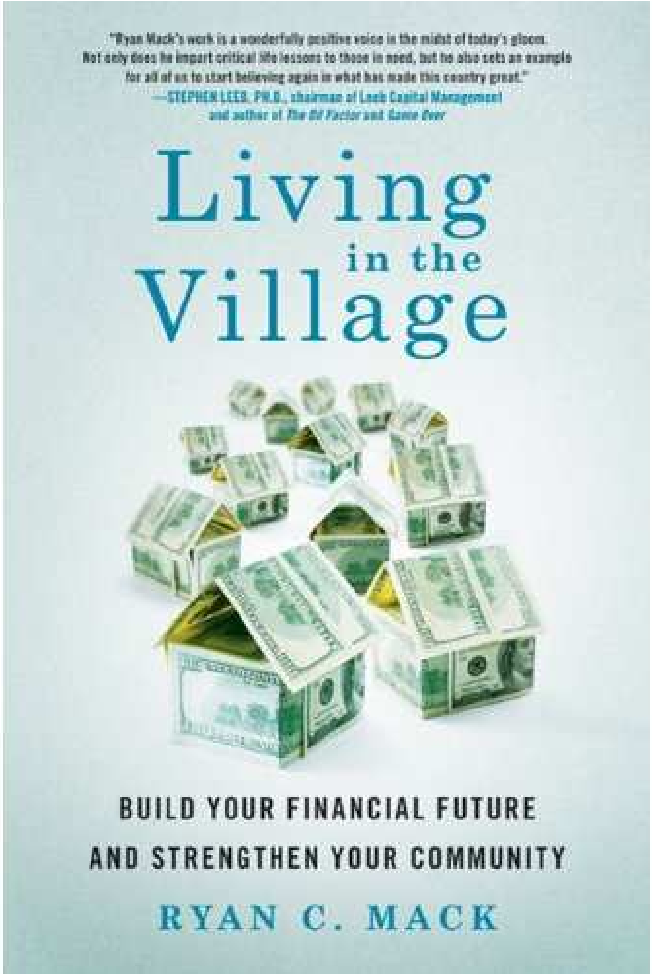

Excerpt from *Living in the Village* by Ryan C. Mack

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CHAPTER THREE

Step One – Getting Your House in Order: The Budget

There are three ways that you can use money:

1. Spend

2. Build (Saving, investing, etc.)

3. Give

Spend

The failure to watch what we spend is the primary reason that we are not able to accumulate wealth. I know of a doctor who earns well over $300,000 per year he and his family live check to check. They are inundated with debt because they live beyond their means. However, I have a client that is earning just a little over $60,000, in the city of New York (which is not a lot for this expensive city) and has just purchased a home, is saving regularly for retirement, and takes yearly vacation trips. She makes about twenty percent of the total income of the doctor but has more money in her retirement.

It all depends on how you handle your income. I have noticed, by talking to many people across the country, that those making $30,000 per year can have the same fiscal problems as those earning $90,000 per year. You would think that three times the income would equal three times the savings. However, we found that as peoples' salary increased, so did their spending in most cases. There are many reasons why individuals of all income levels may have problems with spending, including:

· ***Lying to themselves*** – They spend money frivolously because they don't want to face the truth about just how much of a mess their financial house is in.

· ***Spending tomorrow's money today*** – People spend money that they don't have expecting future increases in earnings or windfalls. But when that tax return wasn't as high as you thought or you didn't get paid as much overtime as you anticipated, you are now on the hook plus interest.

· ***The "Big Shot" mentality*** – Many people love to be perceived as financially stable. I have personally seen people who I know just lost their job pick up the entire dinner tab just to maintain an affluent facade with their peers.

· ***Humble upbringing*** – Many people didn't have a lot of money growing up and once they get a taste of financial stability they shower themselves with things that they once were deprived of.

· ***Plastic is not the same as paper*** – People spend on average 35% more than they would in cash just because they have access to a credit card. Holiday season is the perfect example of people spending themselves into the poor house because they are caught up in the moment of purchasing gifts with money that they don't have. Why do you think that casinos have you exchange your money for plastic casino chips? They understand that it doesn't feel the same to spend those plastic casino chips as it does cash.

· ***Instant gratification*** – This is the most common cause of excessive spending because people live in the 'now' as opposed to the delayed gratification of saving for the future. The savings rate in America in 2005 dropped to a negative 0.5% for the year --the first time the savings rate had been negative since the Great Depression. This means the average American was dipping into their savings or borrowing to pay for purchases and spending in excess of what they were earning. Many of the purchases were for luxuries and not necessities. Budgeting for purchases, taking the time to save the proper amount, and avoiding using credit for items that are not necessities require the use of principles based upon sound financial judgment.

· ***Keeping up with the Jones'*** – I know of a person who moved his family into a house that he couldn't afford just because his friend moved into that neighborhood. His wife, a stay-at-home mom was taking care of their kids as they originally planned now had to work to afford the home. They upgraded their old 1998 Volkswagen to a Mercedes. Unfortunately, the wife fell ill and had to stop working; they fell behind on bills and the husband had to take a second job; debts and stress began to pile higher, and they lost their home to foreclosure. They also lost their marriage (did you know that money trouble is the number one cause for divorce?).

· ***Insecurity*** – Many people will spend $2,000 for a designer handbag, $75,000 for a car, or even $1,000 for a simple wool coat. They purchase these items simply to gain assurance of their status in life. They feel as if these purchases give them a sense of value and purpose that is hard to find anywhere else.

Below is a chart of savings ratios of to show you some general parameters of spending compared to your gross income:

Ratio	**Targeted % of Total Income**
Housing Ratio *(rent/mortgage, insurance, real estate taxes, etc.)*	28%
Total Debt Ratio *(rent/mortgage, car, credit card, etc.)*	36%
Savings Ratio *(IRA, 401K, brokerage, etc.)*	15%

I wouldn't advise that you get too hung up on these ratios as they can vary depending upon your lifestyle desires, your financial goals, where you live, your transportation needs, and more. If you find that you are spending 30% of your income on housing that doesn't necessarily mean that you are on the road to foreclosure; however, if you are spending 45% of your income on housing I would definitely look for places to cut to downsize your lifestyle.

Build
Investing is putting your money into anything that has the potential to go up in value and should not depreciate. Stocks, bonds, businesses, education, real estate, artwork, gold, are all things that can go up in value over time and are good investments. We will discuss investments more in depth later in this book because this is a crucial component of your road to prosperity, but I wanted to fill you in here on the basics.

Try to invest AT LEAST 15% of your income every year. If you are earning $100,000 per year income you should be saving at least $20,000 per year. If you can afford to do more please do so because the more you do the faster you will be able to achieve those important long term financial goals that you have always dreamed about.

The secret to achieving wealth is to understand the more you invest, the more you will have to spend and to give as well. And how you do that is by budgeting.

Budgeting is not meant to constrict your spending, it is meant to organize your spending so that you can do what is responsible with your money for the good of yourself and the community. Why are you going out so much spending excessive money for entertainment when you are saving to purchase that new home? Why are you looking to purchase that new car when you know that you wanted to save to start your new business? You can't be the next person to help revive the economy if you are spending like there�much no tomorrow, living check to check, and not prioritizing your life. It is hard to become the next Bill Gates if you are overwhelmed with worry that you won‛t have enough to pay the light bill. If you are having trouble paying your bills, stop making extra bills. There are thousands of people who have items collecting dust under their bed that they are still paying a bill for but haven‛t used in over a year. The world needs responsible people and households more than ever before; with a sound budget you can be on your way to helping to make paradigm shift away from a consumer driven mentality.

Give

Giving back is one of the most important wealth building principles in this book. I am not talking about the giving that you do for that family member who refuses to get a job. I am talking about giving to charitable organizations that do tremendous work in your community, such as giving to a school so they can buy new textbooks, or giving to a family member who can‛t afford to pay for their college tuition. The more that you save, the more you can help somebody else.

Giving is also a very important wealth building principle. When you see that homeless person asking you for money and you clinch your wallet as if giving the person a dollar will break you, what does that say about your confidence in earning that dollar back? Are you so insecure with your ability to earn money that you are scared to give it away? I am not saying that you need to give money to every homeless person that you see. Some of the richest people in the world are the most prolific givers because they are confident that they will be able to make back every dollar that they give away. This level of confidence is an essential component to your road to accumulating wealth.

In a perfect world, I would love for you to be able to give 10% of your income. This can be to your church, charity, or any place that you feel can be empowered by your gifts. It is always the case that the person who has the least and is able to budget and develop the confidence in their earning potential somehow finds the money and even starts earning more. I understand completely if times are hard and for the moment; however, I urge you to set this as a goal for you to achieve in the near term. As with other goals, write this down and works towards improving your financial condition to be able to eventually meet this goal. Giving is one of the most powerful things that we can do to empower the communities and every little bit counts!

Creating and Maintaining a Working Household Budget
"Failing to plan = planning to fail."

Many people feel that there is a magic wand to accumulating wealth. You wave this wand and ―viola‖…you are rich! However, at its core, accumulating wealth is simplistic. There are those who accumulate wealth by earning more money, which is an offensive strategy. They strive to increase their salary consistently. There are those who attempt to save/invest as much money as possible. This is a defensive strategy. I saw an episode of an elder gentleman who never earned over $11/hour his entire life yet was worth over $2 million by 70 years of age. The wise person increases his/her odds by implementing a little of both offensive and defensive strategies. To keep an accurate account of how much you are earning and saving one should use the most powerful tool in the personal financial planning arsenal…the budget!

The budget is the most important piece of the financial plan. Many underestimate the power of the budget and make light of its use. However, with 60% of America spending more money than they earn in a given month, it is time that America understands that we must take more of an accurate account of each dollar that is being spent in our households. The first question I ask those who take my courses is if they have some sort of a working budget in their household. Most say that they do not. However, some do say that they do operate on a budget. Of those that claim to have a budget, the next question that I ask them is, "How much does is cost you to support yourself in a given month?" An overwhelming amount of those who I ask do not know the answer to that question.

Using the Budget to Calculate Your Finish Line

I have never met someone who has not said it would be nice to eventually be financially independent. This means to be able to afford to never be required to work again without worrying about supporting their families or themselves. While I am a strong advocate against the traditional form of retirement--I believe that we should always be working to fulfill something while we are alive-the traditional ideal retirement age is 65, when we are to resign our jobs and seek out a beach of which to spend our 'golden years'

When you go to a McDonalds who do you see as their employees? You typically see many young individuals and many elderly, right? For many teenagers, it is their first job and they are ecstatic to get their first pay checks. However, do you think that for those who are elderly, McDonalds is their dream job?

More often than not, they are working because they did not adequately prepare financially for these later years in life. There is a difference in your golden years between working because you want to and working because you have to.

Try this exercise: What is the 'magic number' that will take for you to become financially independent? How much money will it take for you to be able to afford to quit your job if you wanted to and still be able to support yourself for the rest of your life? Everyone has a different number and it depends upon the amount of living expenses that they have to provide for. Many guess at this number, but there is a way to find out a more precise estimate of what it will take. This estimate can best be achieved through the budget.

On the following page we have placed a sample budget for you to fill out so that you can do this exercise for yourself.

Step One: Complete your budget to discern your estimated monthly living expenses. Let us say that after you have completed your budget, you discovered that all of your household expenses for the month totaled $3,000.

Step Two: Multiply your monthly living expenses by 12 to obtain your estimated yearly living expenses.

In our hypothetical example our estimated yearly living expenses would total $36,000 (12 x $3,000).

Step Three: Divide your estimated yearly expenses by a reasonable rate of return that you think you would be able to earn on your investments throughout the duration of your golden years. I usually select a very conservative return of approximately 5% at most.
Note: It is better to underestimate your return on investment (say 2-3%) than to aim too high and run out of savings. In addition, remember that these are the savings that will be in your retirement account and should be invested in more conservative investments with lower affiliated risk (risk as it relates to return will be explained in greater detail in later chapters).
In our example we would arrive at a figure of $720,000 ($36,000/.05 = $720,000). This means that we would be required to save $720,000 in order to become financially independent.

Step Four: From the figure derived in step three, subtract the total amount of savings that you already have accumulated from the total amount that you need.
Assuming that we have $25,000 in cash saved and $50,000 in a company retirement plan for the total amount of savings, you would subtract $75,000 ($25,000 + $50,000) from $720,000 to get a savings goal of $645,000. 80

Step Five: Derive how long it will take to save the amount derived in step four by using your surplus that you derived with your budget. Your surplus is your total income earned during the month minus your total expenses during the month. This is also called your disposable income and is the most important figure in your budget. The larger your surplus, the faster you will be able to achieve financial independence. To reiterate an earlier point; you can earn more, spend less, or do a little of both to achieve a higher surplus.

In our example John Smith has a surplus of $500. Below is a chart of how long it will take if he takes this $500 and invests it into the market on a monthly basis.

Dollars Invested Monthly		**Interest Rate**	**Years to Reach $645,000 Goal**
Scenario A	$500	7%	31 Years
Scenario B	$500	8%	28 Years

Scenario C	$500	9%	26 Years
Scenario D	$500	10%	25 Years

Note: To calculate the length of time with the various interest rates, I simply used a financial calculator. Below is a list of websites that contain savings calculators that you can use to insert numbers that are pertinent to your own personal financial situation.

www.bankrate.com
www.greenpath.com
www.fincalc.com
www.moneycentral.msn.com
www.mint.com

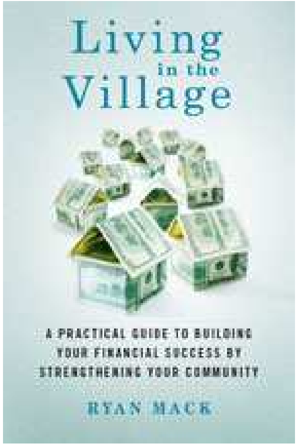
To some of you $500 is not a lot of money, but to the 60 percent of this country spending more money than they earn every month, it is a lot of money. Lets just see what happens if this surplus is only $200 per month and John only has enough money to save $50 per week.

Dollars Invested Monthly		**Interest Rate**	**Years to Reach $645,000 Goal**
Scenario A	$200	7%	43 Years
Scenario B	$200	8%	39 Years
Scenario C	$200	9%	36 Years
Scenario D	$200	10%	33 Years

As you see the time gets a little longer, but it is still attainable. We have to concern ourselves with long term goals and not with short term gratification. In the second example $200 per month equates to only about $50 per week. Fifty dollars per week equates to only $7 per day. We all have seen the news around the holidays when hundreds beat the door down to purchase the new PlayStation, the new Xbox, or the latest phone that has unlimited amounts of capabilities. All of these gadgets cost more than $200. What does it say when we have a country which has closets and garages full of out of date toys and gadgets (if they haven't already donated them to goodwill) but over 90% of the country is financially dependent after the age of 65?

A budget is a crucial tool in determining how much we are able to save on a monthly basis, how much is required to support the household, and inevitably how long it will take to achieve financial freedom. What you earn is not as important as *what you do* with what you earn. We can maximize the dollars spent and saved in the house with the proper use of a budget.

Living in the Village by Ryan C. Mack



A clear, personal, step-by-step plan to achieve financial freedom--for yourself and your community.

Financial planning isn't easy – especially when you're trying to overcome destructive spending habits, accumulating debt, and ever-increasing household budgets. Ryan Mack, Wall Streeter-come-financial advisor, has written LIVING IN THE VILLAGE for those who need a clear, accessible and tangible plan for getting personal finances in order once and for all. In a frank, accessible voice, Ryan C. Mack provides simple, easy-to-understand financial advice that you can implement right away. He developed a seven-step plan, featuring critical advice for:

- Eliminating debt
- Improving credit
- Creating an emergency fund
- Maximizing the company retirement plan and IRA
- Avoiding financial predators
- Diversifying your investments

Establishing a financial legacy for future generations each step of the way, LIVING IN THE VILLAGE not only educates you about financial planning tricks and pitfalls, but also, through numerous personal testimonies from ordinary people doing extraordinary things in their communities, shows you how to give back and contribute to the economic advancement to your community.

Product Information

Pub. Date: January 2011
Publisher: St. Martin's Press
Format: Paperback, 320pp
ISBN-13: 9780312646363
ISBN: 0312646364
Available: Amazon.com, Barnesandnoble.com and Wherever books are sold

For more information, please visit http://livinginthevillage.com.