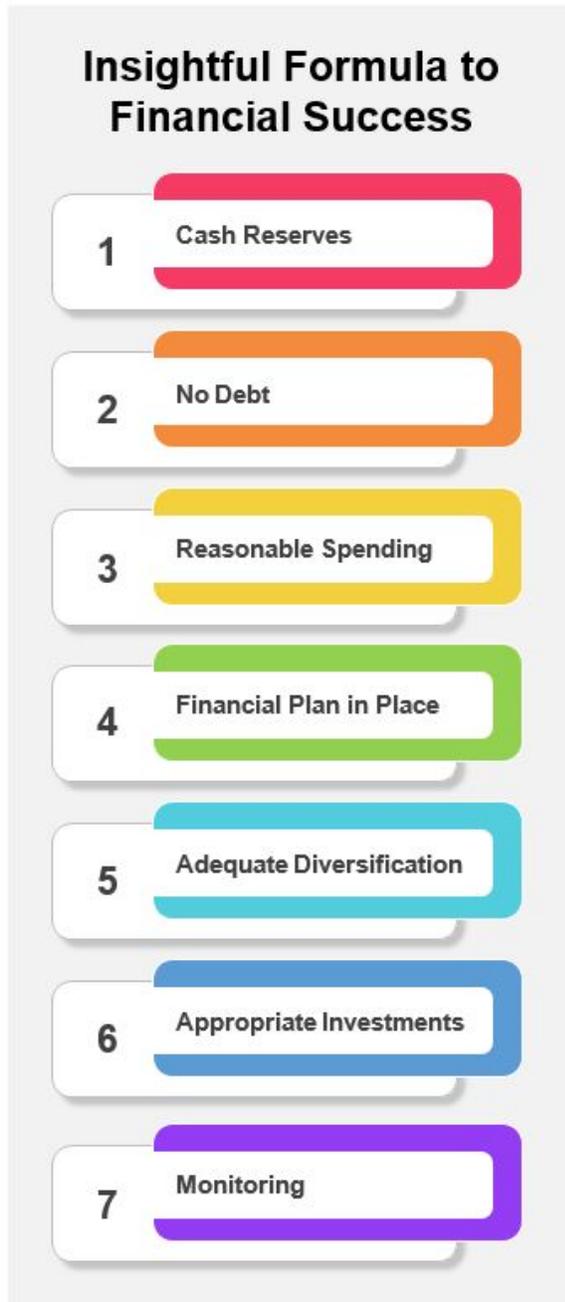


Insightful Formula to Financial Success

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 Cash Reserves and No Debt in previous issues of The Loop, so let's move on to Part 3 – Reasonable Spending ...

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Reasonable Spending

Insightful Formula to Financial Success, Part 3

Spend less than you earn – that’s all you need to know, isn’t it? Not so fast. “Reasonable spending” can be sabotaged by a number of sneaky things. Most of them are sneaky things people do to themselves. The sneaky things are only outdone by the outrageous things people do. If this topic seems a bit too tame for you, read on for a bit of bemusement, if not shock value.

Sneaky lack of awareness

A lovely 25 year old asks her parents for money because she needs to buy a washer and dryer to do her laundry. Her parent wisely responds that what she really needs to do is gather a fistful of quarters, pack up her clothes, gather laptop and cellphone and take herself (term actually used: “happy behind”) to the laundromat. This young person had not sorted out the fact that she had more time than money. She could only see the inconvenience of having to visit the laundromat.

Outrageous lack of discernment

A young (trim and fit) friend relates how he had to purchase a \$400 shirt as the shirts of “brands with lower price points” did not fit well. As he said this, one thinks, “How about an \$80 shirt and a \$25 tailor treatment?!” This individual had not thought through reasonable options and overpaid 4 times as much for the desired outcome.



Famous and bordering self-destruction

Johnny Depp shows that taking in an outrageously massive income can be undone by outrageously massive spending. The talented actor has managed to evaporate almost all of his \$650 million net worth on mansions, old guitars, Andy Warhol artworks, designer clothes, luxury cars, private jets, a few islands in the Bahamas and vintage wine. After receiving \$48 million in 2016, paying the taxes and agents, Depp spent \$200,000 per month for the private jet and the famous \$30,000 monthly wine bill (and few other things). Add some sloppy business management and late fees to the IRS, and the fortune is almost all gone.

Full disclosure: the examples above are true, and not my family or clients.



How do you know if you are UN-Reasonable?

You will have outstanding credit card balances and they grow. Or, you will take on other types of loans. This means your net worth is being cannibalized by the growing debt to fund the spending. You just keep getting poorer.

How do you get to be Reasonable?

First, make an accurate list. Note the word “accurate”; it means being honest with yourself.

A good start is to look at the last 3 months of credit card statements and the checking account statement (banks provide copies of checks written with the monthly statement). You start to see where all that money goes. Even if you don’t spend all you make, spend some quality time with your list. If the word “Budget” makes you shudder, do this: Prioritize the most important things you spend money on. See if you can’t dump the less desirable things that eat up your money.

These categories can get folks into a tight spot



Shelter: This is fixed overhead and hard to reduce. Rent, mortgage principal, utilities, insurance and HOA fees are after-tax costs. You must earn enough to cover any payroll taxes (7.65%), federal (22% - maybe higher) and state (8%) income taxes. This usually means 30% or more! \$2,500 per month means you must earn \$3,571 to pay for shelter.



Food and beverages: Dining out costs at least \$26 per person for dinner with an entrée, a few veggies and an iced tea. More with wine/beer, salad and dessert. This means \$1,578 a month per couple (Or \$2,254 after tax!). Breakfast and lunch are not in the math at this point. If you can cook and can limit the gourmet items, dining at home is a lot less expensive than dining out.



Transportation: Auto payment (auto leases are often the best way to overpay for a car), insurance, fuel, repairs, parking and toll roads. By the way, parking tickets are taxes on folks who can probably least afford it.



Communication: Telephone/cell phone and internet access. You must keep working smarter to have competitively priced plans.

We have a comprehensive expense list named “Cash Flow Worksheet” on our website. You can find it here: www.insightfa.com/client-tools/. It’s free, and private. No one will know you looked at it, or downloaded it. Good luck.

“Too many people spend money they haven't earned, to buy things they don't want, to impress people that they don't like.”

— Will Rogers

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