

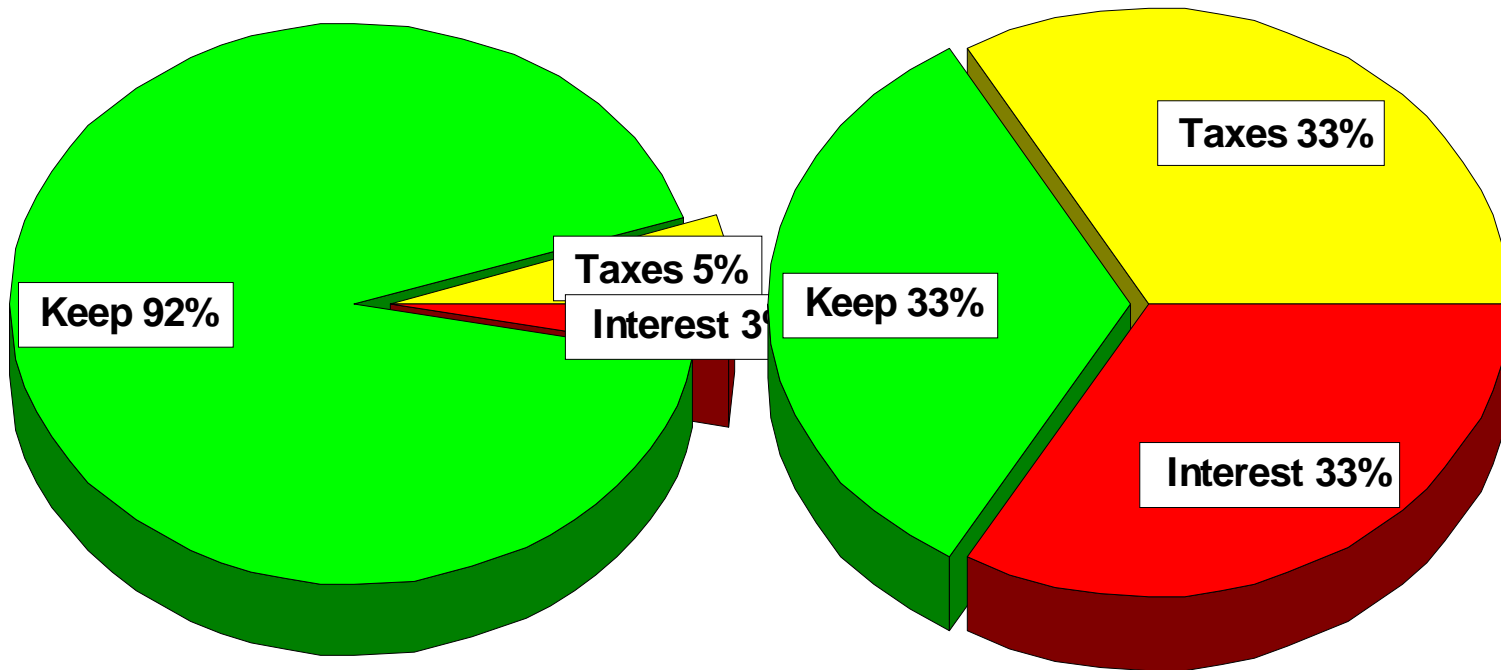
Chapter One

First Things First

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TAXES & INTEREST

1930 & TODAY



Why does the average person pay 1/3 their income in interest?

Because they borrow a lot and because of compound interest

What is compound interest?

You owe interest on the
unpaid balance every month

What is simple interest?

You are not penalized
for making early
payments on a loan

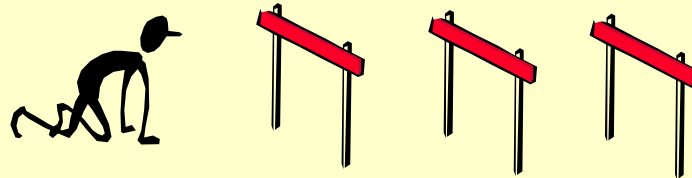
**Give me an example of
compound interest and
simple interest ...**

Mortgage loans

What's my monthly payment on a mortgage?

Monthly payment is calculated by a set formula

**What's my monthly
payment on a \$100,000
mortgage, 10% loan?
At 30 years your payment
would be \$877.57**



**What's my monthly
interest payment on a
\$100,000, 10% loan?**

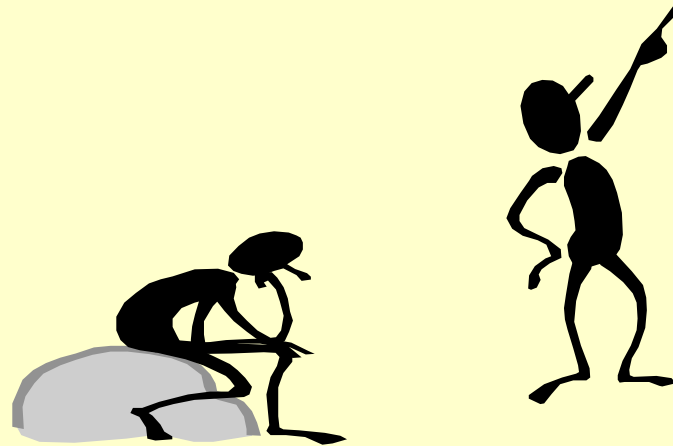
$$\text{\$100,000} \times .10 = \text{\$10,000}$$

$$\text{\$10,000} / 12 = \text{\$833.33}$$



What percent interest am I paying the first month?

$$833.33 / 877.57 = 95\%$$



How do I calculate the interest I owe the second month?

$$\$100,000 - \$44.00 = \$99,955$$

$$\$99,955 \times .10 = \$9,956$$

$$\$9,955 / 12 = \$830$$

How do I calculate interest I owe the third month?

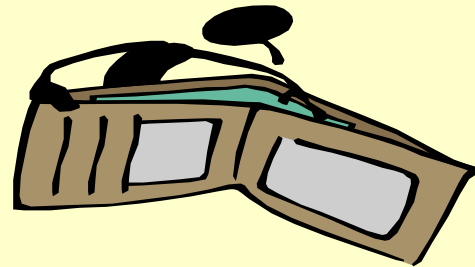
$$\$99,956 - \$45 = \$99,910$$

$$\$99,910 \times .10 = \$9,991$$

$$\$9,991 / 12 = \$833$$

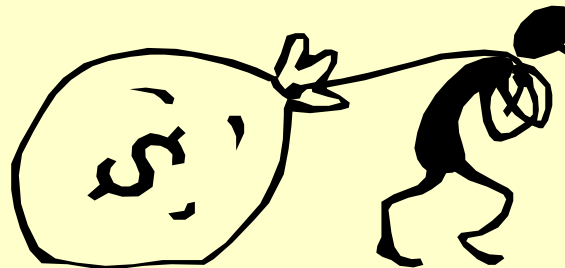
How much will I pay in principle the third month?

$$\$878 - \$833 = \$45$$



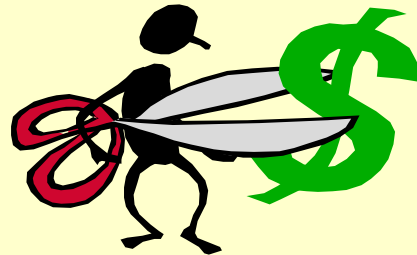
**How much interest will
I pay the first year?**

\$9,975



**How much principle will I
pay the first year?**

\$556

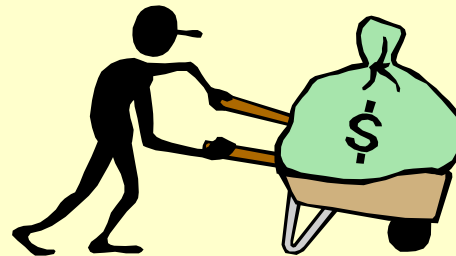


**What is the percent
principle the first year?**

\$556 of \$10,530 is 5.3%

**What percent interest
the first year?**

$$100\% - 5.3\% = 94.7\%$$

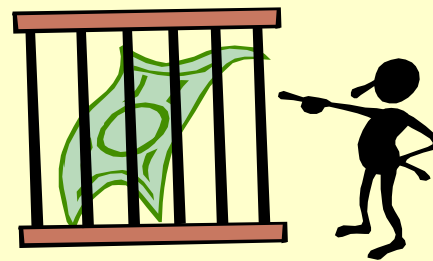


Where can I find financial calculators?

<http://www.smartcalc.com/>

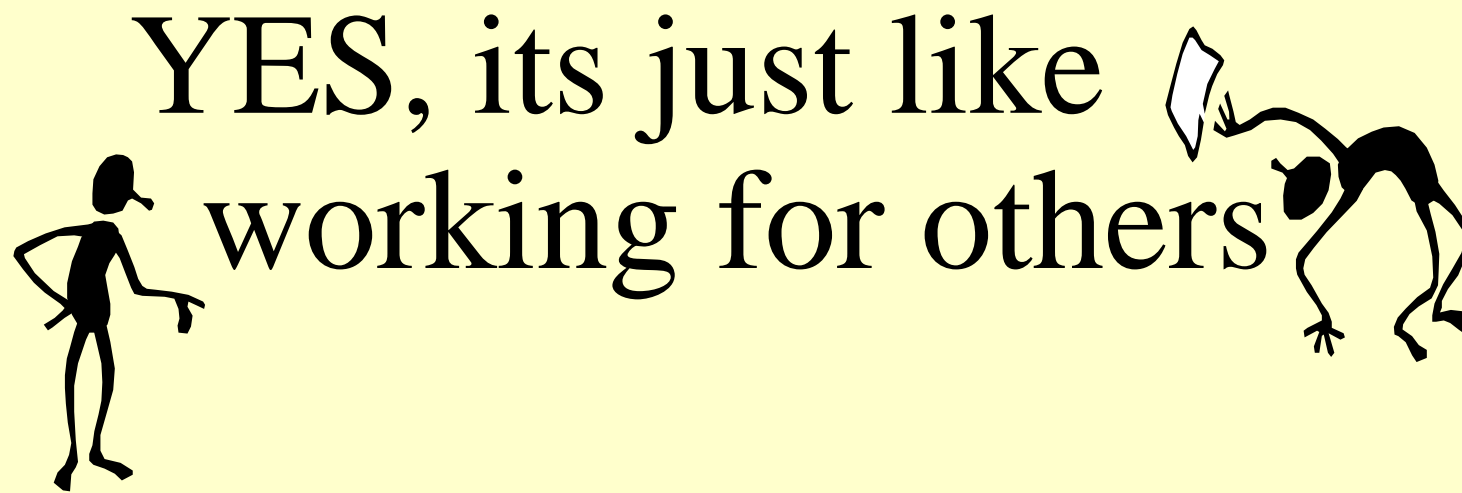
**When I pay interest, who
receives my money?**

People who save



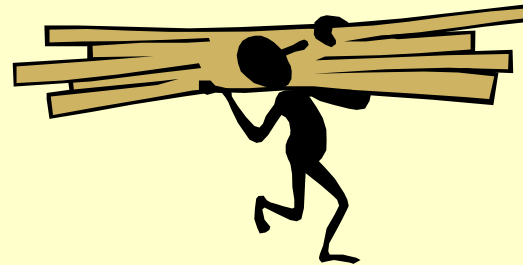
**So when I pay interest am I
working for other people?**

YES, its just like
working for others

The text is accompanied by two black stick figures. On the left, a stick figure stands upright with its hands on its hips, looking towards the right. On the right, a stick figure is bowing low to the ground, holding a white rectangular object (possibly a document or a card) in its right hand, as if presenting it to the upright figure.

**How do I get other
people to work for me?**

SAVE!



Can I duplicate myself through saving?

Yes!



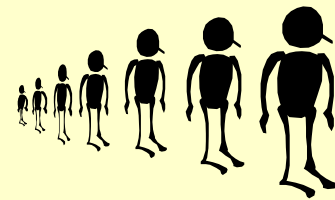
You can duplicate yourself the same as a business owner does through employees

What are the advantages of duplication?

- More money
- More flexible time
- More security

How does a business owner duplicate himself through other people?

Because a part of every workers day is devoted to the employer



**Can you explain to
me what you mean?**

Yes!



Consider your
situation when you
work for someone else

**With a job, how many
working hours are
there in a day for me?**

8, 10, 12, but certainly not
● more than 18 hours a day

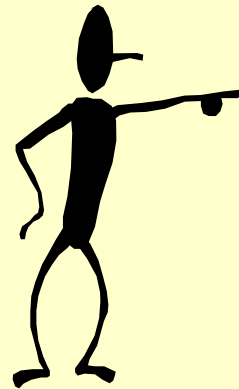


Why is there a limit to the number of hours I can work on a job?

Because you are trading hours for dollars



**Explain to me how it
is different for a
business owner?**



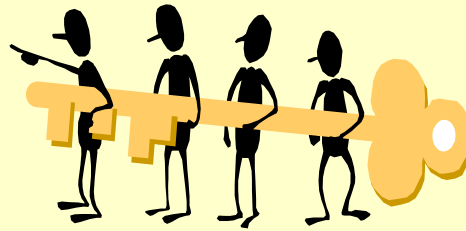
**What's it like if I get credit
for one hour each day that
an employee works for me?**

Its just like you
worked that one
hour each day



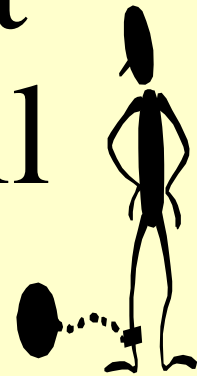
**What's it like if I
had 100 employees?**

It's just like you worked
100 hours each day!



**With a job if I decide to
take an unplanned trip to
Florida, what will happen?**

Not only will you not
get paid but you will
lose your job



As a business owner what happens If I take an unplanned trip to Florida?

You will continue making the same amount of money because your employees continue to work

If I retire, get injured, or die, what happens to my income from the job?

Your income stops because your income was based on your ability to perform

**If I own a business and
retire, get injured or die,
what happens my income?**

The income continues as long
as the business continues

**So what is the point to
the above illustration?**

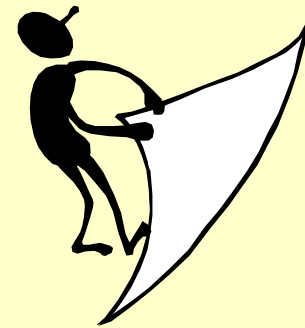
Through the process of
duplication you can make
more money, have more
time and have more security
than anyone with a job

How can I duplicate myself without owning a business?

You can duplicate yourself through your savings

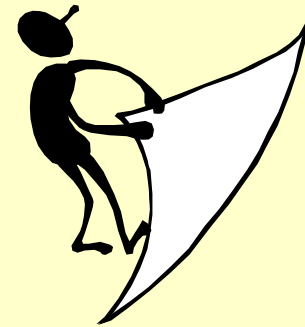


How does this work?



- You put money in a bank
- The bank lends your money out to others
- Borrowers work to pay back the bank
- The bank pays you interest from what they receive from borrowers

Why is saving better than owning a business?



- With a tax deferred savings plan you can defer paying taxes on your current income
- The bank takes care of the paper work
- You have no obligations to anyone

What the first step to saving?

Pay yourself first



**But I have so many
bills, what can I do?**

Pay yourself first!



**How do I pay
myself first?**

With a working
savings account



What is a working savings account?

The money is used to pay for unexpected or infrequent expenses

What is a personal contract?

A contract with yourself
specifying the reasons
you will take money out
of the savings account

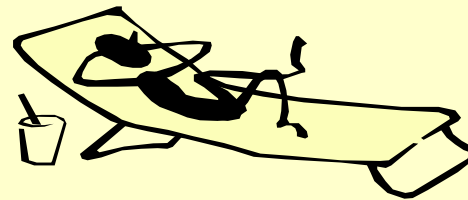


Can you give me some examples?

- new tires
- appliances
- birthdays
- new television
- Christmas
- tools
- clothes
- repairs

What is the best way to save?

Make it automatic

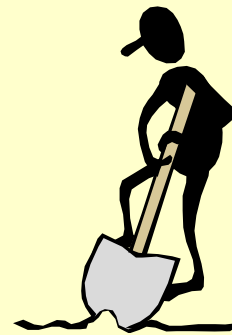


How do I make my savings automatic?

Request that a certain amount be taken out of your checking account once a month and put into your savings account

What is the first step to get out of debt?

Not to go deeper into debt



How do I prevent from going deeper into debt?

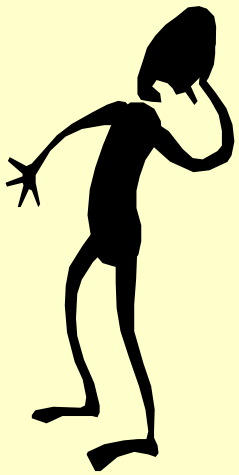
Use your working savings account



**Is it a good idea to make
as large payments as I
can to pay off my debts?**

No!

If you do you are
simply planting the
seeds for more debt



**How can making myself
debt free as my number
one goal only condemn
me to a life of debt?**

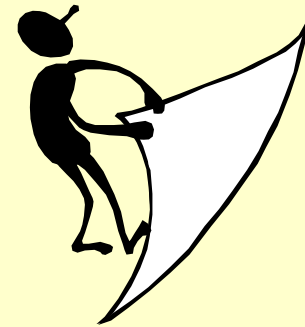
Because you will not have
money to buy new tires,
birthday gifts etc.

**Where will I get money
for these expenses if I do
not have it in savings?**

You will have to
borrow the money



**How much money
should I put into this
savings account?**



- If you do not put enough money in there will seldom be enough to pay for emergencies

- If you put too much money in savings you will not have enough money to pay for necessities

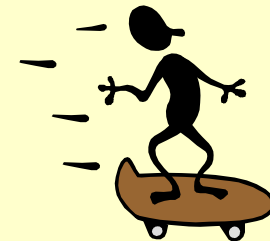
**What is the next step in
my savings program?**

A second savings account



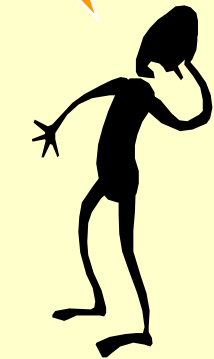
Why should I have a second savings account?

To pay for things
such as a new car



If I can save \$4,000 in this second savings account, should I take the money out for a car?

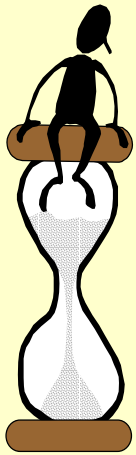
No!



Borrow the \$4,000 from yourself

How do I borrow money from myself?

Most banks will lend you your own money for about 2% more than the interest you are earning



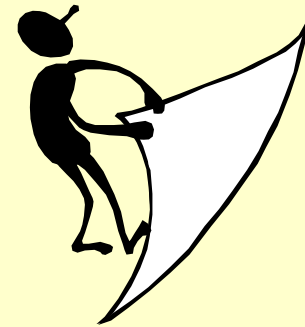
**Is my savings available
to me if I borrow it?**

In most cases each
dollar is frozen until
you pay it back

Why should I borrow the money from myself?

Because your savings
is a tool, if you use it
you no longer have it

**Where else can I
borrow from myself?**



- Consolidation loan
- Your credit union
- Whole life insurance policy
- Home equity loan
- Your 401K plan
- Stocks or bonds
- Certificates of deposit

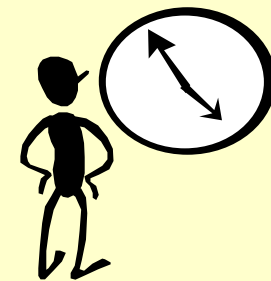
What is the next step in my savings program?

A third savings account



Why should I have a third savings account?

This is your
retirement account



**I want a million dollars
in savings when I retire
how much should I
save monthly?**

That all depends on how
long you have to save
and your average return



**What has been the average
return in the stock market
over the past 50 years?**

10%



**If you have 40 years at
10% average return ...**

save \$158 monthly



**If you have 30 years
to save then ...**

\$442 monthly



**If you have 20 years
to save then...**

\$1,317 monthly

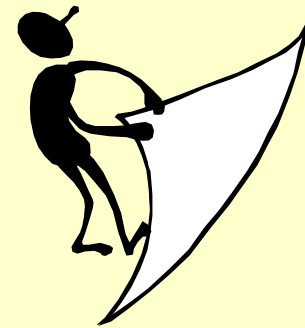


**If I had a million dollars
in savings and could get
a 5% return how much
would my income be?**

\$50,000 a year



According to *The Richest Man in Babylon*, what are the 7 steps to wealth?



- 1) Pay yourself first
- 2) Control your spending
- 3) Make your money multiply
- 4) Guard your wealth from loss
- 5) Own your own house free and clear
- 6) Put aside for retirement
- 7) Increase your ability to earn

END