[0:00:12] ST: Welcome nation to The Financial Rockstar Show. I'm your host, Scott Alan Turner ready to help you get out of debt, save more money and retire early. In the studio with me is producer Katie who's constantly on group text. On the show today, we answer your questions about money, business and life. If you have a question you'd like to get answered on the show, visit goaskscott.com.

We are in a series called The Seven Deadly Sins of Financial Freedom. Yesterday in part two, I talked about the meat sweats and how I feel like a glutton after eating out at the buffet. You're going to want to go back and figure out what the meat sweats are so check that out. Today is part three. We're talking about what I feel like when I drive by the gated section of our community and I see the multimillion dollar homes up on the hill — envy.

According to a study done by Yahoo Finance, over 43% of Americans live beyond their means. Now I'm willing to bet that many of these people do this to keep up appearances. They want to appear richer than they are to others. But why? So I found the definition of Keeping Up with the Joneses online. It's this: "To always want to own the same expensive objects and do the same things as your friends or neighbors because you are worried about seeming less important socially than they are."

Now, what that means is a comparison of yourself, to your neighbors, to your family or to your friends. We use them as a benchmark for our own social class or how good we're doing. If we fail to keep up with the Joneses somehow, it's perceived we're inferior to them or we're on a lower wrong of the social ladder like, "Oh Sam next door has got a new Corvette but Sam's only a plumber. I'm the vice-president of sales down at the shoe store and I am driving a Pinto. That's not right, I'm way above his pay grade!"

And then that person goes out, takes out a car loan for a new Mercedes. Or, "Tabitha got a Coach purse for her birthday, honey. A Coach purse! I can't be seen with this $40 Target bag anymore, what will people think?" Now envy is a desire for other people's status, their possessions or even their abilities. You've probably heard the phrase "green with envy" but when it comes to possessions we really envy other people's green, as in money or stuff.

We use this phrase to focus on people's exteriors, their looks, their appearance, jewelry, fashion, hair, nails, cars, what kind of booze they keep in the fridge or their cabinet, where they eat. We cannot escape it in the consumer society we live. Every day, we are inundated with advertising pitching us the latest stuff that we cannot live without. They desperately want us to buy this junk and people who seem to be wealthy and well to do desperately want us to pay attention to them.

But rarely do we look inward and ask ourselves, "If it's us who are trying to keep up with the Jones's. Are you?" When we try to Keep Up with the Jones's, it isn't that we're trying to buy Aston Martins, Land Rovers or BMW 7 series car like the 1% of people who might actually be able to afford these purchases. Now, we're trying to keep up with Sam the Plumber who has a Corvette with a $500 a month car payment and an empty savings account and no retirement.

The Joneses are broke people, they have no money. It's all a façade. If we could peer into their bank accounts, we could see a bunch of zeros. We'd see three zeros in fact, zero dollars and zero cents. Their investment account would be 100% funded by social insecurity. The credit card balances and overdue bills would make your hair stand on end. Most people live beyond their means. 30% of the country has no savings.

One third of people aged 30 to 49 have more credit card debt than savings, according to a survey by Bank Rate. When you see that Corvette or BMW on the street, the bank owns it. The house your neighbor lives in, the bank owns it. A Coach purse, the new haircut, the dinner at Ruth's Chris steak house, a bottle of Grey Goose Vodka, all paid for on credit.

We are struggling to keep pace with people who are living beyond their means. The nicer car, the bigger house, the latest iPhone, these are all things that will kill your finances if you live beyond your means like most people do. They cannot make you happy when you're living paycheck to paycheck and this is something people making $250,000 a year, $500,000 a year, they all struggle with it too.

It's not an issue of income, it's not an issue of how much you make. People who are high income earners like doctors, lawyers or business executives, they get foreclosed on too. They're trying to keep up with their circle of "rich friends" who are just as poor as they are. Overspending on stuff will drag you down financially. The only way to break out of the cycle is to look inward and let go of the pressure to have the latest, greatest and the most expensive stuff.

If your friends only value your friendship because of the stuff you own. I would argue that isn't a good friend to have. If you have friends that stick with you through good times and bad whether you're rich or poor, they're your friends for life. If you want to live a happy stress free life, forget about the Jones's. Focus on the people who love you for who you are and what you are not what you possess.

So here's our tips on how to live happily: number one, recognize that the Joneses are broke. They're going to have to work until their dead because they can't save a dime. Next, rethink your purchases. Is it worth going into debt or overspending to impress people you don't know or care about and finally, spend money on experiences. Occasions or things that build memories, those are valuable purchases. They provide real happiness.

Now, onto your questions. Rafael asks:

[0:06:31] R: "Besides index funds and ETF's, what are some other great investments that we can dollar cost average to become wealthy? What are your thoughts on whole life insurance as an investment for banking on yourself and collecting tax free dividends? What other financial investment or tools can we start putting money into so that it can help us become financially rich and independent such as CD's, TIPS, municipal and treasury bonds etcetera?"

[0:06:58] ST: First, whole life insurance is a terrible investment. If you need life insurance to protect your family, get term life insurance. Much, much cheaper and with the difference you pay in price between the term and the whole, you can invest that difference and come out way better in the long run. Plus, you control the investments and you won't lose the money due to the rules and exclusions written into my sight in the whole life policy.

Smart Money Magazine reports 25% of people who buy life insurance, whole life, stop paying on the policy in the first three years. By the ten year mark, it's almost 50% of us who quit paying.

The cat says, "Don't buy whole life insurance". So half of us paid 10 years for something and get nothing out of it yet it cost way more than term insurance does.

The people trying to sell whole life do so because of the fat commissions they get on it not because it's a good product not because it's good for you. It's good for them. It's a bad investment, plain and simple. CD's, a complete waste of time, in my opinion. If you have cash or short term savings, I would put it into an online savings account turn a little addressed. Now, it won't keep anymore cash on the hand than you need in the short term. Everything else should be working for you in stock market otherwise, it's not keeping pace with inflation. CD's used to be nice when they are paying out a decent interest but it hasn't been that way for as long as I can remember. I don't own a single CD, I never have.

Bonds, some people will say to be a 100% invested in mutual funds. Investing in bonds will give you a hedge against the stock market tanking. It gives you a more diversified portfolio and preserves some of your investments when the stock market it falling. That's more important for people approaching retirement than young people. Bonds also provide a predictable income stream. That's important in retirement when you're not pulling money out or when you are pulling money out to pay living expenses. For younger people, there is no reason to be investing in bonds, at least heavily.

Another good option if you don't want to buy real estate is to invest in Real Estate Investment Trust or RET's. A RET is a type of security invested in real estate but they are liquid like a mutual fund. Investing in RET allows both small and large investors to buy ownership in real estate ventures. So you are buying into the ownership and operation of properties like apartment complexes, strip centres, hotels, hospitals, office buildings, timberland, warehouses, hotels or shopping malls.

RET's provides diversification and they allow you to invest with dollar cost averaging and since real estate land and buildings aren't directly correlated to the stock market, when the stock market goes down, the RET's don't necessarily follow the trend. You can also invest in International RET's for oversees real estate. The downside of RET is you have to do your homework and analysis to figure out which ones to invest in but putting in a small portion of your investments in them is a good way to diversify and get into real estate without becoming a landlord. Thanks for the question Rafael.

Tom writes in:

[0:10:00] T: "I found you through Pat Flynn's Smart Passive Income Podcast, I'd say the truth is, I haven't even listened to the interview yet but clicked the link to your website and I couldn't get away. I love the simplicity you write with and how you addressed my pain, where a start. I'm getting ready to invest but didn't know where to start. I have opened two Betterment accounts already today. One for myself and one for my wife. Your blog made it easy for me. I look forward to continuing to follow you. Have a great day."

[0:10:28] ST: Now nation, I set very high standards for myself. I got Tom's e-mail and in his signature, he included a link to his website. I of course can't resist looking into someone's website, so I hopped on over and I immediately was impressed. Clean site, good colors, easy to figure out what Tom's of business is and what he does. Someone who not only has a good business idea seems to be executing it properly and making money at it.

Now Tom's website is motorhard.com — motorhard, link in the show notes. If you're a contractor and I know some of you are, you are a contractor in the service industry, Tom will show you how to make more money in your business. Now at the time I got this e-mail, I hadn't met Tom personally. I know very little about contracting or Tom's products. Tom isn't paying me for endorsement but one thing I do know. If you want to be successful, you do what successful people do.

I probably sound like a broken record when I say this, probably. That's because repetition is the mother of skill. The more I repeat myself, the more I will convince you to find a successful person in your life and do what they do if you want to achieve the same results. If you are a contractor or you are married to a contractor, if your brother in law is a contractor, if your neighbor is a contractor, go find a successful contractor and figure out how they became a successful contractor.

Or go visit Tom's website, motorhard.com, he's got free training and free is good. I am not endorsing him but he seems to know what he's doing and I want to pass along thatto you nation so that you can pass it along to your contractor friends for them to check out and if you are someone who has the skill set, look at how Tom created a business out of taking what he knew, what he was an expert in, contracting, and teaching others to become more successful in their businesses.

I love that initiative. It is a business model that works. People will pay you to help them avoid mistakes. People will pay you to help them get started. People will pay you to show them how to make more money at what they already do. We are all an expert of something. If you're not, become one and someone will pay you for your expertise. Thanks Tom for the e-mail.

Debra has $150,000 in student loans, $53,000 in credit card debt and is currently making $32,000 a year.

[0:12:55] D: "I lost my job and I'm working odd jobs to get by. I am behind on my bills and my mortgages and I'm considering filing bankruptcy. Is there any way to get student loans included in the bankruptcy?"

[0:13:06] ST: It is possible but it is quite difficult. If you have an undue hardship, you might be able to get some relief. Most courts rely on what's called the "Brunner Test" to evaluate if someone can demonstrate undue hardship and an inability to pay off their student loan debt. The Brunner Test consists of three requirements the court is looking at.

Number one, you cannot maintain based on your current income and expenses a minimal standard of living for the debtor and dependents if forced to pay out student loans. Number two, additional circumstances exist indicating that the state of affairs is likely to persist for a significant portion of the repayment period of the student loans and number three, you have made a good faith effort to repay the loans.

So if you meet those three criteria, you may qualify. Again, it's very difficult to get the loans dismissed but the court will look into your unique situation and circumstances. It's important for you to weigh if you should file for bankruptcy. For federal loans, there are income related deferment programs and forgiveness options available. They've been introduced in the past several years.

If you have low income or hardship, you might consider income based repayment, IBR it's called or pay as you earn, PAYE, those programs, those might make your situation more manageable. Additionally, it makes meeting with criteria for the Brunner Test more difficult. You've got to weigh your situation against what you think you can accomplish with your current and future incomes. Bankruptcies are there for a reason.

If you think you're never going to get out from under your debt, your bills are never going to go away and you could never reasonably pay them off, you might consider bankruptcy as a last resort to get some relief. Even if you don't meet the requirements to have your student loans discharged, getting out from your other debts frees up your money to pay off the student loans. Just remember, in the end always work with a qualified bankruptcy attorney. Thanks Debra for the question.

If you have a money related question you would like answered, please visit goaskscott.com to get in touch with me. The website has my e-mail address, Twitter and you can also leave me a voicemail. Please contact me, I am here to help you.

[BREAK]

[0:15:20] ST: This is a Red Alert. Have you heard of magic beans? So there is a story out there called The Magic Bean Scheme. It's a pyramid scheme which we talked about pyramid schemes in episode 12, but this is a pyramid scheme run in Oklahoma by some very, very creative folks. The idea is, these guys or gals, I don't know were selling a certain type of expensive bean.

You take these beans, you put them in a jar of water and then after several weeks, the beans will produce this bean juice that can be resold for a large profit. And according to the scammers, the key was, you have to shake the jar every few hours to get the desired result, to get this desired bean juice.

Now, with pyramid schemes, the scammers start off by putting in some of their own money and the first few people that they get involved, they pay out some money and then suddenly they're like, "Oh we're making money from this magic bean juice," and then they go tell their friends, it multiplies, suddenly everybody is like, "Oh, we're going to make a fortune with this! This magic bean juice."

There were stories that husbands and wives would be setting their alarm clocks for midnight, 2:00, 4:00 in the morning, hit each other in the elbow going, "Hey, hey, wake up! You've got to go and shake the beans. You've got to go and shake the bean juice. Shake the jars." Well, one day after these guys sold a bunch of their expensive beans, they disappeared into thin air with all the money. It was all gone.

Then everybody who had fell for the scheme were like, "I lost all my money but they've got all these jars of worthless beans and worthless bean juice. Oh my goodness and there are still stories today of the magic beans in the massive quantities of money that could be made with them. Folks, if it sounds too good to be true, it's probably too good to be true.

There are all kinds of pyramid schemes out there from JC who lost $2.1 million in episode number 12 to Iraqi dinars, we'll be talking about those upcoming in another episode and even if you live in the great country of the United States. We have a giant pyramid scheme here that you probably participate in. It's called Social Security.

Now, back to your questions. Rich owns a retail store and is thinking about getting out of the business and selling it.

[0:18:00] R: "How should I go about determining what to sell the business for?"

[0:18:03] ST: So I have gone through the selling process of a business and the merger acquisition process a couple of times and there are two prices you need to come up with. First is called your book value. Book value is, if you sold all of your assets, paid all your creditors, paid your vendors, sold the inventory, everything just liquidate it. Just close the doors and walk away. How much money would you end up with in your pocket?

For example, let's say I own Scott's Cupcake Shop and we have assets of a $100,000 and total liabilities of $80,000. The book value of my company is $20,000. In a very broad sense, this means that if I sold off all my assets like ovens, my refrigerator, my leftover ingredients, my delivery truck, my signs, my cash register, paid down my liabilities, everything that I owe to the bank and my vendors, the equity value or the net worth of the business would be $20,000.

Now the next way that people value business is a multiple of the adjusted net income. You look at the total cash produced each year minus what it would take minus what it would cost to hire a manager to run the business. So let's say that Scott's Cupcake Shop makes a $100,000 in profit each year. And I have to hire someone at $40,000 to manage the store each day. The investors look at their turn of $60,000 a year not $100,000. It may not seem fair but that's how it works. If you run the business full time, you have to replace and it will cost money to replace you.

The value of the business will be so multiple of the adjusted net income for the past three years typically. Multiple depends on the type of business, its location, its profit history, a business with a strong growth will have a higher evaluation than one that's in decline or flat. Multiples can vary from a 1.5 times to six times the adjusted net income and it's everywhere in between and sometimes, over.

Facebook, they bought a company last year called Oculus Rift. It's a virtual reality company. Oculus Rift has zero net income but Facebook paid $2 billion — billion with a B as in Boy — Facebook paid $2 billion for that company but what they're buying is the technology and the patents and the employees. Now, most of us aren't in that situation so just stick to how much profit you are making.

For Scott's Cupcake Shop which had a profit of $60,000 a year after we hire a manager. If I got an offer of $180,000 to sell that, that's a three times multiple. It's pretty good for a retail shop. If I sell, I make it one transaction in what I could have made in three years of continuing to work with the company if sales stay the same.

Now, there are consulting firms you can hire. They will look at your books and they will come up with a valuation of your business for you. It is an excellent investment to hire one of these companies. The consultants will tell you of what they think of your business and it's potential.

Those numbers help you decide if the offers you are getting for your business are low, spot on or high.

I've been through the process where you have an independent third party tell you what your business is worth, it makes your decisions a lot easier because it takes out the guest work. It takes out all the emotion. A lot of us think our businesses are worth way, way more than they are because we built them from scratch. An investor is detached. They're just going to look at the numbers to make the buy decision and that's kind of what we have to do as well.

When you get ready to sell, never ever ask for a price. A potential buyer should present you with an offer for what they are willing to pay and then you negotiate from there. You put an ad up on Craig's List, you are selling your business for a $100,000 and someone might be willing to pay $110,000, you just lost $10,000. It's not like with a house or selling real estate where you put up an asking price. Thanks Rich for the question.

Okay, a quick break, back in 30 seconds and I'll be answering more of your questions. You are listening to Scott Alan Turner.

[BREAK]

[0:22:11] ST: Hey Rockstar Nation, Scott Alan Turner here. Now folks, for those of you that are my long time listeners, you know that I am not one of those guys on the radio who promotes every product that shows up on their desk. You'll never going to hear me trying to get you to buy high fructose corn syrup or recommending you buy the DVD collection for Star Trek Deep Space Nine.

No, I have a name to uphold to you, the Rockstar Nation, but if I were, if I were to recommend something to you, I would tell you about Spoon City. Many of you are sitting there right now listening to this mindless dribble at home eating a bowl of cereals for breakfast and unless you're like my two year old using their hands, you're using the spoon to shove all those chocolate marshmallow sugar-O's.

Spoon design has remained unchanged for hundreds of years until now. The fine folks of Spoon City have come up with the first ergonomic spoon to take your eating experience and health to a whole new level. Eating with a non-ergonomic spoon can cause side effects such as headaches, nausea, cramping, bloating, light headedness, stuffy or runny noses, chest pain and in some rare cases, spontaneous combustion. Head down to your local Spoon City today, your mouth deserves the best.

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[0:23:23] ST: Welcome back everyone. Thinking small is for small minds and I know you have a big mind because if you can hear me which you can because you are listening to me right now, you are filling your brain with information. You are reaching and growing, discovering, taking action, big mind activities. Thinking big can mean setting a new course for your family history.

“Scott, we don't want to be in debt anymore. Scott, we want to retire early. Scott, we're tired of living paycheck to paycheck.” We're each charting our own course in the direction you take in specific to what you wanted out of life. Half the modern population has no savings, no plan and no course. It's day to day, I'll take whatever comes my way.

I'll take eating the bonbons and watching the TV over the eating the bonbons and spending 15 minutes feeding my brain. Nothing wrong with bonbons nation or doughnuts or ice cream. Nothing wrong with a little TV either, it's all about balance and some of you are thinking, “Yeah Scott but I'm really just trying to get by day to day” and I can understand that.

Very few of us learned about money growing up. We didn't know the pitfalls of over spending. We didn't know the pitfalls of under saving. We didn't know about loans. We didn't know about not taking on debt and some of us got hit with big disasters along the way that we couldn't control but no matter where you are, there is a place you're trying to get to.

Thinking big gets you through those days when the light is the dimmest. Thinking big keeps you moving forward even when your finances are going backward which they will do over and over again. It is not a straight line trajectory to the top of the mountain. There are valleys, pits, rivers to cross, sometimes there are vertical cliffs that go straight up.

And we wonder how in the world am I going to ascend this 100 foot cliff, or 30 meters for my international listeners, “How in the world am I going to ascend this cliff? Am I going to find a rope? Am I going to stack up some boxes? Am I going to free climb it? Catch a helicopter ride?” You've got a big mind, think big thoughts.

Challenge yourself to find a way up, out, over, under, through, beyond whatever your situation is and if you can't get up, go around. If you can't go through, go under. If you can't go under, try going under a different way. Those are the words.

Next time tune in for the next part in our series in The Seven Deadly Sins of Financial Freedom, Pride. That's it for this episode. I'm your host, Scott Alan Turner. Rockstar Katie is my producer. Special bumper music today provided by the Hyenas. Thank you guys for the audio tracks. Find out more about them and all the links mentioned in the show in the show notes on scottalanturner.com. Today's episode is powered by Ben & Jerry's ice cream. Thanks for listening.

[FINAL MESSAGE]

[0:27:39] ANNOUNCER: You're not alone on your journey to live a financial rock star life. That's why we put together a free eBook just for you. Go to financialrockstar.club to receive your free guide on how to save $1,000 in one week and start getting out of debt, saving more money and retiring early. See you next time.

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