5 Things You Should Do Every Single Day – Even When You're Broke

Intro
Welcome Rockstar 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 once got to meet Britney Spears. On the show today we will be answering your questions about money, business, and life. If you have a question you would like answered on the show visit GoAskScott.com

Segment:

From the article: http://scottalanturner.com/5-things-you-should-do-every-single-day-even-when-youre-broke/

Now on to your questions.

QUESTION: Monica asks why is it better to pay off an auto loan with a low (3.25%) interest rate than invest the extra payments that would be required in a vehicle paying a higher (say 6%) return?

ANSWER: If you only consider the math paying off a low-interest loan and investing any leftovers in a higher-returning account seems like a great idea.

The problem is the math rarely works. Even with a 6% rate of return there is a missing factor - risk. If for some reason you become unable to work (loss of job, disability), an unplanned child shows up, a family emergency (etc.) where there is a loss of income or an unexpected expense, having a paid-for car makes life much easier. There are no worry's about the repo-man coming and taking your car away. There is no potential for missing payments, or destroying your credit if you do miss car payments.

There are far too many stories of people over extending their debts, something bad happens, and the debt obligations can't be met. With a car loan you have a guaranteed rate of return - the interest payment. With other investments there usually is no guarantee (like the stock market). Even if there is, the risk people run of having something happen and not making payments is far-too common.

Let me give you another example of risk. Put yourself in the future when you're house is completely paid off. Keep tuning in and I'll get you there faster than you could on your own. If you don't have a mortgage, you aren't required to have home insurance. There is no law requiring you to have homeowner's insurance like there is for you to have car insurance in some places.

We can take the money we would pay each year on homeowner's insurance and invest it in the stock market, or even a savings account earning a measly 1% interest, and earn way more money than if we paid the insurance company. But the problem is risk. There is a tiny chance our house will burn down. Tiny, tiny chance. And what if that happens? Then we're out $100, $200, $300 thousand dollars - whatever our home is worth. We lose money by paying homeowner's insurance, but we protect ourselves against the risk of our home burning down and losing everything.

Same with paying off the car. We can look at the math and see we might be losing money by not investing at a higher interest rate instead of paying down a loan that has a lower interest rate. But we're reducing risk. And its a risk too many people have fallen victim to when times got tough. I don't want you to be that guy. I don't want you to be that gal.

You can't put a price on having a paid-for car. It frees up your cash flow to do so much more, and it's a hedge against the unknown.

Finally, the bottom line is this - if you want to be a millionaire - and who doesn't want to be a millionaire - do what millionaires do - they pay cash for cars. Check out one of my favorite books that I recommend everyone read - The Millionaire Next Door. The book is a real eye opener to how millionaires become millionaires and how they spend their money.

Thank you Monica for the question.

QUESTION: Jodi from Ann Arbor, Michigan wrote in and asks do you always need to have six months in an emergency fund? Under what conditions could you have just three and be safe so you could invest the rest?

ANSWER: Each of us has a different family situation where the amount can be different. A married couple with two kids and with only one source of income would need more savings in the case of a job loss. Six months would be the minimum and preferably more.

But that also depends on your debt obligations.

The same family that has no debt and a paid off mortgage is in a better situation than the family with a single income, a mortgage, student loans, and car loans.

If you have several sources of income - each spouse has a stable job, you have rental income from several properties, the loss of one income stream may not put a big dent in your finances. Six months could be overkill in that case.

If you're living at home with your parents and you have no car loan, three months is probably plenty.

To determine the appropriate amount you need to look at all of your sources of income, all of your debt obligations, and figure out what the expenses are each month for your basic needs. In an emergency like a job loss stuff like buying new clothes, cable tv, vacation savings, investing - all those are wants. They get tossed out the window and dropped. Calculate what the real cost is of your monthly needs and use that as your starting point. Then figure your risk level based on your sources of income and their stability. The higher the risk of a significant income loss, the more you need in your emergency fund. The lower the risk, the less you need.

For myself when I first learned about what an emergency fund was, it was when I had just bought a house and had a big mortgage. And an empty bank account. And a single income. That was an ah-ha moment for me. I immediately started building up my six month cash emergency fund, and I've had it ever since. That was fifteen years ago.

Thanks for the question Jodi.

QUESTION: Helen writes in I graduated 2 years ago with 26,000 debt & it continues rising with interest year on year. I just want to wipe it off as fast as possible. I'm thinking about my credit score and how I could struggle to get a loan in the future with all this student debt behind me. I want to be debt free before I'm 40. (Okay 30 but at nearly 26 I don't know how realistic that is?) My annual income is $10,000 and my monthly expenditures are $400.

ANSWER: You should look into refinancing your student loans to see if you can get a lower interest rate. The lower interest rate will allow you to put more money towards principal and less going towards interest. Here are a few companies that offer these services:

Lendedu
CommonBond
SoFi
LendKey
earnest

As long as you pay your bills on time you'll have a good credit score. Mortgage lenders are going to approve you for more house than you can afford. A good rule of thumb is to have a mortgage payment that is less than 25% of your monthly take-home pay (after all the taxes are taken out) to be in safe territory.

It's very realistic for you to be debt free and out from under these loans by the time your 30. You're going to have a higher paying job, you're going to get raises over the next 3-4 years. If you switch jobs in a couple years your salary should bump up, depending on what industry your in.

If you really want to crush it pick up a side job where you can earn an extra $1,000 per month. That's an extra $12,000 / year before taxes. In 18-24 months you would have the debt completely wiped out between the extra work and the extra you can apply now to your loan. This is very doable.

I would suggest bringing down the student loans first, getting a 3-6 month emergency fund, and then getting into a mortgage. You'll avoid being unable to pay your bills if something unforeseen happens.

Thanks for the question Helen.

I want to hear from you
If you have a money-related question you would like answered, please visit GoAskScott.com to get in touch with me. That website has my email address, twitter, and you can also leave me a voicemail. Please contact me, I'm here to help you.

And that brings us to today's hot stock tip.

Segment: Hot Stock Tip
I've been a subscriber to Kiplinger's personal finance magazine for many years. It's a bounty of hot stock recommendations from people you've never heard of and shouldn't pay attention to anyway. In fact if you take out all the advertisements and hot stock tips from Kiplinger's magazine, you're left with as much content as you find in the menu from the Cheesecake Factory.

But what caught my eye the other day was the 10 Greatest Stocks in the World you need to own. With a title like that, you know it's important information I have to pass along to you. We can all get rich together. Now these stocks are different than the 25 Best Stocks for 2015, the Top 12 Stocks for Baby Boomers, the 5 Best Restaurant Stocks, 6 Energy Stocks That Could Make You Rich, 8 Stocks Under $10 Worth Buying and of course, 7 Stocks Under $10 Worth Buying.

Are we clear on this yet? Professional stock pickers of actively managed mutual funds who are paid to beat the market fail to do so 80% of the time. What chance do you or I have dabbling in stocks part time? Investing in low cost index funds that try to be the market will earn you 11% on average over time. Trying to beat the market is for losers. Because they lose 80% of the time!

Now back to your questions rockstar nation.

QUESTION: Ashley writes in I need to go from not living paycheck to paycheck to building up my savings and becoming financially sound to buy my first home and car (and build cushion for emergency expenses, plan a vacation). I earn $60 a year, have student loans, 2 credit cards, and 1 person loan. I've tried to save money by putting $25 to $100 a month. How can I take better care of my finances?

ANSWER: $60k is a good income with the low expenses you seem to have. The question is how big are the debts in relation to your income. That will determine how quickly you can knock them out.

No matter how big or small your debts are you have to have a written spending plan to track your income each month. From there you can figure out how much extra you can throw at your debts and when each of them will be paid off. You don't have a lot of expenses so you can get pretty aggressive with paying off your loans.

What's going to be important for you to reach your goals is focus. And by that I mean focus on one thing at a time. When we set too many goals - saving, emergency fund, debt repayment, house, car - we don't hit any of them. Our energy and resources are divided.

Start with first paying off the debt with the smallest balance. Throw everything you can at it while paying the minimums on the other debts. I'd stop saving each month and put that money towards the debts too. Once you get one debt paid off, move on to the next one.

If you're credit cards are a problem for you cut them up and move to the cash budget. If you have a balance on them then they are a problem. You can't get out of debt by taking on more debt.

There is an app called ReadyForZero you can use to track your debt payoff and see your progress paying off those debts. Try it out and see if it gives you more motivation.

Nobody gets into debt over night and nobody gets out of debt over night. It will take time, but you can do this. The key is to have a plan to break the paycheck-to-paycheck cycle and follow it. Getting out of debt just becomes a date on the calendar you need to get to.

Thank you Ashley for the question.

QUESTION: Deb writes in to say I'm having a hard time getting my spouse on board to adhere to a budget and save for retirement.

ANSWER: You got married for a reason - you love each other and want to spend the rest of your lives together. Along the way you're going to have some goals. We want to vacation in Hawaii every year. We want to retire at age fifty. We want to drive around in an RV for a year. I'm not saying those are your goals, but they are goals someone might have.

What you need to focus on are your shared goals. Sit down and have a chat - hey honey, when do you want to retire? Where are we going to live? What are we going to be doing? And write those things down.

Then you work backwards. How much do we need to save? How much do we need to invest? How much are we saving and investing? Ooops - we can't retire at fifty-five unless we put more of our income away. What do you think we should do dear husband?

And you have a conversation around - hey, we can achieve those goals together, but to get there, we need to have a written spending plan that we both agree to and follow. And there will be some give and take there.

You see when we do this we're not pointing fingers. We're not saying - why did you buy that new lawnmower, it's not in the budget? Don't beat them over the head. We're asking questions to get our partners to figure it out on their own that the decisions they make impact our shared long term goals. But the goals have to come first.

And when you start doing that, hopefully things start falling into place. Our minds work in advance when we're at Home Depot - oh, if I get this new lawnmower - that' I don't really need - it's going to impact our vacation budget we agreed on. And I really want to go to Hawaii. I guess I'll keep using the lawnmower we already own.

Now sometimes you're joined with a jerk who flips their arms in the air and says screw it, I'm going to charge it anyway, it's my money. You've got bigger problems at that point and it might be time to get some counseling.

Writing down your expenses helps you compare your spending to your priorities.

Right now, you're husband doesn't get it. Or for some of us we may have a wife that doesn't get it. So tonight when the kids are asleep - if you have kids - turn off the TV, sit down on the couch and look at them in the eye. Take their hands, and say - 'Listen, I married you for life. I love you, and I want us as a team to win. Share your feelings. Get excited about your goals. Ask them what they want too. Then work together to make it happen. It's not an exercise in finger pointing, it's just talking about the future so they can have their eyes opened to how you need to get there and make it happen. If it means a lot to you they will listen to what you have to say because they know it's important to you.

Thanks Deb for the question. Please let me know how it goes.

Commercial break

Welcome back, everyone.

QUESTION: Taylor asks I have a 2013 Toyota Corolla with 37,000 miles on it. It drives great with no problems but it also has a $12,000 loan on it! I'm hesitant to get a cheaper car because I'm worried it will end up costing even more in the long run with all the potential repairs. Any advice?

ANSWER: When I check Kelly Blue Book to see what a 2013 Corolla is going for dealers are charging $13,000. A certfied used car is going for an average of $14,100. Buying from a private seller you can get one for $11,100.

Given that information for what you can buy a 2013 car for, and what you owe, it looks like if you unload the car by selling it privately it could be a wash. If you take it to a dealer you'll be lucky to get $11,000 for it and you would be underwater - you would owe more than you can get for the car. But even in that case you wouldn't owe too much. Maybe just $1000-$2,000. That's not terrible.

The question then becomes can you get a good, reliable car for less, and how much less?

The answer is absolutely. Despite all the new cars flying off the dealer lots in the past few years, people are keeping their cars longer and longer. Why? One is to save money. Two is because cars are so much more reliable than they were ten, and even five years ago.

There is saying - 200,000 is the new 100,000. Twenty years ago if you had a car with 100,000 miles on it you were starting to sweat it. When is it going to break? How much is it going to cost? Ah, I commute a lot and I'm kind of nervous I might get stuck on the highway, maybe I should get a new car for peace of mind.

Not today. People are driving their cars without issues up to 150,000, 200,000 miles. We're driving our cars longer because they are breaking down less. The reliability is absolutely there.

A key factor in financial freedom both for myself and countless others is paying cash for cars. Used cars especially because you can get a great deal from someone who took the hit on the depreciation.

If I'm in your shoes - and I have been - though I had some equity in my cars - I would find a good used car that costs $5,000 or less that you wouldn't mind driving for the next several years. Save up the money and buy that car in cash. Then sell the Corolla to get out from under the loan. Then you'll have no car loan and can start banking that extra few hundred dollars per month. You don't have to spend $5,000 on a car. You can set a target price that works for you - $4,000, $3,000.

Just for kicks I looked up my car a 2007 Honda Fit with 100,000 miles and you can get it from a dealer for $5,700 on average. And that's before you negotiate.

A Corolla - which is a nice car and gets good gas milage - 2007, with 100,000 miles on it can be had for $5,000 on average from a private seller.

If you can pay cash for your car - which I recommend - you may be better off purchasing from a private seller. You'll get the savings and can negotiate a better deal by eliminating the middle man. Cars in that price range won't be certified pre-owned, so you won't get that from a dealer anyway. Make sure you have the car checked out by a mechanic.

Thanks Taylor for the question.

Daily inspiration
So I have a bad lower back and I go to the gym regularly to keep it in shape. When I'm there I'm always drawn to this one type of person for inspiration. And it's not the people who look like the belong on the cover of Shape or Men's Health. It's the gray hairs. The older folks who clearly need to shed a few pounds to regain their health. Because I know on that day, in that hour, even if it's just for 30 minutes, they've committed to making a change in their lives. Probably for the first time in a long time. Commit to one small action today that will propel you forward towards your goals. Every small step gets us closer to the top of the mountain.

Those are the words.

Outro
Thank you guys so much for listening today - this show is for you! I'm just here to talk loudly.

That's it for this episode. I'm your host Scott Alan Turner. Rockstar Katie is my producer. All the links mentioned in the show are available in the show notes on ScottAlanTurner.com
Today's episode was powered by Ben & Jerry's ice cream. We won't quit until we get a flavor named after the show.

Thanks for listening!