The Financial Banana Split

Financial Literacy From High School To Retirement

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Book's Purpose and Goal

The ***Purpose*** of this book is to **put you in control of your financial life.**

It's this simple: If you don't control your money, a person or company will and this gives them control over your life because it limits your financial choices.

Understanding and using the information in this book will put you on the path towards this ***Goal:*** **The American Dream.** This means owning a fully paid-for home plus having income from financial resources equal to or more-than an average job would pay.

This then allows you to spend your time following your dreams, talents and passions instead of working at a job just because you need the money.

Basically, you'll have the knowledge and skills to successfully grow, protect and manage your own financial resources free from other's control.

How? By reading, understanding and applying this book's step-by-step process:

1. Step One: Gain Money Self-Awareness
2. Step Two: Achieve Financial Literacy
3. Step Three: Collaborate For Wealth Building

Most people believe one or more of these fairy tales about themselves:

1. I'm not **lucky** enough to be rich.
2. I'm not **smart** enough to be rich.
3. I'm not **talented** enough to be rich.
4. I don't know where to **begin** – it's too complicated.

I say nonsense! Here's the truth about you and your financial future: You're **lucky** because you're someone who's discovered this book to read. Your **smart** enough if you can understand this book, written at the high school level. Your **talented** enough if you follow and actually use what's in this book. You **begin** right here, right now – at the beginning of my book!

"Knowledge is power" (Sir Francis Bacon, 1597).

In our case: Knowledge = Financial life-changing power.

Here's to your bright future filled with financial fortune and power!

How To Use This Book

The Financial Banana Split is written to be used as a reference tool throughout your financial life cycle:

Earning > Saving > Spending > Investing > Retirement.

Read it through once to gain exposure to all financial terms and concepts – no need to memorize everything (except students?).

Use it as a reference tool and apply its specifics to whatever the financial task or challenge facing you: home buying, investing, establishing credit, etc. to help achieve your best outcome.

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Ice Cream Makes Me Happy

At the moment you sink your mouth into a sweet, creamy, scoop of ice cream . . . your eyes close, and your nostrils widen as you deeply inhale the sweetened air below. Your mind drifts into the soft cloud of a happy daydream.

It can be a simple vanilla soft serve enjoyed outside a drive- up window on a hot summer day or a complex scoop of bourbon-infused banana ice cream with dark chocolate ribbons, flecked with pieces of honey-glazed toasted almonds, eaten in front of a roaring fireplace on a dark and stormy night.

These words easily transport us to a positive, comfortable place because the language of ice cream is familiar and understood – not the least bit frightening.

This book's goal is to make your relationship with money positive, comfortable, familiar, and understood – not the least bit frightening.

This will enable you to achieve the American Dream: home ownership and financial security.

Goal: Rewrite your STORY and . . . unlock your DESTINY.

STEP TWO

ACHIEVE FINANCIAL LITERACY

Overview

1. **Ingredient One – The Dish: Cash Flow and Banking**
   The foundation: solid, no leaks.
2. **Ingredient Two – The Banana: Home Ownership**
   The defining structure of the Banana Split and the American Dream.
3. **Ingredient Three – Ice Cream: Loans/Credit/Debt**
   Ways to use money are as numerous as ice cream flavors.
4. **Ingredient Four – Toppings: Avoiding Financial Landmines**
   They cover other ingredients and affect their overall flavor.
5. **Ingredient Five – Whipped Cream: Investing for Wealth and Early Retirement**
   Rapid growth showcases your determination to follow financial plans and quickens your pace towards the American Dream.
6. **Ingredient Six – Cherry On Top: Goodwill and Charity**
   It's sweetness gives your finances direction and purpose.

Ingredients 1 - 4 protect your money. Ingredient 5 grows your money. Ingredient 6 gives you emotional support.
Together they guide your finances during your life cycle.

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Ingredient One: Cash Flow And Banking

Cash Flow and Banking are the dish in the banana split. It's the part of your financial plan that has to be solid, no leaks.

Being aware of and actively managing your cash flow is the difference between controlling your money or your money controlling you . . . period.

How much you spend on credit cards, entertainment, food, clothes, or telephone and how much you're able to save need to be informed choices because they tie-in directly to your cash flow.

Credit and debt are so impactful to your financial health that they're covered separately in Ingredient Three: Loans, Credit, and Debt.

A budget helps you make informed choices because you'll realize how much available cash you have to spend each month before overspending into debt – explained in detail in the next few pages.

A friend recently asked me: "How does someone blow through a million dollars without realizing it and end up broke?" My answer:

YOUR MONTHLY BUDGET

BUDGET EXPENSES	COLUMN 1	COLUMN 2	
Rent or Mtg + Prop. tax	$ ___	Insurance	$ ___
Utilities	$ ___	Clothes/shoes	$ ___
TV/internet	$ ___	Education	$ ___
Phone	$ ___	Student loan expense	$ ___
Car expenses:		Loans: other	$ ___
gas/ins/pkg/maint.	$ ___	Dry-cleaning	$ ___
Salon: hair care/nails, etc.	$ ___	Cosmetics/skin care	$ ___
Pharmacy	$ ___	Health insurance	$ ___
Entertainment	$ ___	Hobbies/sports	$ ___
Travel/vacations	$ ___	Childcare/sitter	$ ___
Food: groceries/delivery, etc.	$ ___	Pet care	$ ___
Kids' allowance/other expenses	$ ___	Charity	$ ___
Subscriptions & club dues	$ ___	Child support	$ ___
Down-payment: future house	$ ___	Alimony	$ ___
Emergency fund: future		Credit card minimum	$ ___
house	$ ___	Other	$ ___
Pension/Investments	$ ___		
Annual expenses	$ ___		
COLUMN 1 TOTAL	$ ___	COLUMN 2 TOTAL	$ ___

Expenses: Column 1 + Column 2 =

TOTAL BUDGET EXPENSES: $ _____

BUDGET INCOME	COLUMN 1	COLUMN 2	
Net salary(s)/wages	$ ___	Child support	$ ___
Bonus/other	$ ___	Alimony	$ ___
Cash income (tips, etc.)	$ ___	Net investment	
Net refunds (tax, etc.)	$ ___	Income	$ ___
Net rental income	$ ___	Odd jobs/hobby	$ ___
Net other	$ ___	Other	$ ___
		Other	$ ___
COLUMN 1 TOTAL	$ ___	COLUMN 2 TOTAL	$ ___

Income: Column 1 + Column 2 =
TOTAL BUDGET INCOME: $ _____

TOTAL BUDGET INCOME minus
TOTAL BUDGET EXPENSE =

YOUR MONTHLY BUDGET NET AMOUNT (+/-): $ _____

Whatever your monthly budget net amount is, you can increase your surplus or decrease your deficit (so it becomes a surplus) by conducting a basic review of your expenses. Decide which are needs (necessities) and which are wants (desires). Be smart – trade several wants for savings.

The most powerful way to cut costs is to plan purchases.

Monthly Budget Transfers

Surplus money should first go into your Emergency Fund (4-months living expenses). Then into your home as a Down-payment Fund or early mortgage payoff. Then into your pension.Then into your investments.

The easiest way to do this is to implement automatic deductions from your checking account monthly or from every paycheck.

Example: If your take-home pay is $800 dollars every two weeks, have your employer deduct $112 ($8 per day x 14 days) and automatically deposit it into your savings account. Or instruct your bank to transfer twice this amount monthly from your checking account into your savings account.

It's "out of sight, out of mind," and there are no weekly/monthly decisions to be made about whether or not, or how much, to deduct. It keeps these monies out of easy "spending cash" reach. You'll adjust your lifestyle to accommodate to this automatically. (Automatic deductions are detailed later in Ingredient Five: Investing).

An alternative to a bank is a program offered by the Social Security Administration, part of the federal government. Their free program invests your money in United States Treasury bonds, considered one of the world's safest investments. You can withdraw your money at

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Ingredient Two: Home Ownership

Home Ownership is the banana in the banana split. It defines the banana split and the American Dream.

"The strength of a nation derives from the integrity of the home."
(Confucius, philosopher, 551 B.C.)

Purpose of This Book

The purpose of this book, as I've mentioned, is to enable you to achieve the American Dream, which includes home ownership.

Goal: Rewrite your STORY . . . and unlock your DESTINY.

Your Story

Your story (or that of your child/grandchild) may include one or more of these truths:

- You can't afford a home with your current job.
- You're burdened with student debt.
- You'll never have the financial flexibility to retire.

Home ownership is the key to rewriting your story and unlocking your destiny because real estate historically rises in value, which gives you:

- A wealth increase that doesn't require another job.
- An asset you can borrow from to pay off student debt.
- An additional income stream – renting all or part of it.

A statistic from the United States Census Bureau reveals the average new home cost $82,500 in 1981 and $242,300 in 2011 – an increase of $159,800 and a 300% gain. This period reflects the term of a standard 30-year mortgage.

My parents bought our family home in 1958 for $36,000. It was a medium-sized split-level design – standard suburbia. It sold in 1998 for $405,000 – a $369,000 increase and a gain of almost 1200% in 40 years.

These examples illustrate long-term home ownership. Sometimes shorter periods have proven disastrous for homeowners, such as the recent mortgage meltdown of 2008. In this case, a house price decline of 75% from its high was not unusual. People lost everything. But it was a great time to buy a home if you could afford it, as my friend June did in True Story – June Cleaver on page 93. I discuss timing considerations for house buying a little later.

Catch up/Step up

Problem: You can't afford to buy a home because you can't save enough money to catch up to ever-increasing down payment requirements due to student loans, etc.

Taking action by implementing this book's recommendations now makes it possible to become a homeowner with much less cash

and income than you thought possible. This puts increasing home values in your favor.

Home Ownership – Quick Overview

A primary purpose of this book is to for you to become a homeowner able to pay off your mortgage sooner than later.

A mortgage is the type of loan used when buying a home.

"Home" refers to the real estate you own and reside in regardless of type: house, condominium, co-op, townhouse, etc.

Home ownership lets you progress from having dreams to making plans, because it stops you from being victimized by ever-increasing rents.

A fixed-rate mortgage on your home (the interest rate never changes) can even decrease if you refinance when interest rates decline (detailed later in this Ingredient).

After you pay off your mortgage your housing costs decline dramatically because you no longer have monthly mortgage payments. Owning becomes much cheaper than renting.

Owning your own home, mortgage free, is primary financial security because it makes cash flow available to invest towards wealth accumulation (detailed in Ingredient Five: Investing).

On the path towards owning your own home you'll be able to accomplish other important financial goals too:

1. Increase Your Wealth – Home values historically increase over time. Your home ownership percentage also increases as you pay off your mortgage principal every month.
2. Save for Retirement – Cash saved by not paying rent and put to work in pensions and other investments can grow by themselves (see Ingredient Five: Investing).

3. Pay off Student Loans – Your house is an asset that can be used as collateral to secure a home equity loan at a lower interest rate than your student loan. Calculations for assessing your best loan options are described later in this Ingredient.

Home Ownership
Your Basic Financial Pathway

Your basic financial pathway to home ownership uses a "step up" approach, as follows:

Save to become part-owner and then buy your own home:

- Save enough money to purchase a "share" in a collaboratively owned house. You become a shareholder (like a corporate stockholder) while living in this house with others.
- Sell your share later for a profit. Use this as down-payment money to buy your own home. The profit is tax free if used this way – the IRS considers it a "residential rollover."

Example

This is an example of how to follow Home Ownership – Your Basic Financial Pathway:

Example based on house purchase price of $200,000/down payment 10% ($20,000)/your ownership percentage 25% (¼).

1. $8 a day x 365 days = $2,920 (amount saved in one year).
2. $2,920 x 3 years = $8,760 (amount saved in three years).
3. Amounts needed for your 1/4 house ownership:
   $5,000 – Mortgage down-payment.
   $2,275 – House emergency Fund (explained later).

$1,485 – House closing costs (explained later).
$8,760 – Total amount needed = Total amount saved.

4. The house value rises $100,000 in five years from $200,000 to $300,000. Your share = $32,275: $7,275 (Refunded down-payment + house Emergency Fund) plus $25,000 (Your share, 25%, of the $100,000 increase in the house's value).*
5. You sell your share and walk away with $32,275 cash.
6. Use this money towards a down-payment on your own home.

* Plus additional monies paid off on mortgage

A Word about Crowdfunding

"Crowdfunding," or collaborative funding, has become popular recently and is used by individuals and companies to raise money for projects, especially start-ups, when capital isn't available through traditional channels (banks, etc.). If you're planning on obtaining a mortgage, a traditional lender won't issue you one if you've borrowed money for your down payment, including crowdfunding.

It's possible crowdfunding could be a source for the down payment if the right deal is offered. The crowdfunding participants might insist on a share of the profit when you sell your house share. This defeats the purpose of the "step up" process for home buying and should be kept in mind when evaluating any offer. Also note interest rate and structure offered: fixed/variable/balloon? (All explained later.)

Comparisons to current mortgage interest rates and crowd-funding websites:www.FinancialBananaSplit.com.

Home Buying Basics

It's important to understand home buying basics to prepare for and evaluate your home buying readiness and get the best deal.

"Rent-to-Own"

Rent-to-own is a structure where part of your rent money is allocated by your landlord towards the purchase of the house. You need to be aware of price relative to comparable homes in the neighborhood, fees, penalties, percentage of your rent allocated to ownership, mortgage interest rate, duration of this process, and proof landlord owns the house (deed/county records).

6. Location

The famous question in real estate is: What are the three most important factors in real estate? Answer: Location, location, location. The "real" in real estate is land ownership. Land is generally the biggest variable in your home's price.

The same house in San Francisco, California, or Wichita, Kansas, will sell for very different prices. Location also determines your home's future value. Besides a luxury location, the next best thing is a house with great future price appreciation due to urban renewal by government or "gentrification" – Older housing being replaced with more expensive housing. Upscale businesses moving in: high-end coffee shops, natural grocery stores. New sidewalks (cobblestone), streetlights.

Check your county clerk's office, local real estate agencies, and www.FinancialBananaSplit.com for the area's recent price appreciation, proposed development, etc.

Location also factors into the "livability" – quality of life – aspects of your house, such as distance, ease, and cost of travel to work, schools, hospitals, transportation, recreation, shopping, places of worship, air quality, noise, etc.

A must do for anyone considering buying a home is to take a walk around the neighborhood six blocks in every direction from

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Ingredient Three: Loans, Credit, and Debt

Loans, credit, and debt are the ice cream in the banana split. Ways to use money are as numerous as ice cream flavors.

"Beware of little expenses, a small leak will sink a great ship."

(Benjamin Franklin, American statesman, l8th century)

If your credit charges are never fully paid off, they can grow into unmanageable, life-wrecking debt as interest and penalties accumulate.

Avoid this scenario. Use loans, credit, and debt to your financial advantage by understanding what they are, how they work, and how to best manage them. Student loans are a huge issue to many. I explain how to pay off much of this debt using the equity in your home later in the book.

Loan Basics – Definitions

One of the best ways to keep debt under control is to understand how your loan works. This includes credit card debt and how much it actually costs to repay the money you've borrowed.

Definitions of loan terms and documents are explained below:

- **Credit:** Amount of money you're qualified to borrow and that requires repayment.
- **Debt:** Amount of money you've borrowed and requires repayment. Credit turns into debt as soon as it's used.
- **Creditor:** A lender you owe money to such as a bank, credit card company, etc.
- **Principal:** Amount borrowed equal to the purchase price of the item bought.
- **Interest:** Amounts paid by you to the lender for the use of their money, usually expressed as a percentage (%) of the principal (amount borrowed).

The lender will use one of two methods to calculate your loan's interest expense:

1. **Simple interest:** Interest charged only on a loan's outstanding principal balance.
2. **Compound interest:** Interest charged on a loan's outstanding principal balance plus interest charged on the loan's outstanding interest. Compounding can be daily/ monthly/quarterly/ annually. The loan states the frequency.

Compound interest is more expensive than simple interest.

The cost difference between simple and compound interest loans is illustrated as follows:

Example: Loan amount: $30,000/stated interest rate: 6%/ loan duration: 20 years. Simple interest loan – Total interest cost: $21,583 Compound interest loan – Total interest cost: $28,002.

The compound interest loan costs $6,419 more over the life of the loan than the simple interest loan even though both loans have the same stated interest rate and duration.

Your Credit Score: FICO

Your credit rating is based on your "FICO" score, a number from 300 to 850. As a direct result of your FICO score your cost to finance (borrow money) can vary greatly.

Example: A $20,000 car loan for 48 months using different credit scores and their costs is illustrated below:

FICO Score	Credit Rating	Interest Rate	Monthly Payment	Interest Expense	Total Cost
720–850	Excellent	3%	$442.69	$1248.95	$21,248.95
690–719	Great	4%	$451.56	$1675.89	$21,675.89
670–689	Very Good	5%	$460.59	$2108.17	$22,108.12
650–669	Good	7%	$478.92	$2988.39	$22,988.12
630–649	Fair	10%	$507.25	$4348.08	$24,348.08
610–629	Poor	12%	$526.68	$5280.48	$25,280.48
580–609	Very Poor	15%	$556.61	$6717.52	$26,717.52

The difference in the cost of the car between an "Excellent" and a "Very Poor" credit rating is over five thousand dollars.

Your credit rating affects interest rates and your ability to qualify for a mortgage or credit cards and might even have a negative impact on your ability to rent housing or secure employment.

Check your credit rating: www.FinancialBananaSplit.com

Establishing Credit

Establishing credit is an important step to take in order to create wealth on your path to economic security. Credit allows you to obtain a mortgage to buy a house, which, when paid off, significantly reduces your living expenses and greatly increases your cash flow.

There are several basic ways to establish credit:

Paying Down Debt Burden – Two Methods

Both methods get you out of debt. The "smart" method might be best if you have a loan with interest exceeding 10%, which is very costly.

Quick Pay-off Method

- Make a list of all debts and their amounts, smallest at the top, largest on the bottom.
- Pay the minimum amount due on all debts.
- Use any extra cash to pay off the smallest debt first.
- When the smallest debt is paid off, do the same for the next debt on your list until it's paid off, and so on, until finished.
- Don't accumulate any new debt until your list is finished. No new debt is the smartest choice for your financial health.

Smart Pay-off Method

- Make a list of all debts with their interest rates, highest interest rate at the top, lowest rate on the bottom.
- Pay the minimum due on all debts.
- Use any extra cash to pay off the debt with the highest interest rate first.
- When that one is paid off, do the same for the next debt on your list until it's paid off, and so on, until finished.
- Don't accumulate any new debt until your list is finished. No new debt is the smartest choice for your financial health.

Debt Consolidation

This technique combines multiple loans into a single, lower-interest loan with lower monthly payments. Collateral is usually

What are the biggest expenses in your life?

Student loans? Technology? Debt? Clothes? Entertainment? Want another tattoo? Get it the first day you move into your own home. That's one even your parents won't object to. You are the parent? Want to retire but can't yet? Both of you need to:

1. Complete your monthly budget on page 29.
2. Follow this book's path to the American Dream.

Financial Bad Stuff To Avoid

Collection Agencies

Collection agencies are hired by creditors to collect debt. They report their progress/status to the credit bureaus. Non-payment can lead to a lowering of your FICO score and a bad credit rating.

If you're contacted by a collection agency, take these steps:

- Ask the collection agency to send written proof of all debts.
- Write them a "cease and desist" letter and send it by certified mail. This ends the collection agency's right to keep contacting you for the same debt, although they can continue other actions: FICO reporting, legal action, paycheck garnishment, etc.

(See sample letter: www.FinancialBananaSplit.com). Verify your debts by contacting your creditors and making arrangements to pay them off as soon as possible.

Bankruptcy

Bankruptcy is a legal process filed by you or on your behalf in court to give you protection from creditors while you plan and settle (or have dismissed) unpayable debts.

Ingredient Three: Major Points

1. Unpaid credit charges are unsustainable: interest charges, penalties, fees.
2. Loans, credit and debt: Understand how they work and how to manage to use them to your financial advantage: mortgage for house, better credit.
3. Definitions: Credit=amount you qualify to borrow/Debt= requires repayment/Creditor= who you owe/Principal=amount initially borrowed/Interest=cost added to principal/APR=annual percentage rate for loan/ Secured debt requires collateral (asset) you can lose/Compound interest is more costly than simple interest/Loan Disclosure Statement =legally required by lender.
4. FICO score= credit rating: 300>850 = poor to excellent. 760+ is the goal.
5. Federal law permits you to review your credit reports for free from each credit reporting agency: Experian, Equifax, and Transunion, once per year: www.Annualcreditreport.com
6. Report credit errors/theft immediately to credit card company or bank.
7. Establishing credit: Utilities, rent, bank account in your name. Pay on-time.
8. Successful financial future = Pay on-time/use 30% max. of credit limit.
9. Debt payoff methods: Pay minimum amounts due every month. Quick=smallest debt 1st/Smart=highest interest debt 1st/ Credit counseling helps you organize debt repayment-maybe reduce/Debt Consolidation =small debts rolled into one larger debt: lower monthly payment.

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Ingredient Four: Avoiding Financial Landmines

Avoiding Financial Landmines are the banana split toppings, covering other Ingredients and affecting their overall flavor.

Certain basics need to be included in your financial planning to avoid paying unforeseen legal costs, fees, penalties, etc.

Protect your money by following the guidelines outlined below for income taxes, contracts, insurance, dealing with documents, and estate planning.

Income Taxes

"In this world nothing is certain except death and taxes."

(Benjamin Franklin, American statesman, 1789)

Income taxes are the only taxes you've got to actively compute every year. Once done, you'll pay either less in taxes or receive a bigger refund for taxes paid than if you hadn't made the effort. Ignoring this can result in property seizure, bankruptcy, bad credit, and even jail for fraud.

Links to life insurance company websites and policy information: www.FinancialBananaSplit.com

Moral of the Story

Planning for the future now, when things are generally cheaper, pays off.

Dealing with Documents

You need to retain certain documents to prove an event occurred, taxes were paid, repairs were done, items were purchased, donations were made, etc.

The IRS has the right to audit you going back three years . . . forever if they suspect fraud.

It's reasonable to keep all documents related to major purchases – life insurance, auto, appliances, electronics, etc., for at least seven years or longer if a warranty exists.

Common documents to retain include:

- Bank and securities statements, documents showing income, tax returns, wage and property tax statements.
- Birth certificate, passport, driver's license, social security card, automobile title, etc.
- Insurance policies, warranties, repair receipts, medical expenses.
- Charity and purchase receipts, registrations, manuals, deeds.

Store them in a secure, dry, and accessible place.

Your system can be as simple as keeping all documents for the same year in a plastic folder in a locked, fireproof cabinet.

The importance of document retention is multiplied when you have collaborative ownership (Step Three: Collaborate for Wealth

Ingredient Four: Major Points

1. Using basic financial tools: Income tax preparation/understanding contracts/Insurance/maintaining documents/estate planning - will protect your wealth from many potential legal and financial losses.
2. Income taxes: You need to compute and file every year using correct form: 1040EZ=Income below $100K and limited deductions /1040A= Income below $100K with mortgage-pension-loan deductions, etc./ 1040=income over $100K and deductions exceed standard deduction.
3. Definitions: Income tax=A tax on your earnings/Deductions= Amounts deducted from your income tax to reduce taxes owed/ Personal exemption=A specific amount allowed by the IRS/Tax credit: An amount deducted directly from your income tax owed/ Filing deadline: date tax return due/ Tax year=calendar year for most individual tax payers.
4. Contracts are legally binding documents: you follow their terms and conditions. Check all contracts for 10 elements: payment requirements-non-compliance-termination-duration-performance expected-returns-assignment-buy option-insurance requirements-best deal.
5. Insurance protects your assets from being sold to cover losses.
6. Deductible: Amount you owe before insurance company pays. Carry insurance coverage at least equal to value of your assets.
7. Insurance: Term life =specific period / Whole life= in effect until death.
8. Retain certain documents: Bank and brokerage statements-major purchase receipts—insurance and medical policies—income tax returns.
9. Estate created after death. A Revocable Trust avoids Probate Court.

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Ingredient Five: Investing for Wealth and Early Retirement

Investing is the whipped cream in the banana split. Rapid growth showcases your determination to follow financial plans and quickens your pace towards the American Dream.

Hierarchy of Money Flow

(Where to Target Your Money)

1. Your Home – mortgage payoff or saving for a first home. (After you've funded your Emergency Fund = 4-months living expenses).
2. Retirement – pension investments.
3. Retirement – non-pension investments.
4. Non-Retirement – monies you can afford to lose (Funny bone).

Implementing automatic deductions for the first three targets increases the probability you'll achieve financial success because, if you don't have the cash to spend, you won't spend it. It's basic "out of sight, out of mind" psychology. It works!

First Target Area – Your Home

The first target to aim your money at is your home or saving for your first home (collaborative or sole ownership) because a fully paid-for home is the foundation of the American Dream.

Your home is also your initial and primary investment because home price appreciation is a fundamental component of wealth creation (Ingredient Two).

All your basic costs of home ownership – principal + interest + taxes + insurance (PITI) – must be fully paid for every month to avoid foreclosure. If you're saving for a home, fund the two future home items in your monthly budget and add these to your savings account.

This is done before funding investments and pension(s) unless your employer matches pension contributions (see below).

Second Target Area – Pension(s)

The second target to aim your money at is your pension plan. This money grows tax free, stimulating growth. Matching funds from your employer (if offered) is effectively free money (see pension details below).

Third Target Area – Investments

The third target to aim your money at is your non-pension investments. Income and gains generated are taxable when earned, but choosing solid investments and then reinvesting earnings back into these investments supercharges financial growth.

Fourth Target Area – Funny Bone

The fourth target to aim your money at is your funny bone. It's for enjoying and maybe learning something – about money and yourself.

Retirement and Pension Quotes

- "There's one thing I always wanted to do before I quit . . . retire!" (Groucho Marx, comedian)
- "I'm retired. Goodbye tension, hello pension!" (Anonymous)

II. a) Investing: Securities

Every once-in-a-while there's a story in the news about a group of people, usually co-workers, who win and split a multi-million dollar lottery ticket. They pooled their cash (resources) and bought lottery tickets as a group.

It's the same basic idea when you purchase a share of company stock: a group of people pooling their resources so each individual has a piece of ownership in a larger enterprise. The same is true when you buy a company's bond: You and other individuals have each purchased a small part of the company's larger bond issue.

Bonds can also be issued by governments. Bonds issued by the federal government are treasury bonds or notes. Bonds issued by a state, county, or city are municipal bonds.

Both stocks and bonds are known as securities. Why are they called securities? Because you have secured ownership in either the company's assets (stock) or its obligation to repay its debt (bond) to you.

A type of security that owns the stocks or bonds of many different companies is known as a mutual fund. They might be sold as a traditional mutual fund, an ETF, or an index fund. Their differences are explained later in this section.

Stocks pay periodic cash known as dividends based on the company's earnings. Stock value is mostly affected by a company's

earnings: When earnings rise, the stock value usually goes up, and when earnings decline, the stock value usually goes down.

Bonds pay periodic cash known as interest based on the interest rate at the time the bond was issued. Bond value is mostly affected by federally set interest rates.

When interest rates rise, existing bonds decline in value. When interest rates fall, existing bonds rise in value. Why? Because if newer bonds have a higher interest rate than older bonds, you're willing to pay more for them (premium). And if newer bonds have a lower interest rate than older bonds, you'd want to pay less for them (discount). Learn more at www.FinancialBananaSplit.com.

II b) Investing: Principles

I offer the following "classic" investing principals not to make you an expert, but to give you familiarity with investing enough that you'll be able to do research and use the information presented throughout this book to make thoughtful investment choices, ones that power you towards the American Dream.

Speculating versus Investing

Want to achieve the American Dream? Then stick to investing your money, not speculating. Why?

A short-term investment (less than one year) is called speculating, and it is basically gambling. Why? In the short term, the markets don't necessarily reflect realistic values – prices are more emotionally driven. If you need to sell, you're risking selling at a loss.

A long-term investment (10 years or more) is called investing because it rides the wave of market fluctuations and generally returns to a realistic valuation. Use this for retirement savings.

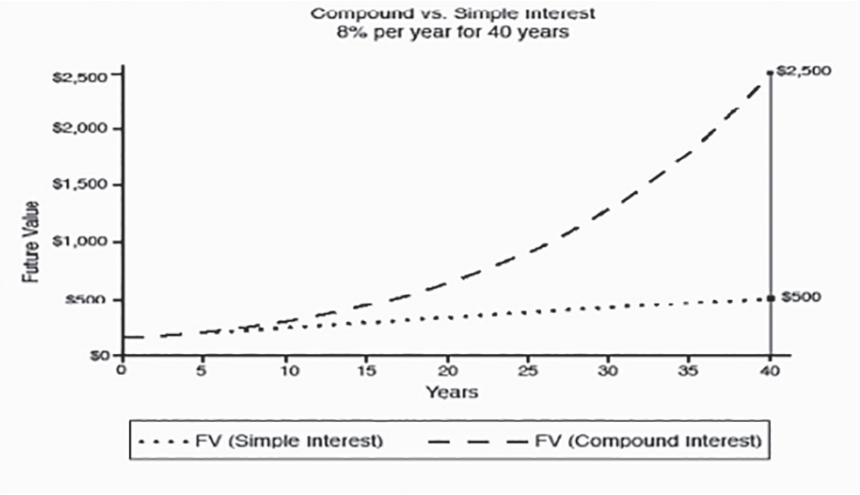
Compounding means growth by reinvesting dividends and interest back into the securities that produced them.

This especially applies to pensions, where income isn't taxed. Your money grows fast because you're receiving income on this income as well as income on your original investment. Simple interest grows money slower. You only receive income on your original investment, not again on the income it generates.

Equation – Simple vs. Compound Interest

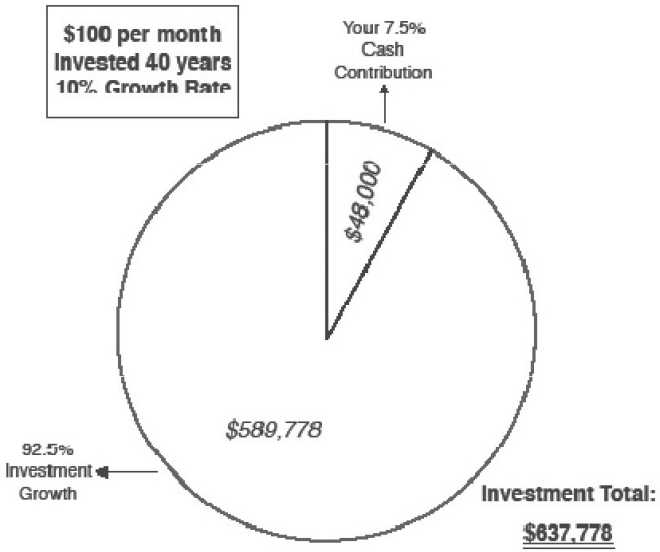
This equation shows compound interest rate growth to be triple that of simple interest rate growth: simple interest: 3 + 3 + 3 = 9 vs. compound interest: 3 x 3 x 3 = 27.

A compound vs. simple interest rate graph is illustrated below:



As you can see, compound interest produced a result 500% greater ($500 vs $2,500) than simple interest.

Here's a pie chart with another way to view compound interest:



This shows $100 a month ($3.34 a day) invested for forty years in an S&P 500 index fund. This fund has historically earned 10% per year with reinvested dividends, which is the basis of compounding. Your total contributions of $48,000 grows to $637,778.

You contributed 7.5%. Compound growth contributed 92.5%.

Think of it as: Easy + Simple = Millionaire.

True Story – June Cleaver and Compound Interest

A friend of mine from the Midwest (I call her June Cleaver after the iconic mother character in a 1950s television show) was able to retire early, and both she and her husband (ex) were able to accumulate over a combined one million dollars.

How? They were middle-class working people who, through steady automatic deductions into their pension plans and leaving their

monies untouched, let their investments grow through compound interest – earning interest on the interest their investments produced and then reinvesting it.

She used part of this money to buy a house – cheap – for her daughter during the housing meltdown of 2008 – another smart financial move. She did good, and now the market value of the house is almost triple what she paid for it. It's the "buy low, sell high" technique and mindset.

This story proves average income earners have a very real shot at financial independence. It just takes patience and following the basic strategies provided throughout this book.

An Easy-to-Learn Tasty Anagram

I = Interest
C = Compounding
E = Every day
C = Creates
R = Real
E = Easy
A = Additional
M = Money

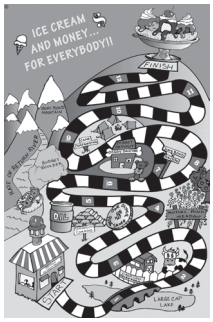


Illustration from the board game
The Financial Banana Split Challenge

THINK
I-C-E C-R-E-A-M
GROW RICH

Go to www.FinancialBananaSplit.com
to buy this board game.

6

Ingredient Six: Goodwill and Charity

Goodwill and Charity are the cherry on top of the banana split. Its concentrated sweetness gives you purpose and helps direct resources so you feel good about your increasing wealth.

Sir Isaac Newton, Money, and Universal Truth

"For every action, there is an equal and opposite reaction."
"Everything in the Universe is connected."
(Isaac Newton, 17th century)

Newton's Mathematical Principles of Natural Philosophy can be understood relative to our own actions: We generate energy and interact with all other energy in the universe. Newton proved that the amount of energy a body gives is equal to the amount of energy a body receives. This is known as a "universal truth." It applies at all times.

Example: "Where there's water, there's life." Astronomers look for evidence of water on planets because, if they find it, they know some form of life can exist.

Newton's discovery was noted as visible motion. Everything in our universe has an energy component whether the source is purely physical, as in his famous gravity event – an apple falling from a tree – or thinking, which causes our brains to use electrical energy.

Example: Energy used for thinking can be transferred to and interact with external energy, as proven in a mind-only controlled drone race at a university. They used EEG (electroencephalogram) headsets powered by student brain waves (Cuthbertson 2016).

Money, goodwill, and charity also seem to be connected by universal energy. When you view and respect your money as energy, you pay attention to it and keep it under control, in order. The universe has order, and so should your money.

Putting money in order means accounting for and managing its inflow and outflow (energy = cashflow). This is consistent with the information in Ingredient One.

Review your work in Step One: Gain Money Self-Awareness, to understand your current relationship to money and how it can evolve to be consistent with a balanced energy flow.

What you do with your money, intentions and actions, all have an energy flow.

STEP THREE

COLLABORATE FOR WEALTH BUILDING

1
What Is It?

To collaborate means two or more people join to combine property, resources and/or services to do or create something (Orsi, 2009).

Collaborate for wealth building means the goal is an increase in wealth, either in actual, countable wealth or an increase in the value of assets (land, house, car, etc.) of both parties involved. Or an increase in available time from effort saved due to collaboration.

2

Why use it?

Specific to this book: In many cases using collaboration enables you to become a homeowner and target more money into income-earning investments sooner than if you do it all yourself.

3
Example

You cook dinner Monday through Thursday for you and your family. If you collaborate with three other families and each family is only responsible for cooking dinner one of the four nights, the following benefits accrue to all:

1. Time saved: each of the families only has to cook one of the four days instead of all four days.
2. Money saved: You cook more portions when it's your day. This means more food bought cheaper in bulk.
3. Variety: Each family probably has several cuisine specialties, thus augmenting variety.
4. Quality of Life: Collaborative cooking naturally enhances community socialization, leading to potentially more collaboration, savings, variety and hopefully friendships.

5

Home Buying Advantages

The best financial reason to collaborate with others on the ownership of your first home is just that: to own a home.

If it will take you twenty years plus to save enough for a down-payment on your own home but only 3 years to save enough for a down-payment on a collaboratively owned home, this could be the difference between the fantasy of home ownership and the reality of actually owning a home.

Owning your own home is accomplished by using the "step-up" process noted in Ingredient Two: Home Ownership.

Additional documents needed when buying a house on a collaborative basis include:

1. **House Collaboration Agreement -** This covers many aspects of collaborative home ownership including: space allocation, house expenses allocation, buying and selling shares of the house (who-what-where-when-why), right to sublet a house share, how problems are resolved, etc.

Conclusion

Step One: Gain Money Self-Awareness is for understanding, relative to money, who you are, what you want and how to change your mindset to get there.

This enables you to evaluate the financial world relative to what fits best for you and your financial goals.

Step Two: Achieve Financial Literacy gives you the knowledge and tools necessary to be productive and profitable in almost any financial situation of your choosing.

You'll be able to understand and evaluate most financial proposals or strategies through the filter of this new skill set to determine your best course of action.

Step Three: Collaborate For Wealth Building outlines many advantages to working with others, including achieving the all-important goal of home ownership – a key component of the American Dream.

You gain leverage when your money is used collaboratively to achieve financial goals that are potentially out-of-reach acting alone.

Do your best, learn from your mistakes (I have) and refer to this book as often as necessary to help guide you financially.

Quotes: Some of the Author's Favorites

- "What we think, we become." (Buddha)
- "The inevitable must be accepted and turned to advantage." (Napoleon)
- "Life belongs to the living. And he who lives must be prepared for changes." (Goethe)
- "A person who never made a mistake, never tried anything new." (Einstein)
- "Genius is the ability to renew one's emotions in daily experience." (Cezanne)
- "You must be the change you want." (Ghandi)
- "If you're going through Hell, keep going ." (Churchill)
- "Disaster brings change and opportunity." (Chinese)
- "You can't depend on your eyes when your imagination is out of focus." (Twain)
- "A person must pay dearly for the divine gift of creative fire." (Hemingway)

Note To Educators and Lesson Planning Guide

Invite local professionals from various disciplines to speak. This will enhance and reinforce learning by bringing experiences from "real world" professionals into the classroom:

1. Real Estate Agent – Property evaluation and purchase.
2. Mortgage Broker – Mortgages: qualifying and types.
3. Banker – Bank services: opening and managing accounts.
4. Insurance Agent – Insurance purpose: types and function.
5. Financial Planner – Investing: basics and strategies.
6. Non-profit Representative – Charity: purpose and goals.
7. Social Worker/Psychologist – self-awareness and emotional control.
8. Communications/Media Professional – communication awareness and control.
9. Accountant (CPA) – Tax preparation, filing, and planning.
10. Author/Writing Coach – To enhance self-expression.

Note: A free classroom lesson planning guide for this book is available at: www.FinancialBananaSplit.com

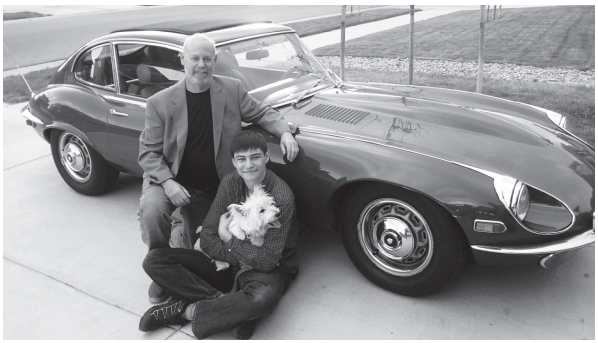
The Board Game

THE FINANCIAL BANANA SPLIT CHALLENGE

BUY IT – PLAY IT – LEARN IT – EARN IT !

www.FinancialBananaSplit.com

About The Author



Being raised and having had a successful multi-business career in New York City, the author, his son Adam (Army combat medic), their dog, "Spikey", along with their 1972 Jaguar E-type, reside in the income tax free state of Florida.

Mr. Rowland will continue to explore options for best communicating personal finance matters and related areas, in various formats, for all who may benefit from a greater understanding thereof.