder to do!

Depending on how badly you were in debt when you began this process you may have previously been living a lifestyle of stress and financial pressure. If this was the case, it is possible you had become 'acclimatized' to it! That is, financial pressure may have become a normal part of your life and you had gotten really good at enduring it.

In the past you would have used words that expressed how much you disliked financial stress but it is actually quite possible (and you would not have realized it) that the state of stress was actually something you looked for each day as a way of knowing life was 'normal'. This might sound absolutely crazy but it is true for many people!

People learn to endure pain caused by the pursuit of things that seem important to them to the point where they actually depend on the pain. Without it THERE IS A VOID! If you don't believe this, ask yourself why so many people who get out of an abusive relationship end up in another one.

So, what you may be experiencing right now could feel so vastly different that you need to be very careful not to lose your way and end up right back where you started. Right now you should have a lot less stress than before. If you felt this good about your finances in the past what would you have done? Would you have gone out and spent some money, returning you to a debt filled life?

To avoid backsliding, there are a number of safeguards that urgently need to be carried out to guarantee your recovery from debt and your journey towards wealth. When it comes to managing money you have been your number-one worst enemy so now you need to put systems in place that will protect you from yourself and the fact that you are a human being who sometimes makes decisions based on emotions rather than common sense and logic.

CREDIT-TRAP SAFEGUARDS

Prior to the introduction of Credit Cards last century, nobody died because they didn't 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 or honor a payment you attempt to make if it 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 themself 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.

If Money speaks - Credit has an echo!!

To become Wealthy -
Consistently spend less than you earn.

Part 3

Changing Direction

When you have backed yourself into a corner with debt and the cost of interest has become a major burden in your life you can only do so much re-arranging, re-negotiating, re-structuring and re-financing. You then need to become more ‘resourceful’!

Everything you have done so far was so you could establish your exact financial situation, find out what you have to work with and create a plan to manage your money properly from now on. None of these activities will create abundance. They are focussed on limiting and controlling.

It is now time to start focussing on more positive activities. Here, among other things, we will re-visit the “E’s” we identified earlier.

INCREASE YOUR EARNINGS

Increasing your income is not as efficient as reducing your spending because of tax. A dollar saved is a dollar in your pocket. A dollar earned is taxed to a smaller amount in your pocket! However, when you consider the interest you will save on your loans by repaying them faster it is most likely you will actually get more than a dollar value from a dollar earned!

You already saw how selling ‘stuff’ and paying down debts can save you large amounts of interest. When you have nothing left to sell, earning extra income will continue this process.

Please note that the reason for earning extra income is not so you can increase your spending. It is to kill debt and create wealth which is something you will embark on straight away! Once you begin earning extra income you will start paying yourself first! You need to see your wealth growing as soon as possible so you can get excited and maintain your enthusiasm throughout the difficult early days of debt reduction.

Get a Second Job

I have known people who worked two and sometimes three jobs when they were really excited about saving money for an overseas holiday.

When you are paying off debts there is a lot less excitement associated with taking on extra work than there is with saving for a holiday but if you focus on your life after debt you can see why you should get excited. Even if you simply worked one night a week at a local bottle shop or delivering pizzas, the extra income paid off your debts could make a huge difference in reducing your debt faster.

Earn Extra Income from Home

If getting a second job is not possible, consider what skills you have or could learn that could generate additional income. People earn extra income from home in hundreds of different ways.

Do you have musical talent? Could you teach or perform?

Are you good at gardening? Could you grow and sell potted plants?

Can you make furniture?

Could you wash, cook, clean, sew or iron?

What is your hobby or interest? Could you generate income from doing or selling what you love to other people with similar interests?

With the advent of the internet it is possible to have a day job and build a business in the evenings. I know of a newly married girl who found the process of looking for a wedding dress so frustrating that she located a supplier in China who had designs that would fill the niche she realised was missing and after setting up a web-site began taking orders for both wedding and formal gowns using the web-site as her shop front. Customers would e-mail their enquiries and she would contact them after hours by phone or reply e-mail.

That business was making over $5,000 profit a year, two years after it was conceived. Many people have started successful businesses that went on to become major income earners from humble home-based beginnings.

Start Your Wealth Journey Now!

Regardless of your skills or talents or circumstances, you must be able to find something that can enhance your income and when you do you must start paying yourself first!

Open an account that is for the sole purpose of saving for your future. Make it so you have difficulty getting access to the funds so it will grow and not get spent in a moment of weakness. Out of the additional income from your new second job or home enterprise you must now make a decision as to how much you will pay yourself. As a guide, you should deposit between 25% and 50% of this new income into your new savings account. The remaining extra income is to go towards accelerating your debt reduction.

Remember, your additional income did not previously exist and now that it does it is to be used for debt reduction and wealth creation.

CHANGE YOUR FOCUS

Now you have put walls in place that stop you from spending money that you don't have and you have set aside money so you can always pay your bills when they fall due, you may be feeling somewhat frustrated. If you are earning extra income as well, this is even more likely because according to the rules you will NOT be spending it on anything that gives relief from the tough financial regime that is now in place.

You have created a vacuum in your life. Everything is different. Depending on the reasons behind your debt problems the old habits that gave you pleasure may well be screaming at you and you are possibly experiencing something know in the drug addict's world as 'Cold Turkey'.

You now need to replace the habits that led you to overspend with alternatives that will block the problems.

Emotional Focus

Most of the activities people engage in that drain their finances have strong emotional roots. From the activities you engaged in earlier you should be aware of the emotional factors that you have to deal with to improve your financial standing.

By changing your focus you can make the task of dealing with these pressures a lot easier.

For example,

If you have an obsession with racing model cars that cost a lot of money to build, run and maintain it is the obsession that will cause you to want to continue with the hobby, purchasing radio control equipment, motors, batteries, fuel, tyres, paint and parts.

You love the hobby, so will not be able to just walk away. Instead, you could consider becoming an official at the race meets so you are still around the action but assisting in the running of the sport rather than spending lots of money participating directly.

If you love horses it is that love that will keep you draining your bank balance paying vet's bills, feed bills, agistment fees, farrier's bills, rugs, saddles, transport and more.

As an alternative until you get back on your feet you could attend horse events and take photos of other people competing. Who knows; you might even make money selling these photo's to the people you photograph, perhaps through a web-site to make it easy.

You shouldn't have to think very hard to come up with similar ideas for the activities you are interested in.

As you can see, there are ways to keep the fire burning when you need to cut costs but do not want to ignore your passions. Sure, it may be a 'second best' situation but if you keep in mind that you can always return to more active involvement when your situation has improved it won't be so bad.

If you are addicted to a bad habit such as smoking, try this for an idea; Every time you light a cigarette, place a $1 coin in a rubbish bin. How do you feel about that? It will double the cost of your habit, but more importantly will cause you to confront the absolute waste of money the habit is responsible for. I will be surprised if you can continue smoking if you make this a rule! It gives you a different focus on the problem other than trying to stop smoking. Now you will be trying to stop wasting money!

(There will be people who say it would be better to donate $1 to cancer research every time you light up a cigarette and if this works for you then do it, however, it is highly likely that you will feel good about making the donation to a worthy cause and that is not the object of the exercise. The rubbish bin practice will give a much more powerful and negative reaction to smoking.)

Environmental Focus

The people you spend time with and the places you frequent will have a big impact on your spending habits. Making small changes to your environment can lead to big changes in your financial direction.

For example, if you previously went to a shopping centre a few times a week to meet with a friend for coffee and a chat and always spent money you could ill afford to spend while you were there, you and your friend could still enjoy each other's company but in a more satisfying and economical way.

As an example, one day a week the two of you could use this time as volunteers helping out with 'Meals on Wheels'. You will still be able to enjoy each other's company while doing something to benefit the community and you will not be spending money at the shops. It is quite likely you will get more from this than a financial benefit.

There are many other examples similar to this where you can move from an existing environment that is costing you money and relocate to one that introduces a new activity that is not going to cause a drain on your finances. You may find that a great sense of satisfaction can be gained from engaging in alternative activities like this. Be creative and find something that works for you.

Educational Focus

Have you ever wondered what it is that causes one person to earn one level of income while another person earns twice as much or more? No doubt you have realised it has nothing to do with how many arms or legs they have. Probably you realised it's got nothing to do with how intelligent or smart they are because some of the world's richest people never made it to high school.

Have you ever considered what it might be that causes you to earn the amount you earn and not more? Would you like to find out if there is something you can do to earn more?

(This is a serious question because some people are so entrenched in where they are in life and have been there for so long that they have not only lost sight of the fact they would like to achieve more but they have forgotten about, or lost the desire to even 'want' to want to achieve more).

Look at the people around you and think about what you think they expected out of life when they left school. (Not what they wanted, but what they expected).

Do you earn what you expect to earn? What is it that sets your expectations and causes you to accept your level of financial performance? Are you just too pooped at the end of the week to achieve any more? Has your life floated to a level that has been the result of balancing pain against pleasure? Stop for a moment and consider the most basic analysis of how this happens:-

You start out in adult life. You have and do nothing. (Euphoric state, no effort, no pain) The sun comes up and you feel hot and get sun burnt. The sun goes down and you get cold and mosquitoes bite you. You begin to get hungry. Something in your head says, “It would be better to go through some easier pain, working hard enough for a boss who pays me money so I can pay for food, clothing and shelter”.

Your life returns to a balance between pain and pleasure. (No longer euphoric, but a tolerable trade-off)

But then you get tired of walking to your favourite places and to work. The pain of walking begins to become worse than the pain of working and you trade more effort for less pain and you work to buy a car. Other things influence your pain threshold and you work harder to fulfil more needs. Eventually you find a point where the pain of working and the pleasure of living like you do are in equilibrium and you have found your standard of living.

This is where you always are, at the balance point. Why then does a difference exist between one individual (or family) and the next? Why is there such a staggering difference between the income and living standards of people in our society? Do we all feel different levels of pain? If you began your working life expecting to be successful to a certain level, I would suggest that it is most likely that you have (or will) achieve that level. That is, your reality is within a short distance of your expectations.

Strangely, you say you would like to do better, but the balance is just as far as it can be pushed using the systems and expectations you currently have and that is the fact of it. Over a period of time you exhaust all of the ideas in your thought vocabulary and the available effort in your energy basket and you accept a standard that is a trade off.

IMPORTANT:- I hope you would accept and agree that you have potential for more. Let's face it; no human being has ever reached their maximum potential.

What if your expectations were different? Would that make a difference? What if your beliefs were different about what you can achieve? Would that change things? What if you learnt how other people over the years have done miraculous things and made more of their potential than the average people around them? Is it possible that if you spent one hour a day talking, questioning, and learning from a person who is dramatically more successful than you or who has overcome incredible odds to succeed, would it perhaps make a difference in your 'accepted standard of living' and in what you can achieve? Is it worth the risk or effort to find out?

What if you went right out on a limb and exposed yourself to the risk of wasting some time and effort to regularly feed off other people who have already done bigger and better things than you have? Are you happy enough with where you are right now that you would not benefit from learning a different set of rules? You know, it's not how hard you work that makes the difference; it's how smart you work!

One person could carry buckets of water all day long to their vegetable garden to grow their food. Another could dig an irrigation channel from a stream and then sit under a tree and achieve the same outcome as the person carrying the bucket.

You are capable of far more than you currently are achieving! If you just could break free of your expectations and your self-inflicted limiting thoughts.

I am suggesting that the application of different information learnt from many experts in their field not only might, but will, make a major difference in your life both financially and in other personal ways.

This information I am referring to is available to you in a very low cost form. What if you were to read one book a month that was written by someone who has gone before you and discovered exciting and empowering things about money and personal development? Would that help you improve the balance point in your life? Do you doubt that reading and learning from the minds of great people would change who you are and where you are going in life financially, spiritually and personally?

I realised many years ago that we all travel the journey of life wishing for more, but not really knowing what to do about it.

For every step forward there seems to be just as many steps backwards. I changed my life by changing what I believed about myself and how I thought in my own mind. It took constant and consistent effort and learning from other more successful people. I realised that if I wanted things to change, **I** would have to change, and the only things I could think of that influenced who I was, was the books I read, the people I mixed with and listened to, the television and movies I watched and my attitude to all of these.

I want to suggest to you that you can totally change your life over the years ahead by taking every opportunity you can get to go to the right seminars, mix with successful people, listen to learned speakers and read the right books.

I believe this so much that I would be amazed if you do not find it to be true for you if you were to just take the chance and embark on a mission of educating yourself.

How exciting would it be if you were able to become wealthy in the next 10 years? The thought may be hard to embrace when you are in debt but if you were to focus your time and energy into wealth pursuits this would replace the poverty pursuits that previously consumed your time and energy and led to your debt problems.

Financial Wisdom

This book was intended to give sound advice on how to get out of debt. There are plenty of good books on the subject of money that will educate you about the rules of money. I recommend that you make it your mission to educate yourself by reading as much as you can.

I also have a number of resources and programs designed to help people take control of their finances and recommend you visit my web-site www.simplybudgets.com.au to find out more about these.

Your eventual financial outcomes will not be determined by how much you earned during your life, but how much you learned and what you did with it.

You **can** change direction as you have seen in the pages of this book.

Whether you **will** change or not depends on your desire and your ability to say to yourself that you have had enough of the old and your willingness to embrace the new. I know from my own personal journey that life will continue to offer you both easy and hard options.

HARD IS EASY AND EASY IS HARD!

If you decide you want an easy life with no financial stress, clean comfortable surroundings and the ability to make choices to do what you like when you like, then the path you have to take and the decisions you have to make are NOT necessarily easy. An easy life is hard to achieve!

In contrast, if you just decide to take it easy I know you will be living a harder life in the future than you would have preferred. In fact, the easier the life people seek, the harder it gets to endure. It is easy to end up living an extremely hard life in sub-standard surroundings and it's much harder to afford an easy life in a clean comfortable home with all the trappings and luxuries around you.

The work required to achieve the easy life is HARD, but the easy alternative is possibly much HARDER to endure (life's full of tough choices isn't it!). The pursuit of pleasure will ultimately bring pain! (I am pretty sure that the opposite of this is not true though.)

The problem is that a lot of people have the desire to move to a better place in life, but there are so many distractions and very few people who actually stand out to show the way. One thing I am absolutely sure of is that not knowing what to do to get out of the rat race is a major reason for being stuck in it!

I have now shown you the way out. It is up to you now to follow the steps I have given. They are easy steps but they are hard steps.

If you haven't realised it, I have shown you how to become wealthy. If you can get out of debt you can become wealthy. It's that simple!

Finally, can I suggest that you find someone to be a mentor and/or coach to hold you accountable when you weaken in your resolve to stick to the plan?

Can I also suggest that you begin to associate with successful people? Join an investors club or a service club where you will meet new successful people. Rub shoulders with them and see what happens.

Regularly go back to step one of this book and have a personal and financial 'Stock Take'. This way you will be monitoring your own progress as well.

I wish you well and hope that you have success in carrying out the steps outlined in this book and I hope you have some good luck along the way as well!

APPENDIX

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	
Other	
Other	
Other	
Other	
Other	
Other	
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		
Description	Amount	Int Rate %
Credit Card		
Credit Card		
Store Card		
Store Card		
Hire Purchase Payout		
Mortgage		
Mortgage		
Car Loan		
Personal Loan		
Personal Loan		
Other		
Other		
Other		
Other		
Total Liabilities		

INCOME

List all of your Incomes, the amount you receive, the frequency it is received and the annual amount and total them so you know the how much you earn. Where an income varies you should use an average amount.

Income			
Description	**Amount**	**Frequency**	**Annual Amt**
Wage 1			
Wage 2			
		Total Annual Income	

REGULAR EXPENSES

List all of your Expenses, the amount you pay, the frequency it is paid and the annual amount and total them so you know the cost of what you spend. Where an expense varies you should use an average amount.

Regular Expenses			
Description	**Amount**	**Frequency**	**Annual Amt**
Accountant (Tax Return)			
Accountant-(Tax Variation)			
Alcohol			
Ambulance Subscription			
Anniversary			
Baby Sitting / Childcare			
Bank Charges			
Birthday :-			
Birthday :-			
Birthday :-			
Birthday :-			
Birthday :-			
Birthday :-			
Board/Accommodation			
Body Corporate Fees			
Bridge / Highway Toll Fees			
Butcher			
Cable TV			
Car 1 Service			
Car 2 Service			
Car Loan			
Car Parking			

Chemist			
Child Maintenance			
Child Sponsorship			
Children's Activities/ Lessons			
Children's Activities/ Lessons			
Chiropractor/Physiotherapist			
Cigarettes			
Clean Carpets			
Clothes - Summer			
Clothes - Winter			
Club Membership 1			
Course Fees			
Credit Card Annual Fee			
Debt Reduction (e.g. Credit Cards)			
Dentist			
Dining Out			
Donations			
Easter			
Electricity			
Entertainment			
Fathers Day			
Fuel			
Gambling			
Gas			
Gas Bottle Rental			
Groceries			
Hair Care			
Holidays			
Insurance - Car 1			
Insurance - Car 2			
Insurance - Health			
Insurance - Home			
Insurance - Home Contents			
Insurance - Income Protection			
Insurance - Life			
Insurance - Rental Property			
Insurance - Tenant Liability			
Interest Expenses			
Internet Access Fee			
Lawn Mowing			
Loan Repayment			
Lottery Tickets			
Lunches			
Magazine Subscription			
Make-up/Toiletries			
Medical Specialist			
Mortgage - Home			

Mortgage - Investment Property			
Mothers Day			
Movie Hire			
Music Lessons			
Music/CDs			
Newspapers			
Optometrist			
Orthodontist			
P.O. Box Rental			
Personal Loans			
Pest Control			
Pet Check-up			
Pet Food			
Pet Insurance			
Pet Medication			
Pet Registration			
Pocket Money			
Pool Chemicals			
Pool Cleaning			
Professional Association Membership			
Public Transport			
Rates			
Rates - Excess Water			
Rates - Rental Property			
Registration - Boat			
Registration - Car 1			
Registration - Car 2			
Registration - Trailer			
Rent			
School - Back to School Books			
School - Book Hire Scheme			
School - Fees			
School - Lunches			
School - Uniforms			
Sporting Fees			
Store Card Payments			
Superannuation Contributions			
Telephone			
Telephone - Mobile 1			
Telephone - Mobile 2			
Tithes			
Total Christmas Spend			
Union Fees			
Vehicle Breakdown Insurance			
Water Deliveries			
		Total Annual Regular Expenses	

LONG TERM EXPENSES

Write the expected cost of replacing each Long Term expense. Divide the replacement cost by the life span to calculate the cost per year for each item. E.g. A $1,200 Refrigerator over 10 years would be $120 a year. Add all of the 'Cost per Year' amounts to give a 'Total Cost per Year' at the bottom. Emotional Reasons.

Long Term Expenses			
Description	**Life Span (Yrs)**	**Cost**	**Cost/Yr**
Computer Equipment Replacement	3		
Carpet/Flooring Replacement	10		
Furniture Replacement	10		
Hot Water System Replacement	8		
Refrigerator Replacement	10		
T.V. Replacement	10		
Washing Machine Replacement	10		
Her Drivers License	5		
His Drivers License	5		
Car 1 Battery	3		
Car 1 Tyres	2		
Car 2 Battery	3		
Car 2 Tyres	2		
Car Replacement	5		
Other			
		Total Annual 'Long Term' expenses	

EMOTIONAL REASONS

In the space provided below attempt to write down the reasons behind each of your debts. 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 ____________________________________

____

2. Debt ____

Reason ____

____

Emotion ____

Alternative Action ____________________________________

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3. Debt ____

Reason ____

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Emotion ____

Alternative Action ____________________________________

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4. Debt ____

Reason ____

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Emotion ______________________________________

Alternative Action ________________________________

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5. Debt ______________________________________

Reason ______________________________________

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Emotion ______________________________________

Alternative Action ________________________________

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6. Debt ______________________________________

Reason ______________________________________

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Emotion ______________________________________

Alternative Action ________________________________

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7. Debt ______________________________________

Reason ______________________________________

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Emotion ______________________________________

Alternative Action ________________________________

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8. Debt ______________________________________

Reason ______________________________________

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Emotion ______________________________________

Alternative Action ________________________________

9. Debt ____

Reason ____

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Emotion ____

Alternative Action _______________________________

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10. Debt ____

Reason ____

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Emotion ____

Alternative Action _______________________________

____

Choose 10 words from the list of Emotions below and write one sentence for each to describe how you currently feel about money or the relationship between yourself and money. (Don't say you could do this. Actually do it!)

Exercise 2: List of emotions and their opposites			
Pessimism	Optimism	Apprehension	Enthusiasm
Unsure	Sure	Unworthy	Worthy
Uncomfortable	Comfortable	Disorganised	Organised
Shame	Pride	Sadness	Joy
Fear	Confidence	Anger	Calm
Boredom	Excitement	Careless	Careful
Frustration	Satisfaction	Difficulty	Ease
Confused	Clear	Intimidated	Confident
Pressured	Relaxed	Pessimism	Optimism
Patient	Impatient	Risky	Safe
Abundance	Scarcity	Pain	Pleasure
Betrayed	Faithful	Bitter	Satisfied
Selfish	Sharing	Cursed	Blessed
Resentful	Grateful	Discontented	Contented
Worried	Carefree	Agitated	Placid
Greedy	Generous	Victim	Victor
Exposed	Protected	Nervous	Relaxed
Vulnerable	Safe		

1. ____

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2. ____

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3. ____

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9.

10.

For each sentence you wrote on the previous page(s) using a negative emotion, now write a new sentence using the opposite positive emotion to replace the negative one.

1. ____________________

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2. ____________________

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3. ____________________

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4. ____________________

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5. ____________________

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7. ____________________

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8. ____________________

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9. ____

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10. ____

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Notes

"What I like about this book is that the "HOW" is very practical"

"If the reader follows the steps outlined in this book he/she WILL be in a better place financially"

HOW TO DUMP YOUR DEBT

...Without Living on Baked Beans

"A really wonderful thing included in this book is the support. The links to your website for tools to assist in the process and your support in general is a real bonus for the reader"

http://www.simplybudgets.com.au/how-to-dump-your-debt