



Sound Financial Bites 007

Episode Transcription

“Save 1/2 of every new dollar that comes in.”

Hello. This is Corey Shepherd, Vice President of Sound Financial Group. I'm excited to welcome you "Sound Financial Bites" where we bring you bite sized pieces of financial knowledge to help you design and grow a good life.

Hello, and welcome to "Sound Financial Bites", Sound Financial Group's podcast series where we help you design and build a good life. Today, we're going to be talking about savings and how savings is more likely to produce wealth for you in your life than any amount of rate of return. Before we get to our topic at hand today, what I wanted to just check in with you about and let you know how you can engage with us is first, if you haven't had a chance to do so, have a 30 minute conversation with one of our advisors. You can reach us at info@sfgwa.com. Email us, we'll get you connected with somebody, and you'll get a chance to see more about how the principles you're learning about on these podcasts really apply to your life.

Second, get to our website, look at our resources there ... Everything from articles. You can download the first three chapters of my book for free, "Sound Financial Advice", or you can find that same book on Amazon and have that downloaded to your Kindle or have ordered a print copy before even finishing listening to the podcast today. Of course, we'd love to have you join us for one of our live events either in person or by web, as we do broadcast our upcoming events by web. All those are listed on our website so we look forward to getting a chance to meet you and get to know you better if you don't already have a relationship with one of our team.

Well, today's topic, this idea of saving as a rate of return and, frankly, why is it that people don't save? Well, many people sit around and say, "What is want to do is save more money," and then they go online and they get a budget worksheet. Right? They get a budget worksheet, and when they download a budget worksheet it will say everything. Like, "Here's my income at the top," and then, "Here's this amount of money going out, here's another amount of money going out, and another amount of money going out." It's mortgage, gas bill, cars, vacations, everything comes out. Then there's this thing at the bottom.

The last entry on the bottom, which is a residual calculation, says savings. Meaning it's not an active effort of anything that you're doing. Rather, it becomes something left over, an after thought after having made every other decision. Now, everybody's heard this idea of, "Pay yourself first." Yet, what doesn't change for people is their behavior. I'm going to introduce you to a couple things I think might help you change your behavior.

During podcast number one we talked about the importance of setting up a wealth coordination account. As I talk, you may want to go back and revisit that after listening to this podcast. You go out and set up that separate account that is your asset buying account but right now I'm going to talk about how to deal with your spending, to facilitate you filling that account and building up real wealth and assets on your balance sheet. Simply put, if what you're doing is letting your income and your spending come first and your savings be a residual, your savings will always be lacking.



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They say, "Pay yourself first." I want you to set that aside for a moment, that is something people harp on all the time and it's not changing behavior. I want you to think about instead, everyone else you're paying first. You see, first you're paying Visa and you're paying Target and you're paying Costco. You're paying your GMAC, whoever's financing your mortgage, Chase. You're paying Ford credit for the car that you bought. You're paying your kids' pre-school. You're paying everybody else. Everybody else gets a piece of your money except you because there's all these present demands that press on you today.

Yet, the real problem is that all these demands that press on you everyday today, everyday they're there today. There is no one and no real voice for the you that you will have to live with one day. God willing and health holding, everybody listening to this podcast is going to live a long time into their old age. Yet, there's going to be this person in your old age that is going to have to deal with every decision that we've made today. Or as a popular sitcom once said, something to the effect of, "Oh, that's not a today need problem, that's a tomorrow need problem. I'm going to let tomorrow me deal with that problem."

We just don't have the ability to deal with that problem. We get close to retirement, we don't have enough money. If you take any time at all to do the math, if you get behind that curve it's nearly impossible to catch if you haven't already done some significant savings or willing to make drastic changes in your life at that time. We need to stop letting our savings be a residual number at the bottom of that budget sheet. In fact, what we ought to do is make it the first number. The first thing that we do is choose how much we're going to pay. Isn't that what we do with everything else?

We go the car dealer and we decide how much that car payment's going to be. We actively choose, "Here's what we're willing to put toward the car. Guess what, you make that choice and, my goodness, even when you have months where the bills rise unexpectedly, you still get that choice handled. You get the choice of the car payment made, you get the choice of the home payment made. While technically in any given month you don't have the choice to whether or not to pay the car or pay the mortgage ... You don't get the choice because there's some negative consequences, your credit gets hit, et cetera. You get the choice in any month, you could choose not to save.

This is something key and I think it applies to a lot of areas of life. You can have the choice to be in the action of saving or not. You can opt out of saving in any particular month. Setting aside money for your future, putting money in your wealth account. You can opt out of that. What you cannot opt out of is the consequences for not having done it, those consequences will stay with us. Why is it all those other things always seem so pressing to us than the future, the future that will inevitably come?

Our life is not going to be that much better if we buy a car that costs \$20,000 or \$35,000, but that accumulated choice over time will make life significantly more difficult in the long run, guaranteed. Why is this? Why does it pull on us this way? I want to go back, let's go back to the late 1800s, early 1900s in this country. You look back then and you read some of our founding father's writings. In the 1800s, it was a status symbol to be frugal. It was ... Being frugal was not



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a derogatory term, it was something people bragged about. Well, why could that be?

Where I want to take you back is to just the way we are as biological beings. We go around and we eat and we're always trying to attract people to our tribe. Even if you go back even further, thousands and thousands of years, we've got a little bit of peacock in us. What does a peacock do when they want to attract a mate? They fan out their big, colorful tail feathers and they shake them and then want to get attention. What was different then versus now in the early seeds of our country was that the places you put money people could see.

You see, if I was a rancher that was fairly successful, I could live frugally because you knew or had some idea of my success because of the amount of cattle or sheep they had. We knew that Joe was successful in town because he owned the local bar and he owned the bar in the next town ... Or the saloon, I should say. Or the restaurant, or the hotel. We knew that Tom was pretty successful because he owned the newspaper in this town and one town over. They all could live as frugally as they wanted to because their peacock feathers came from being financially responsible because people could see where they had money.

Today with our financial instruments, that works against our interests. We want to, we have a biological need and a gravitation towards saying, "Look at me, I've done something great. I can shake my tail feathers." The problem is, everything that takes place of those peacock feathers today are actually things that deplete wealth. Our car purchases, our home purchases, second home purchases. Every one of those things actually erodes our ability to build wealth. Now, you can read more about this. There's an article on our website called, "Why Americans Can't Build Wealth" that I would encourage you to go take a look at.

That's the problem, that what we want to do ... Natural human tendency to show that we're doing okay actually pulls us away from doing things that make us financially successful. We have to butt up against those trends. I'll talk more in a minute about how we do that but literally we will be drawn to do things that work against our interest. Before I get to more of spending, saving ... I'm going to have a book recommendation for you before we're done on this podcast. I want to go back to something else that works against our interest of saving, it's something that our industry does, our financial industry.

I'd encourage you when you have time ... Don't do it while you're driving if you're listening to this on your commute into work. Go online and look at a retirement calculator and put in what you think you're saving. You can Google it, you'll find something. Put in what you think you're saving every month. Put in what you think your assets are right now. You know what, you could toy with the rate of return. Most importantly, I want you to find a calculator that will allow you to say, "This is what I want in future income." Then it's going to back into how much more you need to save.

Now, here is the craziness. If you put in there, "I think I'm going to get a 12% rate of return, it's going to say that you can save less or maybe that you don't have to save at all to get to your goal. Yet, if you put in a 5% or 4% or 3% rate of return, it's going to say you have to save a ton of money, and yet that works totally against human behavior. For instance, if you had a place right



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now, guaranteed, no questions, which I don't know of a place. This is purely for example sake. If you had a place that you could go put money and you would get an outrageously high rate of return on a guaranteed basis people would make changes in their lives. They would save more money because they would be getting a higher rate of return, not less.

People would say, "I'm going to forego my car buying decision because I have this magical account over here that's gonna get me a really high rate of return. You would not ... Literally what people will tend to do when they get lower rates of return is spend money because they don't see the value in having the money saved because it's not getting a high rate of return. It literally works against our interests. Going back to what we talked about earlier, we have to make a choice about our savings and that has to become the first choice. What we have to do is just spend and live on what's left, which is not that complicated.

In fact, for most of you listening to this podcast today, think back some time ... Go back 10 years. What if 10 years ago somebody would have told you you'd be making what you're making in income today? If your situation is anything like me and my family's, I think we'd go out ... If I was making that kind of money, I would work four or five years and then I'd be able to quit working I'd saved so much. I want you to go back and think about that. At some point in the past, how long ago was it that you were making 30% less than you are today? People will look back and they'll go, "I guess that was maybe four or five years ago."

Yet, it's not as if we have so much additional surplus versus 30% in income increases ago, that we're saying, "Your life is so much better, so glad I consumed that extra money." It just happened slowly, it got lost in the sauce of life. Much like the old fable of a frog in a pot when you slowly, slowly turn up the water. Well, the same thing happens to us when it comes to consumption. It happens to us slowly in the background over time. What I want to encourage you to do is to think about, "When did I make that much less? What if I was saving that?"

Now, we can't necessarily go back to yesterday, so three years ago, five years ago, and have saved all that money. What we can do is, one, be conscious. Be conscious of where your next 30% increase is coming from and you can set up something that economists call the marginal propensity to save. When you get that next pay raise go ahead and enjoy some but save half of it. When you get that next bonus, go ahead and enjoy some, save half of it. Because if you start saving half of every new dollar that comes in or setting what they call marginal propensity to save of 50%.

It won't be long until you're saving a tremendous amount of your income over time. It's not a matter of tightening the belt and then, much like doing so with a crash diet and then you end up with bad spending decisions after the crash. Instead, you always enjoy a little more when you make more money but you also save a little more. It goes directly to your wealth account.

Let me give you the one big tip of the day on how you can begin to avoid this cultural common sense about spending to be more responsible for you and your family financially. I'm going to point you to a book written by the same author, Dr. Thomas Stanley, who wrote the book, "The Millionaire Next Door". He wrote a book ... The title is somewhat offensive when we recommend



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it to people but it's not meant to be. It's just called "Stop Acting Rich". In this book, "Stop Acting Rich", what Thomas Stanley talks about is that there's three major groups of people. There is the glittering rich. Those are the people who have 20 million plus of net worth and over two million dollars of income. It's very difficult for them to out consume that. They can make bad investment decisions to lose all that but it's pretty tough to out consume it.

Then you have the balance sheet wealthy. These are the people who make a good amount of ... May make a good amount of money but, more importantly, they're driving it to the balance sheet. They are saving the money and rather than it just being about building a million, he tracks it on a bit of a graph of given your income, given your consumption, and given your current net worth are you likely to have enough money at age 65? i.e. it's easier to be balance sheet wealthy at a young age. It takes less income or less assets to be balance sheet wealthy at a young age than it does at an old age because you're closer to the end of your retirement career.

Then there's another group called the aspirationals. These are the people who wish they were rich, who aren't yet but are living like it. Meaning, they make the consuming decisions, buying decisions, the cars, the boats, the home. We're going to do a review of this book later because I just want to share with all of you what all of the evidence is that was laid out in this book. For now, let me just point you to that book. I will tell you, it changed everything about what I view of other people's consumption. Giving me the ability to really enjoy that somebody else wanted to buy a car that cost six figures and yet not feeling at all like I needed to do it, not feeling at all like it would be a part of my success story to do that.

It's been great having you today on the podcast. Look forward to getting a chance to engage with any of you should you reach out to us. One thing I didn't mention earlier, you can subscribe to our newsletter, make sure you get updates as we release new podcasts. You can do all that again at www.sfgwa.com as in Sound Financial Group, wa like Washington ... dot com. Whether you're local or you're somewhere across the country, our advisers are expert at working with you by web, coaching, educating you, and helping you make sound financial decisions so that you can design and build a good life for the rest of your life. Bye bye.

Hey, this is Corey again. I just wanted to say it's been great to have you here listening to this episode. You can find out more information about us on our website, www.sfgwa.com. Or you can find us on Facebook under Sound Financial Group. We'd love to hear any questions or comments from you there. Who knows, we may hear one on a future episode. For our full disclosure, you can go to description of our podcast series, this episode description, or our website.

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