The 7 Deadly Sins of Financial Freedom - Part 6

**[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 speaks enough French to get by. On the show today, we'll be answering your questions about money, business and life. If you have a question you would like answered on the show, visit goaskscott.com.

We are in a series called The Seven Deadly Sins of Financial Freedom. Yesterday on part five, we talked about why you need to stay active in your finances and how it will keep you out of trouble and out of bankruptcy. Please listen to that episode if you missed it. Today, we're going to hear about how I used to act buying and selling stocks every few days, sometimes multiple times a day trying to get rich quickly.

I wasn't very patient, in fact I was anything but patient. Wrath involves uncontrolled feelings. You might be angry, carry hatred, be impatient or have feelings of rage. Whatever you might have, there are emotions running on high that lead to irrational decisions. If there is one thing I can guarantee you along your road to financial freedom, it's this: you're going to lose some money along the way and there are going to be some doozies too.

In 2008-2009, the stock market lost 50% of its value over a span of 18 months. Most of us are familiar with that crash. It's pretty recent. In my early investing days, I lost $40,000 during the .com bubble crash. That was most of my retirement savings at the time. We're going to make some bad decisions. Even the best and brightest minds make bad financial decisions.

Nobody can control all the variables moving in the financial world and nobody has a crystal ball that can predict the future but the most important thing that you can do is to stay committed to your plan. Now some people are still reeling from the stock market crash and are reluctant to start investing again. Some of you don't want to get started investing at all.

Listen, the stock market has a proven track record of returning 10% a year over the past 80 years. If you lose sight of the long term goals and only focus on the brief dips that occur, you will never obtain wealth. You cannot build wealth hiding your money under a mattress. Fear is a wealth killer. Just because you tried budgeting once and it didn't work, you think, "Well, it didn't work the first time,I couldn't follow it".

Or you lost all of your money in your 401(k) and you decide to put your money in the savings account instead. Maybe you worked with that recommended investment proprietor and you found out later it was a terrible investment decision. When you hit one of these potholes in the road and you get a flat tire, don't let it derail your entire trip.

If you were leaving for a weeklong vacation in your car and you did get a flat tire, you wouldn't slap on a spare tire and head back home would you? And stay home for a week, no, we wouldn't do that. You'd go to Walmart, get the tire changed and keep going on your road trip. You lost some time, you had to buy a new tire,but you would keep going.

If you allow that flat tire to become the entire focus of your vacation, you're going to have a miserable trip. You would never say, "I planned all the hotel stops, the walking tours, the museum trips, every place we're going to eat and I got this flat tire. Why even try going on?" Or how about this, "I put all my retirement into company stock in my 401(k) because I didn't know any better and now, the company is bankrupt. I lost everything. I have to start all over. I'm never putting my money in a 401(k) again."

If that happens and you have that fear, you will never have abundance in your life. Have you ever watched a baby learn how to walk? They wobble around, try to take a step, fall on their rears, they get up wobble around some more and they fall in their faces and start screaming and then they stop crying, they get up and then go for it again and they go for it again and they go for it again.

If you have two legs and can walk, you've gone through the process and you wouldn't remember it but you cried and screamed and you got frustrated at the process but you did not quit. You've got to be like that baby after falling on your butt. You get back up and start investing again, you start to budget all over, you go back to the cash spending plan.

You splurged and screwed up? Alright, move on. It didn't work last time, great, you got an education. Learn and move on. If you focus on your failures, you will fail. If you focus on success, you will have success. You've got to have full faith that the mistakes of the past are just that, they're part of the past. Your future is what you make it.

Tips for today, you've got to have patience in your finances. Number one, don't try to time the market. Invest for the long term. Number two, avoid the "get rich quick" schemes. If it sounds too good to be true, it probably is. And number three, have long term goals. Your goals will impact your daily decisions and shape your finances for the better of your life.

Now, onto your questions. Emilia wants to know:

**[0:06:00] E:** "What do you think about loaning money to family members or friends?"

**[0:06:05] ST:** First Emilia, you need to figure out if you have the money in the first place. If you don't, end of story. You don't dip into retirement savings so your brother in law can buy a new tractor for his business or a new truck. And ask yourself have you ever loaned out money before and what happened? Probably sometimes, you got paid back and sometimes you didn't.

Now, you never want to loan your money to a friend or family member. Why? Because every time you see them, the first thing you're going to think is, "Hey, what about that money I loaned you?" Or what if we're friends on Facebook? They're posting pictures of having a beer and eating out and you're thinking to yourself, "That bum owes me 500 bucks."

And when they see you, their first thought is, "I'd better go hide in the bathroom because they're gonna be wondering when I'm going to pay them back."The bottom line is, it ruins the relationship. You're not cousins anymore, you are borrower and lender. You are not brother in laws anymore, you are bank and customer. You are not friends anymore, you are master and slave. It is not worth it.

You're trying to do something to help the relationship but that's not how it ends up working out. This is not something you want to test out and find out on your own, just trust me on this one. Never cosign a loan for a friend, a family member, a girlfriend, a boyfriend, a son, a daughter, a grandson, a granddaughter, you get the point.

They're all disasters waiting to happen. The heart might be in the right place but it's the wallet and the relationship that get taken out like some Chinese food, ha-ha-ha. You have to make a commitment. Right now, you're not going to loan out money under any circumstances. If someone asks you to borrow money, the answer is, "No, sorry," that's it. "No, sorry."

You don't need to provide a long excuse. You don't need to provide any excuse. It's your money. You want to know what I tell people now? "No, I don't loan out money because I teach people to not loan out money," that's it. Now, if someone is there with an urgent need, maybe they have some medical expenses that they can't cover, give them the money if you have it.

Don't loan it, give it and give it directly to the hospital finance department in that example. Write the check to whoever needs to get paid. Don't introduce a temptation to somebody to use that money for something other than what it was intended. They'll show up with a new purse, a new pair of shoes and you're going to start wondering if you bought that purse or you bought those shoes. Thanks Emilia for the question.

Barbara has a question on closing cost for a new house:

**[0:08:41] B:** "We're in a home right now but my husband got a job in another city. We're in the process of selling our house and looking for a new one. Is it a good idea to roll the closing cost of a mortgage into the loan?"

**[0:08:51] ST:** First Barbara, congrats on the new job. If I'm you, I would consider renting for six months if you're moving. First off, you've already got a new job stress, new friends, new grocery stores, where is the peanut butter in there? I mean you've got to figure out the isles. Simplify and take it slow, you'll have more sanity.

The job doesn't work out, do you know the area? If you're going in blind, just wait a short bit plus you'll get to save the extra six months which can be significant. If you have kids, you can try out the school district. Yes, sometimes you can roll your closing costs into the loan. Closing costs, for those of you who are not familiar with them, are the cost of getting a mortgage and there are a lot of fees that go into them.

Closing costs can average between two and four percent on the price of the home. Several thousand dollars, rolling those cost into your home loan will result in you having a larger monthly payment. If you have $150,000 home for example, if you're paying an additional $25 per month to cover the closing costs, that's another $9,000 over the life of a 30 year loan.

Now lenders often restrict how much sellers can pay towards closing costs. Some of the federally backed mortgage programs have limits on the total amount of the seller concessions. It's not as simple as just checking a box in your loan application. The lender has to be willing to finance you more than the value of the loan.

If you put out a bigger down payment, they might consider it because if you default in the loan, you're more likely to get more of their money back. If you plan on selling the house in a few years, you won't be out that much. You haven't had the time to spend that extra money each month and have it, it will be worth huge amount but as a side note, you shouldn't buy a house unless you plan on living there at least four to five years anyway. You'll get eaten up on the sales commissions.

If you plan to stay in the home for years or even decades that is when the equation changes, the added monthly payment amount is going to the lender not you. It's not available for your investing or your savings. So including closing costs, it's more common when you're refinancing than when you are buying. But there are online calculators you can use to check if it makes sense for you.

You've got to factor in your closing costs, the reduced interest rate, what's the payback going to be and the number of years?If you live there at least that long, yeah it makes sense to do it. If you're moving into a new house and plan on staying there for a while, it doesn't make financial sense. If you're refinancing and you find the math works for you, then it does. Thanks for the question Barbara.

Fiona and Doug say:

**[0:11:35] F & D:** "We have a 15 year old son who has some older friends, some of them are starting to get licenses and drive. While we could buy him a car in a few years, we're wondering if we should or not?"

**[0:11:48] ST**: So producer Katie, what was your car? I don't recall, she says a Station Wagon with big rust circles on the side, awesome. My first car was a Mercury Topaz, they don't make them anymore, 85,000 miles on it. Now I was raised differently than I will raise my children. My dad bought me a car because I was the only kid left on the house, all my elder siblings were gone.

My parents had more money because all my siblings had moved out. Katie was similar. Her father bought her a car. Currently right now, we live in a very say, privileged neighborhood. Kids drive cars that are owned by the bank. I see kids driving BMW's, brand new Mustangs, brand new Camaro's, the new Jeeps, Jeeps are quite popular and we are in Texas which sells one out of every four trucks. A lot of trucks that I see kids in it.

When my children are older, I'm going to have a different stance because I have heard other people do this and this is something that sounds like a good idea to me and that is, you get them starting saving and you contribute a dollar for every dollar that they save. If the kid earns $10 for mowing the lawn and they want to put that towards their car, then we're going to contribute $10 towards their car. We're going to match them a dollar per dollar.

Why do that? Well, when that kid goes out and blows $50 on a video game, then you can tell them, “You just paid a $100 for that game” and they’re like, “What? What do you mean? It only cost $50.” You would say, “No, it didn’t because if you’d put that $50 in your savings account, I would have given you another $50. That game just cost you a $100.” And then they’d think, “Oh!” And they start to see the value of savings. That’s a system I’ve heard people use, I like that system.

Or another idea I’ve had, I might just give my kids the equivalent money of what my dad paid for my car adjusted for the value of the dollar overtime which is it’s not going to be much. They can drive around that beater amongst all the new Camaro's and the Mustangs and the F150’s in the neighborhood.

The point is, don’t raise a brat. Don’t raise a spoiled child. They aren’t entitled. Raise a responsible child. We’re not doing our kids any favors giving them everything they ask for. Make them save, make them work, make them learn even if you didn’t when you were raised.

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 e-mail address, Twitter, leave me a voicemail. Please contact me, I am here to help you.

[BREAK]

**[0:14:51] ST:** This is a red alert moment. Consumers waste billions, with a B as in boy,of dollars on extended warranties each year. The businesses that sell them increasingly count on the sales of extended warranties for most or even all of their profits. If you bought a new car and the manufacturer’s warranty is getting ready to expire or you’re getting ready to buy a used car, chances are you’re going to be pitched for an extended warranty.

Now cars are lasting longer and longer than they ever have. They are more reliable than ever, so why do you think of these warranties that might set you back 400 to $500? The fact is, 99.99% of us are never going to have a major issue with our vehicles. Certainly not an issue that weren’t shelling out 400 to $500 probably per year for a warranty that probably won’t cover the total repair cost anyway.

Typically, they are for parts not for labor. Extended warranties, they are cash cows for everyone that sells them from electronics manufacturers, you get them pitched at the Apple store, home sellers to cell phones to automobiles even,Amazon now when you’re buying electronics, the little doohickies, they’re going to hit you up for the extended warranty sale.

You should not be worried about not getting an extended warranty. The worry is what the sales people are counting on when they sell you this junk. Now, if your engine falls out in the middle of the highway, before you start blaming me because of the lifetime cost of all these warranties you’re being offered on everything that we buy, when you add them up over your 50 to 60 year life span that you’re going to be buying stuff.

The cost of the repairs or the replacement will never, ever, never, ever, ever equal to what you would have paid for on all those warranties. So you can save thousands of dollars over your life by skipping the warranties and just paying cash if something breaks. Save your money, you’d be better off in the long run. Now, back to your questions nation. Gary writes:

**[0:16:58] G:** “I am 76 years old, a retired teacher with a pension and my wife is also retired and receives a pension. I also receive a small social security check every month. Our income is limited and basically static from month to month. We have very expensive medical insurance for my wife and copays alone for the two of us that amounts to $300 a month. Other than some medical debt and the home mortgage, we have no other debt.

We try to budget but there is little wiggle room. Food costs are outrageously high and we struggle to eat whole foods as opposed to prepared foods but it’s expensive. Our car is nearly 200,000 miles on it but getting a newer one with added debt and payments doesn’t seem possible right now. Any ideas on how older couples can manage in today’s world when the cost of living continues to rise so fast and yet retirement incomes are very far behind?”

**[0:17:46] ST**: So my mom and dad, they retired in a similar situation except they never owned a home. Dad worked for the town for 33 years and he got a pension. Mom worked part time when I was growing up just for pocket money. If it's not going to foul up how much social security you collect, I'd suggest you pick up a job or you can work for one to two days a week at some place where you're going to have some fun. If it fits your schedule, keeping busy will also keep your body and mind healthy.

My dad, he worked at the trash transfer station until he is no longer physically able to and he loved it. He worked there two days a week. His friends would come by, he'd shoot the bowl with them all day long. Yeah, you would probably be making minimum wage but if you get paid to do something where you can help others, get some exercise, find some fulfillment, keep your brain busy, the money is just a bonus.

I'm not talking about being a Walmart greeter, that position is usually for someone who has no choice but to work. And yes, medical expenses are a beat down no matter what your age and financial situation. They eat up a huge chunk of our budget and it's one of the few areas of my finances I worry about as my kids get older.

You're right, eating healthy costs more. Produce is expensive. Frozen carbo pizza isn't but I think you realize eating healthy cuts down significantly on the long term medical bills that come from a lousy diet. I would love to eat cookies every day. I would but in 10 or 20 years, the quadruple bypass, not going to be worth it.

I'd suggest you guys spend some time tracking when stuff is on sale. Buy in bulk, freeze as much as you can, frozen spinach works as well as fresh for most recipes, not salad though. If you have a warehouse club nearby, consider shopping there occasionally. They don't always have the organic produce but if you're looking for fresh and not process without caring about the organic label, that's what works for my family.

Since you have a house, I would consider putting it in a small container garden. Oh just the vast quantities of knowledge you get on the show, let's talk gardening now. It's easy to find free scrap wood. You can get it on Craig's List and most municipalities offer free compost and dirt. All you've got to do is come pick it up, throw it on the back of your vehicle.

Seeds, you can get them 60 cents a pack at Walmart and Home Depot. Gardening is not time consuming and it's actually pretty rewarding and therapeutic. Nobody starts with a green thumb so I wouldn't worry about being a master gardener in year one and it doesn't take a lot of time. For money saving tips and cooking, we actually have a blog post on that, about that stuff, we'll put that link up on the show notes. I think a lot of people benefit from eating healthy on a budget.

Now, not knowing more about your medical debts, I will teach you to check out the disputebills.com. They can help you knock down the balance on your medical bills so you might save some money there. I spoke at length with the owner of that company. He seems like a standup guy, very interesting business. They negotiate you a lower medical bills on your behalf and you can either pay them a flat fee or a percentage of the money they save you.

Now, for the younger people that are listening to me now, Gary's story should be a wakeup call to you because if you don't change, this will be you. This is what your retirement is going to look like. Don't show up at the retirement party and wondering how you're going to make your money last another 20 or 30 years. Don't show up at the retirement party with a mortgage payment to make tomorrow. Don't show up at the retirement party counting on social insecurity and imperial federal government to take care of you.

We've got to start preparing for what we know is coming. You know you will stop working someday. You will not physically be able to work until you die and when you stop working, you will need an income of some sort. Best figure out where it's going to come from. It's not going to come from the gifts, it's not going to come from the government. It's not going to come from sewing quilts unless you can sew a lot of quilts and sell them too.

Now, I'm not trying to make you feel bad if you're behind on your savings. I'm trying to make sure you take the necessary steps to get ahead in your savings. And not next month, not when the tax refund comes, not some day, this day. There's no excuse. We're starting from now, not from the mistakes we've made two years ago, five years ago, 10 years ago, done. Lesson learned, let's move on. Thanks Gary for the question.

Adam wants to know what you should consider when opening a money market account or a savings account. The only thing that matters is the interest rate. That's it. You're looking at the interest rate you're going to get on your money which right now, ain't that much. Big monster mega banks, the brick and mortars, Bank of America, Chase, Wells Fargo, they have almost zero percent interest rate right now in savings and checking, slightly above zero. It's not exactly zero but it might as well be. Don't do it. Just don't put your money in them for your savings.

Look at an online bank, they are hovering right about 1% right now. Ally is one, Synchrony is another. Those are usually the top two in interest rates for online banks. If you listen to me and you're in a financial position where you've got your emergency fund, fully funded. Your three to six month emergency fund, let's say you've got $20,000 in there for your three to six month emergency fund. So that's $200 a year you're earning while it's sitting around waiting for your roof to leak. Okay? You're getting 200 bucks which is nice for money that's just sitting there.

Again, if you're at the brick and mortars, you're probably getting 20 cents or maybe two bucks. Two bucks versus 200 buck or 20 bucks or whatever they're offering. It's a big difference. Next, you want to make sure your bank is FDIC insured. Not most of them are so that's not really a big deal and they'll advertise that. You will see it on the website's home page if you visit either of those banks I mentioned, you'll see it in their descriptions.

What does that mean? Your accounts are secured for up to $250,000 per account per individual or $500,000 for a joint account, that's if there is like a global meltdown run in the banks, the bank goes bankrupt, a major collapse. You're insured by the federal government. Now, you should never have that much in the cashing account anyways so it's not usually an issue for most of us.

The location of the bank doesn't matter. If it's got an ugly website, it doesn't matter. If it has a checking account, it doesn't matter. It's a savings account which you'll rarely going to touch. You just want to collect the most that you can. Thanks Adam for the question. Okay a quick break. Be back in 30 seconds and I'll be answering more of your questions. You're listening to Scott Alan Turner.

[BREAK]

**[0:25:02] ST:** Hey 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 in the radio who promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy enriched white flour, delicious or recommending you buy Windows, blue screen of death.

No, I have a name to uphold to you, Rockstar Nation but if I were, if I were to recommend something to you, I would tell you about Himalayan cats. No other cat requires as much brushing as a Himalayan. You can spend hours of peaceful time brushing, brushing, brushing, brushing your Himalayan cat and with all that extra fur you collect, you can stuff your own pillow. Saving you money from that expensive down pillow you've been considering, win-win.

If you can figure out how to spell Himalayan, type it into Google, tell them Scott Alan Turner sent you.

[BREAK]

**[0:25:57] ST:** Welcome back nation. Lydia works for the Imperial Federal Government, my words not hers:

**[0:26:04] L:** "I just started a job and can start investing in 403(b) for retirement. I have an option in investing in annuity. Is this a better option in investing in mutual funds?"

**[0:26:13] ST:** Not no,but heck no. The first reason is that annuities are designed to provide tax deferred growth. Since tax deferred investment plans already offer that feature, investing in a vehicle like an annuity, designed to provide the same feature is redundant. The best way to describe it is like wearing a raincoat indoors.

Second, annuities often charge high fees and we're not talking about high fees, I'm making high fees. Not only do high fees detract from investment performance as every penny spent on fees is a penny taken away from your investment returns. To pay a high fee for an investment that offers a benefit like tax deferral that you already get from the provisions of the 403(b) plan, it's not viewed as a wise way to spend your money.

Third, annuities often have surrender charges if you transfer your assets out of them prior to the passage of a predetermined period as often set as several years. Locking up your money for such a long period of time severely limits your flexibility in making investment decisions. Fourth, annuities are complex investments that often include a significant amount of fine print and my sipe. Many investors like the time, the patience with the knowledge to fully evaluate the annuity offerings in their 403(b) plans.

Now, do you know who loves annuities the most? The people who sell annuities because they get paid a bunch of money when they sell them. Stay away from them. Thanks Lydia for the question. Stay away from those annuities in your 403(b) plan.

[FINAL MESSAGE]

**[0:28:00] ST:** Nation, have you ever tried to go on a diet or exercise to lose weight only to end up back where you started or just quitting after a couple of weeks because it was too hard? Now, a lot of people struggle with overspending or falling off the budgeting bandwagon, they go through the same thing. Try, fail, quit, try, fail, quit. Next year, try, fail, quit.

Far too often, we fall back into the same patterns we hate to be in yet can't seem to consistently break out of it. But did you ever question why? Really asked the hard questions why? You might say, "I just can't do it," or, "It's too hard. If I just made more money." Staying where we are can seem a lot easier than the hard work to move the needle in a different direction.

It's easy to stay broke. It doesn't require us to do anything. We just stay broke and complain about it every day but there are some people who've decided they've had enough. "Enough is enough. I'm not going to carry around this extra 50 pounds anymore. I'm not going to be broke anymore." Well how do they do it? What is the secret sauce? I'm going to give you the ingredients to the secret sauce right now and listen very carefully for I will say this only once. Go ask them.

Once you find the patterns that are holding you back from living the life you want to live, go find a role model who will tell you how to live the life you want to live. You see they have a different outlook than people who are consistently broke and constantly wonder why they are broke. When you become aware of the differences between you and them, you can hop on the same path they're on and get to the same destination. Those are the words.

Next time on the show, we are wrapping up this series and I've saved the best for last. The Seven Deadly Sins of Financial Freedom, see how greedy I used to be?That's it for this episode. I'm your host, Scott Alan Turner. Rockstar Katie is my producer. All the links mentioned on the show are available in the show notes on scottalanturner.com.

Today's episode is powered by Ben & Jerry's ice cream. Thanks for listening.

**[0:30:25] 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.

[END]