



Episode 125 - The Shutdown and What We Can Learn From It *Episode Transcription*

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Paul Adams: If you've been listening to the podcast very long, we talk about the importance of setting up certain financial disciplines, putting you and your household in the position where you can weather a financial storm.

Speaker 2: Welcome to Sound Financial Bites where we help you with bite sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, inclined flipping across America, our host Paul Adams now brings directly to you.

Paul Adams: Hey guys, Paul Adams here. In the entrance of some of the timely things going on right now. It's the beginning of the year. We're still in the midst of the government shutdown as I record this, we decided to add three episodes right now that are holding us back from getting the episode that I know all of you are super excited for, which is now going to be episode 128, which is gonna be picking up on our three part series.

Part three will be near misses actual strategies and defined strategies. Part three is defined strategies that's coming up soon. Episode 128, got some timely stuff for you. I hope you enjoy. Hello and welcome to Sound Financial Bites. I'm Paul Adams, CEO of sound financial group, and left unsupervised today by the president of our firm, Corey Shepherd. I'm so glad to have you with us. Here's what we're covering today.

The government shut down; what we can learn. Now, this is going to be a potentially controversial topic because so many people, 800,000 people right now are either furloughed, not getting paid, having to work, and not getting paid currently. In our past government shutdowns, those people have gotten their back wages back, but I think it gives us a unique moment in time to think about how we've structured ourselves personally, financially because that is the key.

We don't know what the future is, so let's put ourselves right now in the shoes of somebody in the government shut down. I can relate to this a little bit because my mom was working for the Department of Energy when I was a child back in 1986. I remember it very clearly because there was still media talk about the shutdown, but more importantly, there was dinner table conversations about the shutdown in our house, and what we did and how we handled it and what that would mean for you.

So my mom was a primary breadwinner in our house when I was growing up. She had started with the Department of Energy in her 20s. We've got pictures of her in front of one of the Department of Energy's first major supercomputers that took up a whole room. Today could not calculate what your iPhone can changing the great big reels on the machine. And yet when we came home, and we talked about it, it was, you know, "The government's going to shut down. We don't know if this is going to be two days. Is



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this going to be a month? Is it going to be longer?”

And what we had to do as a household to manage finances, now we didn't talk about finances. It wasn't a normal thing in our household. We didn't talk about what my mom made. My Dad stayed home with us and did some entrepreneurial things on the side, well stayed home with me, I should say. It was just me, but he also stayed home with all my friends because my friends would all come over and hang out after school every day with my dad in supervision.

Which if you're not familiar with dads when they're taking care of kids, we keep them alive, we don't make them comfortable. And that's kind of how I spent my childhood. Yet I remember there was a little fear, a little uncertainty. What if this goes on a lot longer? What if it means massive layoffs, or if they cut down the government a great deal? And all those things were very real and visceral and we had to deal with them.

And that's happening to some degree across 800,000. In theory, if there's one government employee per household, that would be 800,000 households. Now probably not that many, but let's call it five to 600 households for sure. And you've got some real financial conversations going on that feels a lot like a tragedy. But I want to start by putting this into perspective; this tragedy that people are experiencing of stopped income.

I think as of today, we're 20 days, and you're probably going to hear this at 24 days in if it doesn't change in the near future and yet what's going on? Well, people's income has stopped. If you've been listening to the podcast very long, we talk about the importance of setting up certain financial disciplines. Putting you and your household in the position where you can weather a financial storm.

Now certainly these folks are dealing with the financial storm. They all thought that they would be perfectly fine. They all thought that they had a secure government job, and the more secure sometimes people are in their paycheck or in their job, it can put them in the position to actually be more reckless with their money. And here's what I mean by that.

Let's say somebody is out there, and they have a wild swinging income. They are some kind of entrepreneur out there. Their income goes up, their income goes down, and they put themselves in a position where they say, "Oh my gosh, I need to save a good chunk of every check because I don't know what next month will be like and I need to levelize the experience for my household."

That person is less likely to live all the way up to the edge of their income because they don't know what next month is going to bring. But you see if you're a government employee, where not only can you predict next month's income, but no likelihood you can kind of get a sense of the entire track of your growth of income for the next five to



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10 years if you go get some initial education, you get the appropriate pay bumps with inflation, and you also have a secure retirement.

And that allows you to live larger than you might otherwise. Now, that's not normally our ... we do have some households, we have a couple of government employees as clients, but for the great deal of our clients, we deal with a lot of executives, professionals, and the largest group is entrepreneurs. Founders, business owners. And those household incomes are between 300,000 and 1.5 million a year. And it may be difficult to relate to what's going on in the government shut down when you're in those households with that kind of income.

So today what I want to do is put you in a thought experiment of what if your government shutdown happened? Now I don't know what your government shut down might be. In this thought experiment let's think it through. Let's say one of your banks called the primary line of credit you use in your business. So now every touch of income you were able to take from the business now has to go toward aggressively paying down that credit line so that they will make you bankable again.

What's another one? Major vendor, like somebody that fulfills a great deal of what you need for your customers goes out of business, keeps your deposits, takes your money, and now you're left scrambling. By the way, for those of you not listening who are not business, or those of you who are listening, you're not not listening. Those of you who are listening who are not business owners could have some difficulty relating to this, but these are all things that that person whose name is on the door, who's signature is on the lease or on the mortgage of that building, they're dealing with these things all the time.

You have a major employee that does a great deal of business development for your company leave, go work for the competitor. You see all those things are things that we are prone to every single day. So, what would be some basic tenants that we should have in place in our finances? And I'm going to go to the super basic tenants, even those tenants that are espoused by financial entertainers that we otherwise don't fully agree with.

And we've even debunked some of their math here on the podcast, but let's just talk about those first steps of what you should be doing financially to put your financial house in order. Well, one of the first is to make sure that we minimally have three months of expenses in the bank. Let's think about that for a moment. That doesn't need to be three months of your income right away. It just needs to be three months of your expenses.

So, if your expenses are \$15,000 a month, that's \$45,000, it should be set aside. If your expenses are \$20,000 a month, it's 60, if it's 10, it's 30 and so on. And what I would have you do is have your real expenses, your real spending for the last three months, not your



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bare bones expenses for three months, like if you had to cut to the bone and recover all that. This should be your real spending for the last three months should be in cash.

The next thing you should have in place is over time, build up to one year of liquidity. Now, one year of liquidity will be one year of your expenses, three months at that level. That's just like you're living right now. And then the other nine months, that can be income that's set aside with your bare bones budget if you need it to. Now, here's why.

Certainly if you had three months to adjust, you could sell a car, you couldn't downsize a home that quick, but you could say, "Okay, we're not going out to meals anymore, we're canceling the vacation that we were going to go on," et cetera. If it really got dire, and you needed to hold on for an entire year, what else would you have to have done? Well, the simple things around your protection.

We've talked about this nearly to exhaustion on the podcast, but the reason we keep bringing it up is you're never going to hear it from the traditional financial media. The traditional financial media doesn't want to go through and revisit that you should have your car insurance, homeowner's, wills and trusts, all that stuff squared away. That you should have the appropriate amount of disability insurance, life insurance.

And you should because by the way, one of those things being unable to work due to sickness or injury or death of the primary breadwinner, the death of the non-primary breadwinner, the person that's the CEO of your household could greatly impact household cash flows and act as your government shut down. You see, what we have to do is protect ourselves across the board so that moat needs to be dug. We have plenty of podcasts on that from everything from life insurance to protection.

If you're having trouble finding those, email us at info@sfgwa.com. So, you've got at least short term cash. One Year of cash. You should have a midterm bucket. If you've not heard in the bucket conversations, just go to whatever you listen to podcasts, go to our podcast, type in buckets. It will come up. That bucket's podcast will talk about the importance of a midterm bucket.

Most people, what they do is they fund short term bucket, then they fund long term bucket and that's it. And they have these two polar opposites like I need some money in case of an emergency right now, and then I also need some money when I'm old, and that's one of the biggest breakdowns people have because there's lots of reasons why you might need capital more than just a year of living expenses between now and age 65, and we go into that deeper.

So, so far we have three months liquidity to start, one year liquidity of more cut back expenses. Then we also need to be in a position that we have some midterm bucket money with a moat dug. So those are our kind of first four steps covering our basis for the basics. And now let's think about what happens to a household in a government



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shutdown or whatever your government shut down might be.

You see inside of your finances, you have a great deal of the agency, you have a ton of control. We're led to believe that we don't. They would love for you every marketer, whether it's a financial product or a consumer good would love to have you believe that you don't have a lot of control, and yet you do. Like those things I just talked about. Building out, you can build out.

You can build out those basics without even engaging an advisor. You could do those on your own. And now when you sit around the table, during whatever your government shut down might be, it can be a very different conversation. You see, you could be in a position that you would say, "Well I don't have any checks coming in right now," and you would turn to your spouse, or your loved one and say, "Okay, well we've got a year that we can do this.

We don't need to worry too much for at least the first month. Month two, we're going to need to target some of our expenses that we want to start cutting, and month three, if things don't turn around, then we got to cut hard so we can live the next nine months while we figure out when the government's gonna open again. "When is my business going to start making money again? Or when while we recover from this layoff?"

And you see, think about how much different that is now. If you're a government employee in today's environment, and you don't have your income coming in today, there's almost nothing you can do to get the government to give you some more income. Now, if you had a side gig, if you were doing anything from freelance writing for Upwork on upwork.com, or you were driving for Uber, you could do those things if you're not having to go into work during your work days if your furlough during this window.

But you see, the business owner, the founder, or even that top ranked executive or medical professional. If there's something that shuts down their income, they can go out and make themselves available in the marketplace. They can go out and have more client conversations. They can renegotiate vendor relationships. And where do you think those are going to go?

They're going to be difficult, they're going to be hard, but where are they going to turn out better? If you have a great deal of personal self-confidence because you know you have enough money in the bank, and you can actually pay your bills, or you going to be negotiating from a weaker point because you need a check right now? You see, what people don't think about is there are big financial dividends paid in your personal financial life by being prepared for the government shutdown.

Now as people are lamenting in all the suffering and difficulty for folks that are working for the government right now, well, I'll tell you for us, we were a nice middle to maybe



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upper middle class family on my mom's income. She was working her way up and in the executive ranks of the Department of Energy, and we had some money in savings.

And despite the 1986 shut down, and all the fear and worry around that, there were more than that. It's just 1986 is the first one I remember at the age of Eight. That is a very different experience than many households. The households that were leveraged to the tilt, the households that put themselves in a position where they extended and got the next new car.

Why? Because they got a pay raise, or the person who made all the promises in the world to their spouse, "We would get a bigger, better house," and they got fearful of the ever increasing real estate prices in their area, and they stretched too hard to get this one, and they tapped all their liquidity to get it and that down payment money that came from the money that should have been sacrosanct as their safety net.

You see, we should be in a position and what I would hope is for all of our listeners that you might be in the position that you would have enough money in savings, that you'd have enough money set aside, that you would be okay if your income stop for 30 days. You see, it's not even 30 days yet that people's income has stopped. Number one, and number two. It's also a situation where at least in past history, they've all gotten their back pay back.

You see for every founder and entrepreneur out there listening to this, when we've had difficult times in life, when our income has stopped, when something has derailed our business entirely, and we lost six months of income, plus maybe we had to put our savings back into business. When all those things have happened, nobody has come in and said, "Hey, we'll pay you back for that back time."

And we went into it. We went through that weather, we went through that difficulty without anybody promising us it would even work out for us in the future. And by the way, sometimes it doesn't for those entrepreneurs and it goes badly and they have to shut down that business and then they have to go at it again. You see, the other thing for us all to consider is that in the media, this is all some unbelievably large tragedy.

And I'm sure that it is to some people on an individual basis, but who they're not going to interview during this time is the family that just was responsible, and they had 30 days of income in the bank, and they're like, "Well, we're fine right now. We might not be fine if it goes longer than a month, but we could borrow some money. We could do some other things, and it'll work out."

The family that has three months of income, who's like a loyal listener to this podcast, or a loyal listener to some other financial entertainer that's out there, that are on the am radio across the country. I listened to them, and they've listened to some of those first steps of what to do. That person's not going to get interviewed who just shrugs her



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shoulders and say, "No. It didn't change Christmas for us, didn't change the new year. We got a bunch of money in savings. We're going to be okay."

Those people are not going to get interviewed. It's one more example as we've talked about again and again that the media wants all of this to be overblown and be far worse than what our lived experience might be. And they will do everything they can to plot individual situations where somebody has really lost or something is really negative, and they're going to point to that over and over again, and here's my encouragement.

My encouragement for all of us as we listen to this or experience that is that what we would do is even if you are facing financial difficulty, listening to this while you're on furlough or while you're having to work for free right now for the government, that what you not do is be a victim of this. That what happens is you take your legs, you negotiate with your landlord. You take some money from savings if you have to.

You take a loan from your thrift savings plan. Whatever has to happen to keep your bills paid or don't get your bills paid and borrow money from other people knowing that you can pay them back when you get your back pay. But then after that, do what my family did, which was a recommitment. As a child, I remember the recommitment of, we don't know when this could happen again.

Let's not let ourselves get extended in a way that could put us in the position where we have to stress out just because the government is doing something crazy." It's just something that affects my mom's job at that time. What you could do instead is look at this. And now what I wish is that that could happen for everybody watching this on news. Everybody knows that the government's shut down whether it's impacting you or not.

What I wanted to do is impact you. I want you to be in the position that you can empathize and commiserate with those folks who were counting on a paycheck, and they're not getting it right now, but instead of being mad at the government, or upset with anybody else, or getting further calcified in your relationship with your specific party, let's turn that energy inward.

Let's turn it inward to a conversation with our spouse and our families and say what we're going to do is be more financially responsible than ever in 2019, because we don't know what could happen to us that could cause this in our lives. And the higher income you are, the less anybody feel. Like we all feel bad for government employees going through this.

If you're one of our clients making a million dollars a year and next year you only make \$150,000, you're going to have a hard time getting much pity out there in the world. And they're certainly not going to have you on the nightly news, so what we need to do is use this as an opportunity. The fact that this is the ever pervasive conversation for nearly the



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last month since December 22nd, that what we could do is look at that and say, "I'm going to be prepared for the shutdown in my future. Whatever it may bring in.

I'm going to do that by getting some basics in place. Liquid savings. I'm going to also have that means not retirement plan. Right now, I've got a lot of equity in my home. Maybe I don't have enough cash. Maybe I should go to get a home equity line of credit right now while I can qualify so that if I hit my government shut down, I just have a line of credit I can tap from my home at very low interest rates.

That's the kind of stuff I want all of you listening to think through that we take this government shut down, take it as the appropriate warning shot that unfortunately is getting both a lot of attention, and a lot of families are suffering and in part why they're suffering is because they didn't have the forethought to set aside enough money or maybe never made enough money.

They might be a brand new government employee and haven't made enough money yet to set that money aside, but you as you listen to this now can make a new commitment in 2019. You could have your spouse listen to this and say, "What we're going to do for the next six months is really watch where our spending goes so that we can build up a war chest because we don't know what's coming at us."

And we're getting a lot of news attention for what it might be like for people who are going without income right now because you can prepare yourself and your family's future for that government shutdown, and we want to do that. Why are we talking about this ahead of time? Because, that's what design requires. Because if you sit back at first and say, "What does my life need to look like?"

We need to think through the future situations we could face. That's all designed and then we have to go about building it, which is the hard conversations. The additional money set aside work. If you're working with one of our advisors, work with your advisor right now to say, "Hey, maybe I should ease off putting so much of my Roth IRA right now."

Or maybe I should not be paying down my mortgage right now and instead just build up my little cash war chest to deal with the unforeseen circumstances, and making sure that I can weather those things from three months to a yearlong. As you go in to these conversations, please don't hesitate to lean on us. Do not hesitate to email us. Connect with us on LinkedIn. Whatever you need to do to get this kind of knowledge rolling into your life because that's the biggest thing that's missed.

The news has been covering this back to back nonstop since the 22nd of December, and here's the thing. Not once has a single major news outlets said, "This is why we should all be really ..." How easy would it be? This is why we should all have at least three months of income in the bank because we never know what's going to happen, and right



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now it's a government shutdown, but to you it could be something else.

Because if you can take the time to sit back, reflect, have some of the hard conversations ahead of time, then you have the chance to build the future that you want, what we call a good life, and what we hope is that this podcast today has been a contribution to you being able to design and build a good life.

Speaker 2: I want to acknowledge you for taking the time to tune in to Sound Financial Bites. You stopped long enough in your busy day to reflect on your finances, and your future to help you design and build a good life. Please take a moment to subscribe to this podcast and follow us on social media. You can find us on Facebook and LinkedIn. If you have a topic you would like to hear us discuss, please send us a note on Facebook, LinkedIn, soundfinancialbites.com, or email us at info@sfgwa.com.

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