Evil, Evil Credit Cards. Evil, Evil Donuts.

Scott A. T.: Broadcasting from One Dallas Tower in the great country of Texas, this is Scott Alan Turner, the financial rockstar and high priest to the church of the Financial Truth. Here to help you get out of debt faster, save more money, and retire rich. In the studio with me is producer Katie, who has a chihuahua, who is her best bud and is eight years old. On the show today I'll be answering your questions about money, business, and life. If you have questions you'd like answered, please visit GoAskScott.com.

Got a question recently from Rene. She said, "My husband and I are responsible credit card users. We pay it off every week, we have one card. We put everything on and it earn points that we use towards hotel rooms throughout the year when we have to travel. If I didn't have this card and didn't earn the points, then we would be out a considerable amount of cash. I've recently started budgeting, I've found it helpful in keeping us accountable, giving us perspective on what we're spending. I haven't found any opinions on this sort of topic, only, "Cut up all the cards and pay cash." I just don't see the harm if there isn't any underlying issue with the credit card. Any insight would be great."

I have in my hands a little item, it measures about two and a half inches by three and a half inches, it's one sixteenth inch thick. For those of you on the metric system, my international listeners, that is six centimeters by nine centimeters, by one millimeter thick. Is it a business card, is it a license, my insurance card, my Costco card? No, it is a credit card. Some people say it's evil, the people giving out the banks, the banks, they're evil. I can't argue the giant mega banks are evil, but a different topic. I got this card, it's in the studio. It's right now on my desk in front of me, and it's been there for awhile. I got it out when we started doing the recording, getting setup earlier.

In case you haven't figured out cause you're hearing my voice, so far it hasn't tried to jump up and get me. It hasn't made a grab for my pen, stabbed my hands, it's not thrown the stapler at me. If it does, you're going to know because I'm going to ... "Ah," I'm going to scream because that would be crazy. Right now it's just sitting there, it's pretty chill, pretty chill. No different than if I put, say a delicious container of Ben and Jerry's on my desk, which I very much love. The Ben and Jerry's is not trying to kill me. Now if I ate it for breakfast, for lunch, for a snack, for dinner, midnight snack every day, every week, every month, I'm going to be in some trouble. I'm going to be really, really large. I'm going to lose all my energy that I have, the shows going to go on like this, I'm going to be very lethargic, I'm probably going to die a lot earlier than I would otherwise. Arteries going to clog up, I may have a heart attack.

You know what? The ice cream isn't evil. I don't eat it everyday. I do have one a week, occasionally I might have two, sometimes I have none. Yeah, there are occasions where I don't eat any at all. Usually that means that I'm on vacation somewhere eating out every meal, but week to week once ice cream, my treat for the week. I'm not going crazy.

Now there was a time way back when things were different, before the dawn of television, and the days of five hundred TV channels. I just had the basic cable, and I got sucked into the cooking shows. Not the good ones like you've got on today with Food Network, Food TV, cause I had the basic cable. It was PBS, Public Broadcasting on a Saturday. In my single days I was an apartment dweller, forty channels to pick from, I ended up watching PBS on Sunday afternoons, or Saturday. I was super cool and popular back in those days. I got hooked on Julia Child, the Cajun Chef, America's Test Kitchen, which is a wonderful show. I really liked Julia Child and this other show about deserts, I don't remember the name of it.

Well the cake looked so delicious I decided I was going to make one, and I got hooked, and the cakes were amazing. I am talking five star restaurant amazing. I bought a couple cake baking books, I went hog wild on these recipes. Every Saturday, because I had no life, I would spend two, three, sometimes four hours making these intricate cakes, multiple layers. That's not cooking time, that's just physical working time. These are not Betty Crocker mix in a bowl, these are epic works of deliciousness to die for. Monday ruled around, I'm bringing the cake into work, share with my co-workers, but I'm a glutton folks. I'm a glutton, I would usually end up eating a third to the half of the cake myself over the course of a week. I would not always bring all of it in.

After a few months of doing this I put on about fifteen pounds, and I had the old muffin top going on. One guys like, "Dude, you gotta cut down". The thousand, fifteen hundred calories, two thousand calories a day of cake, they're finally catching up with me. It was a bad habit I developed. I didn't have the discipline to not eat cake everyday. Credit cards can be a bad habit, if you don't have the discipline to not use them everyday. Credit card debt, it's a huge problem. Average consumer of credit card debt is fifteen grand for people that have debt. For the people that don't, the average household owes about seven grand. What I was getting at when I started, I said, "I got a credit card", and I love it, and I use it, but I don't carry a balance. I don't have credit card debt, I used to have credit card debt, just like I used to be fifteen pounds overweight from eating cake all the time.

There are millions of you like me that use a credit card all the time and pay it off each month. We're getting the benefits from it, and we love it, and we can use it responsibly. That is the key, we can use it responsibly. The credit card is not evil, it is just a piece of plastic. At the end of the day, it's just a piece of plastic. It's a tool in our financial tool belt. You need to know though, when you carry this you are likely to spend more. You will spend more at some point. Some studies show twelve to eighteen percent. That's because people feel differently about spending cash versus handing over plastic. Cash hurts more, cash makes you a more conscientious spender. When you spend cash, when you're on the cash budget, you be better at spending.

I spend more with my credit card than if I spend cash. I know that's true of myself because I've used the all credit card budget, I've used the all cash budget, and now I use the hybrid system. I use cash for some things, credit for other things. Particularly true if you're an online shopper. It's so easy to click, "Buy now, buy now, buy now." I've got some doodad sitting in front of me I ordered three, four weeks ago, I don't even know what this thing does anymore. Why I ordered it? It must be important though, because it's still unopened and in the package. The key is having discipline with your spending plan. If I say, "X dollars a month for household goods," stuff like, I don't know. Grill scraper, new cooking pan, fertilizer, doormat, whatever, it doesn't matter. It doesn't matter to me because I pay attention to the total spending.

If I'm always at or under budget in that spending plan, in that spending category, who cares how I pay for it? Do you care? Should you care? If you're saving enough, if you're achieving your goals, if you're sticking to your plan, cash, check, or charge, why does it matter? It doesn't. Again, most people, you're going to spend more with a credit card. If you use cash instead of credit, for say a clothing budget, I guess you'd end up with twelve to eighteen percent more clothes if you paid in cash. You'd be a more conscientious clothes shopper, you'd get more clothes. At the end of the day you'd spend the same amount. Why not put it on the credit card and get some rewards back?

Cash budget, yeah, I get it, it works, we're on it, for groceries and entertainment. You're going to stockpile money, you're going to spend less. I was on a budget than, I was on a budget now, but am I spending more now? Well I'm under or on budget so why does it matter if I use a credit card? Why should it matter to you? If you've got a spending plan, if you can stick to your spending plan. If you have goals, you're hitting your goals, whatever they may be ... house down payment, vacation, new car, does it matter how you pay for stuff? No, it doesn't, it absolutely doesn't.

On the flip side if you can't control your spending, if you can't control your credit card, yeah, absolutely, cut them up. Stick them in the freezer, and that's half the country that has this problem. For the other half that's paying off your balances every month, get the points, get the points. If you're saving what you want to save, if you don't have debt, if you run your spending plan so that you have the money to pay off the credit card bill when it comes in, you come out ahead, you come out ahead. Credit cards are not evil, if you're going to spend the money anyways and you have the funds set aside to pay it back, why not get the points?

On top of that they give you better protection than debit cards. This is an undisputed fact. I've covered it many, many times. I've had many, many stories on here. Both from my own life, and other listeners. I'm not covering that again right now. Millionaires, millionaires, seventy percent of them carry a credit card. That is a fact, it's in the book, "The Millionaire Next Door." It profiles thousands of millionaire's. Maybe just a thousand, but it's a fact. It is conveniently left out by the never, never credit card crowd, but it's in the book, it's in the book. You don't get to be a millionaire by charging to a credit card, you get to be a millionaire by having a spending plan, and spending less than you earn, and investing the rest. A lot of people who have debt and go into bankruptcy have a credit card, so you can get into debt or go into bankruptcy by charging to a credit card. You can avoid that by having a spending plan, and spending less than you earn. Even that doesn't always help. You know why it doesn't always help? Stick around and find out. All right, break coming up, then we'll be back, wrap this up.

Credit cards, what happens if the dog eats a shoe on Saturday night, it gets sick and you have to take them to a twenty four hour vet? Your choice is to charge the card, or be broke. Charge the card and you're broke, or save the dog. You're going to save the dog. I wouldn't blame you for doing so. No spending time covers that when you're young, broke, fresh out of school. It's stuff like that, I had to charge twenty five dollars to a card for a car stereo, charging twenty five for a car stereo to a credit card, that we have to work on helping people avoid. I'm going to support you if you want to freeze your credit cards and never use them again, I am going to support you if you want to pay them off every month, build up points, and take a free trip to Grand Caiman on the points. I want to help anyone that's buried in debt, and wants to get out of debt, and so I'm going to ease back on the credit cards and use them responsibly after they figure this stuff out, like I did.

Different choices, different people, different phases of life. Donuts, now those things are evil. They jump out, you in front of them, top of the kitchen shelf, right into your mouth if you're not careful. Let's move on, your questions.

Katie: TJ in Southern California here, fellow guitar player and aspiring financial rockstar. I love the show and have been burning through your episodes on my brutal commutes into LA. My wife and I are thirty six, and while a lot of things in our financial house are in order, we have been mostly on the sidelines when it comes to investing. This past year I've really been motivated to put our money to work for us, and reached out to a family friend who has ten plus years in money management. He takes a one percent annual fee on the total money managed. I do believe he would act in our best interest based on the relationship, and how he has compensated.

Around the same time I reached out to him is when I started listening to you. I feel like I've learned a ton from listening to your shows, and I'm now leaning very strongly towards investing in Vanguard's, low cost index funds on my own. My question is, do you think I should use my family friend at one percent, or go it alone? One thought was to use him for a year or two to get into the right funds, and then reassess. Are there any additional fees that you are aware of if I stopped using him? For instance, we will have two Roth IRA accounts, and a joint account potentially to set up with Vanguard. If I were to stop using his services and manage my own accounts would there be some kind of management transfer fee?

Scott A. T.: Many, many, many, many people are sitting on the sidelines waiting to invest because like you TJ, they have the fear of getting into the market, and watching their money poof, vanish, disappear, lose money, "My money's going to lose money, and I worked hard for that money, I don't want that to happen." Generally people are more afraid of losing their money than they are excited about making money, is what it comes down to. You gotta set yourself up to know, you are going to lose money. It's going to happen, going to happen, hundred percent guaranteed, going to happen. When you get into the stock market, at some point you're going to lose money.

Here's the thing, it's almost a certainty, we can't say a hundred percent ... well I can say a hundred percent certainty because I'm not regulated like a registered investment advisor. A registered investment advisor could not say, "Yeah you're absolutely going to make money in the stock market," because that's not allowed, they're not allowed to do that. If you go back way back to 1926 when the stock market was first started tracked as MP500, you can see people have made money. We've made money over the past fifteen years, twenty years, there have been a down period if you look at any ten year period of the stock market, the market's been up ninety five percent of the time. I think over a fifteen year period it's never been down. Don't quote me on the fifteen year though, I'm not a hundred percent sure on that one. Haven't looked at my fancy chart lately.

Here's the thing though, when you follow the investment philosophy of ... just forget about the underlying investments. Proper assets allocation, stocks, bonds, domestic, international, dollar cost averaging, putting money in month after month after month, no matter what's going on in the stock market. You do that over a period of decades, it is almost with a hundred percent certainty that you will make money, you will make money. Yeah, some of those periods you're going to lose money. If you're in low cost index funds, like Vanguard, like you mentioned, you're going to make even more money compared to actively managed mutual funds. Again, almost a one hundred percent certain guarantee based on academic research.

The losers, the people who lose the most are the people that buy at the top, sell at the bottom. They get nervous when things go south, rather than buy into the plan, "Alright, things are going to go south, but once they're down south they're going to go back up. They're going to go back up north, they're going to go higher, and increase." When again, look at a period of the stock market over decades and decades, it goes up, even though it's gone down a lot. You got to buy into the plan is number one.

Number two, when you do proper asset allocations doing stock and bonds, based on your risk tolerance, not a hundred percent in stocks for example, maybe you do something a little less than that depending on your age, age appropriate asset allocation. Then you don't sweat the bad times as much because you don't lose as much. You don't make as much, you don't make as much, but you don't lose as much. Sometimes that's the thing, that's more important for a lot of people. A good investment advisor, investment professional who sits alongside you, who consults with, who somebody who manages your money, they keep you from making those dumb mistakes, and getting out at the worst possible time. That's what they're there for. Studies show, I think Vanguard did a study, people who work with an advisor generally do three percent better per year compared to somebody who's doing it themselves.

The majority of that is they keep you from making the stupid mistakes, getting out when you should get out. Stay in the game, if you want to win the game you stay in the game, that's what it comes down. I'm going to start off with the second question first, "Are there any additional fees if you were to stop using an advisor?" No, what happens is you have control over the money at whatever financial institution that you're out, and the advisor has control to buy, or sell, make trades on your behalf. When you leave there's no cash out, they're just taken off your account, they don't manage it anymore, simple. The only fees you would incur is say if you were at Merrill Lynch and you decide, "I'm going to go over to Vanguard." You sell everything at Merrill Lynch, move over to Vanguard, there's going to be transaction costs, may be capital gains depending on what type of account you have. There's no issue with that, but if you got somebody manage your Vanguard accounts, and you say, "Alright, I'm done, I want to do this myself." No, there's no charge for that.

Should you use this person? One percent for assets under management, that's what it's called, AUM, is the industry average. You have to decide whether it's worth working with this person, or not. Another option is Vanguard charges .3 percent for their advisor services if you use their robo advising service. I don't know outside of that what it is, but their robo advisor is .3 a year, and then on top of that they have an advisor service for an additional .3 percent. It's a .6 percent for assets under manage, that's a pretty good deal, getting somebody to talk with.

Alternatively you can just pick up the phone and call Vanguard and say, "Hey, help me out. I've got this money, what do you think I ought to do?" Get them to give you some advice, maybe they'll give you some free advice, spend a little time with you. I've had plenty of friends who started with an advisor, did what you're doing, kind of learned a little, and then sometimes their financial situation changes and they say, "You know, I just can't afford this anymore," so then they stop working with the advisor.

If your long term goal is to become a DIY, do it yourself investor, it may be more cost effective for you to just go pay somebody for a couple hours of their time and say, "You can help me out," if you decide not to go with the Vanguard services, that's another option. It will be a little bit cheaper, if you get a hundred thousand dollars, one percent assets under managed, going to pay a grand a year. You can probably find somebody who's going to charge a couple, three, four, five hundred bucks as often as you want their time. Once a year, once every couple years, to review your situation and give you some advice. Again, you're going to miss out on that hand holding, and keeping you from doing something silly at the worst possible time. If you buy into the plan, if you stick with the plan, if you know in your head, "Market's going down, we are going to ride it out no matter how bad it gets, we're willing to use X percent of our money because we bought into the plan," and the plan works, the plan works, it works, it just does.

You just have to buy into the plan, and have a little iron in your stomach for those down times. Knowing when the good times come back, they're going to be really, really good. Really, really good. Thanks for the question. Quick break so the cats don't have to eat the cheap cat food, you're listening to Scott Alan Turner.

Hey nation, Scott Alan Turner here to tell you about my good friends Brad and Carolyn. Katie is this Carolyn, or Caroline? Line? Are you sure? Oh you talked to them on the phone, were they nice? Oh, all right.

Hey nation, Scott Alan Turner here to tell you about my good friends Brad and Caroline. If you're looking for ... hmm? Oh did I mess it up? Line? line, line, line, all right, I'll just write that down, L-I-N-E.

Hey nation, Scott Alan turner here to tell you about my good friends Brad and Caroline. If you're looking for a new cap, visor, scarf, du-rag, guarding hat, ski hat, check out Hat Heads. They even carry ear muffs for those chilly days. All their caps are manufactured right here in Mexico. Hat Heads, found at malls everywhere. Ask for my good friends Brad and Caroline, tell them Scott Alan Turner sent you.

Katie: Camry is getting tired of living paycheck to paycheck. She says, "I'm a single mother of one, I am twenty five years old and I work full time, forty hours a week. My problem is that I want to make an abundance of money, but I feel like I cannot get anywhere during this forty hour workweek methods. I have dreams, but I also have to put food on the table, and a roof over me and my sons head. I need to learn to budget. I'm getting tired of this paycheck to paycheck cycle, do you have any advice?"

Scott A. T.: You certainly have the added challenge of being a single parent with a child. You don't necessarily have the luxury of extra time to make extra money working extra hours. Let's sit that aside for a moment and we'll come back to it, let's work with what you got right now. To get out of that paycheck to paycheck cycle you can cut costs to free up more money to do other stuff, or you can keep the costs the same, your expenses, and earn more. Let's focus on cutting costs first because that's where most people can get ahead relatively quickly. You mentioned budgeting, I've got an article on my website, how to do that step by step with printable documents. Budgeting is not too painful. It's not a bad word, it's not the pits, it's a lot better than having to work out three days a week, I'll tell you that. It puts power, and control back in your hands.

It serves as your financial compass to get you to your desired goals. In your case, financial abundance and breaking the paycheck to paycheck cycle. The simple act of recognizing, "Hey I spent five hundred dollars in groceries last month, I never realized that." Maybe it's, "I eat out five days a week for lunch, it's costing me two hundred and fifty dollars a month. That's a lot of money, that's an insane amount of money on my salary." Maybe it is, maybe it isn't, depending on what your salary is. The first thing is to just start tracking your spending. Spending your money on paper before you spend it for real. You can use a piece of paper, Google Doc, Mint.com for a software solution, that's free if you want to go technical. Any one of those, but just figure out, "Hey where's my money going? Did I realize I was spending that much on X, Y, or Z?"

Then start from there, saying, "No, I want to tell my money where to go. I don't want to end up at the end of the month not wondering where it went." I think that's where you are right now. Just waking up, seeing where the money's going, cutting costs in the areas where you're comfortable cutting costs in. Spending money on things that are not ... spending less money on things that are not important to you, that's the simple place to get started. You can go crazy and cut a lot, or you can be moderate and just cut a little. Just giving yourself more buffer, more margin gets you out of that paycheck to paycheck cycle pretty quickly if you've got margin there that you can work with. You'd never find that margin unless you actually start writing it down, figuring out, "Oh, where's all my money going?"

From there, how do you accelerate it? How do you really get out of that paycheck to paycheck cycle? You can do a short term sprint to get ahead. We did this our first year of having the twins when we started a new company, did a sprint. It was miserable, it was a grind, start a new business. Kids don't know a whole lot from age zero to one, so I don't feel like I missed out compared to missing a soccer game, a dance recital if they're older. I missed out on holding them sometimes, but at that age they tend to sleep a lot, they're not doing too much. It was a short term sprint.

Can you give up three months, or six months of your life to bust it, and get ahead? Take your son, hand him off to somebody for a few hours a week so they can watch them. You can go out, work a few extra hours, work a little over time, pick up a side gig so you can accelerate the pace that you're going. Would it be worth it to you and your family to do that? Only you can decide that, whether you want to do that, getting beyond the forty hours a week. It's a sprint, it's not something you do forever, for the rest of your life, we're just trying to get ahead, get ahead.

You've got to be encouraged Camry that while you are unique, your situation is actually quite normal. The majority of people are in the same boat. The simple act of recognizing, "Hey, I'm on this ship to nowhere, I don't ever remember climbing aboard though." You recognize that, and when you recognize it you can get off at the next port, choose the next ship that you want to get on, the destination that you want to sail too. You've already got the awareness, so that's a great first step. Now you get to start tracking the money, that's the next step. Then you figure out, "Where do I want to go after that?" Thanks Camry for the question.

Katie: David adds a couple points about 401k loans. He says, "I'm a recent subscriber who loves to listen to your show to keep me on track with paying off my debts. I do have one comment about the 401k loans. I'm in complete agreement that the notion that a 401k loan should be avoided at all costs, however you indicated that having an outstanding loan could prevent someone from hanging jobs as the loan becomes due within sixty days. This is true, but not the whole picture. Some, although likely not many plans, will allow a participant to roll over an existing loan to the new plan. Also if the participant leaves without paying the loan, and becomes deemed as a distribution, subject to regular income taxes and a ten percent penalty. It would be up to the participant to decide if the cost and penalty is worth it for the new opportunity." David is one hundred percent correct.

Scott A. T.: Normally you can't rollover a 401k loan, sometimes you can. For example, if your company was acquired and you weren't terminated, you might have the option to roll the loan into new employer's 401k. It's not common to be able to have this option, so it's not something everybody should count on. What's the draw back if you leave your job, either on your own or you're asked to leave, and you've got an outstanding loan on your 401k plan? Well you got a couple options, you can pay back the loan in full within sixty days, assumes you've got the money to do that. A second option is you don't pay it back. If you don't, the IRS is going to treat it as an early withdrawal from your 401k, you're going to get the ten percent penalty on top of the outstanding loan balance, and you've got to pay taxes on distribution.

When you factor in federal tax, state tax, the penalty, that can be in the thirty, forty, fifty percent range of the outstanding balance that is going to become due. It's pretty costly, well what options do you have? One is you can borrow the money to pay back the loan, save you from paying that forty, fifty percent because you can borrow the money at a lot less than that. You might consider things like a home equity line, borrowing from family or friends, which an be a disaster but so is forty or fifty percent on the 401k loan hit that you're going to take. Here's another option which I came across doing some research on this, I don't have any details on it other than what I'm about to share. It sounds interesting and plausible. Let's say you've got ten thousand dollars on a 401k loan, you borrow ten thousand dollars from somewhere else. You find ten grand that you can use, then you pay off the loan during that sixty day window, or before you move onto your next position if you're leaving voluntarily.

Roll the old 401k over into your new 401k at your new employer, assuming you're going down that path, you have a new employment opportunity. Once you're at the new employer, take out another loan for ten thousand dollars. Pay back wherever you borrowed it from, and you've got your 401k loan again. Somewhere in there in the research the person said, "Roll the 401k to an IRA first, and then roll the IRA into a new 401k." I'm not familiar with that. Lots of considerations when you're thinking about this though. You've got to check with your holder of the 401k to determine whether the plan allows you to roll over money from an IRA. Can you borrow the money to pay off the loan? Do you have a new employer already lined up that has a 401k plan? I mean that's a big component of this if you're going to go this route. How long before you're at your new employer, before you can take out a loan once you've started work?

In that point on the ten percent penalty David, yeah. If you have twenty thousand dollars in a 401k loan and you have the option to go to work for somewhere where you're getting a bigger salary, maybe you get a five thousand dollar signing bonus, whatever. You've got to look at all the considerations. There are plenty of situations where you would give up money for the prospect of making more money, in the short or the long term. You might choose to give up some stock options, you might choose to give up the un-invested 401k company match your employer for the long term prospects of going somewhere else. You may look at paying five thousand dollars to move from one city to another city in order to get a pay raise, if the new employers not going to cover your moving cost. There are a lot of situations where you would pay or give up money in order for the return of making more money at another opportunity. Gotta weigh options, sometimes take a risk for higher return. Thanks David for the comments.

What is one way you can create financial freedom for yourself no matter what type of work you're in? It's adding value, adding value. Finding a way to earn an extra three hundred, four hundred, five hundred dollars a month. That's six thousand dollars a year. If you invest that at eight percent over forty years, it's 1.5 million dollars. If you can pull out an extra thousand dollars a month and stock that away, three million dollars you'll have. Extra three thousand dollars a month, that's thirty six thousand dollars a year, nine million dollars in your nest egg later on. By adding value to your current employer, your customers, you can earn more. When you earn more you can invest the increase that you get. When you do that, you will be able to create any level of financial freedom that you want.

Those are the words. 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 in the show notes at ScottAlanTurner.com. If you have a question you would like answered on the show please visit GoAskScott.com. Thank you for listening.