4 Steps To Financial Freedom Part 2

[0:00:12.0] ST: Welcome Nation to the Financial Rock Star 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 is a true Texan. On the show today we'll be answering your questions about money, business and life, if you have a question you'd like answered on the show visit Goaskscott.com. Last time on the show, first part in our four part series in how to obtain financial freedom, we leave the ground work there. Today is part two of the series.

Five or six years ago, I set a personal goal, I wanted to be able to play a thousand notes per minute on the guitar. That is elite speed nation. It is fast, it is skull melting fast. How did I do it? I bought this program on the Internet from a guy who was a really good guitar player and I went to the program, 10 days long, you played a certain thing each day. I would spend three to five hours a day practicing over a span of 10 days and on the weekends I might get up to five, six, seven hours practicing this thing.

But I had my goal, I wanted to play a thousand notes, I had all these little tips and tricks to work through the process and I did it. I did it! If you want to achieve financial freedom, you got to find someone who has done what you want to do and do what they did. Now a common thread amongst people who have achieved financial freedom is they set goals. When I wanted to achieve my goal of a thousand notes per minute, that was the goal and I wanted to achieve a certain amount of time and then I found someone who had already done what I wanted to do and I followed the plan that they taught on how to do it.

That was it. And I managed it. There was a fascinating study conducted in 1979 of Harvard MBA graduates, they asked them, "Have you set clear written goals for your future and made plans to accomplish them?" The result, 3% had written goals and plans, 13% had goals but they weren't in writing and 84% had no goals at all. Years later, they went back, they interviewed the same group again, what they found was absolutely mind-blowing.

The 13% of the class who had goals but didn't write them down was earning twice the amount of the 84% who had no goals at all. The 3% who had written goals were earning an average 10 times as much as the other 97% of the class combined. Abraham Lincoln once said, "A goal properly set is halfway reached." Now, what is goal setting? There's the SMART acronym, it's going to be specific, measurable, attainable, realistic, timely.

I mentioned before, I want to lose weight, not me personally but people say that, "I want to lose weight, I want to make more money." I want to lose weight, that's really not much to that. I want to lose 50 pounds, we're getting better. I want to lose 50 pounds in 50 weeks, we're getting somewhere. I want to lose 50 pounds in 50 weeks and I'm going to do it by measuring what I eat each meal and I'm doing cardio and weight training four times a week. That is attainable.

It's realistic with a desired timeframe, one pound a week, that's realistic and a big goal is much easier because it has bigger motivation. What if your goal was to save $100 over the next two years? That's realistic, it's realistic It's reasonably real or a reality but there's not much meat to it, anybody could do that. $100 over the next two years. So you want to have a big goal. Maybe you want to save $10,000 over the next two years. That $100 is going to be a micro goal within that, makes it even more powerful.

Goals have to be written down because the goal not written down is a wish. Like those guys in the study, you want to achieve your big goals, write them down and you'll do better and celebrate your successes. That is so important along the way. If you have a big goal, you've got to have small goals and build up to leading that big goal, you can celebrate along the way to give you progress and momentum of going forward.

Today's action plan, pretty simple. Take five or 10 minutes and take one simple action that will give you momentum moving forward to your goal of financial freedom. Last time we defined it, what it was, so you got to have your definition of where you're trying to get there, today, take one simple action that will give you momentum going forward. Now on to your questions.

Rafael, number one question writer asks:

[0:05:21.8] R: "What are some good websites to find foreclosed homes in apartments in New York City? I spoke to several clerks from different banks and they don't have the information. I thought that when someone loses their home to the bank and the home gets foreclosed, they would be able to provide me with that information?"

[0:05:35.7] ST: There are a lot of opportunities to find properties for sale. It's a great way to build wealth. Fannie Mae, they're one of the biggest mortgage lenders out there, they have a website where you can find foreclosed homes. Homepath.com is a foreclosure search website you can use. Zillow is another website, you can drill down and find foreclosures in different areas. One I found via Google was New York— nyforeclosures.com.

You need to keep in mind, not every foreclosure is a good deal, you need to do your research, you need to make sure you find out if it is indeed a bargain, you want to make sure you're buying it below market value, that's where you're going to get the deal on it, that's where you're going to make your money. But certainly it's a great way to A, build wealth in real estate, if you want to get into rentals or B, just want to save money on your first home or any home that you buy. Thanks as always Rafael for the question.

Jenna says:

[0:06:38.5] J: "My mom and dad were nearing retirement before the 2008/2009 crash and they lost 80% of their 401(k) balance, they have had to keep working and now are getting ready to try to retire the second time. I've seen the pain they went through and don't want to have it happen to my family, I'm nervous about investing and wonder what I should do?

[0:06:57.7] ST: Yes, lots of people in that timeframe, got pummelled when the market dropped 50%. And because of that, lots of people still nervous about the stock market, especially younger people who saw their parents, friends, family go through that. It's a recent memory, it wasn't that long ago. Now while a 401(k) can be a great benefit to help you build a healthy investment account for the future, there are certainly risks and restrictions on it as well.

With any investment account, you can earn or lose money depending on how well your investments perform over time. Your bank account where you put your cash, that is FDIC insured up to $250,000 if the whole world economy were to crash. 401(k)'s, they are not. Now the market lost 50% during that timeframe. If your family lost 80% of what was in their 401(k), here's why. They probably had it in company stock.

If the company didn't do well, you weren't well diversified, you got hit really hard. If the company went bankrupt, you definitely lost a lot of money. Smart Money Magazine once called the dumbest investment move in your 401(k) is to put money in company stock. Why? You're not diversified, you have too much risk in one place. When you do that, that's when you get pummelled, pummelled a lot more.

When you take your 401(k) money and put it in employer stock, you are putting all your eggs in one basket. You're getting your paycheck from your employer, you're hoping to build up a healthy retirement on your employer's back, then it doesn't work out that way. You do it that way, it ignores that companies, just like people, they go through different cycles, there's ups and downs for all companies.

Might do well one period, might do poorly another period. Might lose more over time or more over a short period of time. Think of Kodak if you can remember that company. They were a great stock at one time. Now, bankrupt. GM motor company, they did great for a long time until he big economic downturn and then the government took over.

Smart Money also reported people who have access to company stock, they tend to put huge chunks of their retirement in it. You don't need to be loyal to your employer and put huge chunks of your money in your company stock. You shouldn't put chunks of money in your company stock, you want to diversify away from your employer.

What else happens according to the Smart Money report is you go to all these guys at the top of the company, the CEO's, chief financial officers, all the people up in the top, they want all their employees to put money in because that pumps up the price of the stock and then these guys come in and they have this options where they can buy and sell them at a lower price and they sell the stock and they make a ton of money, and you lose. That's not a good place. Thanks Jenna for the question.

If you have a money related question you like answered, please visit Goaskscott.com to get in touch with me, that website has my email address, Twitter, you can also leave me a voicemail, please contact me, I am here to help you.

[BREAK]

[0:10:21.7] ST: If you're looking for a job and you're a stay at home mom or maybe you're just trying to get back into the workforce, I have a website for you to check out. It's called the Mom Corps — Momcorps.com. Not corps like in walking dead corps, like in corporation. Momcorps.com. It's a national staffing and search company, they focus exclusively on the placement of experienced professionals in fractional positions and virtual positions.

Fractional positions, that means you're just — what's a good way to put this? You have a set of skills, let's say I'm running a company and I'm doing well, making a bunch of money and I need somebody that manage the finances of it but I don't want to go out and pay somebody $125 grand a year to do that.

I can buy what's called a fractional chief financial officer. I think you can buy all kinds of different C-level titles is basically what I'm trying to get at. But I can pay this guy for a couple of hours a week, a day a week, couple of hours a month and I get that chief level experience from somebody without having to pay someone a full time employee.

Fractional positions — it's a great way to leverage your expertise without having to work a full time job and there are also virtual positions as well. Now, it is illegal to discriminate based on sex but with a name like "Mom Corps", you kind of get the idea who this website and business is geared towards. Check that out if you're a mom looking to get back into the workforce. Now, back to your questions.

Bree writes:

[0:11:58.3] B: "I recently secured a full time job and I'm thoroughly enjoying the breathing room full time pay along with the proper budgeting the job is affording me. Set Up automatic deposits into savings each pay period and have been able to set aside about $1,150 in the past few months. I know you're always talking about having six months expenses set aside but I'm also working to get out of debt.

Recently I heard some say it's better to get your savings up first before tackling debt aggressively so that you're set to make consistent payments once you properly set aside money. Want to get your opinion on what I should be doing as a priority. The only debt I have at this point is a student loan and my plan is to be debt free by 2017."

[0:12:38.4] ST: Sweet, congrats on the new job Bree. Nothing like having some breathing room in your life, it sounds like you have a nice plan and place to get out of debt. While consistent payments are helpful, the only important thing is to pay consistently the minimum to avoid getting behind. The only way to a 100% guarantee will always be able to make consistent payments is to have the entire amount you owe in debt in a savings account which wouldn't make sense because if have the entire amount to pay off the debt, what would you do? You'd just pay off the debt and be done with it.

Let's look at an example, if I owe $50,000 in student loans and have to pay a thousand dollars a month to pay them down, the only way to guarantee consistent payments if you have no income for the next 10 years is to have $50,000 in savings to make the payments, which makes no sense. Now what works for most people, you stick a thousand dollars in cash for emergencies aside to avoid using credit cards for the small emergencies, the little things that come up.

Why do we pick a thousand dollars to keep in cash? Why is it that amount? You want to be able to cover most small things, broken water heater, busted transmission, alternator goes out, emergency trip, because a family member's ill, we're going to hop on an airplane. Well why not $2,500? Why not $10,000? The priority's pay off the debt because the debt is costing you money. The cost is the interest you pay each month to have the debt. If you have $2,500, $10,000 $20,000 whatever in savings, yeah it might make us feel better but that extra money can pay off the principal and interest.

Additionally, that thousand dollars, it covers most things. If the emergency happens, you just stop paying extra towards the debts, pay the minimums. Example, you pay $400 bucks a month towards debt and then the car breaks down, the repairs are going to cost $800. Pay $800 in cash out of your emergency fund, you'd stop paying the extra $400 a month towards the debt, just keep paying the minimum, whatever those are. Save back up the $800 just spent.

Once the emergency fund is refilled, you go back, you pay down the extra debt. Now, what's the worst case scenario that we should plan for? The car breaks and you're out of the work at the same time. The thousand dollars helps to get the car running and deferring the loan payments helps until you have income. So you're covered.

Finally, this is simple math. Savings can earn 1% student loan interest rates four to 10% so paying off a higher interest debt makes more mathematical sense than putting money in a savings account at a lower interest rate. You get out of debt faster which is what you want to do. So your priority, it should be pay the debt first then you build up your three to six month emergency fund, to have a big cushion. Thanks for the question Bree.

Damon got an offer to cut his 30 year mortgage to a 24 year mortgage by making bi-weekly payments.

[0:15:37.1] D: "Is this a good idea?"

[0:15:40.1] ST: I'm pretty sure every new homeowner gets this offer. When I bought my first home, not a couple of weeks went by before I received the first offer to cut my mortgage down by signing up for biweekly mortgage payments. And the fee I think was around $299 and then some amount I had to pay each month on top of that too, a service fee.

But, I also made the point to read the fine print. Again, this was right about the time. Went from money moron to, "Oh, this is not how you're supposed to manage your finances." So I luckily took the time to read the fine print. Then I let out a big rip roaring "Ha, ha!" Because when you read the fine print, the deal becomes great for the company running the biweekly program, lousy for you.

Biweekly mortgage is a program where you make half of your mortgage payments every two weeks rather than once a month. For you math wizards, by making a payment every two weeks, you end up making one extra mortgage payment per year. So in theory it can shave years off your mortgage, sounds great right? Why is this a rip off? It's only a rip off if the company that's offering you this service is charging you a fee or if your lender is charging you a fee.

Your mortgage is expensive enough without the extra junk fees tacked on for the privilege of handling an extra payment each month. They want to charge you three to $500 just to sign up and then they want you to charge you a monthly service on top of that, call it $10 bucks. So you're shelling out $120 a year in fees plus the signup fee, it's a rip off. On top of that, when the lender receives your biweekly payment, they do not — they do not, do not apply it to the mortgage. They stick it in an account and wait for your full mortgage payment to arrive before you pay your bill.

So you're lending them the money for a couple of weeks for free. Great for them, bad for you and they get a bunch of people to do this and they've got all this extra money sitting around for a couple of weeks where they're making interest on it. They're making a lot of interest on it because a lot of people do this, a lot of people are uninformed. Yeah, biweekly mortgage is going to cut your mortgage down from 30 years to about 25. It works because you pay half a mortgage payment every two weeks.

Because there's 52 weeks in a year, you end up making 26 half payments. 26 half payments is 13 whole mortgage payments. So you make one extra payment each year. That is where the magic comes in, the extra payments cut your mortgage down by years, you're making one extra mortgage payment a year. Which can add up to tens of thousands of dollars in saved interest payments and that's what you see on the envelope when it comes in, "Save tens of thousands of dollars on your mortgage interest payments." It's true, it will save your money.

But if you want to make an extra mortgage payment each year, divide your mortgage payment by 12, include that extra amount in your payment each month. Did you get that? If your mortgage is $1,200 a month, pay an extra $100 a month, applied towards principal. Most of the time, the lender automatically if you include something extra will put it to principle. Sometimes you have to specify what to do with it. You do that, it's free, you're doing your own service for free.

Bankrate.com, they have an online mortgage calculator where you can compare your mortgage and what would happen if you switch the payments to biweekly. Try out that calculator because it is pretty cool, you can see how much you can save by doing that. Producer Katie is giving me some info here: $150,000 mortgage at 4%, you can save $18,000 in interest and reduce a 30 year mortgage to a 25 year mortgage by doing that. Nice chunk of change to save without too much pain associated with it.

Mortgage payment divided by 12, include that extra each month. You don't have to pay the lender three to $500, $10 a month to make an extra payment, do it yourself for free. Biweekly mortgage concept isn't terrible, you just need to do it yourself and not pay someone to do it for you. Keep that extra money, it's yours.

Hey, quick break, back in 30 seconds I'll be answering more of your questions, you're listening to Scott Alan Turner.

[BREAK]

[0:20:11.5] ST: Hey Rockstar nation, you know who it is. Now for those of you that are my long time listeners, you know I'm 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 wine from Texas or recommending you buy air conditioning service from some city I've never lived in.

No, I have a name to uphold to you, my valued and awesome listeners. But if I were, if I were to recommend something to you, I would tell you about public bread. If you need to make a sandwich, bread pudding, stuffing for a turkey, bread crumbs for your parmesan chicken. What else do you use bread for? Toast, feeding the ducks, you can't go wrong with public bread.

Twice the yeast and half the sugar of normal bread, you can taste the difference. Public bread is made by the brotherhood of Millers and the brotherhood uses only the finest flour, true roman bread for true romans. Available in the bread section of select grocery stores. Tell them, Scott Alan Turner sent you.

[CONTINUED]

[0:21:11.7] ST: Welcome back Nation, Jerry says:

[0:21:14.5] J: "It's time for my wife and me to cut the cable. We're comparing strategies of others who have done this, have you cut it? If yes, what services and or devices are using in place of cable?"

[0:21:25.0] ST: According to estimates from the NPD group, it's a market research firm, the average subscription price of paid TV a person is going to pay this year is $123. In 2011, the estimates were $86 for the exact same service. Maybe a few less channels. Prices are going up about 10% annually over the past few years. Now, what do broke people do?

And I can say this because I used to be and think this way too. "It's only $123 a month." Or, "It's only $86 a month." It's $1,500 a year, that is sick. $1,500. If your average salary is $53 grand and you're spending $1,500 on cable, that is huge. Think about that, you're probably only watching 10 channels out of the 500, the rest are just in there to think you're getting a bargain. Our house we have Amazon Prime, it's $99 a year, get lots of free streaming with that, prime movies, lots it TV series that have been out.

Warning, Amazon Prime, it is like crack because of the free two day shipping. So you do have to watch your spending. There is a side effect of getting that service. Netfilx we've got that too, $15 a month, it gets us more movies, some other TV series that are not on Prime like House of Cards. Football season, we have an HD antenna. That works best when I stand on one leg doing mountain pose and have the antenna hung around me like a necklace.

Antenna's they can be tricky to get placed properly but for $30 bucks, one time, it gets us all the football games on the local channels. Playoffs and the super bowl, so I'll take it. If you go that route, you do have to have internet service, ours is $40 a month, still, $60 less than what we were paying before, $120 a month for all that bundle package.

So that's $720 a year we're saving because we cut the cord, and we watch less garbage on TV. No more housewives, no more Kardashians, thank goodness. I don't miss the Deadliest Catch a whole lot. I mean come on, they're catching crabs ever episode, what is there to see each time differently? They're catching crabs.

For garbage shows you can watch them for free on Projectfreetv.com. I can't speak to the legality or the ethics of that website but it's out there. Some people like Hulu, Hulu Plus, I mean I'm kind of like my dad was, I just go back and watch the same shows over and over again. Star Trek next generation, Horatio Hornblower, Rome, Lord of the Rings, those are all my standby shows when I'm bored, can't find anything.

We start with Roku, never use it. We have Apple TV, never use it. Now we've got Amazon Fire box, they've also got the Amazon Fire Stick, we use that 99.9% of the time. Easy to use, a lot of people are using Chrome stick, I haven't tried it. Cable sucks, just cut it.

[BREAK]

[0:24:39.5] ST: If you took a poll of all your friends and family, told them your five year goals, what kind of responses do you think you would get? Or if you want to get out of debt right now and you want to do whatever it takes to get there, think about that for a few seconds.

You're likely to find some variation of, "That's not going to work, you can't do that, why don't you do this instead? What if you lose money? What are you going to do if that doesn't work out? No, it's going to be too hard. Why can't you just charge it? You can afford it." If you're lucky, you might get a response of, "Okay." Then if you're really lucky you might get, "That's great, how can I help you?"

Often, striking words that shoot to our core and cause us to doubt, they cause us to wonder and it causes to think, "Maybe they are right?" Well, flash bullet Nation, you are the one who is right, not them. They are just background noise, we all have doubts at one time or another; "Am I good enough, am I smart enough?" You either give in the opportunity to pass you by or you ignore the noise and do what you know in your heart of hearts, you know you can.

Here on the show, you will always get, "That's great, how can I help you?" Day after day, show after show. If you're hearing noise from others, remember, it's just static, not good advice. Those are the words. Can you do me a favor please? Take 30 seconds right now and text three of your friends the link Getfr.com. Please tell them to check out the show. I really appreciate you guys listening, would love it if you could help me spread the word, super simple, just text Getfr.com.

Tell them how awesome my cats are and the advice is okay too. Next time on the show, you guessed it, financial freedom part three. That's it for this episode, I'm your host Scott Alan Turner. Rock Star Katie is my producer, all the links mentioned in the show are available on the show notes at ScottAlanTurner.com. Today's episode is powered by Ben and Jerry's ice cream. Thank you so much for listening.

[0:26:49.9] ANNOUNCER: Okay nation, for your free copy of the guide, "How to save $1,000 in one week", simply subscribe to the podcast right now on iTunes and text the word saving to the number 33444 to prove that you did it. Subscribe now to get out of debt. Save more money and retire early.

See you next time.

[END]