



# BEYOND PAYCHECK TO PAYCHECK

*A Conversation  
About Income, Wealth,  
and the Steps in Between*

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CPA, CFP®, MBA

First in a series from Total Candor



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For my grandparents  
*Lillie and Jerome,*  
who teach more than they know.

For my parents  
*Arlene and Paul,*  
who teach everything they know.

For my wife  
*Laura,*  
who teaches there is always more to know.



## PREFACE

**YOU:** *I have much less time these days for things I enjoy. If you want me to make time to read this book, you better convince me fast. Real fast. Like now.*

**ME:** Wow, it's like we're bonding already. Thanks for holding back. Here's the deal: The sooner you know what you're doing financially, the sooner you can begin to accumulate wealth.

**YOU:** *What?*

**ME:** You're probably not concerned about retirement planning yet and as far as investing—

**YOU:** *You're right about that. Retirement is at least thirty years from now, so who cares? And as far as investing goes, why does that matter if I have no money to invest in the first place? I'll deal with it when I have some. So I guess that's it—I'm putting the book down.*

**ME:** Wait a minute.

**YOU:** *My ride is going to be here any second.*

**ME:** I know you're in a hurry, but you need to understand that financial planning is about much more than retirement planning or investing. Most people don't realize that, so they think they don't have to worry about financial planning at all.

- YOU:** *So financial planning isn't just for rich people?*
- ME:** No! It's just that less affluent folks seldom understand how financial planning can benefit them.
- YOU:** *Why can't I deal with this later? My older brother didn't bother with financial planning at my age and he drives a BMW.*
- ME:** I don't know your older brother. However—
- GARY:** **I know him. Just sold him an annuity last week. Great guy—didn't ask a lot of questions.**
- ME:** Gary, butt out. This isn't your book.
- YOU:** *Who's that?*
- ME:** Just someone who *claims* to be looking out for you but often gets in the way of my helping you.
- YOU:** *I see that already.*
- ME:** As to your brother, one never really knows another person's true financial situation. However, *you* can and should proactively plan for *your* future. It is a rare person who does so at a young age, but the rewards for doing so are tremendous. I want you to be one of those people.
- YOU:** *What if I already have credit card debt and student loans?*
- ME:** I know. That's a common problem that can be overcome. We're going to talk about that. And I won't yell. But I will recommend what to do about it.
- Deal with your money situation now, whatever your current financial attitude. With this book, you have an opportunity to learn financial planning without someone like Gary trying to sell you an annuity, a mutual fund with a load, an insurance policy—
- YOU:** *And—*
- ME:** I, however, talk to you with *candor*—honesty, integrity, and lack of bias.
- YOU:** *Candor?*
- ME:** Total Candor.

## INTRODUCTION

Few people at any age take the time to think about financial planning. Of those who do, many get only as far as “Huh? I don’t know anything about this.” As a result, procrastination is one of the biggest obstacles to successful financial planning.

Yet if overcoming procrastination is the key, why are many “Type A” people also in worse financial shape than they should be? Although they have the *desire* to take charge of their finances, they lack the *tools* to act effectively on their desire.

It’s a tragedy that our society does not teach the most basic elements of personal financial planning. Most people don’t learn it in junior high, high school, or even college. Sure, you might have one particularly motivated math or accounting teacher spend half a class on balancing a checkbook, but anything beyond that? Highly unlikely.

You might feel embarrassed by having chosen an educational path or a career that didn’t prepare you for the basics of personal finance. You might think those who major in accounting or go into business already know this stuff. Nonsense! You don’t learn squat about managing personal finances from such experiences. Despite my business degrees and work as an executive for a large company, my personal financial education came elsewhere.

## OVERCOMING IGNORANCE

Lack of financial education results in a large number of stupid financial decisions being made by a large number of people. At least that's what I used to think. Now, I believe many of these financial decisions aren't so stupid after all.

Most people are curious yet somewhat intimidated by financial planning. As a result, my friends and family members were pretty excited years ago when they learned I had selected personal financial planning as my occupation. This meant they had someone they could ask questions of. There was now a financial planner "in the family."

Early on, all these people asking me questions flattered me. They trusted me with deeply personal information just so they could get my opinion! Friends and family asked me about mutual funds, income taxes, and their 401(k)s. I assisted clients with sophisticated estate planning strategies. At age 23 I became a Certified Public Accountant (CPA) and a CERTIFIED FINANCIAL PLANNER™ (CFP) professional. I worked for two of the largest and most prestigious public accounting firms as part of a team advising people often worth tens of millions of dollars.

Despite the large difference in wealth between my clients and my friends and family, I applied the same key principles of financial planning to assist them. Some days I found this extremely rewarding. But toward the end of my career at those public accounting firms I felt less satisfied. I realized my professional work was ultimately about making extremely rich people richer. The people who really needed my help could never afford to hire me. So off I went to grad school.

This book and the Total Candor business were born several years later. Rather than restrict myself to helping only those who could afford to pay me as an *advisor*, I built a company that helps others through financial planning *education*—the very benefit our society has historically failed to provide.

## **IT'S OKAY TO KNOW MORE THAN YOU'RE EXPECTED TO**

I select those words with great care. By definition, an advisor gives *advice*, or “guidance for a future action.” This is very different from *education*, a word meaning “the imparting and acquiring of knowledge through teaching and learning.”

Advisors are neither compensated by nor trained in the teaching of financial planning to their clients. Instead of education, advisors typically provide their clients with recommendations. As a result, many clients remain dependent on their advisors in their quest for financial success. Dependency is a fine relationship for some people, especially if they get a competent advisor with a high level of integrity. But that option isn't available to people who don't have wealth large enough to be attractive to a qualified advisor. This includes most people living paycheck to paycheck.

Think about it: if you were an advisor whose income was based on either sales commissions or as a percentage of money managed, would you seek clients with a lot of money to invest or those with just a little? This financial incentive alone explains why most advisors seek prospective clients who already have money.

On the other hand, you can choose to gain an understanding of basic personal finance. No longer financially ignorant, you will neither procrastinate nor make poor financial decisions. You will have the capacity and the motivation to live *Beyond Paycheck to Paycheck*.

Don't be embarrassed if you currently lack basic financial knowledge. Be proud. Why? Reading this book puts you way ahead of most of your peers. This is true regardless of your age. It is true whether you have a Ph.D. or didn't finish high school.

Knowledge is power no matter who you are or when you acquire it.



## CHAPTER I

.....

# The Basics: Tell Your Money to Go to Work

*“The beginnings of all things are small.”*

—CICERO

## MONEY

Money is amazing. Look at any dollar bill. It’s lightweight, rips easily, and flies away in a slight breeze. Yet you can go to any convenience store, hand a cashier this green piece of paper and walk out with a bag of chips. The cashier might even smile as you leave. To me, that’s astounding.

Simply put, money has value because you can buy things with it. Depending on how much of it you have in your wallet, your money can buy you a steak dinner at a fancy restaurant or a side order of fries at a diner.

Money can sit in your wallet, desk drawer, pocket, or be buried in your couch. Money in these places is your **cash on hand** because that’s where it is. You can access it and spend it, instantly. (Admittedly, it may be harder to access the cash buried in your couch, but you get the idea.) Because cash on hand is not invested, you can spend it now.

Like all education, the process needs a teacher and a student. You might not understand everything the first time you read it. But, like a good teacher, I provide all the tools possible for you to learn: examples, **key terms in boldface** that can be looked up in the glossary, and the *opportunity to ask questions which you will do in italics throughout this book*. Also, be warned that **Gary, a sales-obsessed “planner,” will appear from time to time in a font similar to this one to express his thoughts**. Part of your education in money management is becoming aware of what his spin might be in certain situations, while determining your own *true* needs.

*You: How do I get money?*

**Gary: I can get you some. If you give me \$1,000 now, I guarantee you \$5,000 in five years.**

Some words to the wise: Always be wary of what people *guarantee*. If an offer seems too good to be true, it usually is. There’s no such thing as a sure investment that will quintuple your money in five years. Furthermore, never write a check to an advisor. Write it to the nationally known name of the brokerage house or mutual fund the advisor works with. *Your* name should be on the brokerage house’s account statements, not the advisor’s alone.

Of course, you’d like to know the best way to accumulate more money. One way is to follow comic Steve Martin’s savvy advice for becoming a millionaire: “First, get a million dollars.” More realistic methods to acquire money include gifts (most people get gifts, large or small, from time to time), inheritances (for some people), and winning the lottery (for one in a zillion, yet this long shot gets the most press. Unfortunately, many people spend too much money trying to achieve instant wealth through this method.). But gifts, inheritances, and the lottery are far less likely sources for your acquiring money than by *working* for it. That conclusion

may seem boring and even uninspiring, but the earnings you receive by working are truly the most important source.

If you start making \$30,000 annually at age 22 and receive a 3 percent raise each year, by your early sixties you will have earned more than \$2.3 million over your career. When you work at a job, you can expect to get paid for your efforts, or at least your time served.<sup>1</sup> This compensation for your work is your **income** and is a major source of money for nearly everyone.

*You: Let me rephrase. How do I get a lot of money other than by working?*

Ahh. Well, nearly everyone needs a paycheck to first acquire money. It is how you *treat* the money you earn that determines whether you struggle from paycheck to paycheck or ultimately move beyond.

The real answer to your question is to *create wealth*. Many eye-opening examples of how to create wealth appear throughout this book. None are more important than this first one:

## **THE MIRACLE OF COMPOUNDING INTEREST**

**Wake up! If your eyes are reading but your brain isn't paying attention, this is one section that can change your life.**

What you will learn in this section changed my life. I was fortunate to have been taught at a young age the lesson I am about to share with you. Few people ever learn this lesson. Of those who do, most learn it so late in life that the biggest advantages the opportunity provides have already passed.

Ever hear the phrase “I will gladly pay you Tuesday for a hamburger today”? This was the trademark phrase of the legendary character Wimpy from the *Popeye* comic strip and television cartoons. That phrase may have been your first introduction to a key financial planning concept.

Wimpy, who could pack ‘em away, negotiated for food. Rather than pay for the hamburger when he received (and ate) it, he offered payment

---

<sup>1</sup> If going to work feels like “serving time,” think about a new job.

next Tuesday. Of course, Tuesday never seemed to arrive. I can't remember Wimpy ever paying for a hamburger. That gimmick may be a big part of the humor for a five-year-old, but the financial lesson, admittedly unintended, is far deeper.

Even though Tuesday comes each week in the real world, it's nevertheless a good financial strategy to pay in the *future* for something you receive *today*. Similarly, it is better to receive money today instead of receiving the same amount in the future.

Let's say I offer you the following two choices:

1. you receive one dollar today, or
2. you receive one dollar tomorrow.

Which choice do you prefer?

*You: It doesn't matter to me. It's already 9 PM and I'm not going out anymore tonight. Whatever. You pick.*

Although there's neither much money at stake nor a long time to wait in this scenario, the smarter move is to choose to receive the dollar today. After all, you can spend the dollar today instead of waiting for a day. If you're a saver, you can put the dollar in the bank today and earn interest for an additional day.

Since you don't care that much for either of those choices, try this scenario:

1. you receive \$1,000 today, or
2. you receive \$1,000 in three years.

*You: Now we're talking. I'm free in an hour. Where should we meet?*

I thought that thousand bucks would sound pretty good right now. Take an extreme example:

1. you receive \$1 million today, or
2. you receive \$1 million in 30 years.

*You: Do I even need to answer?*

No. Now the choice is obvious—you'd be a fool to turn down the million dollars today.

As you can see, the more money involved and the longer the delay to receive it, the more difficult waiting becomes. Because *money is worth*

*more today than in the future* (known as the **time value of money**), you always prefer receiving money sooner. Said another way, a dollar will be worth less in the future. It actually *loses value over time*.

*You: Why is my money worth less in the future than it is worth today?*

One reason is inflation. **Inflation** is the overall trend of rising prices over time. Most items rise in price. Inflation has historically averaged about 3 to 4 percent each year. You might not notice the small yearly increases, but over many years these increases have a tremendous effect.

Remember when Manhattan was purchased for \$24?

*You: Um, I'm pretty sure that happened way before I was born.*

Hey, you're pretty sharp over there. Indeed, that sale did happen a long time ago; 1626 to be precise. Still, 24 bucks doesn't sound like very much, does it? But assuming 4 percent annual inflation over 384 years, \$24 in 1626 is worth roughly \$83.4 million in 2010! So you would have definitely preferred to receive \$24 in 1626 instead of receiving \$24 in 2010.<sup>2</sup>

**T**he **interest rate** on your savings account is the percentage of your deposit paid to you over a year. If you have \$100 in your savings account on January 1 with an interest rate of 5 percent, you will have \$105 on December 31.

Another reason to prefer a dollar today rather than a dollar in the future is what you can do with the dollar you have in the interim—you can invest it.

Imagine two young women, Jessica and Grace. Both are 30 years old, earn the same income, and live in neighboring apartments. If it helps you to see them as remarkably similar, yes, they have the same hairstyle.

---

<sup>2</sup> Still, \$83 million for all of Manhattan today is a great deal! But proceed cautiously if someone tries to sell Manhattan to you, especially if he offers to “throw in the Brooklyn Bridge” to sweeten the deal.

Grace receives a gift of \$1,000 on January 1, 2010 and Jessica receives the same \$1,000 gift ten years later, on January 1, 2020. Each earns an 8 percent interest rate on her \$1,000.

Look at the following tables, which highlight the impact of receiving the same gift at different times.

Figure 1-1

**The Advantage of a Head Start**

Grace receives \$1,000 on January 1, 2010.		Jessica receives \$1,000 on January 1, 2020.
January 1 Balance	Year	January 1 Balance
\$ 1,000	2010	\$ -
\$ 1,469	2015	\$ -
\$ 2,159	2020	\$1,000
\$ 3,172	2025	\$1,469
\$ 4,661	2030	\$2,159
\$ 6,848	2035	\$3,172
\$10,063	2040	\$4,661
\$14,785	2045	\$6,848

What stands out? Perhaps most striking is the amount of money Grace will have accumulated by the time Jessica receives her \$1,000 in 2020. Grace’s original \$1,000 will grow to \$2,159. Think about it. That \$2,159 figure is more than double what she started with just ten years earlier! Meanwhile, Jessica has only \$1,000 at the beginning of 2020 because, after all, that is when she receives it.

Now look at the year 2045, when Grace and Jessica turn 65 and (we’ll assume) retire. Grace’s original \$1,000 has been invested for 35 years compared to 25 years for Jessica’s money. While both will have been saving a long time, look at the difference in the value of the original \$1,000. Jessica’s money will grow to nearly \$7,000 over those 25 years. But Grace, due solely to her ten-year head start, will have more than double Jessica’s total—a shade under \$15,000!