calmeducation.com

CALM

Cash and Liability Management Course Transcripts

The CALM Series: (Transcripts)

SUMMARY: The Cash and Liability Mastery program, sponsored by the National Institute of Financial Education, covers ten modules on managing cash flow, debt, credit, taxes, savings, and more. Money is defined as a store of value, unit of account, and medium of exchange, and understanding one's relationship with money is important. Money is something that is traded for life energy, and individuals determine its worth. The program encourages individuals to think about their money goals and construct an ideal money story based on long-term goals.

CALM 1 – What is Money?

Welcome to Cash and Liability Mastery. We like to call it Calm. So sponsored by the National Institute of Financial Education. Let's do a quick overview. Over the course of ten short modules, we're gonna talk about what money is. We're gonna talk about your money story. You're gonna learn to manage your cash flow using a three bucket system. I'm gonna talk about the key money dynamics that you need to understand in creating wealth the importance of debt and borrowing, understanding credit, clarifying taxes, IRAs, 401s, and qualified savings, inflation considerations, and then we're going to pull it all together with what we call the Penfins system. System that you can utilize to master your own calm.

Why talk about money? I love this quote, while no single conversation is guaranteed to change the trajectory of a career, a company, a relationship or a life, any single conversation can. That's from fierce conversations by Susan Scott. Talking about money is important, awareness of money, and the role that plays in your life is critically important. So what is money? Traditionally, money is defined as anything that is a store of value. That offers a unit of account and offers a medium of exchange. So think about it classically I need to know that I can store value that I can release at some point in the future. So if I work, can I be paid in something that will allow me to store the value of my work? Money traditionally has done that.

Money has to have a unit of account, which means it has to be divisible in a way that I could take this money and give it to you for the value that you're providing me. If I have a twenty dollar bill that's money and you want four dollars for a cup of coffee, I have to be able to give you that twenty as a unit of account and know that I should get sixteen units of account back if I'm expecting sixteen dollars back. So this money has to store value. It has to provide a unit of accounting where you can account for it in some way, and it has to be a medium of exchange. If you create your own money, would other people accept it? Would they accept your value and your unit of account? Probably not.

So money is something that traditionally is a medium of exchange and that other people are willing to accept and exchange their energy, their time for that money that you provide them. So that's a little bit about what money is. What I want you to think about though is money goals. If you were to take and invest some time, going through and trying to bring some calm into your life, which we define calm as the ability to manage your cash and your liabilities. Because for most people, cash and cash flow and liabilities are the most important things to manage early on in creating wealth.

If you've already done that, I promise you there'll be some things here that'll get you thinking. But take a moment and anytime you see our little man on the mental bicycle there, think of that as a mental exercise where you wanna hit pause and ask yourself, would I like to reduce stress around money? Would I like to have more clarity about money? Would I like to feel more in control and empowered about money? Would I like to get out of debt? What I'd like to learn is to live within my means or develop savings. What I'd like to connect with a greater meaning and purpose in my life, especially as it relates to money. In other words, what are some things you'd like to learn about money? I'd like to learn to buy a house.

I'd like to learn to reduce the cost of homeownership. I'd like to learn how to save for college. Take a moment and think about what you'd like to learn about money. What do you call money? And I say, what do you call it? The eskimos have anywhere from fifty to a hundred names for snow.

We might think, well, that's kinda silly, but To them, they live in a world surrounded by snow. So particular names that differentiate a snowflake or frost or fine snow, or snow on the ground, or deep snow, or fresh snow, or a blizzard, or snowbank, would be really important. We might find that somewhat silly. We weren't gonna go out and

differentiate those things if you live in the south. In North Carolina, for example. But think about money. I searched for names for money and found one site that had over two hundred names for money.

I grabbed some and threw it into an infographic and see if you've called money any of these things in your life. Anything from a dollar to doves, cabbage, tenders, salad, cooking, dockets, a fiber, bones, dead presidents. It's all there. Right? And so these words tell us something about the role that this thing called money has in our society. It plays a similar role to the way snow plays a critical role in an escomo society. This thing called money is critically important. So when we think about money, one of the things that we often think about is making money, and we don't ever really ask ourselves, what does it mean to make money. And what are the areas in which we often find ourselves thinking about money? Do we think about how to get it? Or do we think more about where to spend it?

Do we think about how to save it? Do we think about where to save it? Do we think about how it's gonna be taxed? Do we think about will we have enough? Money is something that often occupies a great deal of our time and our energy. So understanding your relationship to money is critically important. Because we're gonna jump into the very specific mechanics of money and all we're gonna answer all of these questions for you but there may be a question that stands out to you that you really wanna wanna focus on.

Like, how do I save it? Or where do I spend it wisely? But money is typically something that's on our mind. Now, what is money universally? We could say that there's something called proof of work. And that's something that money is unless you steal it or you're given the money. Money often stands as something that we can prove that we've done work because we have this money or someone has done work. Even if we didn't earn the money ourselves, someone worked for that money. And you could say that money is something that someone or you traded your life energy for. So if you go to a job or you work, maybe you're a college student, Well, currently, you're working and your job is education. It's to learn. Right? You're trading your time and your energy for something that you're learning. Right now, you're trading time and energy to learn something new, but you're not being paid for it necessarily. But when we make money, almost always we can say universally, we had to trade our life energy to make that money.

So you can think about it in a way that you pay for your money that you have in your life with your time. So you are paying when someone says I'm paying attention to you, they're paying you with their time. You pay for money with your time, and then you choose how to spend your money and your time. So money universally is always going to be something you traded your energy for. So in that way, you have to ask yourself what's your life energy worth because life energy is time. It's precious because it's limited. We can't know how much we are going to have. I often say that if you're into time management, you're into money management because your ability to manage your time often has an impact on how you're able to manage your ability to earn and to manage your ability to create and grow wealth in your life.

So you get to determine what money is worth to you because it's your life energy And this is important because we're gonna again look at the mechanics of money and saving and compounding and taxes and borrowing. We're gonna learn about cash flow. But still keep in mind that in the context of money, money is something that you trade your life energy for and you get to determine what that money is going to be worth to you over time. So in our next little module, we're gonna look at your money story and we all have one and then we're gonna start constructing a money story that we feel would be ideal based on our long term goals.

CALM 2 – Your Money Story?

SUMMARY: The transcript discusses the concept of money story and how it influences our relationship with money. The four primary factors of production are introduced: land, labor, entrepreneurship, and capital. The different levels of money story are explained, including street level, neighborhood level, city level, and global level. It is important to understand our money story and how it affects our behavior and beliefs about money. Income levels also impact our quality of life, and the next session will focus on money management.

Let's continue our conversation about calling Cash and Liability Mastery. I'm gonna talk a little bit about your money story. What's your money story? John Stewart Mill said people do not desire to be rich only to be richer than other people. So if one thing we know about money is its relative, you can feel like you have a lot of money, and you meet someone who has a lot more money, and suddenly you feel like you have something less. Or you can see someone on the side of the road, a homeless person, and realize, wow, I've actually done quite well. Right? The alternative is in plain sight. So let's reflect again on how money is made, and then let's look at your individual money story around how you've made money and how that's played out in your life.

First, when we think about money, There are four primary factors of production. There's land as a source of revenue that could be farming, it could be timber, it could be renting or leasing land, but it's fundamentally land is the source from which money is made. There's labor, which we're all familiar with.

We've worked delivering newspapers back in the day, babysitting as a kid, working through college in the form of possibly studying and earning a degree, but then money has been made in applying that degree out there in the world as a worker. So as a labor person, right, we move through these processes and we say, okay, land is a natural resource. But labor, that's human beings doing work. And traditionally, when we do work, we are paid in this thing called money.

So as we said before, we're exchanging our energy, our life energy in the form of work and that compensation, there are many incredible forms of compensation that are rewarding and just seeing someone learn something new. Right? But We're talking about factors of production, economics, things that create money in your life. So if you don't have land that you're farming or that you inherited that provides income, and you're not working. And what are the other forms of production?

Well, there's entrepreneurship which is traditionally defined as work. So it's basically human beings doing work plus risk. So the main difference, you could almost say it's the difference between the w two and the ten ninety nine initially. If you start your own business and you're working for yourself, you're taking more risk as an entrepreneur. But as a factor of production, it's how many businesses get started. And then lastly, there's capital that's money or property that is supporting land labor or entrepreneurship.

So think about that. If you have discretionary money that you don't need, you would tend to take that capital and invest it. And where would you invest that money? You might buy land or real estate. You might invest in someone that you know as a worker or an entrepreneur that's starting a company, or you might invest money back in capital meaning you might invest in the stock market, but the stock market is a market of stocks and those stocks are investing in land.

Real estate, labor, entrepreneurship, companies that make things and sell things. So money in a way is always being made and cycle through these different factors of production. Now, that's a basic understanding, but we talk about creating and developing wealth. You're probably going to have income coming in, in the form of land labor entrepreneurship, and you'll have an opportunity to convert that into cap capital. And that's money that makes money for you.

The money itself is a form of stored energy and labor. That can be released to provide you wealth over time, income over time. So what's your money story? This is an interesting question. If you've never thought about it before, you may not even think that you have a money story, but we all have a money story.

So we're gonna talk a little bit about what your story is. And we'll see our little guy up there riding the mental bike. We want you to take some time here to Paul's. And I'm gonna give you the definition of the different levels of money story that you might want to consider. But I want you to take a moment because it's a very short lesson. And I want you to think about and construct your money story.

So a street level money story is very practical. It's how you think about cash day to day when you're spending money on credit cards or debit cards or or whatnot. But it's really a very pedestrian day to day view of money. I have money that I carry, maybe I don't, to have a credit card. Am I using an online phone as my pay for it? This is a philosophy about money. Right? But it's how you interact with it day to day Now, this is influenced by what we'll call the neighborhood level of money story, and that is your thoughts about money. Is money evil, is money acceptable, is money important, is money something I don't care about, but I have to have just to survive. So these are neighborhood level.

We'll call it the thought level about money. And it's very important to understand that most of your money story comes from your parents and their parents and their parents. In other words, if you are a trust fund kid, and you've had trust after trust turned over to you over time, you have a certain legacy or money story that plays out there.

If you're a first generation kid that went to college and your parents didn't go to college and their parents didn't go to college, and they'd struggled to finally get you to that point. Money has a very different way that it plays out in the culture and fiber of your family. So at the city level, think of the cultural dynamic as a shared belief that your family has It's about money and it's about value and it's about what other people have and what you have and what other people have that you don't have, what you have that other people don't have So it's a cultural thought process about how money plays out in your life.

And then there's this global. Think about the world view of the economy. When you turn on the news at night, We hear about the economy. Is it going up? Is it going down? Are we in a recession? Are we in a bubble? You know, is the money supply going up or down? Is inflation going up or down? What does that mean to you and your job and your work? So all four of these are interacting with you on a daily basis. But you have to think about your money story at least at the world level, you know that that's going to be something that happens and you'll be aware of it.

But really look back at your family and think about What were the stories that we told about money? What were the conversations that we had about money? Was money taboo? You don't talk about money at the table. You don't talk about other people and their money. Or was this something you talked about regularly? These are all part of that story. It is important to understand because as you're presented with new ideas and concepts and strategies for managing money, and for developing a calm in your life.

This is something that's easy to skip over, but it's probably one of the most important things for you to understand because once you understand your money story, the tribe that you grew up with and their tribe that they grew up with, you'll start to understand how you tend to behave when you're presented with money. Now one thing we know about money: If it does have an impact on our quality of life. You know, if you make less than five thousand dollars a year or ten thousand dollars a year, We know as you make more money, your quality of life goes up. And this is studied each year.

And it's interesting because income levels that make people happy are often surprising. It often runs between ninety five thousand and a hundred and five. I've seen upwards of a hundred twenty five thousand as that peak level where quality of life and income intersect. Now, this has a lot to do with your money story. If you believe you deserve to be really wealthy and you need a lot of money to be happy, that's going to push for you what that QOL or quality of life income level is. If you grew up from a family that taught school and they were about giving back to the community, you might find that sixty or seventy thousand dollars a year is okay. And we'll discuss that more in the future, but from a quality of life and income standpoint, we know that income does have an impact on your quality of life over time.

CALM 3 – The 3 Buckets

SUMMARY – The speaker discusses the importance of understanding lifetime earnings and introduces the three bucket system for managing cash flow. The first bucket is for monthly expenses, the second is for emergency savings, and the third is for investing. The speaker emphasizes the need to master the first two buckets before investing. The system is simple but requires a new way of thinking about money and behavior change. The ultimate goal is to reach financial independence where passive income exceeds monthly spending.

So welcome to Cash and Liability Mastery in this next course. Let's talk a little bit about your lifetime earnings. You know, your lifespan continues to increase. Some estimates say that every year you live, you get an extra three months. Added to your lifespan based on modern medical technologies and improvements in our healthcare and diet.

So you may very well have a lifespan today depending on your age if your young college student is well over a hundred. But for those of us later in life, we still could easily live to eighty five, ninety five or longer. So one of the things I want you to do is a quick exercise here. I want you to multiply your expected annual income. So if you're young and you're just starting out, take the income that you believe that you'll be making when you graduate from college or the income that you're making now, And just estimate what I think I'll average over my lifetime. Just the best guess. If you're fifty, fifty five, sixty, you're older in your career.

Reflect back on your career. You can actually go to Social Security and login and see your total income to date. But what we're looking for here is for you to multiply that times forty five, roughly the number of years that you'll work. If you expect that you'll average a hundred thousand dollars for example over your lifetime, you or you and your spouse or or partner, That's four point five million dollars. I like to say that we're all millionaires. Everyone that works on this planet for forty to forty five to fifty years is a millionaire in terms of earning potential and actual earnings. It's really a question of what we do with that money over time? How much of that money are we able to keep and redirect so that it's earning money for us. And for that reason, I created a system called three buckets.

It's a very simple system And it's based on how we live our lives. It was a system I developed for me to simplify my own cash flow. And in the three buckets, we have a thirty day bucket, a ninety day bucket, and a ninety plus day bucket. We're gonna talk about each of those. This is one of the simplest money management systems, and it's critical in terms of understanding the psychology of investing. You see people and the way they manage the first bucket, that thirty day bucket, has a huge impact on your ability to create wealth.

We'll talk more about this, but let's just look at the buckets themselves and how they work. The first step is to understand that you have monthly expenses. It costs money to live indoors, to eat, to travel, So we're gonna use an example of four thousand dollars. If you have four thousand in monthly expenses, the first thing that you need to know is that third bucket Over there, doesn't matter right now. That second bucket, the ninety bucket, needs twelve thousand dollars. The night aid bucket is always going to be three times your current monthly expenses.

There's a reason for that. You know that if you lose a job on average, it takes about two to a little less than two months to find a new job, but most people can find a new job within three months. So for most of us that are living off of, say, income that we make through labor, what we wanna do is have that rainy day fun sitting there that we've accumulated that allows us to relax.

We're really gonna have four months of savings, but For right now, think about this and ask yourself, what are my monthly expenses today? And you're gonna figure that out in detail in a future class. But now, I want you to think about your current expenses three times and write that down. That's your ninety day bucket. Some of you can fill that right away. And if you can, that's what we're gonna do. We need twelve thousand in this example. Now the thirty day bucket is your cash flow bucket. You see, most people live lives of cash flow. And what I mean by that is when you live a life of cash flow.

We're more concerned with right now than we are a year from now, five years from now, ten years from now. So let's just say that your current income is forty five hundred dollars a month and you receive that twenty two fifty twice a month. Is this what you receive after taxes? That's forty five hundred. And we already know you have about four thousand in expenses. So this thirty day bucket is usually your primary checking account.

I actually would encourage you to set up and make sure you have three accounts: a checking account, a savings account, and an investing account. Now we'll talk a lot more about this bucket over here, the investing bucket. But this is ideally at the same bank, a checking account and a savings account where you can move money easily back and forth. It could be a checking account at a bank and a savings account somewhere else as long as you can easily move money in and out of those two accounts.

If your direct deposits come in on the fifteenth and the thirtieth and you'd have a typical month where you spend four thousand dollars, there's gonna be five hundred dollars left over. That extra money that's left over always goes to the second bucket if the second bucket isn't full. So this is again an incredibly simple system and process because it isolates where the problem is in wealth creation. You see, if the problem is, you can't fill up the second bucket. Then we know that there's a cash flow problem in the first bucket. There's either too much month and not enough money or there's something happening here that we need to look at. You need to understand, am I actually spending five thousand a month?

And I'm only making forty five hundred? Well, that's not sustainable. There's another bucket we'll look at later around credit. But you can't spend more than you make. If you do that, you can't even fill up your first bucket. But once you fill up the first bucket, consistently each month with that cash and that income. So each month that bucket's going to come in and it's gonna flow out. It's gonna start and fill up and it's gonna flow out at the end of the month. It's always gonna be zero on the last day of the month.

On the thirtieth of the month, If I am negative, I have to look at what happened this month, why do I have less cash here than I made. If I have surplus, say five hundred dollars, that money goes into my second bucket. I literally sweep it over on the thirtieth into that bucket, and you'll do that each month until you have your target. Whatever that is, if your current monthly expenses are six thousand dollars, then you wanna have eighteen thousand in that second bucket. You see the world of investing, that third bucket over there, is only open to people that can master the first bucket, the cash flow bucket.

And secondarily, psychologically, they need to also master the second bucket because it's hard to invest and put money away when you're afraid that you might need it at any particular moment. That second bucket gives you a level of comfort that if I'm working today, I have current cash flow to meet my needs. I have three months set aside in cash or in some liquid fund that I can use if there's an emergency. And if I do draw from that second bucket, if there's an emergency, then I'll replenish it either with my green bucket by earning money slowly and putting it back in or from the red bucket that third bucket, I can pull money out and replenish it from my savings.

So each month, this money is flowing. And once that bucket is full, once that twelve thousand dollar bucket is full, any money that comes into my green bucket that I don't spend that month goes straight to the red bucket. It's really that simple. But it's incredibly powerful. You can back test it against anything. A car breaks down. I have to spend a thousand dollars. Where does that thousand dollars come from? It always comes from the green bucket, but if there's not enough there, I don't wanna put that on a credit card and finance those repairs. I would pull that money from my yellow bucket, and I pay for the car repair,

And then I can decide, do I wanna refill that bucket from my green bucket monthly each month as I save up? Order: I want to go ahead and pull some money over from my red bucket. Ideally, if it's a small amount, leave the money in the red bucket, leave it in the investments, and refill that gold bucket first, a yellow bucket first. And once it's full again, all that money goes right back to your red bucket for the future. What if you got an inheritance? What if you had a bonus at work? A four thousand dollar bonus from work?

Well, it goes in the green bucket. But at the end of the month, you would sweep it into the yellow bucket. And if the yellow bucket's full, you go straight over into your investment account. Because that bucket is the money that you could invest in land and resources and capital and other things that begin making money for you and reducing your burden on the first bucket because at some point in time, You'll maybe not want to work as much as you do today. And when you do that, that red bucket is going to become the bucket that fills up the green bucket. And we'll look at more of that in a future course.

This is really simple, but it's not easy. What I mean by that is I know with this this particular choice every time I would prefer to go for the doughnut but sometimes you just have to make the right choice for you at a particular moment. And that may mean spending less today or starting to learn and think differently about your cash flow, but we have to master cash flow. Our entire wealth lives are cash flow oriented. The money we save for the future is so at some point we can turn that money back into cash flow that we use today. So most of the things that we're gonna discuss are really simple, but sometimes they're not easy because they maybe take a new behavior or a new way of thinking about your relationship with money. So over your lifetime, there's a chart.

There's that chart of what you're making, that chart of what you're spending, and that chart of what you're saving that is starting to create money for you. And the beauty of this process, if you think about the buckets, Is that green bucket? Is that money that I'm making? As I'm making more over time, what often happens is we spend more. And that creates a challenge. But if you could make more over time and keep your spending the same or even have it decrease over time, what's really cool is that red bucket, as you start to develop that savings and it starts to earn interest for you, that becomes cash flow that over time will eventually cross that green line, and that's the point of financial independence.

When this red line crosses this green line and your passive income exceeds your current monthly spending, That's what most people consider financially independent. So in our next class, we'll talk about money dynamics. Important money dynamics that impact how that Red Bucket starts to create wealth for you and starts to create financial independence for you over time.

CALM 4 – Money Dynamics

SUMMARY – The transcript discusses the concept of money dynamics and how understanding basic laws like compound interest, time, return, and consistency can help create wealth over time. The rule of seventy two is explained, which states that dividing seventy two by the return earned on investments determines how long it takes for the investment to double. The importance of starting early and being consistent in saving and investing is emphasized, with examples given of how even small amounts of money saved consistently over time can lead to significant wealth. The last double, or the impact of compounding in the later years of investing, is also discussed.

I think about money dynamics as laws like the law of gravity. And there's some critical concepts like time, return, and consistency of investing that work just like these laws when it comes to building wealth. So if you can understand the basic laws, you may not understand gravity, but you understand how gravity works. You don't have to understand everything about money. But you want to understand how these laws work to create wealth for you over time. Now, compound interest is something that Albert Einstein said was the eighth wonder of the world. And it's different from simple interest. With simple interest, if I invest something like a hundred dollars and it earns five dollars over the course of the year. And next year, I'd earn another five dollars in the next year and the next year and the next year after five years, I'd have a hundred and twenty five dollars. That's different from compound interest. Where compound interest, I earn five dollars in the first year. So in one year, they're the same. But in the next year, I earned not only the interest on my original investment, but I earned interest on that interest. And that is important because, well, it may not seem like a whole lot. It is the critical component around wealth creation, especially when you look at time, return, and consistency.

So let's look at compound interest in a very practical concept. If I were to say to you that let's say you'd like to be a millionaire by the time that you retire, What would I need to do to become a millionaire? And the answer is, well, it depends. And what does it depend on? It would depend on your ability and willingness to start investing and saving money over time. Now earlier, we said you'll have about a forty five year career.

So if you had a forty five year career and you wanted to save a million dollars, that seems like a lot of money. Again, if you thought about it, you'd say, wait a minute. If my estimated earnings over forty five years, is going to be say three million dollars. I'd have to save a third. I'd have to save a third of my earnings to have a million dollars. And that's true if you were saving cash. But if you're saving money on a consistent basis, and that money is earning a return you get to benefit from compound interest.

So just a staggering concept, a hundred dollars a month does not seem like a lot of money, and it really isn't for most Americans. If you worked a forty five a year career, a hundred dollars a month is twelve hundred dollars a year times forty five years, that's fifty four thousand one hundred dollars. As a percentage of your income, If you were to earn three million over your lifetime, you only needed to save fifty four thousand dollars to be a millionaire if you could earn say ten or eleven percent. Interest over that lifetime of saving. So that hundred dollars a month, remember we said there are a couple of key laws we wanna understand. The time. And we also wanna understand this thing called return. And what I think is the third law is discipline.

Because I I tell anyone you can be very wealthy if you have discipline. Most people think wealth comes from a lot of money. But just putting a little bit of money away on a consistent basis over time allows the compounding to work. Now, historically, we tend to earn between eight percent and ten percent a year in a traditional stock market. They're years that are higher and they're gonna be years that are lower. And for simplicity, let's just say that you're earning this inside of a 04:01 k or an IRA. So a hundred dollars a month at five percent will grow to two hundred thousand dollars over your career.

That's still pretty exciting. That's almost a quarter million dollars. At seven percent, that hundred dollars a month over your career would grow to three hundred and eighty six thousand. At nine percent, that one hundred dollars a month grows to seven hundred and sixty thousand At eleven percent, at one hundred dollars a month grows to one point five million dollars. So if you had an average return over your investing career, let's just say between nine percent and ten percent You're on track to have over a million dollars saved, and it's not a third of your earnings. It's fifty four thousand over your entire career or just a hundred dollars a month. And if you were worried about returns, You could always increase that savings to two hundred a month over a forty five year career. That same eleven percent becomes three million. So again, I haven't earned any more money.

Let's say over my career, I thought I would earn three million dollars in total earnings over my forty five year career. I just simply saved two hundred dollars a month or a hundred and eight thousand dollars. Think about that. Do the math yourself. What is a hundred and eight thousand? Divided by the amount that you think you would make over your career. So if you thought you'd make a hundred and eight or if you thought you'd invest hundred eight thousand and you thought you would make three million dollars.

You're only investing about three percent of your earnings over your lifetime to have the same three million that you earned available for your retirement or for whatever you'd like to do when you decide not to work as much as you're working today. If I only earn nine percent over that time period, I still have one point five million or only seven percent around three quarters of a million. But the key here is getting that compounding to work for you over time.

And that discipline of being consistent, there's a rule we call the rule of seventy two. And the rule of seventy two is a pretty powerful rule that works for you and against you. And I'll talk more about that in the future, but when you're saving money, the rule of seventy two works for you. When you're borrowing money, the rule of seventy two works against you. So what is the rule of seventy two? It says that if you take seventy two the number, and divide it by the return that you're earning. This is how long it'll take for your investment to double.

So in other words, if I take seventy two and I divide it by ten percent which is my expected return, say, on my retirement plan over forty five years. Seventy two divided by ten is seven point two. That means that the money that I invest in save will double every seven point two years at ten percent. If I could earn twenty percent, that'd be tough, unlikely but I could double every three point six years. If I only earn four percent, it would take eighteen years for my money to double. So this is important over a forty five year career. You'll have about six to seven doubles, meaning if you earned an average of ten percent

And your money's doubling every seven years and you work for forty five years, well, six times seven is forty two. Right? So you've got six to maybe seven doubles over your career of work. If you borrow money, it's working against you because when we borrow money, say, on credit cards, that's often closer to twenty percent. That means your cost of what you borrow doubles every three point six years. If you borrowed ten thousand dollars on a credit card at twenty percent, you would owe twenty thousand in just three point six years.

If you could borrow that money at one percent, that ten thousand dollars, it would take seventy two years for you to owe twenty thousand dollars. So it works for you or against you whether you're borrowing or whether you're saving. This is why they say the first million is the easiest. And you may think, gosh, you may be listening to this fourteen or twenty four years old and go, I have got a lot of time. This compounding can work for me. I may be older and I don't have the time, but your kids do and their kids do. That's why financial education is so important. Because if you're able to leave them money that they can use to begin compounding earlier in their lives, their subsequent doubles become incredibly meaningful.

Now if you look at the first million, there's different ways to get. You can get more risk involved and that is higher returns or you can invest more money. If I invest a thousand dollars a month, At eight percent I'll have one million dollars in twenty five years. At ten percent in twenty two years, So you'll notice there's not a huge difference here in the early stages of growth. If I have 02:50 a month that I could invest eight percent of, it'll take me most of my career about forty one years to get the first million. But watch what happens with the second million? If I keep investing at 02:50 a month, the second million comes in just eight five years. Why is that? Well, the 02:50 a month is being added to my investment, but more importantly, that initial million dollars is also growing and compounding.

And the third million comes in just five years. So you can see over time, again, consistency and discipline are critical to building wealth. One of my favorite examples is this little example of Billy Susan and Kim. You see, they understood the time value of money. At least Billy did, Susan got it, and Kim got it later, but there's a cost in waiting. You see, Billy was very, very aggressive. As a young man, he delivered newspapers and he mowed lawns. And he was able to save three thousand dollars a year out of his work until the age he was nineteen. He then went off to college and at that point had fifteen thousand dollars invested.

Billy never invested another penny in his life. Because by age nineteen, that fifteen thousand had already grown to twenty thousand and it continued to compound and grow at ten percent a year, to one point six one five million. Susan heard about what Billy was doing, and after graduating from college, she started saving three thousand a year. She did that for one, two, three, four, five, six, seven, eight years. So after eight years, at three thousand a year, she had about thirty seven thousand saved. Susan stopped saving at that point, but that money continued to grow in compound interest and grew to one point five million. Now Kim, the third child, heard about what Billy and Susan were doing, and she started at age twenty seven and saved three thousand a month for the rest of her life. At age sixty five, she retired with one point three million in savings. So this is the importance of time, value, and compounding.

And again, if you don't have the time, your kids have it, and their kids have it. So to be consistent, Missing one three thousand dollar payment would have reduced Billy's earnings by four hundred and forty four thousand dollars. Meaning if he had just missed that first payment here or here, he would have reduced this to around one point two billion dollars. So starting early and being consistent is critical. Now the last point I want to make is this compound in the last double. Why would it be important to you to just even if you had an extra hundred thousand dollars that you could leave to your children or to contribute into an investment, to start the process. How does that make a difference?

Well, remember we said that seventy two divided by ten percent is seven point two years. That's how long it takes. For a double. So if you were to start right out of college and you had a hundred thousand dollars, let's say you gotta you came out of high school or college and you had an inheritance from an aunt. She left you a hundred thousand dollars and you never invested another penny. You just invested that hundred thousand dollars and let it grow. In seven years, at age twenty seven, there's two hundred thousand. At age thirty four, four hundred thousand. Age forty one, eight hundred. And these are just rounded down for simplicity, at forty eight one point six, at fifty five three point two, and at sixty two six point four. It's almost hard to believe, right, that money could compound and grow that quickly, but that last double is so important.

And I wanna point this out. If you started with a hundred thousand dollars, notice the difference. In seven years, you're at two hundred thousand. At fourteen four hundred thousand. By year forty two, let's just say, close to the end of the career, at hundred thousand growing at ten percent a year, would grow to six point four million. Now what's the difference here? That's starting with a hundred thousand. See, if I start here at year zero with zero and over seven years I save a hundred thousand and I never invest again. In fourteen years, that would grow to two hundred, etcetera, etcetera. But you'll notice now, I'll be forty nine years old before that money has grown and compounded to that level.

So starting with anything at the beginning, the ability to front load that investment has a huge impact on what we'll call the last double. So either starting early or being able to load some additional money into the beginning allows that compounding to happen even faster. So in our next session, we'll talk a little bit about debt and borrowing and how that plays a part of this Money Dynamic game.

CALM 5 – Money Dynamics

SUMMARY – The transcript discusses the concept of borrowing and its impact on future spending power. Borrowing is essentially taking money from a future self and creating an obligation to pay it back with interest. The speaker introduces the concept of different buckets for managing cash flow and explains how borrowing affects these buckets. The transcript also categorizes debts into bad, neutral, and good and provides strategies for each. Finally, the importance of working with a certified liability advisor to maximize net wealth over time is emphasized.

Welcome to cash and liability mastery. In this series, we're gonna talk about debt and borrowing.

What is borrowing? What's a borrowing bucket using our cash flow bucket strategy? When to borrow and how to borrow smart.

First off, what is borrowing? When you borrow money, you have immediate spending power. Now, at the cost however of a future reduced spending power. In other words, you're pulling future earnings forward now. Because you have to pay that money back with interest oftentimes in the future. Gotta pay it back with money that you make in the future.

So what is borrowing? Think about it this way. On the left, we see a well known celebrity. We'll call him Justin. And when he borrows money, he's borrowing it from his future self. Now he doesn't know that future self yet. He doesn't know that this is what he is likely to look like in the future, but at some point he will be older in the future. So when you borrow money, think of it like I'm taking money from a future self, and I'm bringing that money from the future self into the present day. So I'm always borrowing while I may be borrowing from a bank or a credit card, I'm really borrowing from myself.

Let's look at that in the context of the buckets. So we're gonna add a new bucket here because in our cash flow management system, we have our thirty day bucket. That's our day to day spending over the course of the month. We have our ninety day bucket, which is our savings bucket that gives us our reserves. And then we have our ninety plus day bucket, which is our investing. That's where we're gonna build wealth for the future. Wealth that's going to completely replenish that green bucket at some point in the future on an ongoing basis.

But when I borrow I put a new bucket called this a black bucket. And if I wanna borrow twelve hundred dollars at ten percent, understand what essentially is happening. When I borrow that twelve hundred dollars from someone else, I'm putting that in my current thirty day bucket and I get to spend that twelve hundred dollars today, it becomes part of my current spending. Now, for whatever I'm using that money for. Credit card to buy a car house, it doesn't matter. It's the same dynamic. I'm pulling money, four to use it now. And I'm creating an obligation. So that red twelve hundred dollars means that twelve hundred dollars will have to go back to that bucket. And where will that come from? It will come from the green bucket here. So you'll have to spend twelve hundred dollars today but know you're gonna have to, you're gonna have to pay that twelve hundred dollars back with interest from future earnings, meaning as you earn money over time, and that money comes into this green bucket. It's kinda like there's a hole in that bucket now.

Let's take a look at what that could look like. If I'm borrowing at ten percent, that twelve hundred dollars that I borrow, maybe I make a thirty five dollar a month payment on it. That feels pretty good because this is a small amount. But in doing that, I'd pay back that twelve hundred dollars over forty one months. I'd pay the original twelve hundred back plus 02:19 and enter interest. If I'm borrowing, say, on a credit card, not a personal loan, but a credit card, at twenty one percent. My payment's a little higher at forty dollars. Doesn't seem like that much. It's only five dollars a month. But it'll take me forty three months to pay it back. I'll pay back twelve hundred dollars plus 05:16 in interest.

So let's look at how that might work. You've got twelve hundred dollars to spend a day. That money moves into that first bucket for spending.

Now, each month if I'm paying thirty five dollars a month, that thirty five dollars is coming out of my green bucket. And where is it going? It's going back to that borrowing bucket. And for forty three months, that present self is that borrowed money from the future self is having to pay that money back. And over time, fourteen hundred nineteen dollars will be returned to that borrowing bucket.

So why is this so important? Because remember in this system, my goal is to avoid having less money in this first bucket. In other words, spending more money that I make. Because if I do that, I get to move that money forward into my savings bucket and into my investing bucket.

If I have to borrow, I'm essentially increasing my current spending, but I'm creating an obligation. And that load, if I continue to borrow here, will continue to increase making it more difficult for me to save into my ninety day bucket and eventually to begin filling up my ninety plus investing bucket.

So when would I borrow? When does it make sense to borrow? Well, I'm gonna put together three types of debts, bad debt, neutral debt, and good debt. And I'll share a basic strategy for each.

Bad debt to me is a credit card, a personal loan, or payday loan. Because in in most situations, this type of borrowing is simply to allow you to spend money now that you can't afford to spend now. You're having to borrow from a future self in hopes that you can pay it back. You're taxing yourself in a way, and you're having a higher interest rate because that debt is unsecured.

So it's typically used to also purchase a depreciating asset. Meaning, if I buy a sweater, or a stereo, and I can't afford to buy it today. And I have to borrow using a payday loan or a personal loan or credit card. I'm effectively going to have that asset be worth a lot less very quickly, that sweater. Once I take it home and wash it and put it on, it is worth less than what I paid for it, but I'm still paying for it if I borrowed on a credit card and the asset value is going down.

So I try to avoid any credit card personal loans or payday loans. And as a strategy, if I have to and I have no choice I have a friend who had a Trump breakdown. He had to do a personal loan. But instead of doing that from a high cost, he went to a friend and family member, they loaned him the money. Don't ever do a payday loan if you can if you can avoid doing that.

And with credit cards, they're for convenience. They're not an antidote because you can't afford something. They're for convenience. And a pro tip here is get a high reward credit card with no annual cost. I have several of those. I put a hundred percent of my monthly spending on those cards and I pay it in full monthly so there's no interest. There's several benefits to this. It builds credit. It provides rewards and bonuses. It helps with tracking. Meaning you can track your expenses and know very clearly where your money's going, and it provides insurance, often theft, loss, breakage, or cover.

So use credit cards for convenience, but avoid using them beyond thirty days where you have to incur an interest expense. Pay them in full each month out of your first green bucket. Now, I consider auto loans as neutral debt. One of the reasons that I consider neutral debt is we have to have an auto oftentimes to get to work if we can't use public transit and there's other social and personal reasons that we might enjoy having a car.

Typically, the rates are pretty low. But it is a highly depreciating asset. So, no, when you drive a car off a lot, a new car, that asset will depreciate tremendously. So while I consider auto debt neutral, ideally you would save and pay cash, meaning keep building up in your green bucket for that into your yellow bucket and into your investment bucket. And when you wanna buy a car, take money out of your investments and pay cash for the car.

But if you can't or you want to go ahead and borrow for a car, one of the best things you can do is know that each year that you can keep your existing car, you're maximizing its durable value. And delaying the increased expenses of additional insurance and taxes and things when you buy a new car.

But when you do buy a new car, think new to me, not new car, new to me car, and buy a car that's at least two years old. Most of the durable depreciation will be off the car. One of the best deals is oftentimes a lease that's coming off lease. It's been warranted, it's been taken care of as part of the requirements of that lease and you can buy it at a dramatic discount.

Now there are two types of good debt. I think of student loans as a possible form of good debt and mortgage loans as a form of good debt. And you'll notice I consider both of those investments in yourself.

When I have a student loan, I'm investing in my education. I will borrow to invest in myself when I'm creating skills and capacities and abilities to do that. And I will borrow to buy real estate because I find that as an investment in myself as well. It's a critical part of your psychological well-being, the container that you live in.

And think of it as a mortgage loan. It's always going to be paid if you're living indoors. If you're renting, you're just paying the landlord's mortgage, and if you own, you're paying your own mortgage. It's typically a very low-interest rate. Sometimes you'll see tax benefits and the asset you're buying is typically appreciating.

If you invest in yourself, you are appreciating yourself and you are going to increase your earning power. If you buy real estate, it tends to also appreciate over time. So if you're doing a student loan or you're investing or borrowing to invest in yourself, make sure it's just a viable return on investment. I should be able to say that if I do this, I'm going to make more money.

And if I'm going to use a mortgage loan, your approach appears you want the longest, slowest rate possible based on your particular situation. So think about this and consider the cost of renting because renting is still paying a mortgage payment, you're just paying someone else's payment.

Let's do a quick example because this mortgage one is important. Thirty-six percent to thirty-eight percent of your total gross earnings tends to go towards housing.

Now if I were to buy a house for four percent as an interest rate and I borrowed two hundred and fifty thousand, I'm gonna pay fourteen twenty-four a month. I'm paying my own mortgage over thirty years. I'll pay half a million dollars, five hundred and twelve thousand dollars And I'll also pay interest. Two hundred and sixty-two thousand of those payments will be in the form of interest.

Now if I rent, I could rent this same house for 12:50 a month. I'm paying the landlord's mortgage payment and over that thirty-year period assuming no increase in rent, which is very unlikely, I'll still spend four hundred and fifty thousand. Most likely that rent will increase over time and I'll end up paying more like six hundred thousand.

Now the difference and the reason I say when you're buying an appreciating asset. Anytime you borrow to buy an appreciating asset, you have appreciation. So if this house would appreciate by four percent, it'd be worth nine hundred and seventy-three thousand dollars in thirty years. So if I subtract out the payments, I actually increased my wealth by four hundred and sixty thousand.

In renting, there is no appreciation I participate in. That's a true expense. Notice the difference between negative 04:50 versus positive 04:60. That is almost a nine hundred thousand close to a million dollars difference in wealth. So these decisions compound just like interest over time.

One of the benefits of working with a certified liability advisor is most people spend more money on their liabilities than they actually invest for their future. So in looking at liabilities, one of the things you might want to do is what's called total cost liability analysis. What we're doing is a certified liability advisor will look at your strategy for borrowing, how you're borrowing good debt, neutral debt, bad debt, and come up with a strategy to maximize your net wealth over time.

In our next session, we'll look at understanding credit.

CALM 6 – Credit

SUMMARY – The transcript discusses the game of credit and the importance of understanding it. The credit score is a key element in this game, and it evaluates the risk of lending money. The object of the game is to achieve the highest possible score, which can reduce the cost of borrowing and impact various aspects of life. Payment history, utilization rate, length of history, types of credit, and information privacy are the five key rules to play the game of credit. By understanding and following these rules, individuals can improve their credit score and financial well-being.

Welcome to Calm, Cash and Liability Mastery. Today, we're gonna talk about understanding credit. What's the game of credit? What's the object?

What are the key rules? What are the key concepts? And What are the key actions you must take to maintain good credit? First, there's awareness that you're playing a game. Are you aware you're playing a game? Yes or no.

Hopefully, at the end of this, you'll answer yes. You'll have a choice whether to play or not. You can debate this, but if you're playing the game of money and you're borrowing, you are playing the game of credit. So you really don't have a choice. You need to learn to play the game.

Will my performance playing the game have a financial impact? Yes, it will. Like any game, the outcome of that game has an impact on your score.

Can I know how well I'm playing the game today? Absolutely. It's very easy to know and understand how you're playing the game by looking at your overall credit score.

And can I learn how to play the game to win? Absolutely. You can learn to play this game in a way that can allow you to win it consistently over time. But first, you have to understand that you're playing a game.

Now, within any game, there's often a score, whether you're playing Monopoly or basketball. So it's called a credit score for a reason. It's the score that tells you how well you're playing the game. And the score simply is a three-digit number. And that number is evaluating your risk.

The most widely used credit scores are FICO scores, and that score typically ranges between 350 and 850. Now, what does your score mean? Think about if you're going to lend someone money, in a way you're placing a bet. And the bet is the likelihood that you'll repay that debt with interest over time.

If your score is over 800, you have a one in about 1,292 chance. So think about that if it's a home loan or credit card loan, and you're looking at a score, as that score goes down, you'll notice that the odds go up, meaning that the lender, if they were to do a loan for you and your current score is 500 to 600, they have to ask themselves, "Am I willing to do a loan where I believe one out of every eight people that I lend to will, in fact, not repay my mortgage or my credit card debt or my car loan over time with interest?"

And if they are going to do that loan, they'll have to increase that interest to offset that risk. So you need to understand, as a key concept, this game of credit is played individually. Each player has their own score.

But if you're playing, for example, with a couple or with a partner, the lowest score for that particular team is the score that you'll use as a team. So if a husband and wife have an 800 and a 600, they'll largely look to the 600 because imagine that if that husband were to die or the wife were to be left with the house, she now is the credit risk in that scenario if that were to happen.

So what's the object of the game? With most games, the idea is you want to achieve the highest possible score. And by achieving the highest score, the financial impact is that you reduce your cost of borrowing from mortgage, auto credit, college, and business. You reduce your cost of investment products such as life insurance, auto insurance, homeowner insurance, all impacted by credit scores. Your utility bills can be lower because cell phone, gas, and other bills are lower for people, in some cases, with lower credit scores or higher credit scores. And credibility, employment background checks, and public records, all of these things can impact your ability to earn.

Imagine a pro forma bankruptcy or a low credit score being pulled in a background check and affecting your character, which might affect your opportunity for a new job.

So this is a very big game. A lot of people don't realize that 80 percent of Americans have one or more errors on their credit report. Forty percent of Americans are paying a higher mortgage payment due to a lower necessary credit score, meaning that they actually could have a higher score if they played this game better. And by having a higher score, have a lower interest rate.

Twenty-five percent of Americans have credit report problems that would prevent them from securing a new loan or new employment. When I say this is a big game, on a $260,000 thirty-year fixed mortgage, over time, the difference in annual cost for someone with a very high credit score, as you'll see down here in the blue, versus a low credit score up here as you can see is quite dramatic. But over thirty years, if that credit problem stays there consistently, it could increase the cost of borrowing by over a million dollars on a $260,000 mortgage loan with compounding.

So seventy percent of your ability to access your house money is tied to that score. Because so much of the waiting for the decision is based on those odds. So what does not affect your credit score? That's one thing to think about initially. My education doesn't affect my credit score. How many years I've lived in one location doesn't affect my score? My income, my late payments that are less than thirty days past due late utility payments. But it don't really hurt you in a way to become a collection.

Bounce checks don't hurt you unless it becomes a collection. And again, collection meaning it shows up on your credit report. Rent history doesn't really affect your credit score unless you're evicted or it becomes a collection. Child support. Alimony doesn't affect you unless you don't pay it on time. Your age, race, religion, nationality, gender, or marital status, don't affect your credit score, job occupation or employment history inquiries you make into your own credit report, inquiries and employer makes into your credit report for new hiring. These do not affect your credit score, but what does affect your credit score? Well, a great deal.

So all of your account payment information, public records, judgments, lanes, and collections, duration of account is past due, amount that is past due, the recency of past due items, the number of delinquent items, the number of accounts you have in good standing, the amounts you owe on all accounts, the amounts you owe on individual accounts, the type of balance you carry, the number of accounts with balances, the rate at which you're using the accounts, the balance as a percentage of what you borrowed, the average time your accounts have been open, the time since accounts opened, the time since last activity, the portion of new to old accounts, the number of inquiries, the time since last inquiry prior problems and the mix of credit types. All of these things go into playing this game of credit.

And I would think because when I first saw this, I was immediately overwhelmed, how do you play a game where that many elements are being considered? So first, you need to know what does and does not affect your credit score because that's a big part of playing the game, knowing how you score. Now if you took all of those criteria, there's twenty-two criteria that go into a credit score. They really fit into five key buckets. And we're gonna call those five key rules that you can use to play the game of credit.

So payment history is about thirty-five percent of those twenty-two criteria and the weighting of that falls into simply the history of your making your payments. Thirty percent into your utilization rate? In other words, how much of the credit I have available am I actually having to use on a day-to-day basis? The length of time, how long have I had a history of making those payments? That's fifteen percent. The types of credit, do I have a wide variety of different types of credit and increase how many people are currently looking into my credit as in my credit history. That shows that I could bounce and borrow more or maybe I need to borrow more for a particular reason.

So key concepts can affect about eighty percent of your score and play the game well by just understanding those five key areas and five simple rules. So what are the five simple rules? If you take each of those five elements, and you break it down to a simple rule for the thirty-five percent payment history, make all payments within thirty days of the due date. If your due date is April fifteenth, make sure that payment and that payment has been made in full within thirty days and you will resolve the majority of the issues that tie to your payment history and your credit score. Your utilization rate, keep all balances under thirty percent of their high credit limit. That means if you have a credit card that has a limit of ten thousand dollars, try to keep your average borrowing below three thousand. If you go above that amount, you might want to split it across two cards and then pay them in full at the end of that cycle within thirty days. By keeping your average balances under thirty percent of their high credit limit, you'll maximize your utilization rate scoring.

Length of history, keep all accounts open and active for as long as possible. That may say counterintuitive, but having a credit account open for more years has a positive impact on your overall score. Don't close out a credit card if you're no longer using it unless maybe you're trying to save money on fees. But if possible, keep that account open and convert it to a non-paying, non-cost credit card. The types of credit. Try to keep at least five active accounts at all times. If you can have different accounts, that's fine. And don't borrow just to improve your credit score to pay interest. You don't need to do that. You might want to have four or five different credit cards that you have that are no-fee cards. You might have a line of credit on your equity line or things like that. That keeps those open and active. And if possible, use them. Meaning, use them and pay them off on a regular basis. Draw down occasionally on your line and pay it back the next month. Again, this is all about like a plant that you're taking care of. You want to make sure it gets fresh air and you want to make sure you get some sun and some water.

In playing this game, you're playing the game. You're saying I'm gonna have at least five accounts. I'm gonna keep the history open for as long as possible. I'm gonna keep the average balances under that thirty percent limit whenever I can. I'm gonna make all payments within thirty days. And lastly, keep your information private. Don't allow someone just to pull an inquiry because they want to. Be very selective about when you allow someone to access your credit information. In our next session, we'll talk more about taxes.

CALM 7 – Taxes

SUMMARY: The transcript discusses the three main taxes that individuals will encounter in their lives: income tax, capital gains tax, and dividend tax. The income tax system is progressive, meaning that individuals pay incrementally more taxes as they earn more. Capital gains tax applies to assets that have been owned for over twelve months and ranges from 0-20% depending on status. Dividends are payments received based on ownership in a company and are taxed differently depending on whether the company has already paid taxes on them. Understanding these taxes and their respective tax brackets is important for individuals to properly manage their finances.

Welcome to Cash and Liability Mastery. Today, we're going to talk about taxes. Specifically, what I think of as the three taxes that will spend most of your life addressing. That being income tax, capital gains tax, and dividend tax.

So when we look at The primary form of tax in the United States is an income tax, often called ordinary income. And the most important thing to understand about our tax system is it's a progressive tax system. So when you hear about you're in a tax bracket You're never in simply a tax bracket because if you're in the twenty four percent tax bracket What that means is you've probably achieved an income based on your filing status that puts you in a twenty four percent bracket.

For example, if you're married filing jointly and you're earning around three hundred thousand dollars a year, then you're in that twenty four percent bracket. But what a progressive tax bracket means is you're paying incrementally more taxes as you earn more.

For example, over here, someone earning thirty two thousand dollars They're not in a twenty four percent bracket. I can say a single person earning thirty two thousand is in a twelve percent bracket. Because their highest income achieved in ordinary income status is at twelve percent level. But they don't pay twelve percent. In this example, they'll pay ten percent on the first little less than ten thousand dollars and then they'll pay on every dollar above this amount up to thirty two thousand. They'll pay twelve percent.

So let's look at this again. If a person makes fifty thousand dollars and let's say their tax is a single payer, they're gonna pay ten percent on that first about ten thousand. But then as they move all the way up to the next bracket, These are off a tiny bit because the tax brackets change each year. You'll notice they pay twelve percent And then in the next bracket, they're paying twenty two percent on this difference over forty thousand and up to fifty thousand. So you're paying progressively more as you earn more.

I have an example here of a total income of fifty thousand. Well, from an ordinary income standpoint, what that means is they'll pay nine thousand. I'm nine hundred ninety five dollars on the first ten percent three thousand six hundred and sixty nine, that's twelve percent on the next strip bracket, and then two thousand eighty four. So earning fifty thousand dollars means they'll pay six thousand seven hundred and forty eight dollars in federal taxes. And you also have state taxes.

So let's say your state bracket is at five point three percent. Your marginal bracket then is those two together the twenty two percent state and the five point three I'm sorry, the twenty two percent federal, the five point three state is twenty seven point three percent That's your marginal bracket, but how much did you actually pay? If I look at this, on the federal basis, I paid 10:12 and twenty two progressively. That's the total federal. Plus, I paid five point three percent. I paid a total of nine thousand three hundred and seventy three dollars. That's assuming no deductions or other things that reduced that. So in that example, I actually paid eighteen point seven percent of my income. And that's where people get confused with ordinary income and income tax. In a progressive system, you're paying more as you make more progressively but you'll never pay thirty seven percent of your income if you make a million dollars because you paid ten percent twelve percent twenty two, twenty four, thirty two, thirty five, you worked your way up progressively towards those higher levels of income.

Now the second type of tax is the capital gains tax. So what is capital gains? Capital gains is any time you have an asset that you've purchased and have a basis in that you then sell for a profit or a capital gain.

Let's take a simple example. You want a hundred shares of a ten dollar stock. You paid six dollars for that initially. The capital increase at this point is four dollars. Now notice I said capital increase, not capital gain. If you sold the stock, that four dollars moves from a capital increase to become a capital gain. In other words, you selling it helped you realize four dollars in profit in this tax year.

So we addressed ordinary income. Typically, you make it through your work or through your job. When you have capital gains on something you've bought and sold, there's a capital gains tax bracket. And the capital gains tax bracket is for people that have owned that asset for over twelve months. And it typically ranges between zero and twenty percent depending on your status. If you've owned the stock for less than twelve months, it flows through on your normal, ordinary income tax bracket. So in other words, if I buy something and sell it frequently, then isn't that just income that I'm making through an activity. So that flows as ordinary income. It's just money that I'm making by buying and selling something. It could be due to ads or widgets or it could be stocks. Right? But if I hold something for over twelve months, that's considered by the IRS an investment, and I will pay a different tax bracket on that.

So let's look at an example. You own that hundred shares of a ten dollar stock that you paid six dollars for. That gave you the capital increase of four dollars. Once you sell the stock, it becomes a capital gain. And you receive that four dollar profit this year. So I had a four dollar profit and I owned a hundred shares. That means I'm actually going to receive a four hundred dollar capital gain profit on this stock.

So what do I need to know to know how much of that I'll pay in taxes? Well, if we look at this as an example and we say that you own this stock, that you just sold for a four hundred dollar profit, for two years, then we would say that's an investment and we would look at the long term capital gains rates and we would say, hey, I'm single and I'm making thirty five thousand a year. What do I have to pay on that four hundred dollars I just made on that stock sale? And the answer is, I'm single. I'm making under forty thousand four hundred I pay no capital gains tax. That money comes to me free and clear.

But again, thinking progressive tax system, I'm married, I'm filing jointly, and I make a hundred and fifty thousand a year. Married, filing jointly? Hundred and fifty thousand. I'm in a fifteen percent federal capital gains rate. So I will pay fifteen percent of that four hundred dollars back to the government in the form of a capital gains tax in this calendar year.

So what if I had that investment capital gains and that four hundred dollar profit came over just two months. Meaning, I bought something in stock and I sold it. Two months later. Well, again, that's income to you. You're treating it more like ordinary income. So we use the same approach.

If you're single making thirty five thousand, I would come over and find a single thirty five thousand, and that's a twelve percent tax bracket. So it's just flowing through as ordinary income to me, and I'll pay twelve percent on that four hundred dollars.

Now if I'm married filing jointly, and making a hundred and fifty thousand, I would come over here and say, Mary filing jointly, a hundred and fifty thousand And as you can see, that's a twenty two percent bracket. So at that level, that new income that I just made puts me in this bracket, I'll pay twenty two percent of that four hundred dollars will be paid to me in the form or will be paid to the government in the form of a capital gains tax.

So what about dividends? We said there are three kinds of taxes that will be there most of our lives. It's ordinary income tax, in this capital gains and what about dividends? Well, a dividend is any payment I receive that's a form of stock or cash based on ownership in a company. So I may own a company outright. I may have public shares. But if I receive a dividend,

Let's look at an example, on a hundred shares of that ten dollar stock. I haven't sold it. I still retain those shares of stock. But that stock pays a five percent cash annual dividend. The dividends paid quarterly So how would I do the math? I have a hundred shares and they're worth ten dollars each. So that's a thousand dollars that I have in value right now. And this company's paying five percent of that annually. So five percent of a thousand is fifty dollars paid annually. But they pay quarterly, so I'm getting 12:50 every quarter.

Again, there's a million different ways you can be taxed or get dividends. But these three things are critical to understand. Because when you receive a dividend, It's just like a capital gain if the company is already paying tax. In other words, if that company pay tax on their money to the government already. And now they're paying you a dividend because of the double taxation laws you don't have to pay for that again at the same rate.

The company did, you're taxed as if it's just that twenty percent kind of capital gains type rate. If you receive a dividend and that company did not already pay taxes on it, And there's certain types of entities that pay taxes directly to you. They don't pay the government. They do distributions, foreign corporations. Now that is gonna come to you as ordinary income.

So again, you received a dividend of fifty dollars. Okay? If you were able to have that as qualified income, you'd pay twenty percent of the fifty dollars or ten dollars in taxes. But if it was non qualified, meaning that dividend came to you as ordinary income Then we're right back to our progressive tax bracket. I received a fifty dollar dividend. I'm married filing separately, and we're making three hundred and fifty thousand.

So I ran into here married filing separately, three hundred and fifty thousand. So notice again, in that I'm gonna pay thirty seven percent of that dividend back to the government. So based on a progressive system, as I'm making more, things like dividends and stuff have to be considered. The tax bracket is important in understanding how I'll be taxed. So again, the tax system is incredibly complicated, but what we're looking at here are the three key taxes to understand. When I earn income of any kind, that income tax or ordinary income that I'm traditionally receiving from my work will go into that progressive of grid. But if I make additional income through capital gains or dividends, they'll be treated differently often based on either the holding period, how long have I had that investment over twelve months is key or the dividends or they qualified from a company that's already paid taxes on those dividends. In our next module, we'll look at qualified savings.

CALM 8 – Savings

SUMMARY – The Cash and Liability Mastery segment discusses qualified savings plans, such as 401(k), IRA, and Roth IRA. These plans reduce current income by taking money from an employer before it is received as pre-tax investment. The money grows tax-free until retirement, and ordinary income taxes are paid at withdrawal. Company matching and contribution limits vary, but it is recommended to max out contributions. Roth IRA is an after-tax investment that grows tax-free and is not tax-deductible, making it an excellent investment vehicle for those under the max limit.

Welcome to Cash and Liability Mastery. In this segment, we'll talk about qualified savings.

A technical term for something you've probably heard of before: a 401(k), an IRA, or a Roth IRA. Like each of these, these are not exhaustive deep dives. They're helping you to understand that first eighty percent, some key rules to playing the game. And you need to understand qualified savings plans when you're playing this game of money.

Now, let's look at each of these: a 401(k) or, if you're a state employee or a teacher, it might be a 403(b). They're different names, but these are company-sponsored retirement plans. They take your money from your employer directly. They take the money before you receive it as a pre-tax investment, and this is very important. A qualified savings plan reduces your current income. By taking the money from an employer, it's taking that money before you receive it, and they don't show it as earned income. This is very important, as we just talked about ordinary income and taxes. That means that your money is going to be paid as you earn it in the future. You don't have to pay income tax on it now. The money will grow tax-free until you retire. And when you take the money out, you'll pay ordinary income taxes at that time.

One other benefit in a company-sponsored plan is it might have company matching. There's a wonderful calculator that I've put a link to here that you can search for at Bankrate on retirement calculators. Let's take an example. Your salary is a hundred thousand a year, and you contribute ten percent annually. Now the maximum amount you can invest in any one year varies from year to year. It adjusts over time. But let's say in this example, you're making a hundred thousand. If you were to earn that as ordinary income, that hundred thousand would go into that grid to figure out your tax brackets. But if I contribute ten percent, I've contributed ten thousand dollars, and that reduces my income to ninety thousand. So right off the bat, I'm getting an immediate benefit of reduced income tax for this year.

Now that ten thousand that I had taken from my income is going to grow tax-free until I retire. I'll pay ordinary income taxes when I use the money in retirement. And let's say the company also has a matching of ten percent. If they match at ten percent, that means that they're going to make an annual contribution of ten thousand dollars. And if they match up to ten percent of my salary that I put into the fund, they might pay another ten thousand into my retirement. That means that I've actually had a total of twenty thousand dollars, and this is one of the reasons the 401(k) is one of the best savings vehicles because the money comes out pre-tax. And you typically want to max out what you can contribute, especially to the point that the company is matching because you're getting that money again tax-free or I should say tax-deferred. You'll eventually pay taxes on it, but you're paying taxes in the future when the money is realized and what could be a lower tax bracket for you in retirement.

Now an IRA is the same thing, except it's an individual retirement plan. That takes the money from you as an after-tax investment for your future. So when you receive your income from your employer and you pay taxes on that income and you have money left over, you can then contribute that, and it will still reduce your current income in that tax year by whatever the annual limit is, and it varies again from year to year. The money will grow tax-free. You'll pay ordinary income taxes only on the withdrawal, and you can have both a 401(k) and an IRA. So if your company offers a 401(k) and you maximize what you can contribute there, you can still put money in an IRA as well, but that isn't deductible if you make over a max limit, and again, this varies from year to year. But if you make too much money, you can't have the IRA be tax-deductible.

Let's take this example. Your salary is a hundred thousand a year, and you contribute at the end of the year six thousand dollars to that particular thing. You do that each year. The IRS will look at it like your income is ninety-four thousand. So they're giving you that credit for the six thousand that you put away for yourself, and they're reducing your income, which reduces your tax burden in that year. The money grows tax-free, and again, you pay ordinary income taxes only on the withdrawal in retirement.

Some people will only contribute to a 401(k) at their work. Some don't have access to a 401-type company-sponsored plan, a SEP or SARSEP for a small business owner, and they choose to simply do the IRA. Each spouse member can typically contribute, so your wife and you both can make a contribution of six thousand, and now your combined income would be reduced by twelve thousand in that year.

Now, a Roth IRA is very similar to the IRA. It's an individual retirement plan that takes your money as an after-tax investment. The difference is there's no tax deductibility. It doesn't reduce your income when you contribute to a Roth IRA. But the money grows tax-free, and because there was no tax deductibility, now you pay no taxes on the withdrawal. Some feel that this is the ultimate investment vehicle. And because of that, you can't do a Roth IRA if you make over the max limit. So for higher net worth, higher-income earners, they may be unable to utilize the Roth IRA as a strategy. But if you make under the limit, many find this to be an excellent way because while you get no tax deductibility now, all of that money, all of that growth over that 10, 20, 30-year period gets to come to you tax-free when you access it in retirement.

So these are three different strategies. So if your salary's a hundred thousand a year and you can attribute six thousand to your Roth, you're still gonna be taxed if you make a hundred thousand a year. The big difference is when I take that six thousand out in the future with all of its capital gains and with all of its dividends that it may have earned over that time period, I get to take that money out without paying that ordinary income at that time.

So again, the tax system is very complicated, but these key qualified savings accounts will help you if you understand that a 401(k) or company-sponsored plan can work with an IRA or a Roth. You may have a year or two where you don't make a lot of money, and in those years, you can put money into a Roth IRA because you're under that max limit. You might have both the 401(k) and an IRA and a Roth IRA all working together. The key is, as we've discussed in our prior session, income tax, capital gains, and dividends. These qualified savings accounts can reduce your income tax paid now, and they defer all of the growth. All the capital gain and dividend growth is deferred till some point in the future when you utilize that money and spend it in a retirement lifestyle.

In our next discussion, we'll talk about inflation.

CALM 9 – Inflation

SUMMARY – The transcript discusses the impact of inflation on buying power and how it reduces the value of currency over time. There are various causes of inflation, such as demand pull and cost push. Inflation can lead to a decrease in purchasing power and can make people feel less wealthy. However, investing in real assets and increasing investments by the current rate of inflation can help combat the effects of inflation. Additionally, inflation can decrease the cost of borrowing and benefit those who borrow money.

Welcome to cash and the liability mastery. Today, we're going to talk about inflation.

Inflation considerations are important for the specific reason that they have a huge impact on buying power. If you think about it, the whole reason that you think about earning money in a career or a job is because that money can buy you something. You save money for the future, you hope at some point that money can be used in the future to buy something that you might need clothing, food, housing, etcetera. So inflation considerations are really all about buying power, purchasing power.

So what is inflation? There's inflation. There's deflation. There's many different dynamics. But inflation's the one that persistently is always engineered. Because it has a function in our society, but we need to understand that that what inflation does is it reduces the buying power of our currency over time, whatever that currency may be. In this case, let's just say the the US dollar.

There are lots of causes of inflation. There can be what's called demand pull. And think about it. A new manufacturer comes out with a limited edition new sneaker that's signed by an athlete because it's limited, because there's a demand that's pulling that product forward, they can charge a higher price for it. So that's an example of by charging a higher price, you can buy it, but your money doesn't go as far. If you have to spend a hundred and fifty dollars on a pair of sneakers you would normally pay a hundred dollars for. That's inflation for you. Now you could say I don't demand those sneakers. I can pass Right?

But then there are other things where there's a cost push where, for example, you wanna go buy balloons for your daughter's birthday party, and she loves balloons, but helium has doubled in price. And because helium has doubled in price, the balloons now cost ten dollars instead of five dollars. So when production costs increase, these can affect things such as the gas we buy from our cars, the food that we buy at the store, those costs going up cause a push of higher prices to us as a consumer. So oftentimes, this cost push is one of the things that we start to feel in our spending.

And there's certain built-in types of things, and that's often, for example, our currency in the United States as we print more money, as we continue to push more currencies out into our society by having more money built into our system, there's more competition for that money and where it can go. In other words, More people get paid higher prices and higher wages. And as they get paid higher wages, they can spend more when they go down to the local store to buy a burrito. And if they can spend more, that person can pay his people more, but he needs to charge more for those burritos and it creates his cycle. Where inflation gets baked into how we interact.

Now again, at the end of the day, what's this all about for you? Well, inflation historically very rarely is negative. We see only two times in history where inflation was actually deflation. We mainly focus on inflation. And for those people that live through the eighties, they saw gas prices doubling and tripling very quickly. In some countries, we've seen prices go up a hundred percent a day. And imagine when we talk about purchasing power, if you have a million dollars you may feel very wealthy. And that's because of what that one million dollars can buy for you, what can it purchase for you, But if you found out tomorrow that the loaf of bread was a million dollars, would you feel wealthy? If you're purchasing powers reduced in that way, you probably wouldn't feel wealthy. But fortunately for us, we haven't had that experience in the United States, but we have experienced and are experiencing inflation almost always.

So if your income in your job grows by five percent, That means you actually have five percent more in real spendable money. But if inflation is two percent, that means everything costs two percent more. So your real income growth is three percent. But the good news is your purchasing or buying power went up.

What often happens is our income growth goes up two percent and we don't see the inflation, but it also went up two percent. We actually feel richer because we saw our income go up. But we're also seeing other products and services going up. So our real income growth is zero. This can be really difficult when people feel like they're wealthier and then start spending more money only to realize later on that they have less money to actually spend because the cost of those goods went up. And what's really difficult is if the income growth doesn't keep up with inflation, meaning your income goes up one percent, but inflation is two percent Then what happens is we have a real income loss of one percent. We actually are less wealthy. Our purchasing power is going down.

So let's say you make a hundred thousand dollars and your income grows at three percent a year. What does that mean? That means next year your income would be a hundred and three thousand. You be, I feel wealthier. Now if inflation is two percent, How much are you really making in a year in purchasing power terms? In other words, in inflation-adjusted terms? So if something that costs a dollar today will cost you a dollar two in the future in a year. That's like saying it'll take a hundred and two thousand next year to buy what I can buy with a hundred thousand dollars today. So my real purchasing power increased by a thousand dollars. Because I'm making a hundred and three, but it takes a hundred and two to buy the same goods and services.

You go fill up your car today and it costs you fifty dollars to fill up your car, It was only costing you forty dollars a few months ago. That's an example of how you can feel that real purchasing power decreases. Now, we say inflation's two percent or three percent, but that's really just an average because things appreciate differently. Over the last twenty plus years, college tuition and fees have appreciated more than almost anything else. Health care, medical care has gone up dramatically, energy, and that could be the gas you use to heat your home or fill up your car. If you own a building, if you have any of these housing related expenses, apparel, clothing, so you've seen apparel come down. So if you really spend a lot of money on clothing, that can be a positive thing. But if you spend a lot of money eating out on food and beverage, that forty-nine percent increase means that you've lost almost half of your purchasing power in the last twenty years. When you go out to eat, It costs you almost fifty percent more to buy the same food and beverages of that time period twenty years earlier.

So I have an inflation question for you based on this. If your investment account has grown to a hundred thousand dollars, it's gonna grow at three percent next year. How much is your investment worth in one year? Well, a hundred and three thousand dollars. But if inflation is three percent, how much will your account grow in purchasing power after one year? And the answer is zero percent because that hundred and three thousand-year investment account will now buy you the same amount of goods and services that it would buy you today because three percent inflation has increased the cost of those goods and services. That's why you often hear that we have to invest just to keep pace with inflation. And we see that compounding growth, compounding growth is not just free money. It's keeping pace with the fact that it costs more for your future self to live than it will, the present self today if there's inflation.

So another question, if you're saving a thousand dollars a year and your income grows at three percent a year, should you keep investing the same amount you started with or increase your investment by three percent a year? And this is where the magic of compound interest really works. And the answer is you should increase your investment because if your investment income growth is three percent a year and you invest three percent more each year, what you've done is now you've taken the inflation out of the equation because your money is growing not only with compound interest, but you're also adding that three percent a year for inflation. Therefore, you really have an incremental three percent of spendable money in the future. So always, whatever your investment goals are, you should increase them at a minimum each year by the cost of current inflation—three percent, four percent, five percent, or more.

Now, you borrow a hundred thousand at zero percent interest to buy a house. I'm just gonna use zero for this example. Inflation is three percent a year. Should you pay off the house quickly because of inflation or should you allow inflation to reduce the cost to repay that debt over time? It's a tough question.

So if you buy a hundred thousand dollar house, the good news is the house value will also go up with inflation, meaning the house will go up in value. But what about the mortgage? See, if you borrow a hundred thousand dollars today and there's three percent inflation, if I want to write a check to pay that house off today, I'd write a check for a hundred thousand. But what about a year from now? If inflation is three percent, the house should go up by three percent. But in today's dollars, I've actually borrowed ninety-seven thousand a year from now because deflation works to deflate the current borrowing that you have, meaning it's cheaper to pay the debt off in the future. We've experienced this.

My parents bought a house in the seventies for sixty thousand dollars. The house now is worth hundreds of thousands of dollars. But the mortgage itself continued to go down. So ask yourself this, if you were able to write a check today to pay off your mortgage, would you rather write a hundred thousand dollar check today or a forty thousand dollar check in twenty-fifty? In other words, I'm writing the check right now, and I can choose to give it to my lender at any time. Wouldn't you want to write the smallest possible check? And that's the beauty of inflation. As we saw in the prior example, if I wrote a check today for forty thousand one hundred dollars, that would be the present value of what it would take for me to pay off that mortgage with inflation. If I wait thirty years and pay the check and pay the mortgage off, I'm still paying off a hundred thousand. Right? It's just going to feel like forty thousand one hundred dollars because I'm using a discounted purchase value to pay off that mortgage.

So the beauty of inflation, one of the benefits of inflation, is it devalues the cost of borrowing. So key inflations to consider. Inflation erodes future buying power of cash. So the cash you have today is being eroded. You're actually awarded to spend that cash on things that you need. Unfortunately, some people spend that cash on things they don't need because they feel like the value of the cash is going down. Your antidote to that is to invest it in real assets, stocks, things that go up and inflate with inflation, and understand that Inflation decreases the cost of borrowing. That includes borrowing that you take out and bonds and things at corporations or the US government because if they borrow money, inflation helps them because they get to pay off that debt with cheaper dollars in the future.

CALM 10 – PINFIN

SUMMARY – The final presentation and discussion of cash and liability mastery covers key concepts in money management. Understanding money as a store of value, a unit of account, and a medium of exchange is important, as is recognizing one's personal money story. Managing cash flow is crucial, and mastering the first thirty days is key to building a ninety day savings account and learning to invest. Borrowing money requires understanding the types of debt and the impact of credit scores and taxes, and investing is necessary to combat inflation. The Penfinn challenge allows individuals to assess their progress and work with liability and financial advisors to build wealth.

Welcome to cash and liability mastery. In this final presentation and discussion, we're gonna put it all together.

So far, we reviewed what is money, your money story, managing cash flow for three buckets, key money dynamics, debt and borrowing, understanding credit, clarifying taxes, qualified savings, inflation consideration.

Now what I'm gonna do is take one slide for each of the initial nine modules and share with you what I believe is the key understanding or concept from each of those nine areas. Then we're gonna put it together and give you a way to see how you've done over your life to this point in time. In other words, how can you go about measuring how well you've done and see where you need to go to get where you'd like to go financially?

So let's go through each of the first nine modules.

What is money? Very important money is a store of value, a unit of account, and a medium of exchange. But more importantly, money is something we trade our life energy for. You pay for money with your time, then you choose how to spend your time and your money. So money is an important concept in our society. So once we understand, okay, this is money money money it is, you know, we it's not just coins and change. It's not just checking accounts. Right? It has a function in our society. It's a key method of exchanging time and energy.

The important thing is that Dennis understands that you have a money story, and that money story is having a huge impact on how you engage your world of money. Whether you think it's hard to make or easy to make or hard to spend or easy to spend or hard to learn how to invest. All of these beliefs that you have are part of your money story. It's very important to at least look at your money story and understand that you have one and consider that this is like anything else. It's a game. And I can learn how to play this game called the game of money.

Now the next part we talked about was step one is managing cash flow. Because if you can't do that, most everything else is sort of close to you because you're always gonna have more months than money. You've got to master the first thirty days, which means you have to learn how to spend within the current cash flow that you have available in thirty days on a month to month basis. And once you do that using a simple system of managing your thirty day cash bucket, which is your checking account, you can build up a ninety day savings account.

And once you get the ninety day savings account done, so you've got your emergencies, everything else from there is simply learning how to invest. Learning where to invest and there are millions of resources out there for you to learn how to do that better.

We'll have additional educational content on that. But for now, you gotta get through this first stage and then everything is open to you here in terms of building and developing and growing wealth.

But how do you grow wealth? Well, it's not that you have to necessarily be a wizard. I would say there's more to discipline than anything. The discipline is the monthly ability to put aside some money over a career to build wealth.

The return, whether you earn five percent or seven percent or nine percent or eleven percent, that's more of that mastery of that third bucket where you realize if I put it in my checking account, I'm probably not gonna get five percent. I'm gonna get one or two percent. I might need to be in the stock market. I might need to look at broader ETFs and investments working with financial advisors. People that can help me earn that 09:10, eleven plus percent return over time because the same two hundred dollars a month compounded over time still works out to be a reasonably good number at five percent, but a really phenomenal number at eleven percent.

So I know what money is. I know I have a money story. Get comfortable with that. I can master my basic cash flow with a very simple system. And then I need to understand the basics of time and money, and that is just dynamics of discipline and return over time.

Now along the way, I'll probably have to borrow some money because anytime I need money now for something I wanna buy that I haven't yet saved for, I'll have to borrow. And we said there's really three types of debt: bad debt, neutral debt, and good debt.

Bad debt includes credit cards, personal loans, payday loans. Why? Because they have high interest rates and they're typically used to buy depreciating assets. Neutral debt, what's that? Well, things like car loans where you might get a really low interest rate, maybe even no interest rate, zero percent, but you're still buying depreciating assets. So you have to be careful when you use a car loan and choose not to just save up for a car.

And then traditionally, good debt would be things like student loans and mortgage loans because they have lower rates, but you're also buying appreciating assets. But know that when you borrow, you've really added someone else's thirty-day bucket into your matrix because you're gonna have to take that money from the borrowing and spend it. You're also gonna have to pay it back with earnings and with interest.

So you've got a bucket that shows up anytime you have borrowing, and that bug is gonna have to be considered as part of your overall cash flow strategy. Now over time, people often overlook things like credit, and credit can have a huge impact on your cost of living over time. So we shared with you how credit scoring in the game of credit works. But if you didn't understand these five simple steps, and make sure that, again, thirty five percent of my payment history or thirty five percent of my credit is tied to my payment history. I need to make those payments in thirty days or less.

Thirty percent is my utilization rate. Keep my balances under that thirty percent threshold. Fifteen percent is the length of history. Don't close out accounts just because I'm not using them anymore. Keep a zero balance on them. Use them once a year. Buy a cup of coffee and pay it off. Keep that history active to build a good score. Make sure you have multiple at least five different accounts open at any one time and be very careful with your credit inquiries. Keeping that credit score high keeps your cost of borrowing low, which gives you more cash flow for investing and saving.

Now all along the way, you're always gonna have to deal with taxes. They say death and taxes. Well, death is hopefully a long time off for you, but taxes aren't. Anytime there's income, there's gonna be taxes, and we talked about understanding the basics of income tax is how is that tax as ordinary income coming out of my day to day earnings. But then over time, as I started investing and learning to play that game and I moved into that second and third bucket, I'm gonna have capital gains and dividends and I need to understand how they become part of my overall tax obligation.

And when you understand the friction and the load that taxes have on investing, you realize why qualified savings plans are so important to understand. That 401k IRA and Roth IRA are the only kind of free lunches where the government has said we will take away the burden and the friction of tax station and allow you to earn that interest on a tax free basis so that income tax capital gain and dividend that is coming into those investments can be sheltered and and tax deferred by using these vehicles. And we strongly recommend you max out your 401k for your company and to the extent you have or don't have that, look at IRA's and Roth IRA's again as a vehicle for saving using that discipline in that third bucket to build wealth over time.

Now, you have to understand inflation is important. You could say inflation is a reason that investing is not really a choice. It's a requirement. Because if I am not investing, my cash is losing its buying power by three to five or six percent a year. If I buy things that increase in value real assets such as real estate, gold, stocks, things that have value, they tend to inflate. So inflation is a positive thing for those things.

Unfortunately, it's a real negative thing for things like borrowing for bonds and things like that, but it actually decreases the cost of borrowing. So it's actually a reason to have borrowing, not that you borrow just for the benefit of inflation, but it's another reason that the mortgage and owning your house can be such an incredibly powerful tool.

Net net inflation hurts you to the extent that it grows faster than your income because your real income and buying power are going down. So that all being said, In just eight or nine minutes, we've covered the key slides for each of those nine modules. Now we give you a chance to do the Penfinn challenge.

The Penfinn challenge allows you to take the spreadsheet that you'll see right below this video, download it as an Excel spreadsheet, and start to complete the information on those worksheets. When you complete that information, we highly recommend that you sit down with a liability advisor and/or a financial advisor and go over the information with them, showing them what you came up with.

In that process, look at how you're doing. How much money have you made over your lifetime so far? How much of that money have you been able to keep? How long could you go without earning income right now? All of these questions are answered in the PenFed challenge. And hopefully, having gone through this material, you'll be more confident in your ability to build wealth going forward.

So, complete the worksheet below. And reach out to a CLA, a certified liability adviser, and review with them your progress. Starting with a liability adviser allows you to reduce the friction of borrowing and make sure that you're spending as little as possible as you can on credit or mortgage liabilities.

Once you do that, you can take that additional cash flow, work with a financial adviser who can help you figure out that third bucket, the best way to invest that money going forward.

Hope this has been helpful. Wish you the absolute best. Good luck.

Cash and Liability Mastery - Transcripts

In this series, we take you through some key financial concepts and how they relate. Essentially, your relationship with cash and cash flow dictate how you handle your 30 days (each month). If there is money left over, you can spend it, repay debt, or save it for future spending (invest it). It's really simple, if you can't master the 30 days, the rest doesn't really matter. If you can, then there are many more ways you can grow and create wealth by understanding simple concepts and financial laws.