4 Steps To Financial Freedom Part 4

[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 planning a trip to Japan soon. On the show today we'll be answering your questions about money, business and life. If you missed the last episode, we're in a financial freedom four part series, last time was part three, wrapping up part four today.

If you're a first time listener, stop listening right now. You haven't learned about who I am, what I'm about, what I teach or do, this lesson is not quite for you yet. Please go back to step one in this series and get a feel for it. If you start with today's episode, you've never listened to me before, you're going to think, "This guy is a quack." And you would be right, I'm a quack that gets results and improves people's lives.

I want to talk about all the stuff that people who aren't serious about achieving financial freedom, they're going to roll their eyes at. This is absolutely essential and I would not waste my time speaking about it if I wasn't certain and absolutely sure that what I'm about to tell you is what will make the difference between your financial freedom happening in the next three years, five, 10 instead of 25 or 30 or worse, never at all.

This is the difference between reaching great goals and not reaching them. Reaching goals in a short period of time or in a long period of time. It's going to seem like common sense, it's going to seem like no big deal but I'm telling you, I cannot stress this enough, this is the difference between those that reach their goals and those that struggle. Are you ready? Here it is.

It all comes down to your beliefs. I'm not talking about the general feeling of believing in yourself, I'm talking about something that is more specific. If I said to you that you have to believe you can do it, that you can achieve financial freedom and retire early or you can have a dream job you love, you can be completely out of debt in two or three years, you're going to think to yourself, "Yeah, all right Scott, I believe in myself."

But I'm not going to tell you that you should believe you can do it because that's kind of an empty statement. There's not much power in believing you can do something, it's kind of worthless. You have to believe that you can do it but you have to believe that you will actually do it. The difference is, if you believe that you actually will do it, that you'll get out of debt, that you'll have massive financial freedom that you'll live a life of abundance, if you believe that you will do it, you will do it.

Well, what's the difference? Here is what I know. When you set out to achieve financial freedom or some other goal in your life, with every fibre of your being, down to your core, nothing is going to stop you. What is going to happen is that belief is going to drive all of your daily choices, all the things that you're going to do are going to be influenced by that one belief.

You're going to make different choices than those that believe, "Yeah, it's possible, I know I can do it," than if you believe, "Yes, I will do it." Here's an example. If you believe you're going to have financial freedom, are you more likely to continue educating yourself on ways to get there quicker? Are you more likely to learn all the ways you can cut your expenses?

All the ways you can be a better employee if you work for somebody else, so you can get a bigger raise, more promotions? All the mistakes have pitfalls that you're going to want to avoid along your path. Are you going to be more or less likely to keep going along or wishing for a better life? You're more likely to stay committed to the process, right? You're going to follow the advice that other people who have achieved financial freedom are giving you so that you can retire early.

Have a million dollars if that's what you want. Or work from home if that's what you want, or set your own schedule and work on your own terms if that's what you want. It is super important to have this mindset. That's why I didn't waste my time talking about it in the previous three parts because people are like, "Yeah, it's all that positive thinking junk, it doesn't mean anything." No, it does.

All of the people who have achieved exactly what you want to achieve whatever that is to you. They did about laying out a path of goals and knowing they would reach them. Not that they could reach them, that they would reach them. Somewhere along the line, they believed not that they could but that they would achieve financial freedom.

That drove every single one of their choices to that end goal and they achieved it. When you believe it, you will become it. I want to leave you with one final thought from this series: Now is the time to take action, not to listen passively but to take action and move forward. Now onto your questions.

Isaac asks.

[0:05:24.6] I: "I'm looking to try and start a side business here in Aukland."

[0:05:27.9] ST: Another pin on the map!

[0:05:29.6] I: "I would be mainly importing LED's strip lighting from China and reselling to a cabinet making joinery companies. I will probably also look to try and sell through…"

[0:05:39.6] ST: Trade Me is the website he referenced, it's the Craigslist equivalent.

[0:05:43.6] I: "This is my first attempt to start a business, and I would love to glean from your experience, any advice here? Is there any good learning material that you'd recommend on this?"

[0:05:50.9] ST: Importing exporting, you can make money on that certainly, you can also lose a lot of money if you Google importing from China and selling it on Amazon, that exact phrase, imported from China, selling on Amazon, you're going to get a ton of information that is going to be relevant. I have met a couple of people who have done this, while it sounds easy, there's no such thing as easy money.

But yeah, you can absolutely make money on it. You can import goods from China, have them shipped directly to an Amazon fulfilment center, one of their warehouses, and then sell the product through Amazon Storefront. That's just one example. You Isaac, you're going the direct route to the cabinet making companies, that's a little different. You won't have a built in audience like you'd get on Amazon.

You're going to have to hustle a bit more, you're going to have to do more marketing and more sales. If I'm a cabinet maker, I'll probably not sourcing my materials on a websites, probably not going to Craigslist for stuff. Probably been in business a while, I've got a supplier, most likely a salesperson that calls on me periodically, if they're a good salesperson because that's what a good salespeople do. Person is probably trying to keep me happy.

So you've got to ask yourself if I like doing sales and how much you want to do? It's never as simple as a cold call and an offer for a cheap product. You're not going to go through the directory of all the cabinet makers, pick up the phone and say, "Hey, you want to buy some cheaper LED lights?" Who is this joker on the phone?

Small business owners are busy, they don't have time for cold calling sales people. I'm not going to discourage you from trying it, go for it, absolutely. You might consider if you can line up buyers first before placing an order. See what it's going to take in investing your time before you invest your money. See how many clients you can line up front. If it's a little or a lot.

You may be able to get a more informed decision on what to do next, you may be able to get a great deal on a big bulk order if you get a lot of people lined up. I'll give you a quick story, my mother in law worked for a gentleman who is in the dynamite business. Dynamites, it's one of those business that you never think about.

He exports dynamite from America to Mexico. Because you cannot sell dynamite directly from the US to Mexico, you have to go through a middleman, you have to. It's required by law. What does a middle man do? Not a heck of a lot that's for sure. Not a heck of a lot, but this guy made millions and millions of dollars every quarter. Not every year, every quarter.

Millions of dollars just by setting up this business and acting as a middle man. My mother in law actually did most of the work. He just sat back and rode on his private jet, he's got a couple of condos down in Cancun, loaded, this guy was loaded. Oh my goodness.

Anyway, you can make a lot of money being a middle man but you've got to hustle early on and then you can hire somebody to take over the work for you. I would not be doing this show if I could have ever gotten Katie to start a dynamite company for me, it would be making $25 million dollars a year but she wouldn't do it. Here we are, talking about personal finance instead of being out there, selling dynamite, traveling the world.Thanks Isaac for the question.

Ryan in our Facebook community posted a question about medical debt.

[0:09:23.7] R: "Last year in 2015 I racked up a lot of medical debt and I have only paid a small amount towards it. Your last podcast…"

[0:09:30.6] ST: That would've been a while ago.

[0:09:31.1] R: "…talk about dealing with collections agencies for a reduced amount as long as you pay off in a lump sum. Does that work with medical debt? How does medical debt affect your credit? And that seems harder because of how they bill every single person gets to bill you separately? The reason I haven't paid much is because I had a bank loan which is almost paid off in a high interest credit card. I thought paying the credit card would be better for my credit score?"

[0:09:53.6] ST: Medical bills, they do not show up on credit reports as outstanding debts until or unless the bill's gone into collections. If you're making the minimum payments each month on medical bills, your credit score will not be impacted.

As soon as you start missing payments though, the medical provider or in your case providers, all the doctor's offices are going to turn their bills over to a collections department. Once the collector contacts you, it's probably too late. The unpaid bills will be on your report and the medical providers, they don't mess around, if you're 90, 120 days late, the bill goes to collections.

They don't wait, they don't make a phone call for you, you get a letter in the mail, they're not going to hound you and give you a reminders. So making on time payments on your credit card, your auto loan, your mortgage, it is more important to your credit score, but you don't want to fall behind or miss payments for the medical bills. Any unpaid medical bill on collections that will hurt your credit score.

If you have huge amount of medical bills, you're worried about missing one or more, college hospital, sooner, you'd be proactive about it, call the doctors and you explain the situation. Many will accept a partial payment, they'll spend late fees, interest charges, they will work with you. They can be better to deal with in the credit card companies and give you a break avoiding unpaid bills going into collections.

A collection, that can be on your report for up to seven years and while your score would rise over time, best to avoid the headaches now. When you can't afford to pay the bills or you've got just tens of thousands of dollars in medical debt, try to negotiate with your provider and get those balances down.

Sometimes your best bets are when you could pay a full amount in cash. To make up an example, let's say you've got a $5,000 medical bill with a hospital and you've got $1,500 in cash that you come up with. You call the billing office on the phone, make an appointment, go in and talk to them face to face, that's going to help. Explain the situation and you say, "Hey, I've got a lot of debt but I can write you a check for $1,500 right now if you can work with me and right off the rest, take care of this."

Then you sit back and see what they come up with. If you succeed, you want to get everything in writing before writing that check. But there's no hard and fast roll, it's how low you can go. It's a negotiation like a lot of things, you never know. Are you going to get it for $1,500 if you owe 5? Maybe. Maybe they come back with two or three, you've just got to try.

If you're somebody who doesn't feel like doing that, you're not comfortable, you're not sure, you got a really lot of debt and you're just buried, a billing advocate is another alternative for you. There are pros and cons of using them, they can negotiate lower rates for you but they're going to charge you for that. Some charge an hourly rate, some get paid a percentage of the money they save you.

Now, the example if you've got $40,000 in outstanding bills, they negotiate your bills down to 20,000, they might charge you 30% of the $20,000 they saved you which would be six grand. That's sounds like a lot but they saved you 13. You got to think in terms of that, how much am I saving? Even though it cost you six to do it.

I mentioned before in the show, I search called Disputebills.com, they charge $100 an hour or 30% of the savings they get you. Thanks Ryan for the question.

If you have a money related question you like answered, please go visit goaskscott.com to get in touch with me, that website has my email address, Twitter, you can also leave me a voice mail. Please contact me, I'm here to help you

[BREAK]

All right, I think I'm sounding awesome today. Work on fighting off a cold. Peanut butter versus peanut butter. No, we're not actually talking about peanut butter but I'll get to the point in a second. When you go out and you buy food, it's got labels, I got a couple of jars of peanut butter in front of me. Let's read my peanut butter, this is the one that I eat.

Ingredients: peanuts and salt. Then you look at the nutrition facts on here, you've probably seen them before, if you go through the grocery store, your serving size, your calories, fat, cholesterol, sodium, carbs, fibre, protein, sugars, some vitamins and all these other stuff. A lot of information on the back.

Now, let's read the one that we feed my kids. Bad lighting in here, I can't even see this. Let's see, what do we got? "Made from peanuts," I actually thought that said, "May contain peanuts," I would hope so, it's peanut butter. "Made from peanuts, roasted peanuts, sugar, 2% or less of molasses, hydrogenated vegetable oil, mono and diglycerides and salt, that's what the kids get. Sorry kids.

What else we got in here, then the nutrition facts. You can compare the two when you go through the grocery store, sometimes I do that with different products to see what ingredients there are trying to determine which is better or not, which brings us to today's word, prospectus. I think it sounds kind of Greek, it sounds very impressive so you can go out and impress your friends with those words.

You get a prospectus when you own a stock or mutual fund, they will send this to you each year, either electronically or in the mail, they're very thick, they contain a lot of information. You probably don't even look at it, if you're on a 401(k), you get one for each fund that you earn in the 401(k), you probably don't look at it, you pick it up and throw it in the trash bin or the recycle bin.

If you ever opened one up, the managers of fund or the CEO of the company they start it out, "Hey everybody, hope you're doing well, we had a good year." Or sometimes you get, "Hey, hope you're doing well, here's what happened this year: the Kardashian new clothing line went berserk causing a textile scarcity in Taiwan and that caused the price of corn to dip in Brazil and inclement weather in Canada made for an increase in the population of stray cats in Mexico so we lost money."

That's the kind of stuff that's in there, it's just a lot of jumbledy jumble. What is important in a prospectus is it contains the management fees. The management fees. When you're comparing peanut butter to peanut butter, you look at a nutrition label on the back of it to see what's in it. When you're comparing one mutual fund to another mutual fund, you would look at the prospectus or more often than not, they have that information online.

Usually at the very top of the mutual fund it says the expenses associated with it because that's something that everyone cares about. Kind of like when you're looking at food, what is the calorie count on this? What is the calorie count? We want to know what the management expenses are of a mutual fund when we're shopping and comparing them.

In a prospectus, if you dig down into it, contains that as well as well as tons and tons of information about how that fund is managed or in the case of an individual stock, what's going on within that company with their spending their money on salaries, manufacturing inventory, what they think the market is doing. There you go, word of the day, peanut butter. Now, back to your questions.

Amy has a question on investing.

[0:17:33.9] A: "I have a Motif account and just signed up for Betterment. I feel like I don't really know what I'm doing. I have a six month rainy day fund but it's been tough to save beyond that and try and slowly pay ahead any student loans. Overall I just need help on feeling that I' in control of my finances and not them controlling me."

[0:17:51.2] ST: Congrats on getting that six month emergency fund, that is a big step in a lot of people's finances. Nice work on that. Once you have one of those in place, you do sleep a lot better at night. Let's discuss Motif first. If you're not familiar with Motif, I'm going to explain it to you. On the Motif website, in the biggest print on there, they have one year returns of some of their funds.

Cyber security 26%, the Connected Car Fund, 22.3%, and Home Improvement, 27.6%. Those are pretty impressive. Those are huge numbers. They are way bigger than what the S&P returned recently right? The overall stock market and they're way bigger than the 10% average returned by the overall market over the past 80 years.

So those are impressive and they're there to get your attention. People see those big numbers or they hear about how their friend's Apple stock is doing and they think, "This has got to be better." Big numbers, sorry, they don't tell the whole story. The first index fund was created by a guy named John Bogle of Vanguard back in 1976. The goal of that fund he was creating was just to try to get the same 10% return of the overall stock market had averaged up to that point.

Wasn't trying to beat the 10%, just get 10%. Because he found professional money managers fail to get a 10% return 75% of the time. Now, the 75% number has gone up since then. He found, not only that professionals didn't earn 10% on the money they managed, but because they are active and trying to earn more by buying and selling stocks more frequently and paying themselves very well, that comes into the management fees, the professional investments cost more to manage.

They're called active — actively managed. When you pay someone to manage something, it cost you, the investor, money. Since 1976, countless universities studies, studies by Nobel Prize winning economist, they show the same thing, passive investments strategies where someone tries to get 10% return over a period of decades beats an active strategy where a professional broker or online service like Motif tries to do better than 10%.

I could bore you with the studies, the details, I won't. In 40 years, no person, no fund, no piece of software has consistently beat the market average of 10%. While all the funds will show you great looking returns over the past five years like you see on the Motif home page, what is important is how an investment will do over decades, not the past one, three or five years.

In short, the tortoise is always going to beat the hare. Here is what the mice type says on the Motif website and I'll explain what it means. Here's the beginning of the quote, it says, "Average annual return based on averaging the returns of 113…" do I really want to read this? No, I don't. I don't. It's very long, I don't want to bore you.

But anyways, it's on the home page, in investment speak, what it says is, past performance is not an indicator of future gains. Past performance is not an indictor of future gains. Doesn't matter that it earned 22% last year, only matters when I'm going to earn over the next decades. In layman's terms, what Motif is saying in their mice type, it's not mice type but it says:

"We did pretty well in the past few years but we have no idea what's going to happen tomorrow or next year." That's how they cover themselves. What we know as smart investors, you and I, we know over the past 80 years, the stock market averages 10%. My investment strategy after losing $40,000 trying to beat the market and be an active manager is to get 10% because then I don't have to do any work.

And to encourage others to stay away from Apple stock and active funds and trying to beat the market and fall for the marketing hype. The reason Betterment does so well and they're growing so rapidly is because their strategy is the same. They invest only in vanguard funds, the ones I talk about, the one founded by John Bogle.

The people who follow Bogle, they're actually called — I don't know if I'm pronouncing his last name right. They call themselves Bogleheads. Come up with their own name for their following. And Betterment makes it easy, you pick your target date for when your retirement is, they handle everything else for you, easy to get started.

If I'm you, I'm not investing in Motif, I'm keeping it simple, I'm keeping it boring, I'm being the tortoise. I'll take my 10% because it's what people much smarter than I have proven to make more money over a period of decades. If you want advice from one of the richest men in the world on what he thinks about index funds, I've got an article in the show notes from the oracle, Warren Buffett.

He gives advice to Lebron James on Index funds. In short, if you don't want to read the article, he says, "Lebron, you're better off investing in index funds." If the Oracle of Omaha, Warren Buffett, says that about index funds, I'll take that.

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

[BREAK]

[0:23:38.8] ST: Hey nation, Scott Alan Turner here. 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 a Fender amplifier because only Marshall's go up to eleven. Or recommending you to buy endorsed legal services from Dewey, Cheatem and Howe. No, I have a name to uphold to you my wonderful listeners.

But if I were, if I were to recommend something to you, I would tell you about Gold. Golden honey that is, from the Bad Bee Honey Company. 100% raw, natural, unfiltered Texas wildflower honey, harvested from only the finest Italian bees. Maybe they're Russian? I don't recall. You can't buy it in stores, you could only win Bad Bee Honey by being in the Rock Star Nation which you are because you're listening to me. Bad Bee Honey, it's stickier than the rest.

[CONTINUED]

[0:24:35.6] ST: Welcome back Nation, Sapphire on my YouTube channel asks:

[0:24:39.2] S: "I'm very new to all this so I'd like to know this. It comes time for you to collect your money after 10 years or however long you have it in an investment place. How do you go about doing so? Would they deposit it then to your checking account? Send you a check, how exactly will you get your money? And if you choose not to continue using Betterment, would you be able to get back all the money you've already invested plus the gains?"

[0:25:01.9] ST: This is one of those questions that people who have been investors for a while, we take for granted, and it's why so many people have a tough time understanding investing in general because the people that explain it speak in a vocabulary that is pretty much a foreign language to most people.

It's even hard sometimes for me because I get a question on a Roth IRA and I may have to answer it using terms like asset allocation or diversification and you might not know what that means. But if you listen enough, I cover all those things, it's just tough to define it to the lowest common denominator of "what is the stock market and how does it work" every time we talk about investing.

I appreciate this questions and I thank you for them. Nobody should be embarrassed about asking, "Hey, how do I start saving money?" At some point, each of us doesn't know the answer to that question. I didn't learn about the importance of compound interest until I was 25 I think.

Now, I passed calculus, one and two in college, but at 25 I finally got compound interest rate. Then it became real for me and it is way easier to understand than calculus, which I still don't understand. So you started investing, you want to get your money out of the account, how do you do it? You can call the brokerage on the phone or you can use their online tool, most of them have them.

You sell all of what you bought, what you bought are called your holdings, and your request to brokerage to send you a check for the money. Normally, it takes about four to seven days to get your check on the mail and that's it. Super simple. You can opt to close down your account when you're talking to the rep on the phone if you like.

It is your money, the brokerage doesn't get to keep it, they're just holding it for you in investing. You can move your funds from one brokerage to another and take all of your money with you. Now there are some caveats in that, if you got certain funds at one brokerage that the other one doesn't have, you may have to sell all of what you have at one brokerage, put it in the other one and then buy something new.

Another thing, if you've made more money than what you put in, you've got to pay taxes on that. Say you invested a thousand dollars, in 10 years it's worth $2,500. If you were to draw funds, you would likely to pay taxes if you made money on it. If you're transferring a retirement account, let's say a Roth IRA or regular IRA from a brokerage to another, you won't pay any taxes on those gains. You only pay taxes on those when you start withdrawing on the funds in retirement.

If you are investing in a retirement account like a Roth, you pay an early with a draw penalty if you withdraw before age 59 and a half under some conditions if you're withdrawing the gains on a Roth. Roth IRA, IRA, 401(k), those are special accounts and they have early withdraw penalties because they're designed to encourage you to save until retirement. If you invest regularly in non-retirement accounts, not a Roth IRA, regular old brokerage account, you can put money out anytime without any penalties at all. Thanks sapphire for the question.

[BREAK]

[0:28:17.7] ST: "You will never change your life until you change something you do daily. The secret to your success is found in your daily routine." That's a quote from John C. Maxwell. 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. 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, how awesome Katie is and the advice is okay too.

Next time on the show, Next time on the show, let me look it up, I just closed my browser window. Oh this is going to be a good one. Gun-ta-be a good one. How to afford a $200,000 Ferrari 458 Italia. 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.

[0:29:20.8] 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.

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