

UNTIL DEBT DO US PART

Understanding and getting out of debt

Free Ebook

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Introduction

“Debt is the worst poverty.”

Thomas Fuller

Debt in all of its ugly forms can play havoc with people’s lives. Too often I have seen good people crushed under the weight of their debts. I too have felt the pain of debt.

The purpose of this ebook is to give you hope in what can be a very dark time of despair. Hope that things can change and that you can change.

Some people have asked me why I am giving away this ebook for free? My answer is simple. I’ve been in debt and I know how painful it can be.

I have suffered at the hands of debt and in many ways I continue to suffer. Debts icy grip doesn’t let go easily. Through my Blog www.untildebt-douspart.com I have written extensively about debt and debt management strategies that people can use to solve their debt problems.

Also, in this ebook there are a few affiliate links to products that I recommend (see resources section). If someone makes a purchase of these products I make a small commission. Apart from that I make no other money from this ebook and I am not personally selling anything.

The world today is set up so that you are almost destined to fall into debt. Not everyone falls into debt but for those who do it can be a long hard struggle back to financial health.

In this ebook I hope that you will find inspiration and ideas that you can use to turn your financial situation around. I have used a lot of these techniques myself and I know that they work.

Too often the so called financial gurus throw out the usual advice – “Spend less than you earn” – in reality we already know this. But if it was so easy to do then we would have no debt problem in the first place. This ebook aims to be slightly different. I realized a long time ago that any financial remedy to debt has to be tailored to each individual’s situation and where they currently are at in their lives.

While traditional financial advice still has merit the focus needs to be on changing the individual’s habits and routines. The battle with debt is essentially an internal struggle. The financial steps of saving and reducing expenditure are straightforward to carry out but the real battle lies in the internal struggle. Debt can only be defeated by those who want to change and are ready to give up their old lives for a new one free from the shackles of debt.

So are you ready?

Mike Leonard

[Untildebt-douspart.com](http://www.untildebt-douspart.com)

PS: Feel free to forward this free ebook on to your friends and family or anyone else that you think may benefit from its contents.

Global Debt epidemic

Recent figures suggest that the rate of debt among consumers in the western world has been rising at a phenomenal rate. Not only is the rate of debt increasing but the rate of default on that debt is also rising fast. This got me thinking about how this situation came about.

To understand your debt situation it is important to understand the role that you play in the wider economy and how things beyond your control can have a direct impact on your financial wellbeing. It is also important for you to learn about the wider economy and to be on the look out for warning signs.

To fully understand the current situation we need to go back to the time between the late 1940s and the 1960s to what has become know as the baby boom. The catalyst for this baby boom was the end of world war two. Many soldiers returning home from the war saw it as an opportunity to settle down and raise a family. The result was a large increase in the number of babies born in the post war years. The baby boomers as they are now called are the generation of adults who were born in this post war period and play a key role in today's economy.

Fast forward to the 1990s and to the internet boom.



The dawn of the internet in the mid 1990s helped to spawn a whole new industry. Sensing something new and exciting investors piled in. The pension funds of the baby boomers played a key role here as investment fund managers sought to maintain high returns on their funds. Internet stocks offered them an opportunity to do this.

The millennium bug fear of 1999 help to generate further interest in the internet and in the technology sector in general. The stock market went into a prolonged bull run as investors sought to capitalize on new technology.

In 2000 after the hype of the new millennium faded Internet stocks that were trading at all time highs started to falter. The promises of vast wealth never materialized and the share prices of these internet companies began to fall. Share prices fell hard and fast.

In response to the stock market crash the Federal Reserve began to cut interest rates. Then following the terrorist attacks of 9/11 the Federal Reserve continued to cut interest rates. By lowering interest rates the Fed had, in effect, paved the way for the housing boom.

The housing boom

Many people feeling burnt by the intangible and transient nature of the stock market and share ownership opted for what they thought was a more secure investment of “bricks and mortar” and began investing in real estate. Around the same time a lot of books and media commentators appeared on the scene espousing the value of investing in real estate.

The easing of credit restrictions and the lowering of global interest rates following the dotcom crash and the terrorist attacks of 9/11 created an environment where almost everyone had access to credit. As a result the demand for housing began to soar. Not only did the demand for housing boom but also the demand for consumer goods boomed as people sought to decorate and furnish their new homes. There was a massive boom in consumer spending. As home prices rose people who already owned their homes were encourage to withdraw equity from their homes to finance large purchases. Many people began to treat their homes like giants ATMs. Withdrawing equity bit by bit until it was all gone.

Part of the rise in demand has been attributed to mortgage sales people who worked on a commission only basis. Some sales agents went to great lengths to increase their sales. Banks have been accused of predatory lending. This is where the banks and financial institutions would lend through mortgage brokers to individuals who could not necessarily afford the repayments. The banks have been accused of not caring who they lent to as they made most of their money on upfront fees. N.I.N.J.A. loans became the buzzword of the day – No Income No Job No Assets. The money poured into real estate and property.



The area of real estate investment, once the focus of professional landlords and investors now had an influx of relatively amateur property speculators who were backed by easy money from banks and financial institutions.

In the wider world economy there was an immense feel good factor as easy credit trickled through to everyone. I lost count of the amount of times I received unsolicited loan and credit card offers. The housing boom was effectively a credit boom where low global interest rates allowed people to borrow and spend cheaply. It was easy to become seduced by the craziness of it all and think that the good times would roll on forever. Taking on debt was seen as the sensible thing to do as it was so easy and cheap to borrow.

The financial institutions themselves, in order to reduce their risk, engaged in a practiced called securitization. This is where they took all the mortgages (and associated cash flows) that they had written to people buying property and bundled them together to create a new investment product. The banks then

went and sold these new investment products to other banks, financial institutions and investors. What the investors were buying were a whole load of mortgages bundle together – problems would arise later when people started to default on the original mortgages.

The pension funds of the baby boomers were looking for a new home. First the funds chased stocks during the dotcom boom and then they went into property funds during the housing boom. In both situations an asset bubble formed. Pension funds were not the only cause of the bubbles in tech stocks and housing – far from it. Numerous factors were at play.

In my opinion the key factor in both bubbles was the collective mania that investors in both tech stocks and housing experienced. In both cases commentators spoke about how ‘things were different this time’. In reality nothing had changed and it wasn’t long before market fundamentals came back into play with a vengeance.

Hard reality hits home

‘All good things must come to an end’ or ‘everything that rises must fall’ – take your pick of the clichéd sayings. In the end everyone had a suspicion that things couldn’t go on forever. The credit crunch which started in mid 2007 is now biting everyone hard.

We now have a situation where the rate of defaults on loans is rocketing. Debt is becoming a real problem for a lot of people. Every day new figures come out about the number of people declaring bankruptcy and the number of homes going into foreclosure. The future that once looked so bright now looks a distinctive shade of grey.

Up to this point there was always another source of credit, another credit card offer from the bank, another mortgage refinance option. People didn’t seem to worry too much as the economy appeared to be in good shape. Now unfortunately one of the main drivers of the economy – housing – is on a steep downward trend bringing it with it the hopes and dreams of a generation. There is really only one option left and that is to work hard on paying down your debt and to move on with your life.

The debt spiral

If you are in debt then you are in good company. It is estimated that the average debt per person in America is \$25,000. But just because everyone else is doing it doesn’t make it a good thing. So how did you end up here?

Debt in all its insidious forms usually starts at a young age. Student debt is legendary and it is rare that a graduate finishing college today does not have a significant amount of debt. Debt in your student days tends to set the tone for the rest of your life. If you get comfortable with debt when you are young you tend to have less of an aversion to it. This is not necessarily a good thing. Familiarity breeds contempt.

So you leave college and start working. Then without even realizing it you start to incur further debts, mainly on your credit card. They seem small and insignificant at the time but they mount up fast. Then you need a deposit to rent a place and you need a new car so you said “what the heck” and you went out and got a loan – just to cover you until you got established of course.

You needed a car but not just any old car. It had to be a nice car that will be an extension of your personality. If you have the car you need to look the part. You can’t be seen wearing out of fashion clothes.

Your first job is okay but you have bigger plans. Fake it 'til you make it right? So you get a new job that is a significant increase in salary from your old job. Your expenses rise to match the increase in salary. More debt arrives. Your debt is starting to spiral out of control but you don't notice too much yet because you have a well paying job.



The 28inch TV will no longer cut the mustard and you want something that has the WOW factor - something to impress your friends with.

If your friends go on an expensive holiday you have to go one better. This bizarre little interplay of bigger and better went on and continues to go on throughout the country. The 'mine is better than yours' type competition that you'd expect to find in the playground rather than the workplace.

The desire for social status is completely understandable but it can be highly destructive. No one wants to be seen as socially inferior. Everyday the media blasts advertisements at us from every angle. Buy this, buy that. Every month there seems to be a new holiday that requires presents to be bought. The social pressures to conform are huge. It's rare that you come across someone who is not conforming to the peer pressure to spend spend spend.

The point I am trying to make is that you were set up to be in debt from the moment you stepped out into the big bad world. It's not really a bad world but if you have had a negative experience with debt then you could be forgiven for thinking it is.

Debt can spiral out of control very quickly. Outlined above is a slightly tongue in cheek description of how debt can add up. Not everyone's path into debt is the same – some people may have incurred debts as a result of a relationship breakdown or as a result of health problems. The end result is always the same – stress, fear, worry. When these emotions kick in it can be hard to find a way out.

Blinded by these emotions people stumble about in the dark.

So many people today are faced with debt that could have been avoided. But I think to the only way to have truly avoided debt is to have experienced debt first hand and resolved never to go into debt again or have been lucky enough to have been taught good financial education when you were growing up.

Our economy is built on credit. It is in the interest of big business to get you knee deep in debt and to keep you there. You can get out of debt but you must want to do it. You must resolve to make the changes necessary to do it. No one can do it for you only YOU. If you want to break the debt spiral then begin taking responsibility.

Debt management – it's all about responsibilities

I'm going to have to be honest with you and you probably won't like what I am going to say but please bear with me. I'm all for tough love and now I am going to conduct an exercise in tough love with you.



The reason why you are in debt and why things aren't working out for you financially is because some one keeps messing it up. Some one keeps making bad financial decisions and living beyond their means. That someone is YOU!

Yes it's true the person who has got you into this debt mess is you. No I don't want to hear any excuses. You can't take your excuses to the bank can you? No I don't want any sob stories either. This is the time to get real about the problem.

There is only one person on this whole planet that is going to get you out of your debt. Yes you've guessed it – YOU. You are the only person who can save yourself from your debt situation.

Debt management is all responsibilities. Action – Reaction. You can't expect to have borrowed all this money and not expect to someday have to pay it back? The party is over and it's time to go home and wait out the hangover. No we can't party any more. Why would we want to? I'm feeling sick and I just want to lie down – I've been partying since 2003.

Okay you get the idea. The harsh reality is that your debt is your responsibility. I know this is something you probably don't want to hear and you were hoping for some magic solution. Any solution that you come up with will need to be executed by you. You are the only person that can help you. Does this scare you? It should but at the same time it should empower you. Think about it, you have the power to dictate your financial future. You make it any way you want it. So why not make it great?

The strategies outlined in this ebook do actually work. But I can't do the work for you. You have to accept responsibility for taking the actions that are required to make these strategies work. It's all about personal responsibility. You got yourself into this mess and you can and will get yourself out of it.

Ok. I told you it would be tough love but at the same time I think it is something you needed to hear. I'm not trying to beat on you. I'm just trying to make you realize that while things can be tough there is always a way out if you are willing to work hard and take responsibility.

Financial education should be your priority

The quickest and surest way out of debt is to increase your level of financial education and your level of financial awareness. Increasing your financial education should be your number one priority. I'm not talking about researching for a PhD in Finance. What I am talking about is personal finance – THE BASICS. You need to focus your attention on Personal Finance and increasing your knowledge of the parts of personal finance that is giving you the most problems.

To me Personal finance is simply learning how to manage your money better. If you are in debt then the warning signs are there that you could have a problem with managing money. To best deal with this problem and to reassert your financial rights you need to learn more about money management.

Where to begin?

Well this ebook is a good starting point but the field of personal finance is vast. This ebook is focused on debt management. My Blog www.untildebttdouspart.com is also a useful place to start. The focus of my Blog is debt management. While there are common elements within this ebook and my Blog to all areas of personal finance such as budgets and credit card management. There are things that are not covered here that play a huge part in your personal finance. Things like retirement planning, stock market investing, and property investing.

The approach I would advocate is to tackle the areas of personal finance that are currently giving you the most problems. The fact that you are reading this ebook means that you have identified debt management as an area that you need help with. This is good. The more focus and energy you can bring to bear on your financial problems the better.

In the resources section at the end of the book I list a number of books that I have found to be very useful and informative when it comes to personal finance.

Defining your debt problem exactly - to the cent

How can you expect to win a fight and when you don't know what you are up against? If you don't know what you are up against then you are fighting blind. If you are fighting blind then you have little chance of winning.

Know your enemy and know yourself and you can fight a hundred battles without disaster.

Sun Tzu

I can understand that the natural tendency in this situation is just to stick your head in the ground and hope that it will all somehow go away. I've been there and spent a lot of time hoping that the problem would just go away. It won't go away unfortunately – if anything it will get worse. One of the key elements of defeating your debt is know exactly what you are up against.

How bad can it be?

In truth you need to know exactly how bad it is to in order to have any chance of tackling it. The last thing you need if you do try to tackle your debt is for some unforeseen expense appearing out of the woodwork. This will only lead to immense frustration that you are facing a never ending cycle of debt repayment with no clear end in sight.

You need goals to target. You need to be able to measure your progress against existing levels of debt.

The tricky part:

It is time for some cold hard truths in relation to your debt. You are going to have to dig deep and find the strength to face up to the full extent of your debt problem. **Chances are that it is worse than you expected.** You need to mentally prepare yourself for what might come as a shock but this is something that you need to do if you are ever to gain control of your financial situation.

So how to do it?

On my website there is a free financial calculator that allows you to calculate exactly how much you owe. The calculator can be accessed here. [How much do you owe?](#)

You are going to need to make a list of all your loans, credit cards and any outstanding bills that you have. If you have been hiding from these then you are going to need to face up. You need to find as much information related to them as possible and get it all out in the open.

Things you need to include

- Credit card balances and interest rates
- Outstanding loans and interest rates
- Car Loans
- Bank account overdrafts
- Tax bills
- Phone bills
- Electricity bills
- Student loans
- Mortgage payments/Rent due

You need to find the most recent statements for everything. You have to develop the latest and clearest picture possible so that your debt situation is laid bare.

Once you have the most recent figures for all your debts simply add them up to get the figure for your total debt.

Total debt = \$\$\$\$

Now get familiar with this number – this is the number that you have to aim for. It may seem insurmountable now but there are a number of ways to do it. The following chapters will take you through exactly how to do it.

This total debt figure is your starting point. Your focus now should be two fold. Firstly your aim should be to not add any more debt to that figure and secondly your focus should be on finding ways to reduce it.

Money management – it's all in your head

There is no point in paying off your debts and not tackling the habits and thought processes that caused your debt problems in the first place. If someone were to come along and wave a magic wand and payoff all your debts the chances are that if you didn't solve the habits that cause the problems in the first place that you would be back in debt in a short period of time.

Your current financial situation is based on your relationship with money. There are very few things that people have more emotional problems with than money. When you are growing up you were probably sent conflicting ideas about money. On the one hand it has been said that 'Money is the root of all evil' yet at the same time 'Greed is good' has become a mantra.

In order to make any headway with your debt you need to first establish what your relationship with money is like. Growing up you may have picked up on your parents money worries and subconsciously you may have developed a similar mindset yet in an attempt to rebel you throw caution to the wind and develop a spend now pay later attitude.

Some people somehow develop the attitude that they will never understand anything about money, that somehow they will muddle through life and that nice man down at the bank will help them through it. Little realizing that the nice man down the bank is on a commission and the only thing he cares about is his commission.

To truly be ready to get out of debt and stay out of debt you will need to do a lot of work on yourself. You will need to mentally rehearse success, begin to see yourself as debt free and on the path to financial security.

I would say that the most important thing that you could do as preparation to becoming debt free is to work on yourself. Try to establish what your relationship with money is. Are you a shopaholic? Do you pay attention to how much you spend? Do you worry about money? Do you feel that you know enough about money? Are you happy to let someone else look after your money?

These are hard questions but they are questions that you need to know the answer to in order to progress. Otherwise you will most likely fail at your attempts to get debt free if you do not have a clear understanding of your relationship with money. What will happen is that you will have repeat behaviours that you will not be able to explain the causes for and these repeat behaviours will simply be your relationship with money playing out. This will lead to immense frustration as you continue your struggle with debt.

Things won't change until you change. If you think about it logically your current financial state is a reflection of your relationship with money. Do you have a lot of money and feel wealthy? Great – you seem to have a good relationship with money. Now what if you are in debt and find it hard to keep hold of the money you earn? Chances are that you have a poor relationship with money.

Did you see how I just phrased that response? "chances are that you have a **poor** relationship with money" I want to draw your attention to the use of the word poor. The word poor has allsorts of negative connotations in relation to money. I said poor on purpose to highlight how important it is to watch how you speak about money. The more you use negative words in relation to your financial situation the more likely that it will remain a reality for you.

In its simplest form Negative thoughts and Negative words lead to Negative situations but fortunately the reverse also holds true.

Positive thoughts and Positive words lead to Positive situations.

If you are at rock bottom financially and cannot seem to see anyway out then the simplest and most effective way for you to is to start working on yourself. Give thanks for the small things in your life that give you pleasure. It could be the smallest thing like going for a coffee or walking a dog. You will have to bring your mindset back to ground level, back to the simple pleasures.

One of the most effective methods of working on yourself and your relationship with money is to use a technique called Neuro Linguistic Programming – NLP for short. NLP is fast being recognized as one of the most effective techniques available to create personal change. For further information on NLP on the changes it brought to one man's life check out this link. Successwithnlp.com

How to pay back your debts and still have a life.

You have to ask yourself how you got into this mess. Did you get into debt as a result of a breakdown in a relationship? Did health problems cause your debt? Or was it simply a case of good old fashioned overspending? I suppose at this point you're thinking that it doesn't really matter too much, that debt is simply debt. Not true.

One of the key rules of debt management is that 'all debt is not created equal'. What does this mean? What this means is that it is very important to know how your debt came about.

If your debt is caused mainly by a breakdown in a relationship then you will use a slightly different strategy than if your debt was caused purely by overspending. Even if your debt was caused by overspending it is important to know where your money was spent. If it was all spent on expensive cars you will adopt one strategy but if it was all spent on holidays then you will use another strategy. You can sell the expensive cars but you can sell the holiday you went on because it is gone.

If you are like most people the chances are your debt occurs from overspending. Your spending will probably not have been limited to just one item but rather spread across multiple items.

Debt caused by relationship breakdown or health problems is usually easier to solve than that caused by overspending. The reason is simple. For the people whose break-up caused their debt then there may not be much behavioural and habit changes needed. These people will just need to re-establish themselves and get back on their feet. Once they are back on their feet emotionally then it will be more straightforward for them to repay their debts.

The point that I am trying to make is that people whose debt is caused by overspending have a greater uphill struggle against their debts as the temptation to overspend is everywhere. People getting over a broken relationship or health problems have their minds too busy to worry about spending money. This is a very general way of looking at it I admit. Of course there could be a combination of factors that caused the debt.

Every situation is unique and it is possible that your debt could have arisen from a number of different causes. I've heard stories where a relationship broke down as a result of one partners overspending. In turn the breakdown of the relationship was stressful and had a negative impact on the person's health. So what you had was a combination of all three the main causes of debt playing a role.

So why is this important?

Deciding the main cause of your debt is important. This will determine how you tackle it. For some the change in current lifestyle may be small. They may already have a relatively frugal existence and were just unfortunate to have had some bad luck and may have gotten hit with an expensive divorce.

For someone who is a chronic over spender then the change in lifestyle required to repay your debts may be more severe. It will be difficult to change the habits of a lifetime.

Can you see the link between how you tackle your debt and the cause of your debt?

Equipped with the knowledge of what caused your debt you can devise a strategy that will suit your lifestyle best. The best debt management plans are those that take into consideration all aspects of your current lifestyle and how hard it may be for you to change some things.

Debt management plans need to be realistic. There is no 'one size fits all' plan out there and people need to realize that to give themselves the best chance of succeeding they need to look at their whole lifestyle and to develop a debt management plan that is ambitious but not unrealistic. This is done by developing a system based on the principle of 'carrot and stick'.

The principle of the carrot and stick is that in order to get the most motivation possible out of someone you reward them when they do well and you beat them when they do badly. So in the case where someone is in debt, if the targets are been met then you should reward yourself, preferably in a non monetary way. If targets aren't being met then you should be punished – simple things like denial of your favorite TV show or favorite food.

You might think this is a tad childish and in a way you are correct. The aim is to train your mind to work hard on achieving goals by expecting rewards when the goal is achieved and expecting punishments for poor performance.

This requires discipline to establish but it is well worth the time and effort. The brain responds well to challenges and the more you can challenge yourself to achieve your financial goals the quicker you are likely to achieve them.

Budgets – the basics

Probably the least favourite topic of anyone who is in debt. I know I struggled with this for a long time. Budgets seem to be the preserve of accountants. For a lot of people budgets seem too grand for the small personal finance issues that they may have. The best way to think of budgets is that you are bringing some of the same techniques that huge corporations use to manage their money to bear on your own personal finances.

I can appreciate why budgets are intimidating. Most of the time finding a starting point is the hardest part. Once you have found that starting point then where do you find the information to go into the budget. Then once you find the information how do you go about plugging it into the budget to get any meaningful information that you can use? Finally after all your hard work and after having creating a budget how do you stick to it?

Fear not. I have come up with a simple solution to the problems outline above. On my website www.untildebttdouspart.com there are a number of free budget and financial calculators for you to use. Click on this link to view and use the [free calculators](#). These calculators will allow you to take the pain out

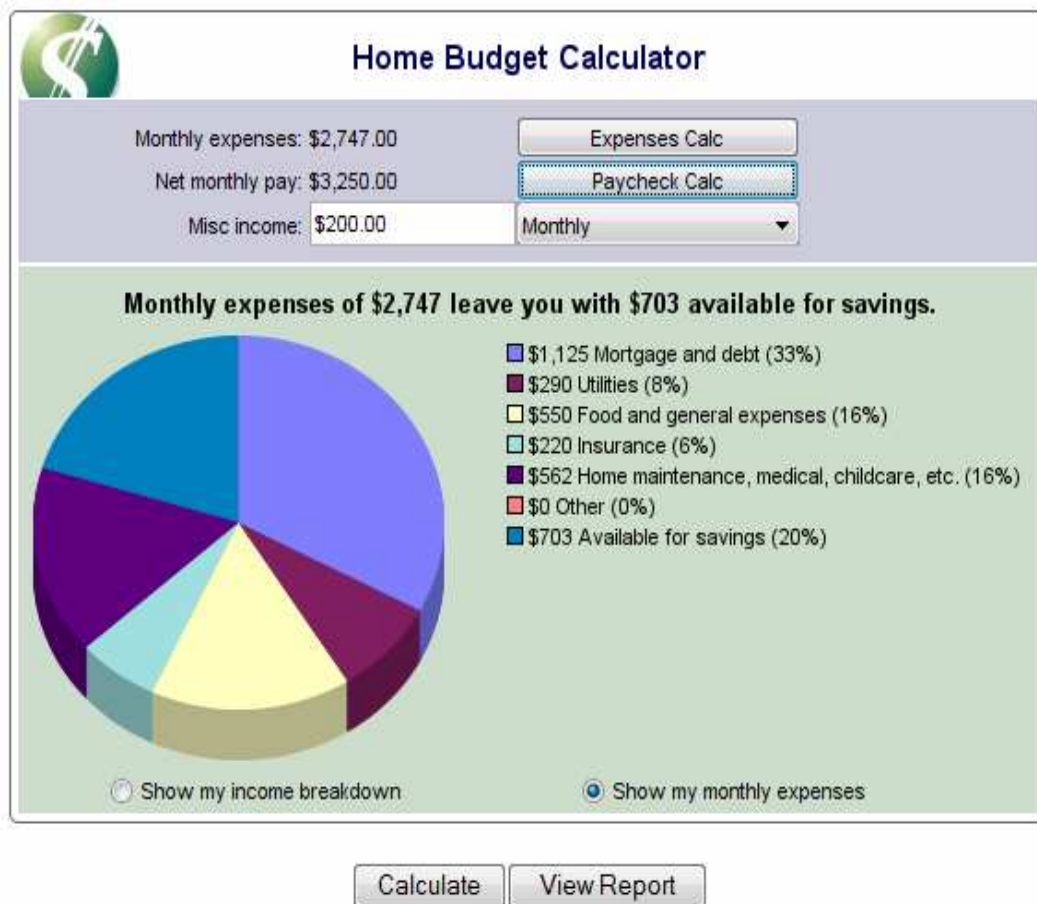
of making a budget and will show you in simple terms how making one small change can have a huge impact on your debt situation.

Total monthly expenses \$2,747.00	
Monthly house expenses	
House Payment:	\$700.00
Home maintenance:	\$50.00
Monthly loan payments	
Auto Payment:	\$275.00
Credit Card Payments:	\$150.00
Auto Payment 2:	\$0.00
Bank Service Charge:	\$12.00
Monthly insurance expenses	
Auto Insurance:	\$95.00
Health:	\$50.00
Life:	\$25.00
Home:	\$50.00
Monthly utilities	
Electric:	\$110.00
Sewer and water:	\$25.00
Telephone:	\$100.00
Gas:	\$0.00
Cable:	\$35.00
Internet:	\$20.00
Other monthly expenses	
Food:	\$275.00
General Merchandise:	\$200.00
Travel and Entertainment:	\$50.00
Child care expense:	\$350.00
Other expenses:	\$0.00
Auto gas and maintenance:	\$75.00
Donations:	\$0.00
Gift Expense:	\$50.00
Medical:	\$50.00

OK

Java Applet Window

Sample Budget



A full explanation of how to use the calculators is included on my [website](#).

But before we get ahead of ourselves we need to look at the basics of budgeting. To truly understand and appreciate budgets we need to focus on the theory behind budgeting and the elements involved. We are going to focus on 1. Where to start your budget 2. How to gather information for your budget 3. How to pull it all together.

1. Where do you start your budget?

Your budget should be a reflection of who you are and how you live your life. If you have never had a budget before then there are a few key elements that you will need to understand before you start building a budget.

How you design your budget is very important to its success. The budget itself should incorporate all elements of your income and expenses. It has to be accurate.

All your expenses should be included.

Future possible expenses need to be accounted for and allowance made for them.

Start today – at this point in time – don't say you'll wait until the end of the month to start your budget. Do it now.

Remember that a budget is a work in progress and is never right first time so stick with it.

2. How to gather information for your budget?

The problem that most people have is that they have too much information. Bank statements, till receipts, utility bills, most people are faced with a deluge of paper.

In order to cut through the mass of paper find your most recent credit card and loan statements. Use these as the starting point for the information for your budget. These statements give the most recent and up to date information that you need. Old statements show what you owed in the past not what you owe now. You need current information on your current outstanding balances.

This may mean calling credit card companies or banks and asking for a statement but so what? The information will be crucial to getting your budget moving in the right direction.

3. How to pull it all together?

Now for the fun part – filling in the blanks. The simplest way to put your budgets together is to take a template budget like this one linked to here – [Budget Template](#) – and simply fill in the blanks.

What I've outlined in the steps above simply give you a picture of your current **financial situation/budget**. This allows you to see whether or not you have a positive cashflow at the end of the month.

What you now have to do is to examine and identify areas within your current budget that you can make savings. It is these savings that can be used to pay down your debt. This can be done by breaking down each expense into three categories

- A. Essential
- B. Not essential but important
- C. Not important and not essential.

You need to breakdown your expenses into these three categories. When you have broken them down you need to identify the expenses that you can eliminate. As you can probably imagine most if not all your expense savings are going to come from items in category C – Not important and not essential.

What goes into each category is entirely a matter of personal choice but in order to make significant changes you are going to need to make significant sacrifices.

What next?

Ok so at this point you should have a picture of your **existing financial situation** based on the numbers entered into the budget template. This is where you currently stand financially.

Now what you need to do is to fill in the budget template again except this time use the new – reduced spending figures that you have created based on your decisions about your expenses.

When you have entered the new numbers into the template you will have a budget plan. This will give you a spending plan to guide your future spending decisions.

It is this new Budget that will be your allow you to make significant progress on your debt. As I said earlier the chances are that your first attempt at budgeting is going to be wrong. You will make mistakes with it. The key thing to remember is that your budget is a work in progress and that you should be continually looking for ways to improve it.

Pay down your little debts first

Conventional wisdom says that you should pay down your largest and most expensive debts first. Most expensive debts mean those debts that have the highest rate of interest. In theory this makes a lot of sense. By paying down your most expensive debts you are reducing the cost of carrying your debt.

Unfortunately for a number of reasons this is not the best strategy. The key reason is that it goes counter to your motivation. If you have a large debt with expensive interest then you are going to struggle to see any impact on it. A much more realistic and achievable program is what has come to be known as the debt snowball method of debt repayment.

The basic principle behind this idea is that it builds on both your motivation and the forward momentum of your debt repayments. Like a small snowball rolling down a hill and gathering more snow your debt repayments will gather momentum. The faster you see your debts reducing the more likely you are to be motivated to continue with the repayment process and pay off all your debts.

The steps in the snowballing method are as follows.

1. List all your debts starting from the smallest right down to the largest.
2. Make sure that you are making the minimum monthly payment on each of the debts. You don't need the hassle of the creditors coming after you when you are engaged in this process.
3. Once you are making the minimum monthly payments on each of your debts then work out how much spare cash you have from your salary leftover each month that can be used to make additional debt repayments.
4. On the smallest debt on your list – pay the minimum amount as legally required but also pay whatever you can from what is leftover from your salary.
5. Once you have your smallest debt paid off use the minimum monthly that you were using for the first debt and apply it, along with your spare cash and the minimum payment for the second debt, to the second debt repayments.
6. Repeat the process until all debts are paid.

The Snow ball method is best explained with an example.

In the diagrams outlined below I have created a debt repayment schedule based on the snowball method.

Diagram 1: Example of a person's existing debts and debt repayment schedules

	Amount	Minimum monthly payment	Interest rate
Debt 1	500	20	6.2%
Debt 2	780	60	7.3%
Debt 3	3,000	300	17.6%
Debt 4	4,200	350	18.9%
Debt 5	10,000	500	8.9%

Spare cash of \$100 per month to use to help pay down debt.

Diagram 2:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Debt 1															
Spare cash each month	100	100	100	100											
Minimum payment	20	20	20	20	20										
Balance	500	380	260	140	20	0	0	0	0	0	0	0	0	0	
Debt 2															
Spare cash each month				100	100	100	100								
Minimum payment for debt 1				20	20	20	20								
Minimum payment for debt 2	60	60	60	60	60	60	60								
Balance	780	660	600	540	380	200	20	0	0	0	0	0	0	0	
Debt 3															
Spare cash each month							100	100							
Minimum payment for debt 1							20	20							
Minimum payment for debt 2							60								
Minimum payment for debt 3	300	300	300	300	300	300	300	300							
Balance	3000	2700	2400	2100	1800	1500	1200	900	440	20	0	0	0	0	
Debt 4															
Spare cash each month										100	100				
Minimum payment for debt 1										20	20				
Minimum payment for debt 2										60	60				
Minimum payment for debt 3										300					
Minimum payment for debt 4	350	350	350	350	350	350	350	350	350	350					
Balance	4200	3850	3500	3150	2800	2450	2100	1750	1400	990	180	0	0	0	
Debt 5															
Spare cash													100	100	
Minimum payment for debt 1													20	20	
Minimum payment for debt 2													60	60	
Minimum payment for debt 3													300	300	
Minimum payment for debt 4													350	350	
Minimum payment for debt 5													500	500	
Balance	10,000	9,500	9,000	8,500	8,000	7,500	7,000	6,500	6,000	5,500	5,000	4,520	4,020	3,520	
Total Debt	-18,480	-17,150	-15,820	-14,490	-13,160	-11,830	-10,500	-9,170	-7,840	-6,510	-5,180	-3,850	-2,520	-1,190	0

There are a few things that need to be pointed out and explained in the repayment schedule above.

1. For the sake of simplicity we have not mentioned interest on the debt amounts. We assume that the minimum repayments contain a portion for interest repayment and that there is no penalty for repaying your loan early. This may not always be the case so please check with your loan provider to ensure that you will not face a penalty if you repay early.
2. We have ignored mortgage repayments as we are focusing on consumer debt and not your mortgage. It is also assumed that your mortgage repayments are taken into consideration when calculating the spare cash available to help repay the debts.
3. The \$100 spare cash is what is left over from your salary after all your living expenses have been taken out, your mortgage has been paid and the minimum amounts for your debt repayments have also been taken out.
4. Notice the green areas on the repayment schedule. You can see as the schedule moves forward in time the green area becomes bigger. This is a useful way of thinking about your green (dollars) money being used to pay down your debt. Towards the end of the debt repayment schedule you have lots of green as all your money is now concentrated on paying off your one big last debt.

There are two key components that make the snowball method of debt repayment most effective.

The first is the availability of spare cash that you can use on a monthly basis. Don't worry if you don't have any cash. The snowball method will still work for you but it just means that it will take longer to feel the benefits. The more cash you can spare and can use on paying down your debt the quicker you will be free of it.

The second key component is that you pay your smallest debts first. As mentioned earlier the idea behind this is that it has the effect of adding fuel to your fire and keeping you motivated. You can see from the example above that the person in debt was able to reduce the time it took to pay off their smallest debt from 25 months (\$500/\$20) to a period of 5 months. For someone who is used to receiving bills and invoices each month it is empowering to receive a statement saying "Paid in full". This statement can be stuck in a place of prominence as a positive reinforcing message that you are moving out of debt and into a place of financial health.

Getting money quickly

If debt has taken hold of your life and you just can't seem to see a way out then it might be time for some drastic action.

Do you feel stressed when you get home and are confronted by clutter? Do you feel like the walls are coming in on you? The thing is you probably have too much stuff. Things like too much clothes, too many shoes, too many magazines and too many gadgets.

I have often found myself wanting to scream from the top of my voice, "Why do we need all this stuff?" I don't know where the line between buying something we actually need and just buying something for the sake of it began to blur. It's almost like we sleep walk into buying stuff that is completely unnecessary. Help!!!! I'm actually getting a little stressed even thinking about it.

How often have you gone to the ATM, taken out \$50 gone to buy some essentials and then realizing that you have about \$7 left when you get home? When you try to piece together where the money went you realise that you spent most of it on unnecessary items - stuff.

The feeling of regret this brings when you realise that the enjoyment and value that these items bring are very short lived. Sometimes they actually bring negative value. The enjoyment that you get out of them is small compared to the cost to run and maintain them.

My advice is that you sell everything in your life that is not an absolute necessity. Everything. You need to be ruthless.

For me the simplest way to do this is by using eBay. It can be any marketplace online or offline – it can even be a garage sale on your front lawn. The reason I choose eBay is because it is the largest marketplace in the world and you will nearly always find someone who is interested in your stuff – no matter how odd or quirky you think your stuff might be.

Let go of your stuff.

The biggest problem is not the physical act of taking photos and putting them on eBay and then sending the item to the buyer. No the biggest problem that you are going to have is to overcome the emotional attachment that you have to this stuff. It will take time but once you commit to it you have to see it through because now you are presented with a great opportunity to solve two problems at once.

Two problems solved in one go:

Problem one: The mayhem that you call home.

By decluttering and selling all the excess clutter that you do not need you are creating a clean and clear living space for you and your family. No longer will you have to worry about what your friends will think when you invite them over.

Have you ever seen those house makeover shows that show the before and after pictures of someone's house? From what I see the biggest problem in most of these houses is the clutter. Sure the décor could do with updating but the majority of them seem to be so cluttered. The solution is obvious really – get rid of the clutter.

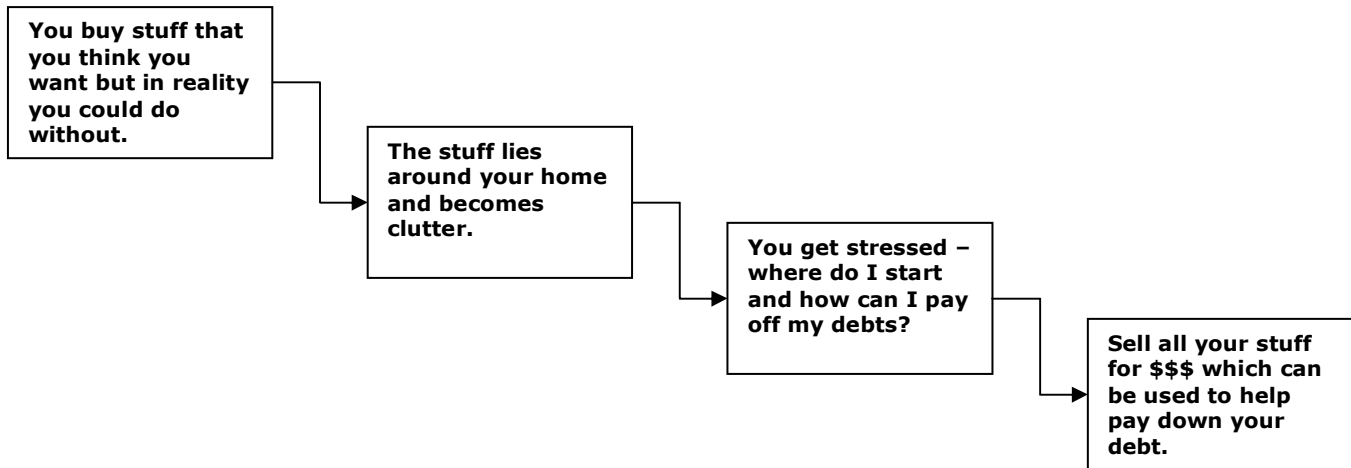
Problem two: That debt burden that is weighing you down.

So having read about clutter you may be asking what on earth has this got to do with my debt and how will it help me solve financial problems? Well the benefit of clearing out the clutter is that you will get much needed cash from the sale of your items on eBay. This will take time but its going to take you time to pay off your debts anyway and this is a piece of very simple action that you can take to help you tackle your debts.

When you sell an item on eBay the chances are that you are not going to get what you paid for it. Do not let this logic stop you from selling your clutter. The way you have to think about it is 'How much is it costing me to keep this item?' The costs of keeping an item come in a number of varied ways but the primary one is emotional. Each day when you return home from work you are constantly reminded what you have spent your money on and that you are in debt. So I say clear it all out and start afresh.

Strip your home life down to the bare essentials, cut away the excess. Sure it's going to be tough emotionally because like your debts this clutter has taken time to build up. Above all else and even if you take no action after reading this I want you to see the causal relationship between the clutter in your house and the debts that you owe. The chances are you incurred a significant part of your debt by buying things that at the time you thought you needed but in retrospect they were not needed at all.

Like paying off your debts clearing out the clutter will take time. Give it time. Give it as long as it takes. You want to build a better brighter future for you and your family? Then act now.



The price of all that “STUFF”

So you have a garage full of “Stuff”. By stuff I mean all the bits and pieces of equipment, magazines, DVDs, CDs, clothes and other paraphernalia from your life. You probably have accumulated this stuff over the years and never really passed much remarks on it.

What I want to look at in this section is how much this stuff is costing you. Not just the monetary amount but also the emotional cost of holding on to this stuff. I know you might think that I am labouring the point about clutter and stuff but I think the message is worth repeating.

Fire is liberating

I posted this story on my website a few months back. There was an initial shock reaction to it by most readers however when they thought about it they could see exactly where my friend was coming from.

Clutter on a grand scale.

An old friend from college recently got in touch with me. It was great to hear from him. The one thing I remember most about him was that he was a pack rat and a very messy individual. I would dread going around to his apartment because I would have to fight with the half eaten pizzas and beer bottles for a place on his sofa. He also had lots of stuff – things like lava lamps and dozens of magazines scattered about randomly. I passed it off as the typical student lifestyle – one from which my own was not too far removed.

Anyway a lot had happened to him in the last couple of years. One major event was that there was a fire in his home about two years ago. He lost almost everything he owned.

My heart went out to him as he explained what had happened. Anything that did survive the fire was too badly smoked damaged to keep. While he had insurance the amount he received for the lost items was nowhere near what he paid for them. He would find it very difficult to replace all the lost stuff. But then he said something that stunned me and when I think about it makes perfect sense.

He said that there was one huge positive from all of this.

All the stuff that he lost was just that – stuff! Old magazines, books, DVDs, computer games etc. He had been meaning to throw out all the stuff for years and in one fell swoop had it done for him. He said that he felt an immense sense of freedom. Yes initially he said he was devastated from having lost so much of his stuff and indeed there were personal items of sentimental value that he lost but when he stepped back on got perspective on the situation he found that.

- A. I'm lucky to be alive and able to create new photos with my friends and family
- B. I'm free of all the clutter in my home life that was like an oppressive weight around my neck.

Is that attitude too much like Pollyanna's? I don't think so. Ok it's true that the fire was a traumatic experience and thankfully no one was injured but every cloud has a silver lining. My friend had been set free from all his clutter.

You see the problem was that the clutter was not only messing up his home it also came with a lot of emotional baggage. My friend told me that he would look around his house and he would get very stressed as he did not have the motivation or focus to clear out the clutter. The clutter was effectively crowding him out of his home!

Two years later and he is a changed man. He vowed not to let clutter take over his life again and he is winning the battle. His clean minimalist home almost puts me to shame. He explained to me that he now feels about 100 times freer than he did when he had all that clutter. He comes home from work to a nice clean clutter free house

So how does all this help you with your debt situation?

Now I'm not for one minute suggesting that you go all Backdraft on your stuff and burn your home down. The 10 years in prison would make the whole process very expensive and lord knows we are in enough debt already without having to pay our debt to society with jail time. Ok so arson is ruled out. What next?

My advice is that you sell everything in your life that is not an absolute necessity. Everything. You need to be ruthless.

You don't have to go into this clearout with the view of turning a profit. The chances are that you will get much less than what you originally paid for the items – but you will get much needed cash and that is the key thing.

Not only will you get much need cash you will also get rid of any clutter around your home. This liberation in itself is worth far more to you than any cash you receive for your goods.

Second income – is it realistic?

You have a job and you have a lot of debt. There is only so much budgeting and belt tightening that you can do. Your focus has now shifted from reducing outgoings to increasing incomings i.e. you want to generate a second income. You can take all the second income and ring fence it so that it goes directly against your debts. You will have your debt problem solved in no time. Unfortunately the reality is a lot different.

To gain an appreciation of how realistic you need to be in order to generate a second income there are a number of key factors that you need to consider. Generating a second income is not as easy and as straightforward as some people would have you believe.

The options

Here is a quick list of ideas off the top of my head and in no particular order that could generate a second income for you. Take a moment to think about each and how they would fit in with your current lifestyle.

1. Get a part time job
2. Rent out a room in your home
3. Buy a rental property and rent it out
4. Trade shares online
5. Build a website and sell a product
6. Start trading on eBay
7. Start selling a Mutli-Level Marketing (MLM) product
8. If you have a trade or skill start doing them on your own account in your spare time.

There are dozens of ways of generating a second income. I just wanted to throw these ones out there to get you thinking.

All fired up yet?

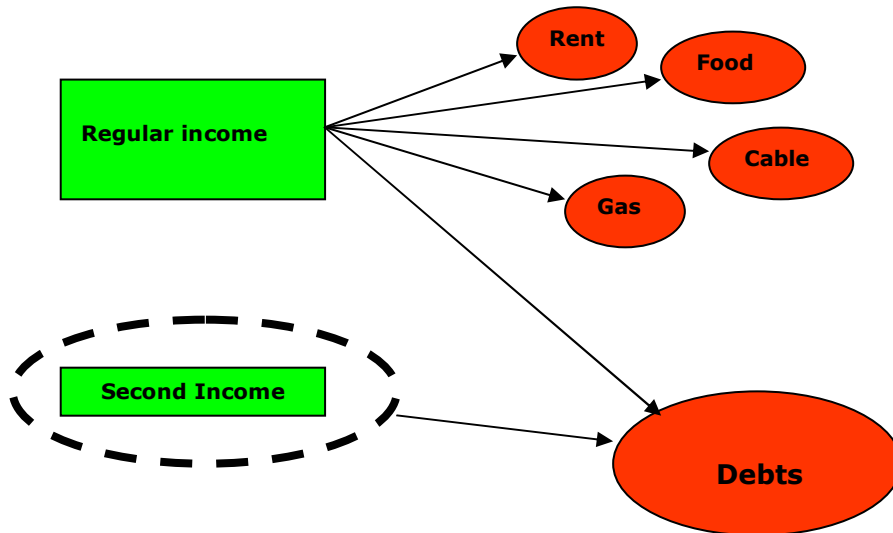
When I look at the list above I say to myself that I could do any one of the items on the list. A nice warm feeling fills up inside of me as I think about how I am going to pay off my debt in double quick time. Oh this is going to be great!

Then reality hits me square on the chin.

If you have ever tried to generate a second income you will know exactly how difficult it is. Each method of generating a second income has its own drawbacks and limitations. In theory they all seem so simple yet the only person who seems to be making any money is the person who is selling the latest 'Get rich in your spare time' course.

Over the next few pages I'm going to be examining what are the best and most effective ways of generating a second income. Is it really possible from a long term perspective to generate a second income? Why it can be hard to generate a second income and finally what are the key factors you need to consider before you can generate a second income effectively.

Ring fencing your second income to only pay down your debt:



The benefits of generating a second income are obvious; if you are in debt then the entire second income could be used to pay down your debt. Your debt would disappear fast. For every salaried employee out there who is doing the 9 to 5, generating a second income is the holy grail of personal finance.

How easy is it to do?

Well that depends on who you are talking to. Put something like “make money online” into a search engine and you’ll get a gazillion pages. Each one of them trying to tell you how easy it is to generate a second income – from the comfort of your home, in your spare time, while your watching TV, ok you get the picture.

On the other hand you might talk to someone who has tried a couple of different ways and has had bad experiences. They may have lost money. They may be cynical and negative on even trying anymore. They would probably advise you to work hard and stay focused on your 9 – 5 job.

I think the truth lies somewhere in the middle of these two extremes. I don’t believe it is easy to make millions in my spare time yet I do believe that with a lot of hard work and motivation it is possible to make a nice second income. You may not be able to retire or quit your day job but it could be the key factor that allows you to be rid of your debt burden. After all that is the focus here – eliminating debt. Once the debt is gone we can worry about where we will put all our money after that.

Before you decide to pursue a second income you will need to put a lot of thought how you are going to do it. More importantly you need to consider what method is best for you given your preferences and needs.

How badly do you need the money?

There are two aspects to this – if you need cash badly enough you will do almost anything to get it and I discuss this further in the next section. The second aspect and the one I want to discuss here is the time lag. If you are badly in need of cash then there is little point in trying to build a website or buying a rental property. The reason why is because of the **time lag** between when you start your website or buy a property and when you begin to generate income. By the time you receive your first bit of income you could be further in debt.

If you are in need of money you need to look at the time lag and how soon you will get paid. For example if you were to take a part time job waiting tables you can be pretty certain that you will either get paid at the end of the night or end of the week or in the worst case the end of the month. With a website/rental property it could be months before you generate any income.

If you need money urgently then you must pursue the method that will allow you to generate income fastest. You may have to swallow some pride. No it won't be easy and yes it will be a lot of hard work but what you have to always do is think of the prize. The prize in this case is eliminating all your debt.

What are you prepared to do for the money?

Nothing illegal I hope!

What you are prepared to do is directly related to how badly you need the cash. As I mentioned above if you are desperate you will do almost anything. But let's imagine that you are not desperate but you do need additional income. In order for you to successfully generate a second income you need to think strongly about what exactly you are prepared to do for the money.

If you are an accountant by day would you wait tables at night? If you were a waiter by night would you work in construction during the day? I'm not saying there is anything wrong with these jobs – nothing whatsoever. What I am trying to point out that in order to generate a second income you may have to do things that you would not normally be prepared to do.

Aside from getting your hands dirty so to speak what else are you prepared to do? Are you prepared to give up TV? Spending time with your friends? Going to the Gym? The reason I ask is because when you make a determined effort to generate a second income a lot of what you currently do in your spare time will have to take a back seat. If you go to the gym three times a week you may find that you simply don't have the time to go anymore. For someone trying to keep in shape this can be tough.

Remember this doesn't have to be a permanent lifestyle change. It only has to be until you get your debt situation sorted out.

Do the logistics make sense?

Imagine that you were working your normal 9 to 5 but you have taken a second job working for 4 hours each night in a call center. You finish your day job at 5 and the call center job starts at 7. Now let's say that it takes an hour to drive from your place of work to the call center but that most days you don't actually finish work until 5:30 and that the traffic is really bad and sometimes it can take up to two hours to drive to the call center. So you end up arriving at 7:30. This isn't sustainable.

The logistics have to make sense. The method you use to generate a second income has to fit well with your current environment. By environment I mean the physical buildings, roads and transport. You need to get from A to B fast. But by environment I also mean the emotional environment. Does the fact that you will be very tired from working late on a second job fit well with the people around you? Will your partner support you if you arrive home late and cranky demanding to be fed?

Do the numbers add up?

This is a crucial thing to consider. You may think that by working part time for twenty hours a week in a job that pays \$15 an hour makes sense for you but you need to consider the numbers. How much do you make after tax? How much does it cost to get you there and back? How much do you spend on food? Do you have to pay a babysitter? Before you decide to try to generate a second income you need to look very closely at how much of the income you generate do you actually get to keep?

A lot of the focus has been on generating a second income by getting a part time job. There is a reason for this. For many people in debt there is a pressing need to generate income quickly. Apart from selling your possessions getting a second job is the quickest way to get money fast.

Learning how to trade shares online or learning how to build a property portfolio are great ways to generate income. The problem is that there is a lot involved in both and it takes years of learning and experience to be able to do it effectively. That is why I pointed out that time lag is crucial. If you have a long term perspective then by all means go and learn about shares and property but if your focus is on the short term removal of debt then you should focus on those activities that will generate money fast.

The key thing to remember with generating a second income is that it only has to be for a short time. What would be the point in spending all your day working and all your night working too? You would eventually burn out. The goal you should have is to only continue with generating a second income if it makes sense for you – physically, financially and emotionally. Only do it as long as it takes to repay your debts. Once you have achieved that goal then reassess your situation. Take some time out and think about your next financial goal.

Savings

“The most powerful force in the universe is compound interest”

Albert Einstein

The dreaded ‘S’ word that you have probably been hearing so much about. There is an argument that goes along the lines that if you are in debt then any spare money that you have should be all put against paying down your debts. The reasoning behind this logic is simple. Your debts will cost you more in terms of interest than your savings will earn in interest. So it makes sense from a financial point of view to pay down your debts first.

For example if you are paying interest of 18% on your credit card but only receiving interest of 5% on your savings then you would be better off to the tune of 13% (18 – 5) by paying down your debts using your savings.

I tend to disagree with this logic. From a mathematical and purely logical point of view it makes perfect sense (or should that be cents?☺). But when it comes to money I don’t know of anyone who makes financial decisions on the basis of logic alone. I personally know that the majority of my financial decisions and as a result financial mistakes have been based on emotional decisions rather than purely logical decisions. Decisions ranging from what type of car to buy right the way through to what share to buy – emotions have always played a huge part.

Money and emotions go like hand in glove. Savings is no different. Savings can be very emotionally charged.

From a psychological point of view having savings in the bank can be a great boost. It is always comforting to know that while you are paying down your debt you are also building up a reserve of cash. It is this reserve of cash that will serve you well if there are any unforeseen events or costs.

From a long term perspective developing the savings habit will be crucial. How else do you intend to support yourself in retirement or put your kids through college?

By saving regularly you will be able to take advantage of the effects of compound interest. In the example below we show what a difference compound interest can have on a savings account worth \$10,000 over a period of five years.

The effects of Compounding interest on your savings

Year	Value	5% Interest	Interest earned on Interest
1	\$10,000	\$500	-
2	\$10,500	\$525	\$25
3	\$11,025	\$551	\$26
4	\$11,576	\$579	\$28
5	\$12,155	\$608	\$29
Totals	<u>\$12,763</u>	<u>\$2,763</u>	<u>\$108</u>

As you can see from the table above the effects of compounding interest cannot be ignored. You are effectively earning interest on interest. Your money is working hard for you. This is the place you want to be. How hard is it to earn this interest on interest? Not hard at all. All you have to do is do nothing. Simply leave the money on deposit and watch it grow and grow.....and grow.

To see how effective compound interest really is try plugging some numbers into this [compound interest calculator](#).

If this isn't strong enough incentive for you to save I don't know what is. This is effectively money for nothing. You don't have to lift a finger to get it all you have to do is wait.

Automate everything

Automate, Automate, Automate

So how do you get and keep yourself back on track in the fastest way possible once you have established your budget? Simple – automate everything

Once you know the exact amounts you can afford to pay down on your debts each month then automate the payments.

Once you know the exact amount you can afford to save each month then automate the payments to that account.

When you have established yourself and have reduced any passive expenses from your life then simply automate the payment of all your bills. Make sure to check the bills each time you receive them to make sure that you are not being overcharged but once you are happy with them then file them away marked paid safe in the knowledge that you have automated their payment.

Creating a system whereby all your bills are automatically taken for your bank account has two great benefits.

The first benefit is that you do not have to worry about making a payment or forgetting to pay and having something like your phone cut off because you forgot to pay. Once you automate the payment then the hassle of paying the bill is taken out of the equation.

The second benefit is that the decision on which bills to pay is taken out of your control. Once the decision to automate is made you no longer have to make a decision on which bill to pay or which bill should get preference as all the bills will get paid.

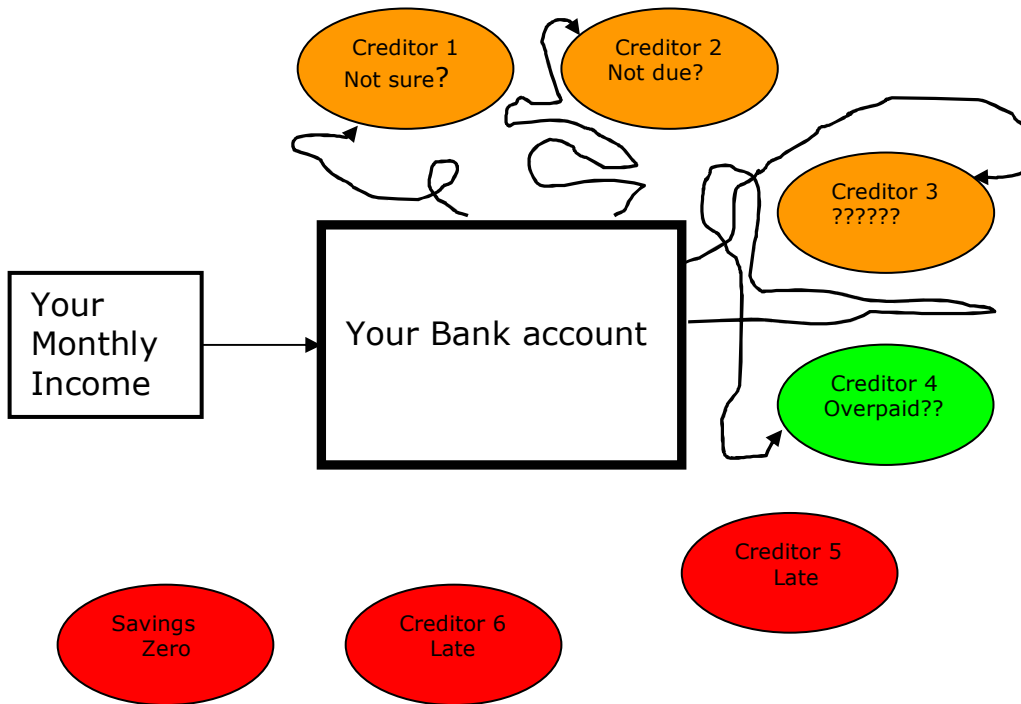
Synergy

Coupled with a solid realistic budget an automated payments system provides powerful synergy. Your creditors will be happy because they will consistently receive their payments month in and month out.

Think of it this way. Once you have automated all your bills and debt repayments the amount of extra financial control you have to administer will be very small.

Look at the diagram below

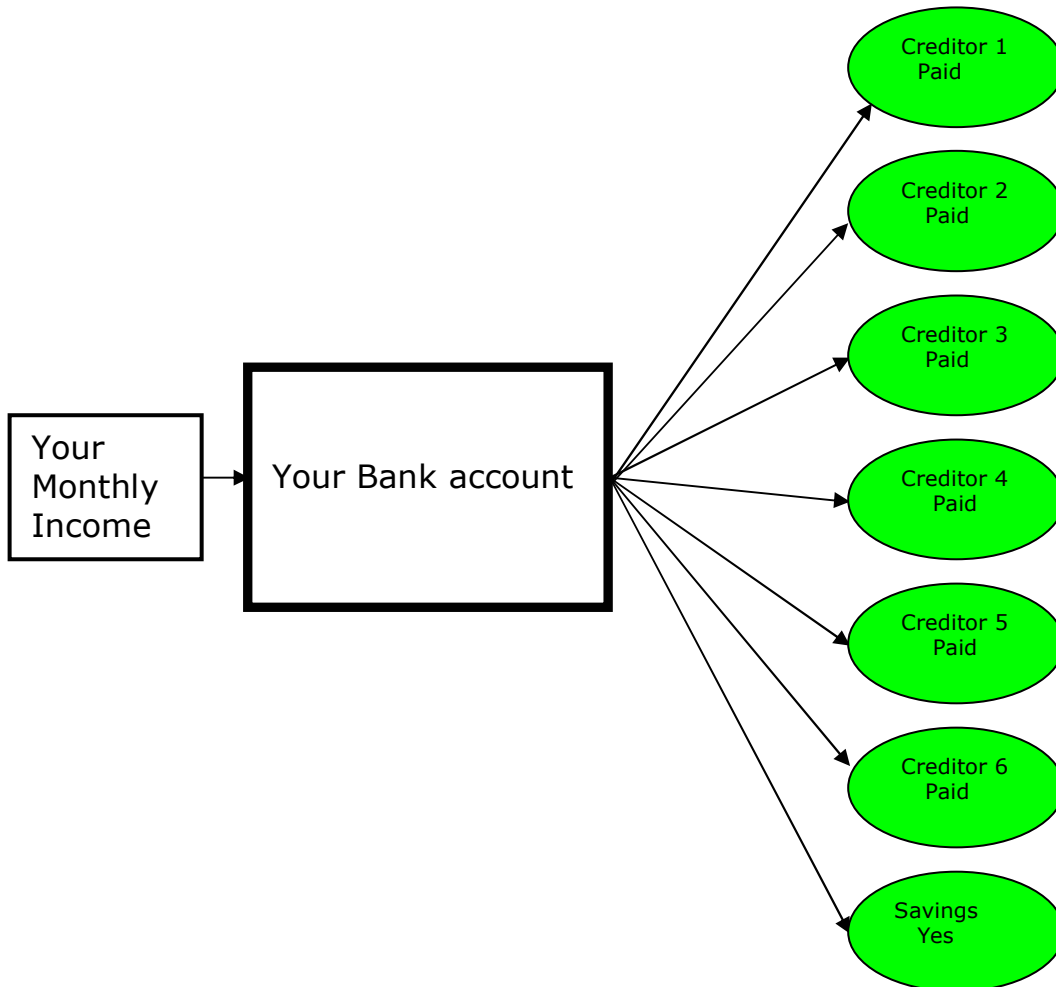
No automation of bill payments



In the diagram above can see that the payments are a bit of a mess. Some bills are late. Some you're not too sure about and some you have overpaid. The squiggly lines from your bank account to your creditors represent both the physical and mental path that you take to make the payment to your creditors. You don't have any savings because you don't remember to save and the habit isn't formed yet.

Now take a look at this diagram.

Full automation of bill payments



As you can see from the diagram above having your payments and savings automated takes the worry and stress out of paying your bills and saving for your future.

Not only has it ensured that your bills are paid on time and that your savings are automatically credited it gives you confidence about your financial situation.

Automation of bills should be relatively straightforward to achieve. Utility providers and credit card companies will have direct debit facilities that will allow you to streamline your bill payments. Once you are happy with your financial ability to meet the bills when they fall due then you should automate the payment. There is no point in automating the payment if you will not have the funds available to meet the payment.

Media Diet

A lot of the debt problems that we as a society are facing today are caused by something called 'Status envy'. Status envy or the related term 'Status anxiety' refers to the feelings of insecurity and jealousy that we feel when we compare ourselves to others. While you might earn 40k a year in your job you are likely to feel insecure if someone you know who is the same age as you are earning 50k a year.

The point is that when we compare ourselves to others we generally tend to compare ourselves to people who are in a higher wage category or live in a more expensive area.

Further still we tend to compare ourselves to people in the media. It can be depressing when we see the superstar singers or actors on TV showing us around their amazing homes. When we hold ourselves up for comparison against these stars we are going to be disappointed. Why do we do it? I'm not sure but I think it has to do with our natural tendency to compete. That said we are doing ourselves no favors when we compare ourselves to actors and singers. The reason is because while we always get to see the glitz and the glamour of their lifestyle we very rarely if ever get to see the years of hard work and struggle it took to get them there.

The net effect of this status anxiety is that sometimes we feel obliged to keep up and try to match the lifestyle of the person earning 50 or a 100 grand a year while we are only earning 40 grand a year. How much of your debt can you attribute to your desire to have the latest gadget or newest car model?

The title of this chapter is media diet. To me the media has a lot to answer for when it comes to our debt problems. Within the media advertisers specifically have used some incredibly persuasive and subtle techniques to get you to buy stuff that you do not need.

Think about the amount of time you are exposed to media – from the moment you turn on your TV in the morning, switch on the radio in the car journey to work, surf the internet at work, read the newspaper at lunch, listen to the radio on the journey home, watch TV in the evenings.

All in all you are probably exposed to advertising in some form or another for about nine hours a day. In those nine hours you are constantly bombarded with messages that are trying to influence your spending behavior.

Most of this advertising goes unnoticed at a conscious level and advertisers know this. To get their message across they focus on your subconscious mind and continually repeat the message until your subconscious picks it up.

The impact of all this advertising is excessive spending. I have lost count of the times that I have found myself buying a certain brand of deodorant or aftershave simply because I was influenced by the slick advertising. In our quest to improve our social standing we buy expensive goods to make ourselves feel better about ourselves. Advertisers know this and exploit our insecurities.

What's the alternative?

You're not going to like what I suggest.

The simplest and most effective way to deal with 'status anxiety' is to go on a media diet. The basic idea is that you cut out a lot of the media influences in your life. Instead of watching hours of mindless TV and channel surfing use the TV guide to identify the programs you want to watch and record them. Once you have recorded them you can watch them without having to watch the ad breaks.

On the way to work listen to music instead of listening to bland radio presenters and even more bland radio adverts. Better still why not listen to audio books or motivation CDs?

Instead of reading the newspaper why not subscribe to the newspapers RSS feed via their website?

We are exposed to so much media that we hardly notice it. There is always a buzzing in the background of our lives. That buzzing is the advertisers trying to make you part with your hard earned money.

If you want to reduce the stress in your life and free up mental capacity so that you can think more clearly then I say turn off the TV. By turning off your TV and reducing your media time you will have an immediate impact on your wellbeing.

I'm not saying to eliminate TV altogether what I am suggesting is that you reduce the amount of time you spend watching it. I love TV but I also know that too much time spent watching reality TV and looking at adverts will make me mentally flabby. That's why I think that going on a media diet is the best way forward. Try it for a week to see if there is any difference.

Debt and Relationships

So what is it about money that makes it such a dirty word when it comes to relationships? The lack of communication and understanding around money in relationships can be the Achilles heel that causes a lot of relationships to end. Money in itself is nothing but pieces of paper and numbers on a screen but it's the meaning that people assign to money that causes the real problems.

Different backgrounds

If the relationship is made up of two people from different socio-economic backgrounds then straightaway there will be a conflict in attitudes towards money. Someone from a middle class background will have a different attitude from someone from a working class background. It is this difference in attitude that can cause problems in the future. I'm not saying that these relationships can't work what I am saying is that this difference in attitudes towards money in all relationships needs to be understood and appreciated so that it can be removed as a road block to a happy long term relationship.

Total U.S. consumer revolving debt reached \$962 billion in May 2008, up from \$879 billion at the end of 2006. About 98 percent of that debt was credit card debt. (Source: Federal Reserve)

Different financial educations

This is related to different backgrounds but does not necessarily always apply to people from different socio-economic backgrounds. Financial education can vary a lot between people from the same socio-economic background. The level of financial education largely depends on their parents attitudes towards money. Some people (not many!) have an aversion to debt while others have no problem embracing debt. This in turn can lead to conflict.

Debt in relationships

Debt in a relationship is a strange thing. When a couple first get together they each bring their own financial baggage with them. The financial baggage usually comprises of debts and an attitude towards money. Now when people first meet they are unlikely to begin discussing how much in debt they are in. On the contrary people usually try to project how successful they are and that they are in some way financially secure. It is not until later in the relationship does it come out that one of them has \$50,000 in student debt and has creditors chasing them.

If the dominant attitude in a relationship towards debt is relaxed then it is likely that this spells trouble down the line. So what if we live pay check to pay check? Relationships can be tough enough without having the unrelenting pressure of having to go to a job you hate to pay off debt you got into as a result of a relationship that you are beginning to dislike ...and the spiral continues.

Social pressures to conform

Once in a relationship the tendency is to socialize with other couples. Your single friends don't want to be reminded that they not in a relationship or simply don't want to see you two cooing like babies! Get a room!!! Anyway the point is when you socialize with other couples a certain type of weird competition forms – which couple is the best? I've witnessed this first hand and it's bizarre!

Picture the scene Mark and Mary are out for dinner with two friends Paul and Cindy. The conversation turns to travel and holidays and it suddenly becomes a case of one-upmanship between the couples.

As a result Mark and Mary come away from the dinner feeling deflated. They silently vow that the next dinner date with that couple they will outshine them whatever way they can.

Approximately 74.9 percent of the U.S. families surveyed in 2004 had credit cards, and 58 percent of those families carried a balance.

In 2001, 76.2 percent of families had creditcards, and 55 percent of those families carried a balance. (Source: Federal Reserve Bulletin, February 2006.)

Now I know to the casual observer the above scenario seems unrealistic but I've witnessed events like this happen first hand. I'm sure if you think about it you too have probably witnessed similar events. Adults acting like kids in the playground. Oh I've got the latest BMW which is way better than the latest Mercedes or whatever.

This social pressure can cause some couples to take leave of their senses and start accumulating ridiculous amounts of debt. For what? To look good? Well in truth a lot of the time these couples end up looking stupid as their cars are repossessed and they struggle with their mortgage payments.

Now don't get me wrong. I do have sympathy with the couples who find themselves in such situations. As with any situation where there is a lot of debt involved there is always a positive way out.

How to get that positive outcome.

Assuming that the underlying problems in a relationship are caused by debt then there are a few simple but highly effective steps that can be taken to rectify things.

1. First off there needs to be acknowledgement that it is the financial strains that are causing the problems and not something else.
2. Get a complete picture of all the outstanding debts – every last one. This will allow you to know exactly what you are facing. Don't hide bills away. This exercise needs to be carried out with 100% honesty.
3. Look at all the options available. This will involve researching every possible option open to you from debt consolidation to re-mortgaging to bankruptcy. No option should be off limits.
4. Reduce the number of options to the ones that you have agreement on – both parties need to be happy and prepared to go along with it.
5. Decide on the best option and make a joint commitment that whatever it takes that you will see this out until the debt situation is more manageable.
6. Set a timeframe – there is not point in saying “someday” make it “TODAY”
7. Take action. Assign tasks and follow through on them. There is no point in just paying lip service to the need to change. You need to actually go out and do something or not do something like not going out for an expensive meal.
8. Keep track of your progress. Follow up on the debt daily, weekly and monthly. Whatever it takes.
9. Continue to support each other in the process. Stop playing the blame game as there is absolutely nothing and I mean nothing to be gained by fighting. The debt will still be there at the end of the fight and you will only feel worse as you have fought and yet the debt is still there. Use that energy to get yourself to take action.
10. Once you have reached your target agree a common debt strategy that you are both comfortable with long-term.

Now it's obvious from the list above that it is aimed at people who have been in a long term relationship and share financial commitments. I mean if you just met someone you're not going to be talking debt management in relationships from the word go.

However, while this may be true it is always worthwhile laying down a few financial markers once the relationship starts to get anyway serious. This could be simply a case of letting the other person know what your attitude towards money is and finding out what there attitude is. In the long run this could save you a lot of time, energy and in particular money.

101 ways to save money

Here is a list of ideas to save money.

1. Stop smoking
2. Stop drinking alcohol
3. Stop drinking expensive gourmet coffee
4. Rent DVDs instead of going to the cinema
5. Rent DVDs online.
6. Consolidate your credit card debt onto a card with a low interest rate
7. Shop online for DVDs/CDs/Books/electrical items.
8. Reduce the amount of times you eat out.
9. Move to a smaller house
10. Move to a cheaper location – either closer to work or a good transport system
11. Shop at factory outlet stores
12. Join the library
13. Shop around for cheaper car, health and home insurance.
14. Use Skype for making free calls online and cheap calls
15. Install energy efficient florescent bulbs in your home.
16. Dry your clothes the on a line and only use your dryer when the weather is bad.
17. Fix a leaking toilet or tap as soon as possible.
18. Wear warm clothes in winter and turn your heating down by 1 or 2 degrees.
19. Make sure that your home is fully insulated.
20. When shopping always have a shopping list to avoid over spending.
21. When shopping for clothes buy the best quality you can afford
22. Entertain friends and relatives at home
23. Plan your meals one week at a time.
24. Grow your own fruit and vegetables
25. Carpool
26. Rent out a room
27. Take shorter showers
28. Bring your own lunch to work
29. Use public transport
30. Trade down your car to a less expensive one.
31. Shop around for the lowest banking fees
32. Shop at discount stores
33. Bypass brokers and apply for loans directly online
34. Sell the stuff that you no longer need on ebay or hold a garage sale.
35. Don't buy bottled water
36. Only buy the food that you need if you buy excess food it will go off and you'll lose money.
37. Keep your meals simple
38. Turn off the lights
39. Don't leave the TV/DVD Player on standby – plug them out
40. Book flights early to get the best prices
41. Where possible walk instead of drive
42. Go for a basic cable TV package
43. Get an energy audit done on your home. It costs but will save you money in the long run.
44. Check the pressure in your car tyres. Make sure they are properly inflated.
45. Remove any excess items from the boot of your car
46. Combine jobs so you only have to make one trip
47. Cut coupons
48. Buy non perishable goods in bulk.

49. Go for generic brands instead of branded products.
50. Don't shop on an empty stomach.
51. Look for sales.
52. Cut down on your magazine subscriptions
53. Visit a beauty school for a low cost haircut.
54. Ask for a raise
55. Get a second job
56. Work overtime if possible
57. Use Open source software – its Free!
58. Only use the dishwasher when it's full.
59. Don't use the dry cycle on the dishwasher instead simply open the door.
60. Pay cash for all major purchases.
61. Learn to cook from scratch.
62. Spread the cost of Christmas by buying presents throughout the year
63. Travel at off peak times to get reduced rates.
64. Say no to the daily newspaper
65. Look for free banking from your bank
66. Bundle your cable, TV and internet services
67. Go to matinees instead of the evening showings
68. Learn how to do paint and decorate
69. Check all your receipts and statements for mistakes.
70. Cancel any unused gym memberships
71. Buy flat pack furniture.
72. Clear your credit card debt
73. Don't buy designer labels
74. Stop buying ready made meals.
75. Create a household budget
76. Shop vintage style for clothes
77. Pay your bills on time to avoid late fees.
78. Avoid impulse buying
79. Keep your car as long as possible
80. Drive slowly
81. Enter competitions
82. Shop around for the best savings rates
83. Ask for discounts
84. Use cash instead of credit
85. Have meatless days i.e. eat no meat for a couple of days each week
86. Recycle
87. Plan and research any major purchase.
88. Keep a note of every single thing that you buy
89. Meet friends for a coffee or lunch instead of dinner
90. Put all your spare change in a jar
91. Know where your money is
92. Pay the maximum allowable into your retirement fund
93. Get a compost bin
94. Holiday at home
95. Use ATMs that are part of your bank's network
96. Stop competing with the Jones
97. Be patient
98. Be consistent
99. Be Flexible
100. Don't over insure
101. Above all else have fun – don't make saving money a chore.

Conclusion

It's not easy to get out of debt. I haven't met anyone yet that has said to me 'Hey Mike that debt problem of mine was so easy and straightforward to solve that I did it in a weekend'.

It simply doesn't happen that way.

Debt that probably took years to accumulate could take equally as long to get rid of. My hope is that the ideas and strategies outlined in this ebook will speed the process up for those who are prepared to make the changes and sacrifices necessary.

Change is possible...you just have to want it.

Best of luck

Mike

Resources

Books:

Some books that I have read that I highly recommend if you want to increase your level of financial awareness.

[Your Money or Your Life](#)

[Managing Debt for Dummies](#)

[How to get out of debt, Stay out of debt and Live Prosperously](#)

Websites:

Some websites that will help you organize the non-financial aspects of your life which in turn will help you solve your debt problem.

[Successwithnlp.com](#)

[Discoverorganization.com](#)

Articles:

Some articles from my website [untildebt.douspart.com](http://www.untildebt.douspart.com) that readers have found particularly useful

[The pain of debt](#)

[Debt by Stealth](#)

[Did self help books cause your debt and ruin your life?](#)