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- S1 00:00 Hello, team. Welcome to another Friday Focus Show with Jerry Taylor. Hope you enjoy what I have to say today. We're going to return to a theme that we've addressed a few times. Maybe set up a series now to build upon, Your Personal Finance. Yeah, we've been there before, and I'll reuse some material from past episodes. But I think it's important once in a while to get you focused on this. Okay? So, let's begin this journey with Your Money.
- S1 00:30 My first suggestion comes from the notion that many, many people think they live from paycheck to paycheck, and hence, do not need to manage their money. They say, "I don't have any money, so what's there to manage?" And so, what spurred this on was a student actually making that comment in one of my classes in the last few weeks - actually saying, "Professor Taylor, I appreciate everything you're doing on a personal--" this isn't a personal finance class, but I put a lot of personal finance information in my finance classes, because I think it makes it interesting to people. Little side conversation in that discussion through it every week about personal finance. And a student had that reply that that was a really interesting paper that I'd written advising them on how to go about something, but that they really live paycheck to paycheck and had no need for that sort of advice. They didn't have any money. And my response, having heard that many, many, many times over the years is, "Au contraire." Ever heard that word? Means something in French about like, it's just the opposite. The less money you have, the more rigorously you need to manage it, and that's the bottom line, my friends. The less money you have, the more rigorously you need to manage it. The better chief financial officer you need to be. You have to have your finger on the pulse of every penny that comes and goes into your family or into you. If you're a family of one, into you. It's still a family, it's you. And how you do this is quite clear. To me, this works very plainly. And that's what we're talking about - how to go about this?
- S1 02:22 First, just please take my word for it. Been around a long time, been poor, been fairly rich. And somewhere in between most times, I guess even now. 18 years old, I got married, had a son shortly thereafter, if you get my drift. Worked full-time, went to college full-time, didn't have a penny [chuckles]. We were broke. My wife didn't work, because she was having that baby. So, I've lived some lean times for many years. That was the beginning of my [?], 18 years old. Went through graduate school like that. We were poor, but we were rich in so many other things. And one of the reasons was this process I'm sharing with you, this notion of meticulous management. How the heck did I know at 18 years old to do that? I do not know. But I can tell you that the Taylor system, on some mighty skimpy living, worked very well.
- S1 03:22 The first thing you must do when you begin this process is to begin to monitor every penny of your spending. I want you to get a spiral notebook, a nice record book, some books, some blank pieces of paper, where you're going to begin every day to begin

your spending diary. Every single day, you'll record every single penny you've spent - in cash, in checks, in credit cards, in credit cards, in credit cards. Every penny that goes out. And I'm going to tell you to do this for six months to a year. But maybe you'll see the patterns before then. I don't demand that.

S1 04:04

I tell you, when the Taylor Method was invented by the Taylor family in 19-- oh gosh, I'm not going to say what year because Moses and I were around together, and that would embarrass Moses. I kept that journal forever. I began to monitor. I sat down in this little tiny office space I had set up in there with this records book. You know those old records books? They're kind of green outside with things in the corners and there were columns in there. I sat in there several times a week. That just became my money diary. In it, I would record everything spent, I would record everything that came in, and I even began to project things - to look to the future in that thing, to make notes about tomorrows, and how to manage to know every penny. I became intimate with every penny that came into and out of that house. There were no surprises, even when there were surprise bills. Try very hard not to have those happen, but you know in family life, there are always surprises. Well, when you have a surprise and you're a prudent steward, they're not so shocking, those surprises. So, you begin by daily monitoring how much goes out.

S1 05:17

The purpose of this, though, is to gather information. You're gathering information over time on where your money goes, on where your money goes. As you've heard me say in the past couple of weeks, I've had classes do this for semesters, for 16 weeks in an adult learning environment. And these people came away shocked where they did not realize the places that they were bleeding money, that could be cured, that could be sutured up to make their lives better.

S1 05:53

So, number one, you must begin to monitor succinctly. I don't think that's the right word, but you know what I mean. Precisely, how much money you're spending and on what. And begin to create the pattern picture of where this money is going. Even though you say, "I live paycheck to paycheck," let's find out where it's going. Second, I introduced last week, the notion of being very precise - this is much briefer - being very precise on how much you make. People go around saying all the time, "I make \$37,000 a year," because that's what they were told when they got hired. But the truth is, they got to pay taxes, social security, other deductions from their paycheck. I want to know how much you make, how much that take home paycheck is. You get paid twice a month? I want to know what that take home paycheck is for a year. Twice a month, that'd be what? 24 times the number. Every other week, that'd be 26 times the number, every week, 52 times the number. We got to know what you make. And then, what comes in, if anything comes in. I want you to meticulously monitor what comes in, as much as you monitor what goes out. If you really find that you're not getting anywhere, maybe the issue is not how much you're spending. It's how much you're making, and you should focus on that. People grow, but you have to supplement your income.

S1 07:12

The story of Mikey, a high school teacher, he started a little business, and it's grown to a bigger business than his income in this jumper stuff. I work at three companies. Sometimes you got to do what you got to do, as opposed to just sitting there becoming a victim of it. "Well, I can't do that." Yes, you can. Yes, you can, eventually. Maybe you can't now, because you're a student and a worker and a family member. So, maybe you can't take that second job or find some other way to supplement the income through some entrepreneurial thing now. But you can begin to think about it

when you get that degree. And maybe that degree will help you be more effective in doing that. A focus on how much you make. The first step in how much you make is knowing how much you really make. We got that together?

S1 07:58

I want you to begin to monitor succinctly, definitively, completely, how much you spend. You must be the master of how much you spend. Where does the money go? I don't care if you buy a pack of bubble gum, I want that recorded on the sheet. You go to the movies and you get popcorn, that's on the sheet. You go into 7-Eleven and buy gasoline, and then you step into the store and you buy a hot dog and Coke, I want that hot dog and coke - and I personally hope it's a Pepsi [chuckles] - on the sheet. You follow me? Nothing escapes us, not a penny. You hand your kids two bucks, write it down.

S1 08:44

S1 10:09

get a handle on how many times you eat out. You may not realize what it adds up to. I'm not saying you're going to be able to cut the rent or the car payment or the insurance, but there might be things you're doing that you could have just as much fun doing another way. It didn't bother him to stop drinking soda from 7-Eleven.

S1 10:33

And then, the second part again, to be repetitious, how much do you make? Now, today, we're going to focus somewhat on, or for a little while on, how much you have. So, I've broken this into three segments for you. You got it? How much do you spend? How much do you make? And part three - how much do you have? This is a measure of your wealth, and this is a moment in time. You know our little story, we've talked about this before, that's building your personal balance sheet. This, to me, is vital for your long-run development. Head toward that retirement, head towards college for your kids, head toward home ownership, head towards freedom - freedom and independence. That's what I call building your net worth. Your measure of wealth is what we call net worth. Net worth is a measure of your assets. Just like a company, it's just like a company. All the stuff you have, just like a company - balance sheet in a company, balance sheet for you, same thing. Balance sheet, left side, all the stuff you have: cash, stock, savings, if you got some inventories. Does someone owe you money? Accounts receivable. I'm not saying put the food on there. If you got a lot of food, if you're like a hoarder and you got tons of food, well, I'd put some assets down there for food.

S1 12:31

Things you have, there might be jewelry that you have that's the real thing that has value - that if push came to shove, you could get money for. Then again, your car has value, some. You think about the stuff you have and ascertaining if some-- now, don't make it up. Don't assign value to something. If you have to ask if it has value, it probably doesn't. It should probably stick out. If you got a baseball card collection laying around there, that has value. Even comic books have value. Even a comic book that's fairly new that you paid \$2.99 for, it's not worthless. You got that eBay out there. Boy, the more I look at this eBay, the more I say, "Boy, I got a lot of stuff that's worth money." Hit that eBay up, find out. You talk about generating additional income. I know people who go out and buy trash and sell it on eBay at a decent profit. That's a thing we don't look at. All of this Internet world is rife with opportunities to make money. We got Kaplan radio. A fellow was telling me the other day, and he didn't recall the name of it, but some time ago, not so many years ago, a fellow started something similar - a radio station and now it's a big business, an Internet radio station. It has reporters all over the world, and it was just something he decided to do. I'm going to look into that. That's cool. Way to supplement your income. I'm

digressing, aren't I? But I don't think so. I try to keep it a little bit entertaining so if you get stuck in a rut, you won't be entertained.

S1 14:00

How much do you have? A measurement of your wealth. We call it net worth. On the left-hand side of this piece of paper in your journal, in your diary somewhere, you write down as best you can. It can involve what you have. We'll call that your assets. Here's all the stuff I have: my house, my car, my jewelry, my cash, my 401 K, my savings account. Anything you have. Now, right now, for some of you younger people, you may not have anything. You got to start. Whatever you have, you put down there. If what you have is \$100, you put down there \$100. On the left-hand side toward the top, we put our debt. On the other side of the paper, no, that's on the right-hand side. I'm sorry, did I say that backwards? On the left-hand side, you're going to have all your assets. On the left-hand side, you list all your assets, just like a balance sheet. On the right-hand side, up in that top right side, you're going to start listing all your debt. Right now, your debt may be longer than your assets, but you list every penny you owe to anyone. How much you owe - credit cards, mortgage, car loans, loans to family members that you intend to pay back. Anything else? Store credits, any money you owe, your debt. Did I say car loan? Probably did.

S1 15:28

So, then you got that little section on the balance sheet down there called the equity section, when you're taking your accounting classes. I don't care if you are a business person or not, everybody should take some sort of personal finance class. And in that class, you should demand to understand some basics about financial statements. So, down there in that lower right-hand side is the equity section. In a business, that's the money that the owners have invested in the company. A business has all these assets: cash, inventories, accounts receivable, property, plant and equipment, all the stuff the business has. And that stuff is funded by debt or equity. So, left-hand side, all the assets. Right-hand side, the debt and equity used to purchase all those assets. While on a personal side, you got the same structure. Left-hand side, all the assets. Right-hand top, the debt. And then the equity section is the assets minus the debt. So, if you have \$100 in assets and \$75 of debt, then you have \$25 of net worth. Assets minus debt for personal purposes equal net worth. Equity, see, that's the same way equity works.

S1 16:39

It's conceivable that nearly every one of you listening out there right now has negative net worth. You may have negative net worth. That's okay. Don't panic at that. Lots of people have more assets, or excuse me, have less assets than they do debt. That's not good planning. We need to work that out. That's the objective of the Taylor system. But for now, we got to know where we stand. You got to know how much you spend, you got to know how much you make. You got to know how much you have, or don't have, whatever be the case. If you have negative net worth, that is not a time to say, "Well, I didn't need to do this." Yes, you did. You need to know that. You need to know your financial position. You need to know what you have. And if what you have is way more debt than you have assets, then you might want to start talking to yourself a little bit of, how did I get here? How did I get here? How did this happen? How do I have way more debt than I have assets? Now, today, in this incredible economy, the slide we've had in the last four years is unprecedented. But it could be that your house - maybe you've got a mortgage. Maybe you owe \$200,000 on your house, you got that debt over there of 200,000 and you know your house is worth 100,000. Well, that's going to hurt, right? That's going to hurt, but that's the facts. Best to know the facts. Best to begin to work on the facts. If you got yourself a \$200,000 mortgage on a \$100,000 house, it's time for you to start working on that

mortgage. At any rate, this last stage of knowing what you have is vital, because then you begin to set in your mind objectives.

S1 18:26

Your first mental objective is to say, "I want positive net worth," or, "If I already have positive net worth, I want to grow it. I want to grow my wealth." Look, this isn't mumbo jumbo, this isn't hocus pocus. But I got to tell you, been doing this a long time. Until you establish, inside your mind, this personal goal to increase your wealth with knowledge of where you stand, you can't do it. You're not going to do it. Well, some people just naturally have that Midas - is that Midas, that's his name - touch. Everything they touch turns into gold. That ain't me. Is that you? But once you have a number in mind, say, "Okay, okay, okay, I see where I am now. All right. I have negative net worth \$10,000. Okay, hear mind, hear mind, hear me speak, hear me roar. My mission right now is, five years from now, to have neutral net worth. To not be negative anymore, to have a positive net worth. There we go. I'm going to be up. I don't know how I'm going to do it, but that's my objective. My objective is to some years from now, to have positive net worth, to have wealth." Or even if you have positive wealth right now, to say, "My objective right now in five years is to triple my wealth," or whatever the number be. When you envision an objective and you see the participants, the debt, and the assets, then your body can sometimes begin to take you there if you begin to focus on this objective, this desire.

S1 20:06

This is true in many facets of life, by the way. I'm a financial guy, so I'm not going to take you in other directions, but you can try adapting that to other things. If you can dream it, you can be it. That's kind of what this relates to. There's a lot of truth in that. There's a lot of truth in that. You tell your mind that you want to go somewhere, and there are times your mind simply takes you. Don't know how. Don't know why. Some psychologist can tell you that. Or you can think about it. I bet you and I could be sitting over a cup of coffee right now and noodle that issue, and we'd come up with some explanations as to how that works. How is it if I tell myself I want to do this over and over and over again, I tend to get myself there? It's like a positive affirmation, isn't it?

S1 20:52

I want to know how much you spend. I want to know how much you make. I want to know how much you have. How much do you have? What's your net worth? And begin to set objectives. You follow that? Try and make it clear as I can. Details, detail. My words in class say, "Participate, participate, participate, and when in doubt, participate some more?" I'm saying that about this now, too. This is your life, this is your money. Engage. That ain't just Jean-Luc Picard talking about the engines on the Enterprise. Engage in this. Participate, participate, participate, in your life. Learn these things. Know definitively how much you spend, know definitively how much you make, and know definitively how much you have. I'm telling you, update that journal every day. Don't let a day go by. What could be real interesting, if you make a daily habit, if you say, at 10:55 every day or at dinnertime every day when the family's gathered, or you're there by yourself, if you're alone, "I'm going to bring out the journal and I'm going to record what I've spent today, what's gone out. I've got little notes in my pocket." It's unbelievable, but I found, when I had that objective, it's like losing weight and writing down what you eat every day. That sometimes you don't spend, because you don't want to write something down today. "No, I don't want to. I'm not going to buy that. I'm not going to buy that ice cream bar [chuckles]. I'm not going to go to lunch today. I can take a brown bag lunch. I don't want to put in that thing that I spent that \$5 on lunch." You could begin to redirect your spending just by the process of doing this, of having to fess up that you did these things. There's some

truth in that, guys.

S1 22:46

To me, that's sort of step one, this beginning to get a handle on to becoming this personal accountant in your life, of literally creating documents that summarize what you spend, what you make, and what you have, and then monitoring those constantly. You don't have to do the balance sheet constantly. I do the balance sheet couple, three times a year. Twice a year, for sure. Maybe not any more often than that, but twice a year for sure, because you're looking for trends. If you don't do it much more frequently than that, then you don't know what's happening. Six months later, is my net worth worse? "Oh, man. My gosh, my net worth was \$25 six months ago. Now it's minus a hundred. What happened there? Oh, I see." And if you can say, "Oh, I see then." And if you can say, "Okay, I understand that. I did have to do that. The air conditioner did break," whatever. So, you're monitoring these things.

S1 23:41

Okay, now what steps do I take? How does it work? What's some of the technical stuff? First lesson here, and we've hinted at this before. I want you to understand we'll go into a lot more detail next week on credit use. So, I'm going to save that for next week. It's getting a little bit late in the clock right now.

Credit card use. I want you to understand there are people out there who tell you, "No credit cards. If you want to really be wealthy and do this stuff, no credit cards. Pay off those credit cards. Get rid of those credit cards." I don't say that. No way. You've got to be realistic in life. But I've got some good advice for you next week on how to effectively use credit cards. So, I'll try to hook you in and bring you into that class next week, okay? How you should and can effectively use credit in your life, in a way that lets you use it, but use it constructively, or what I would call correctly. We'll talk about that next Friday. All right? That's today's [?].

S1 24:41

Now, one more topic, one more topic. This week's summary. I want you to know how much you spend. I want you to know how much you make. I want you to know how much you have. And that have will result in a measurement of your net worth, and I want you to set objectives, especially for that net worth. That's it for today. God bless you and keep you. I'll see you next week, same time, same channel. Maybe. Bye-bye.