



CWR Monthly

July 2007

This summer, like last, we will turn our attention toward financial planning as the subject of our June, July, and August newsletters. Last summer we discussed the subject of retirement; how much we would need to retire, how was the best way to get there, and an effective plan once we reached retirement. This summer we will focus on the following subjects:

- | | |
|----------------------------------|---|
| June: Goal Setting | The first and often most difficult step in developing a financial plan. |
| July: Getting out of Debt | To adequately plan for the future, we must first get a handle on our current circumstances. |
| August: College Planning | A major future expense for most young families. |

These discussions are designed to get you thinking about your circumstances and what you must do to plan for the future. They are not intended to answer every question you may have, because the list of possible scenarios would be endless. But, rather, they are intended to provide a limited roadmap on things you need to consider in preparing your financial plan. Last month we tackled the subject of Goal Setting for our financial futures. This month our emphasis will be upon getting out of debt.

Getting out of Debt

For many of us the term debt is a dirty word. It symbolizes a constant struggle from month to month to keep our heads above water (financially) and yet never seeming to get a handle on our ever increasing debt structure. Why is that? For the most part it is because we have gotten into the habit of using debt improperly. Instead of using debt to produce appreciable financial results, i.e. purchasing a home, getting a college education, starting a business, etc., we have fallen into the trap of using debt to get most anything we want.....now!!!! By far the greatest misuse of debt comes with the improper use of credit cards and revolving store accounts. Before we know it we are carrying balances over month to month and never seeing our credit card balances decrease. Did you know that if you never charged another item on a credit card with a 16% interest rate in which you only made the minimum payment (assuming the minimum monthly payment was 2% of the balance) that it would take you 30 years to pay off the balance of that card? It is no wonder that Americans are now carrying the greatest consumer debt ever. In order to get our financial house in order, we have got to break this financially crippling cycle. But, how do we do it?

I have often likened debt to that of gaining weight. It is easy to put on, but, really tough to take off. And if we are ever going to get financially healthy we need to commit to a financial diet plan that can produce the results that we are looking for.

Over the years I have reviewed hundreds of plans to help people get out of debt. The premise is always the same; in order to get control of your finances you need to:

1. Decide that you want to get out of debt
2. Review your spending habits to determine areas that you can reduce
3. Apply the additional monies found in your spending habit reductions to the highest interest rate card or expense.
4. Once that is paid off, apply the additional monies to the next highest interest rate expense, etc.

Of course each plan has its own particular approach but the basic overall approach outlined above is consistent from plan to plan, whether it is designed by a debt management company or from a self help book.

The question is that with so much material available to help us get out of debt, why are we still not able to do so?

The answer may be that we are looking for a plan to help us. As long as we stay on the plan, we might begin to see some initial evidence of paying off a few bills. However, let a few of life's unexpected circumstances arise that are not outlined in the plan, and we either lose faith in the plan or we lose the will to adjust to the changing circumstances that confront us.

The fact of the matter is that the commitment to get out of debt is tough work. It is not for sissies. It requires you to examine every aspect of your spending habits and to make hard decisions concerning how you will spend your hard earned money. It requires prioritizing your expenditures. It will probably require you to make some lifestyle changes in order to keep your finances in order. And it requires developing a long range vision of where you want to be financially.

There is no quick fix to getting out of debt. It can be a long and bumpy ride. However, the rewards of getting and keeping your financial lives in order far outweigh the years of stress, anxiousness, and consequences that come with the unwillingness to do the hard work.

There is no magic plan to get you out of debt. The basic premise in getting out of debt is the same premise for losing weight. Spend less than you make, akin to burn more calories than you consume. The reason that most get out of debt plans are not successful is the same reason that most diet plans are not successful. They are both based on a starvation principal that look for immediate results. The reason that most people get into trouble financially (this is certainly not true in all cases such as medical hardships, loss of jobs, divorces, etc) is the same reason that they have become overweight. They made some undisciplined choices in their lives. Unfortunately, those choices can produce some pretty significant consequences that may take years to correct.

In order to correct the consequences of some bad choices, we must develop the habit of making good choices. Make no mistake about it; life is about making choices. It's not someone else's fault for the bad choices that we make. It is ours and ours alone. If we want to produce positive results in our financial lives then we must make the choices that produce positive results. And some of these choices may be very difficult to make. For example, if we do not make enough money to meet our current monthly expenses, then we may need to either take a second job to meet those expenses or possibly eliminate some club memberships, sell an expensive car we drive, or downsize our homes in order to get our monthly expenses in line with what we make. None of which are easy choices to make.

The first step in getting out of debt is to commit to the goal of getting your financial house in order. If you are married, this is something both you and your spouse must do together. I have never seen a married couple conquer the debt issue when only one of them was committed to the goal. It takes both of you to work toward accomplishing this goal.

Second, find a plan that you can get your arms around to guide you in accomplishing the goal of getting out of debt. While the services of a debt management company may have helped some people along the way, quite honestly, I think that part of the reward of getting out of debt, and staying out of debt, comes from the hard work that you do in developing and committing to the priorities you set in your personal spending choices.

While I am not a fan of Oprah Winfrey, she has put her name on what I think is one of the most comprehensive get out of debt plans that I have ever reviewed. You can find the details for this plan online if you Google the term OPRAH DEBT DIET. Not only is the plan free of charge, but, she has engaged the services of three prominent personal financial advisors to guide you in your goal of getting out of debt. The plan is filled with many practical recommendations to assist you in your goal, financial tools to help you determine where you are, and a feedback network to encourage you along the way.

Third, stay the course. You didn't get into debt overnight and you are not going to get out of debt overnight. Realize that any plan that you make must be flexible to account for life's unexpected surprises. The key is not to be blown away if you have to adjust your plan because of some unexpected emergency expense that pops up. While it may be frustrating, it's not the end of the world. Keep your eyes on the goal line, even if life's unexpecteds occasionally move the goal post on you.

Finally, victory day!!!!!! Not only have you reached your goal of getting out of debt, but, you have learned some invaluable lessons along the way to help keep you out of debt. It may have been a long and arduous battle to reach your final goal, but, the sweetness of the victory is simply indescribable. Congratulations on your successful journey.

Next month we will look at one of those challenges that every young family with children will face. How do I financially prepare for my child's college education? It may surprise you with the number of options that are available.

Till next time,

Charlie

Disclaimer

The information presented in this newsletter is provided as a public service to provide clients and other visitors with general financial information. Every effort is made to provide accurate information; however, errors may occur due to the nature of the subject matter and interpretation of any laws and regulations involved. The information provided on this site should not be construed as legal, tax, accounting or investment advice. You should consult with a legal or financial professional familiar with your circumstances for appropriate financial advice before making any decision. CWR does not warrant the completeness, accuracy or timeliness of the information provided and offers no warranties regarding the content of this site, either expressed or implied.