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S1 00:01

Hello, Kaplan family. It is Friday Focus with Jerry Taylor. I'm very happy that you're here. I hope you enjoy what I have to say. We're staying focused on your personal finance for a little while now. This is part three, where we'll focus on savings. We've covered monitoring, monitoring your "How much do I spend? How much do I make? How much do I have?" Then we talked last week about credit. This week, we're going to roll into savings. So sit back and relax, and remember that these are the opinions of Jerry L. Taylor and Jerry [Tell?] Taylor alone and do not reflect poorly or nicely on Kaplan Radio at all. Well, reflects nicely on them that I'm here, right? Thanks a lot. Let's get on with the show.

S1 00:51

What I want to do, I want to review because everyone doesn't listen every week. So, a quick review. Please bear with me, those who might have been here all along. I want you to understand your money. I want you to understand your money. Kaplan has a personal finance course. I invite you to look into it and get involved in it so you can really take charge of your finances. But here's your personal finance course today. First thing you know what I want from you, I want you to dedicate the next six months to this process. I want you to dedicate six months of your life to getting this in order so as to secure for you and your family the rest of your life.

S1 01:36

The first thing I told you I want you to know is I want you to know how much you spend. This is the review part for those [sitting there?], "Oh, no. He's going to say that again." I'll keep it brief. I want you to know how much you spend. You'll do that by keeping a daily spending diary on which you record every penny that goes out of your pockets, out of your house, whether you spend it in cash, checks, credit cards - everything you buy everyday - so you can develop a real pattern of where your money's going. When people tell me they live paycheck to paycheck, it's often they have no clue where their money's going. And as I've told you, the less you make, the more you need to do this. The less you make, the more control you need to take of your financial destiny. I want you to know how much you spend.

S1 02:33

Second step you recall from the last two weeks, I want you to know how much you make. I want you to know how much you make exactly. Don't tell me how much you gross. Don't tell me how much your employer told you, "Oh your salary's $37,000 a year." I want to know how much you really make. You want to know how much you really make. You want to know how much you spend and then you want to know, by being able to compare that to how much you really make. Then as of two weeks ago, we went into great detail, I want you to know how much you have - maybe that was three weeks ago [laughter]. I want you to know how much you have. I want you to add up your assets, what you have, what the things you have, what their worth, your cash, your savings, your inventories of stuff, whatever you have that might be worth money. Maybe you got some jewelry, maybe you got some guns, maybe you got some cars, maybe you got some stuff, tools - things that are worth money, things you could sell, things that have value and what value they have, your house, your car. I think I said that before.

S1 03:35 Then I want you to contrast that to how much you owe - your debt. At the end of the day, your assets minus your debt equals your wealth, then I want you to make an objective in your heart to year after year after year, increase your wealth. Unless you know how much your wealth is, you can't set an objective in your heart. Once you know how much your wealth is and you set your heart on increasing it, on knowing you're going to measure it again. Just like going to the scales when you are on a weight loss program. Man, you want to hit those scales, you want to know when something is happening. Am I losing am I gaining weight? The same thing in your wealth. You want to know if I'm losing or gaining. If you don't measure it, you don't know. Once you do measure it and you put your mind at achieving certain goals, sometimes your mind and you heart will just take you there.

S1 04:35 Now last week, we focused on using credit wisely. And there we said for you to understand the nature of credit, credit is a medium to long term event. Credit is not to be used to purchase consumable items. Credit is not to be used to purchase French fries. Credit is best used when the terms of the credit do not exceed the life of the product. As examples, I said, "Certainly, you are more than welcome to use credit to buy washers and dryers and TVs and computers and stuff like that - stuff that last longer than the terms of the loan. That's a perfect match. Just like you use credit to buy a house or a car. Credit is good. Credit is useful. It gives us utility. If you didn't have credit to buy a car, think of the places you couldn't go - like to work. If you didn't have credit to buy a washer and dryer, think of the places you'd have to go, like the laundromat, and how much that would cost. Think of the entertainment value of having a TV in there that saves you from being driven to go outside and spend more money goofing around elsewhere. Use credit wisely. And that simply means using it in an appropriate manner. And an appropriate manner is matching the asset life of the thing you're purchasing to the credit facility you're using.

S1 06:10 Yeah, it's okay to finance something for five years that's going to last you ten. Just don't go overboard. When you're using your credit rule, see rule one first. How much do you spend? Credit's great but if you can't afford to make the payment, well, [demand so?] right then. Things could get pretty painful. Use credit wisely. Use credit to purchase those things whose lives match the terms of the loan. For things that do not, you can use credit for 30 days. If you're buying food, folks and fun, you got to be prepared to pay those food, folks and fun in 30 days. You got that? Unless it's something exceptional like a big vacation and you say, "I'm going to take a year to pay for this vacation. I'm going to love this vacation, [reflect done it?] for a year." That's okay with me. But you put that in the program to pay for that vacation within a year. You got that. There's the story this week. That is the end of part one, our review session. 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 I want you to use credit wisely.

S1 07:22 Part two. All right. Once you have a handle on all of this, once you really know how much you make, how much you spend, how much you have, once you feel confident about your applications of credit, I want you to begin to focus - and I want you really to begin to focus today, at the start of the six months. But I want you to really have a handle on it six months from now. I want you to begin to save. "I can't save. I live paycheck to paycheck." Stop it and shut up. That's just like what I say to my students who say, "I'm afraid of math. I'm afraid of math." "Get your head around it. You're adult learners now. You're in college. Don't be afraid of anything." Don't be afraid to save. Don't be afraid to save. Don't let that money burn a hole in your pocket. I don't care how little you make, I want you to start saving now. "I cannot save." Yes, you can. "No, I can't." Yes, you can. You just do it. Was that like a Nike commercial or something like that? You just do it. I'm still in that. They could come and get me right now. I think I hear someone knocking at the door. That's how fast Nike responds to the use of their phrases. Just do it.

S1 08:42 I don't care how much you start off with. I want you to absorb, take in, embrace the concept of "pay yourself first." I want you to take some amount of money now out of that paycheck every time you get it and I want you to put it away somewhere. I want you to put it in a bank. I want you to put it in an account that you can't get to easily. Heck, if you are not disciplined enough, then I want you to find the way through your employer or somewhere. You do the research right now to go start buying U.S. Savings Bonds. That is a pathetic investment: - US Savings Bonds. But once you've bought them, they're hard to get rid of. You can't just go the closet and get the savings bond and head down to Kmart or Walmart and spend them. So, if you have no discipline, then you go buy U.S. Savings Bonds every paycheck. Every paycheck. Lots of employers have used to, anyway. Do they still? Check it out, let me know. Lots of employers had payroll deduction to buy U.S. Savings Bonds. Find out if your company does. If that's what it takes, do it. Pay yourself first.

S1 09:52 Look, here's what I'm telling you. If you really are scared, then here's all I want you to do. Every time you get paid, I want you to get $5. $5 from your paycheck. Come on, $5. And I want you to put it in a savings account. Maybe your bank won't open a savings account for $5. I don't know. I bet a credit union would. If you're telling that it's a savings, I bet you already have like Christmas clubs or something like that where you can put any amount in you want. Check it out. I want you to start a life savings account. I want you to commit to putting $5. "No, I want it to be more than the $5. Don't take me to task on that number." I want you to do 25. Sure, I want you to do 25. I'm just saying. I'm just saying if you are telling me, "I can't do it". If you think $25 is more money than you ever saw in your life, then okay, make it five. But I really would like you to make it 25 every single time. And when that money is gone, you kiss it goodbye. "Goodbye, money. This is my permanent savings. This is for my future. This is for my future needs. This is for a house someday. This is for college education for my kids someday. This is for my retirement someday. This is for really, really, really, really bad times."

S1 11:20 Really bad times don't come along as often as you think. Just because you think you want a new coat or even because the car broke down, that's not yet bad times. You don't dip into these savings for anything like that. You find other ways in your cash flow and credit use to accommodate those things. You can charge a car repair for a little while. That's not food, folks and fun. But it's also not permanent financing. I don't look for you to repair your transmission and take 20 years to pay for it. Get it done in two years. Save. Save. Save. Now here's the deal, put that $5 - $25 - into that permanent savings account every pay. Feel it. Feel good about it. The "pay yourself first" concept. This is my money. This is the money I really earned this paycheck. I'm sticking it away. It's mine. It's mine. Pay yourself first. Put it away. Let it build.

S1 12:30 I've had students contact me with regard to this topic - because I've been proposing it for many years - who were shocked. Now, they weren't putting $5 away, but some reasonable number, and they would contact me a year or two later. I've been around a long time. I've been teaching 31 years. I've been here at Kaplan seven. I've been teaching online for, probably, man, 14 I think. Really, I keep telling people 10, but the truth is it's probably even more like 14. So I hear from students from long ago, because people like me. Isn't that weird? They'll say they can't believe how much money they have. Putting 25, I've got to admit, I don't think I've ever heard from anybody who put five, but I did hear from a student who put five. Who put five away, and a year later they said, "There's $63 in there." For them, that was more money than they'd accumulated in a long time. They were delighted.

S1 13:25

But you put $25. If you get paid twice a month, got that? I'll just use that as an example. You take $25 of pay and put it into your permanent savings, you know that's $50 a month? You know that's $600 a year? In five years, you'd have $3,000 plus interest, which could amount to quite a bit if interest rates ever return to normal. If the government gets off our back and lets us go, and lets interest rates come back to where the kind of returns we deserve. We've got to do something about these government guys. So, $600 a year five years later. Figure that out. $3,000 plus interest. And if you're putting that money into the stock market which I'm going to tell you to do later or pretty soon, 3,000 bucks. If you're young, that money ought to be in equities. We'll talk about that in a minute.

S1 14:32

My point right now is how much you can accumulate over time. One of my students sent me a note today. This was in-- you know why we have these writing assignments at the end of the term? I teach several finance classes at Kaplan, and this particular topic was a part of our ongoing conversation in this particular class. I may have the numbers a little bit up, but not much. And a student told me he had not given much thought to that but he remembers long ago his father telling him that very lesson - to save. Told him the importance of saving. He said his father told him they had set aside in all sorts of fashions money in a certain account over the years and what had happened with it. The student told me - so I've got to think this was equities and he didn't say how long. I got the impression it was over a very long period of time. But he said that the father, in fact, had invested over some period of time $16,000 in an account that was now worth $180,000. $16,000 he'd saved over some period of time that was worth 180. Now, I know that must be a mutual fund, that must be a stock to grow, and we don't know how long. That could have been a 40-year process. So over that period of time, that is true, my golly, it can grow by that kind of money, by that kind of an amount.

S1 16:06

So he's taking this lesson in now - this lesson his father taught him long ago and it's been magnified by my class, and he's going to begin. I'm telling you what. I know for certain, five years from now, he is going to be amazed. And my friends, do you know how fast five years from now is going to go by? Do you know how soon it's going to be five years from now? Time flies. Well, time flies for your money, too. You got to start today because time just keeps flying. If you keep putting it off, if you keep waiting, it's never going to happen and you'll not have those building blocks to get the kind of gains that my friend - my student - talked about with his father. You got to save now. Save now. Now. Now. Now. Next paycheck, go to the bank. Do you have a bank? I hope you have a bank. Go to your credit union. Tell them what your strategy is. "I want to start a permanent savings account, and I am going to take so much on my paycheck." Maybe they can do payroll deduction. Maybe they can take it right out of your paycheck. Maybe they can take it right out of your checking account - automatically deduct a certain amount of money from your checking account every month. My bank can do that for sure. My bank can deduct a certain amount from my checking account every month and put it in a savings account.

S1 17:27 At the beginning of this year - we talked about this earlier - taxes went up for everybody by 2%. So if you made $100,000 a year, your tax has went up $2,000 a year. And if you made $50,000 a year, your taxes went up $100 a year. Say your family's income was $50,000 in total. That maybe a little high - I don't know what you're making - but that's the average wage of the average family in America right now. So the average person is paying $1,000 more in income taxes. That's nearly a $100 a month. Now, I have not seen people riding in the streets because on average, a $100 a month is out of their paycheck suddenly. I have not seen it. Now, you know the economy - I'm an economist too - the economy will be affected. That's a huge drain in consumption, but I don't see people riding in the streets. I do see a little slow down in the economy, but I don't see riding in the streets. So, just take it the other way. If you could survive a tax increase of $100 - and believe me, taxes are going to go up even more. If you can survive a tax increase of $100, why can't you survive a personal tax increase of $100?

S1 18:41 What if you would have said, "I'm the IRS. I'm the tax man. I'm going to tax myself for my "pay myself first" and I'm going to save $100 a month out of my paycheck." Okay, I know I'm inching it up on you. I start at 5, I go to 25 and now I'm at 50 you pay or whatever, $100 a month, but just think about it. $100 a month. At the end of the year, $1,200, oh my gosh. Five years later you'd have $6,000 plus interest. That would be significant. Wouldn't that be amazing? That's the kind of story I hear from students. We started this five years ago, Mr. Taylor. We have $10,000 in that account now. We've never had $10,000 in our lives. It's unbelievable. We feel so great about this. Once they start, they just feel driven to do more, and that's the next part of this lesson.

S1 19:34 Once you've begun the process - once you've begun to pay yourself first - then I want you to regularly give yourself a pay rise. Did I say raise correctly there? Give yourself a pay raise. You got that? Every so often, once a year if it has to be, every six months, whatever time. If you start low, if you start with $5, revise the idea every month. If you start with five dollars every month, increase it by a dollar. How about that? If you start with $5 this month, next month make it six and see if you die. If you don't die, the next month, make it seven and see if you die. And if you don't die, the next month, make it eight and see if you die. You get the idea? Twelve months later you'd be at what? $17 a paycheck? 12 months after that you'd find yourself at what? $12 [later?] you'd be at near $30, $29 a paycheck. Try increasing it a buck a month until you die. And if you die, I forgive you. Then okay, you don't have to save anymore. If you're dead, all bets are off.

S1 20:51 Find a way to give yourself a raise. Increase your savings by a little bit often, or by a significant amount annually. If you don't want to go with a dollar increase a month, then, do you see where it hurts? Then, every six months increase it 10% or 20% or something like that. If you start with $25 a paycheck, six months from now, make it 30 and see what happens. A year from now, make it 40, whatever number. Again, until you get to some point where you say, "No, we can't pay the electric bill." I bet you can. You'll accommodate things. This is called the savings rate, and this is something we need to work on in our country. We are poor savers in the United States of America. We need to increase our personal savings rate. I would like to see everyone-- we talk in the Biblical sense about tithing. The concept of tithing was invented before there were taxes that paid for all the welfare systems we have. So I would debate the religious mandate to tithe anymore based on that, even though I am a church-goer man and I put money in the basket every week. God's concept of tithing preceded taxes that were used for the sake of supporting people. Taxes back then were simply for the sake of supporting Caesar and kings and wars and nobility. They did not feed the poor, they did not provide welfare, they did not provide school, they did not provide health care services to those less fortunate like your taxes do now.

S1 22:33 This isn't a debate on tithing, but I'm saying you can tithe yourself, too. "I can save 10%." That would be a great objective someday to ultimately save 10% of your income every single year. You'd have a savings rate. If everyone could do that, you'd have a savings rate in our economy that would be tremendous. It'd be a tremendous value to our capital structure and to our ability to pay debt, to fund new capital projects. What you save is what other people invest. When you deposit money in the bank, the bank lends that money to other people to do things with. That's what makes an economy grow, that's what stimulates an economy. You see that point? That's what make things tick. In an economy that - your savings - is what makes things ticks. You're the sole source of saving. The government doesn't save. "Oh, God. If only the government could save. Save us from the government." But it doesn't, that's it’s not its mission to save. It’s your mission to save. What you save becomes the capital formation of our nation. So this is a very patriotic thing to do on top of everything else. You know what mean? It’s really is. Find an economics professor someday and talk to them about the savings rate and the benefits of savings.

S1 23:55 That's my lesson for today. Time is waning, waxing. Which way does it go when it's going away, waning or waxing? I never was good at that waning and waxing stuff. We've gone down a list of things. Today's topic, save, pay yourself first, how to start. Next week's topic we'll stick with saving. Next week's topic will be how to invest that money. We're going to talk about 401(K)s and IRAs, mutual funds, exchange traded funds. We'll talk about the stock market in general, and we'll talk about the bond market a little bit. We'll talk about interest rates, we'll talk about rates of return.

S1 24:41 All right, then. Thank you for listening. That concludes part three of our four-part series. We've covered your money, we've covered your credit, today we talked about savings and next week, we'll move on to investing. I hope you have enjoyed and will enjoy next week's conclusion. I appreciate your listening, I'll see you next week same time, same channel. God bless you and keep you. Bye-bye.