PART III

1) Wasting, Trading and Investing

   (purpose, differences, and consequences)

2) Dealing with debt in a credit society

3) Strategies to pay down consumer debt

1) Wasting, Trading and Investing

Wasting → release a resource without getting anything in return

Purpose: none

Consequence: depletion

Examples:

- Wasting time
- Overpaying for things of identical quality
- Buying things that we do not need
- Good ideas we do nothing with
- Useless debates or trying to help people who refuse to change
- Ignore the crumbs or the value of small things
- Ignore the opportunities for growth in our daily jobs

Key to success: eliminate waste

1) Wasting, Trading and Investing

<u>Trading</u> → release a resource in order to get another resource in return

Purpose: exchange to maintain life quality

Consequence: positioning for growth

Examples:

- Trading time and knowledge for a paycheck
- Trading time to acquire knowledge (education)
- Sell an idea when we cannot develop it (inventors)
- Buying things

Key to success: trade perishable resources for long lasting ones

- Time is our most perishable resource
- Note! Resting and good sleep is traded time, not wasted
- Remember Abraham – he traded meat and dairy for silver / money

1) Wasting, Trading and Investing

<u>Investing</u> → release a resource in order to receive a future flow of benefits

Purpose: growth

Consequence: improved life quality

Examples:

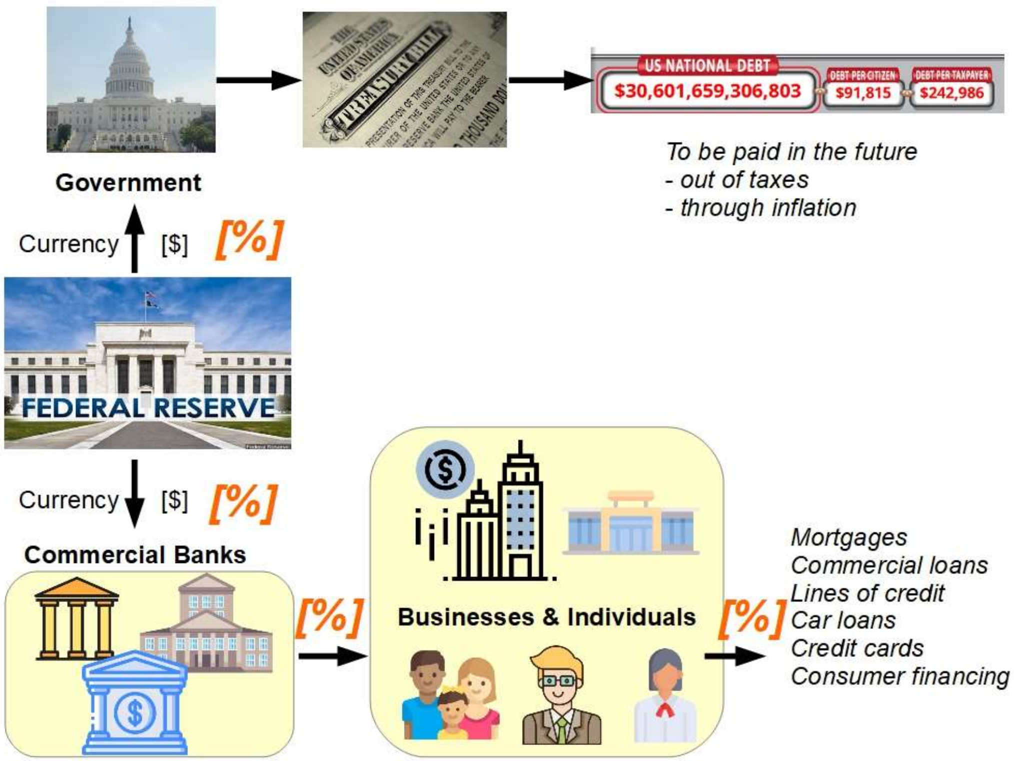
- Purchase assets that generate cash flow
  [*buying stocks with hope for appreciation is not investing, is speculation*]
- Use of education to increase our value in the marketplace
- Use of ideas and skills to start a business
- Develop healthy relationships
  - Studies show that a person's life is the average of 5 people he/she interacts mostly with
  - Genesis 12:1-2 – *The LORD had said to Abram, "Go from your country, your people and your father's household to the land I will show you. I will make you into a great nation, and I will bless you; I will make your name great, and you will be a blessing."*

Key to success: look for assets that provide a constant flow of benefits

2) Dealing with debt in a credit society

Capitalism → money-based system → accumulated money [aka '*capital*'] is used for investments

Creditism → currency / credit based system → investments are made with credit, promised to be paid back (with interest) out of future revenues



2) Dealing with debt in a credit society

In a credit-based system, <u>the total amount of debt needs to constantly increase</u>. This is because the currencies are 'lent into existence' and propagated to the last user of currency with increasing interest.

It is always <u>the individuals (including families), as last users, who pay the interest</u> on the amount of currencies created. Businesses that borrow include financing costs in the prices of the goods and services they sell.

The entire system is set up to:

- encourage individuals to use debt in any situation.
- condition a mindset that 'all debt is good' and does not dissociate between 'bad debt' and 'good debt'.
- promote instant gratification - 'get now, pay later mindset' ['*What's in your wallet'*?]
- discourage use of cash vs electronic payments.

2) Dealing with debt in a credit society

Bad debt → debt where you pay principal and interest yourself (still ok for necessities)

Examples:

- mortgage for your own home [but ok, because you need a home and having a mortgage is better than renting. Paying a mortgage increases your equity, paying a rent increases landlord's equity.]
- car loan [unless you have a possibility to write it off on your taxes]
- consumer debt [credit cards and large item purchases]

Good debt → leverage used to multiply the effect of our investments, that is debt paid off by others

Examples:

- rental property.
  Buy a $150k home with $30k [20%] down payment. Monthly mortgage $800/month, maintenance and utilities $200/month. Rent revenue $1,200/month. Cash-flow $200/month.
- productive asset [aka 'own business'].
  Financial costs are a business expense and paid by customers.

Key to success – avoid /limit bad debt and use [with caution] good debt

3) Strategies to pay down consumer debt

Example:

Debt	Balance	Interest
Mortgage	$250,000	4%
Car Loan	$12,000	6%
Credit Card 1	$6,000	18%
Credit Card 2	$2,000	10%
Furniture	$1,200	8%
Appliances	$7,000	12%

'Highest interest first' strategy				'Lowest balance first' strategy		
Debt	**Balance**	**Interest**		**Debt**	**Balance**	**Interest**
Credit Card 1	$6,000	18%		Furniture	$1,200	8%
Appliances	$7,000	12%		Credit Card 2	$2,000	10%
Credit Card 2	$2,000	10%		Credit Card 1	$6,000	18%
Furniture	$1,200	8%		Appliances	$7,000	12%
Car Loan	$12,000	6%		Car Loan	$12,000	6%
Mortgage	$250,000	4%		Mortgage	$250,000	4%

'Highest interest first' strategy → *mathematically correct (the total amount paid for interest is lower)*

'Lowest balance first' strategy → *psychologically correct (the debt items are eliminated faster)*

3) Strategies to pay down consumer debt

Additional considerations:

- On Credit Cards, the minimum required payment is calculated to cover the interest and reduce your principal balance with $1-2 only.
- Reward Cards (points or cash-back) are using the most deceiving marketing strategies, pushing users to increase spending while charging higher interest rates in order to cover reward costs.
- Credit Unions offer Credit Cards with lower interest rates and higher minimum payments (forcing the borrower to pay down the balance faster)
- Changing payment schedule from monthly to biweekly will reduce the duration of a 30-year mortgage with 9 years (paying it off in 21 years).
  Example:
  Instead of one payment per month of $2,000, make $1,000 payments every two weeks.
  - Monthly → 12 monthly payments of $2,000 → $24,000 per year
  - Biweekly → 26 payments (52 weeks) of $1,000 → $26,000 per year
- Making additional payments against the principal [$100, $200 / month] will further reduce the duration of the mortgage with a few years, depending on the paid amount and the balance of the loan.