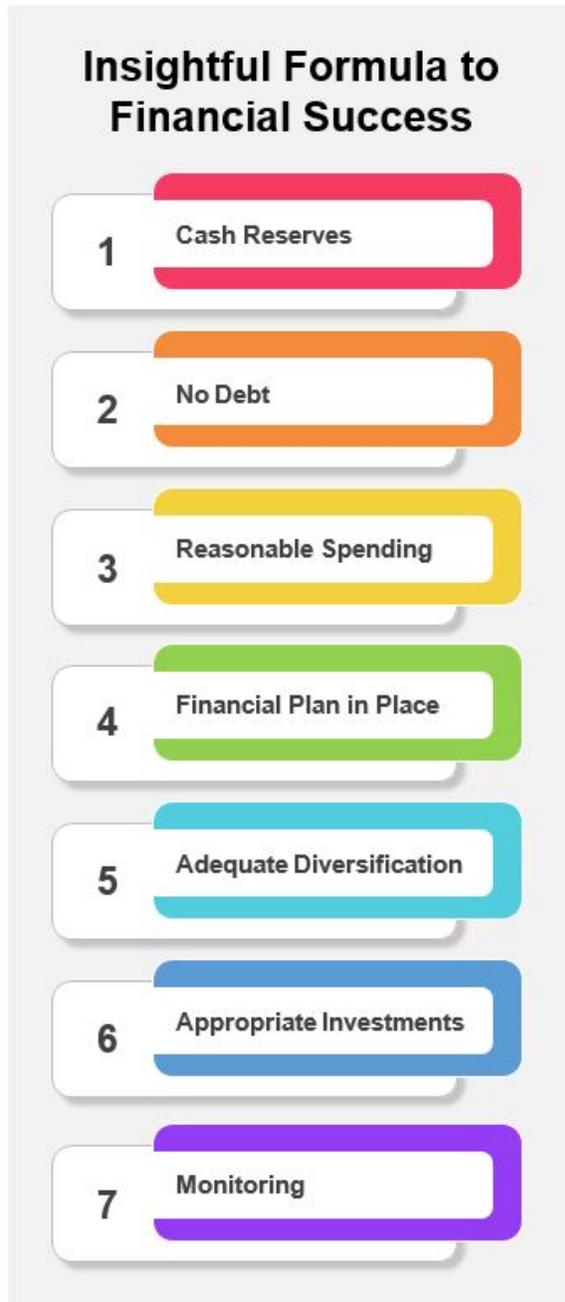


Insightful Formula to Financial Success

Written by: Wanda Delgado (245708)



There is a fairly simple formula for financial success that I have been using during my 30+ years in this industry and I'm going to give it to you. In fact, we've put together a graphic (pictured on the left) to show you the secret sauce...

Yep! It's the same few things I talk about at every client meeting, in practically every newsletter, and inevitably at just about every social gathering. Although you may have heard or seen me discuss these topics before, it is always important to have a reminder. We've already covered Part 1 – Cash Reserves in a previous issue of The Loop, so let's move on to **Part 2 – No Debt ...**

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Debt Dragon

Insightful Formula to Financial Success, Part 2

Credit cards, borrowing, loans, mortgages, liabilities, obligations, liens, indentured. Owing money can be more complex and dangerous than it seems. Let's explore a few words on this subject.

"If you think nobody cares if you're alive, try missing a couple of car payments." -Earl Wilson

This is the part everyone knows: When someone borrows money, debt is created and it takes on a life of its own. Debt repayment turns into instant higher overhead. It's predictably inflexible and is a drain on earning power – and often one's personal freedom. The biggest problem is that naïve borrowers focus only on the cash they borrowed and momentarily on the items they bought with the loan. That monthly payment may sprout into a larger payment if the interest rate changes; and it can mushroom if the borrower allows it to compound by making minimum payments – like on a credit card. That debt has a claim on the paycheck and the borrower does not have the power to change the terms. Unless he pays off the balance.

This is the part everyone should know: Debt is re-paid with after-tax dollars. A hypothetical \$10,000 borrowed and spent must be paid back with another \$3,000 of earnings to pay the 30% marginal income tax. Yes, and then there is the interest. That must be paid back with after-tax dollars too. Mortgage interest on a home loan may be deductible, but then, it may not under current tax law. This detail can be the thing that wrecks someone's cash flow as they have to earn the repayment, the interest AND the income tax to repay the loan.

This is another thing everyone knows: If the borrower can't repay the loan, the debt doesn't go away easily. Collection agencies may be relentless in their pursuit. Yes, bankruptcy is an option; and it costs money to file BK. There's the court filing costs and attorney fees. A chapter 7 bankruptcy stays on credit reports for 10 years from the filing date. Failure to repay fouls up the ability to obtain credit at a decent rate for up to 10 years.

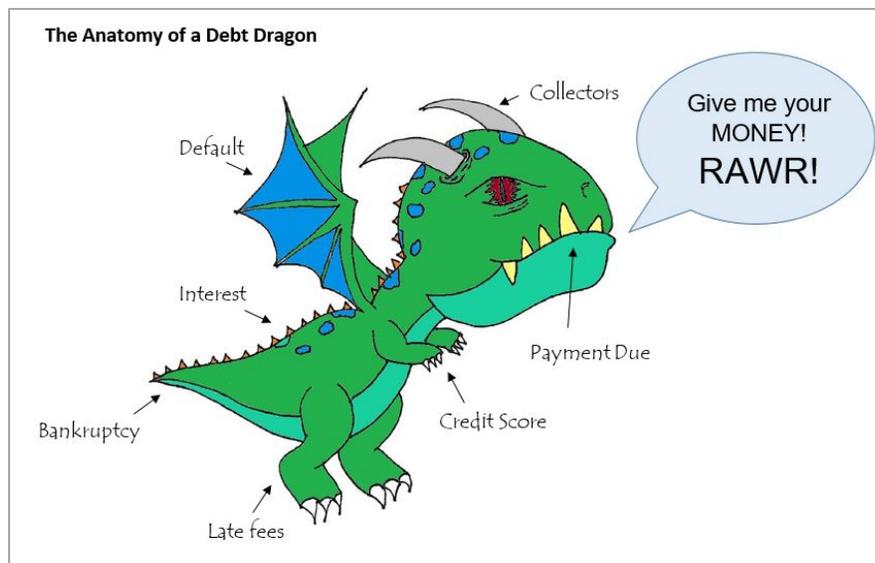


This is another thing everyone should know: Even if the lender goes out of business, that bad loan has value to someone who thinks they can collect. There is a market for those bad loans, and they outlive the defunct lender. The borrowers still owe the balance of the loan. A failure to make repayments in good order, or worse, a bankruptcy may ruin career prospects. Many industries monitor the credit history of its licensed or credentialed members. (Ours does.) A bad credit record could mean a loss of a precious license and a good career.

Yet another thing everyone knows: Smart borrowers stay away from taking out loans to pay for short-term needs or wants. Save cash for that vacation, restaurant meals,

tickets to theme parks, or awesome shoes. By the time the payment is due, the vacation tan has faded; the next meal is on the table, etc.

Yet another thing everyone should know: If taking a loan is necessary, match the liability with the asset. Borrow for those things that last and can build equity: house, automobile, or business equipment. Taking a 5 year loan for a solid automobile with a competitive interest rate can be a good idea; taking a 10 year auto loan – not so much. If the cost of a restaurant meal lands on the credit card, pay off the card when the statement arrives. If the payment is too high, learn to cook at home.



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