Financially Stupid People Are Everywhere

DON'T BE ONE OF THEM

Jason Kelly
Bestselling Author of
The Neatest Little Guide to Stock Market Investing

Additional Praise for
Financially Stupid People are Everywhere

"In his plain speaking, no-nonsense style, Jason Kelly calls our national economic debacle as he sees it— no one is spared scrutiny. By giving us simple financial rules to live by, Kelly's message is clear: Financial swindlers are out there—always have been and always will be—but, they cannot succeed without financially stupid people (i.e., those who cannot "say no" to crippling debt). So, no finger-pointing, folks; just look at the "Man in the Mirror," follow these rules, and make that change to financial freedom!"

—Diane E. Davies, Attorney and Professional Fiduciary

"Jason Kelly brings light to many issues at grasp with Americans today, along with many solutions. Maybe someday America will wake up and smell the coffee."

—Frank Mancini, CEO Bellabacci Inc.

"As a professional money manager I strongly believe being financially smart is better than being financially stupid. Hence, reading *Financially Stupid People are Everywhere* is a must. Most importantly, Jason Kelly once again hammers home the secret rule on how to get rich: spend less than you earn. Also, be sure to NOT pay for this book with a credit card—use cash or a debit card."

—Charles F. Michaels, President, Sierra Global Management, LLC

"If the Tea Party Movement gets a hold of Jason Kelly's new book, look out Washington come November!"

—Peter Lawrence Alexander, *The Business Parables* (2010)

"On the surface *Financially Stupid People are Everywhere* is a practical book with effective, clearly explained advices on how to keep control over your finances and stay out of the debt-trap. But a more accurate reading reveals a deeper concept that could really improve your life: reducing voluptuous expenses is a prerequisite for achieving financial freedom, which in turn leads to stressless jobs, better work-life balance and—ultimately—a more meaningful and genuine way of living."

—Dario Di Bella, Executive, Financial Services, Accenture

"I couldn't stop reading. It was infectious! Insulting, yet instructive. Hold on. So you're saying we should take responsibility for our decisions? People seeking new ways to go into debt to live a fiction is at the root of most financial crises. This book provides a nice kick in the pants to wake up and live responsibly. I don't agree with your characterization of the banks or the politics, but the personal lessons are useful."

—Brian Jacobsen, Ph.D., J.D., CFA, CFP(r)
Associate Professor Economics, Wisconsin Lutheran College

"Jason Kelly's no-nonsense assessment of the global financial crisis shows that it wasn't just financially stupid people working on Wall Street who caused the financial crisis, but also ones living on Main Street. Daring to take the 'other side of the trade' and examine this aspect of the crisis during a period of increasing populism, Jason Kelly offers a Main Street explanation of the crisis along with easy, common-sense solutions that empower individuals to avoid becoming part of the next financial disaster."

—Richard Forno, Chairman, SNS Advisory Board
Strategic Advisor to technology startups

"Personal responsibility is the willingness to accept the consequences of one's behavior without blame or excuse. This quality is the bedrock of emotional stability and the lack of it is the financial cancer that almost destroyed the world financial markets in the first part of the twenty-first century. Mr. Kelly's book is a mirror for seeing what financial irresponsibility looks like. Whoever reads this book will see themselves as part of the problem instead of blaming everyone else. Like a happy movie ending, this book carefully explains what the average citizen can do to become financially responsible, worry free, and liberated from the bonds of the rich and powerful. If every American would read this book and follow its advice, America could be solvent and its citizens would have financial peace of mind. Get it now!"

—Terry Sandbek, Ph.D., Psychologist; Author, The *Worry Free Life*

"This book should be required reading in every high school economics class! Especially valuable is its clear explanation of how credit card debt works as compound interest in reverse. How lucky a young person would be to realize this before they fall into the bankster traps."

—Ralph Allswede, Retired President,
Precision Prototype & Mfg, Inc., and Consultant

"This is a most insightful and easy-to-read synopsis of the causes of our economic problems in the United States! The discussions about solutions are thought provoking. The writer has an easy to understand style that just keeps you reading till the pages run out!"

—C. Patrick Lauder, M.D., Mammoth Hospital, California

"One of my favorite books has been Piero Ferrucci's 'What We May Be,' a gem of transformational insight. On getting into Jason Kelly's abrasive depiction of financial incompetence, I was hardly thinking 'transformation.' Shocked resistance was the first reaction to his scolding against stupidity, claiming that America's most toxic asset is its financially stupid people. 'OMG, has the meticulously disciplined Jason of the 'Neatest Little Guide' series on investing, lost it, this time gambling that his rant against stupidity won't result in his readers thinking him a misanthrope?' Shock yielded to 'Aha' on feeling the hand of one who has made it, helping his readers along his well trodden path to economic character and a moral course to the good life. Kelly offers a rare and coherent fix on the interplay between societal economic chaos and the dysfunction of its individual members. The enemy is us, and the cure requires a resurgence of interest in individual character. "

—George Collins, Philosophy Professor, Attorney Estate Planner

"With disarming common sense, Kelly makes the case that personal financial freedom requires very little math skill. It depends mostly on our courage to question the social conventions built into modern consumption societies, and our resolve to change our lifestyles accordingly."

—Alan Furth, Economist; International Entrepreneur;
Blogger at AlanFurth.com

"In his latest book, Jason Kelly has given us a crash course in history and a review of the current state of our society and economy. He has shined a spotlight on the rampant lack of accountability that exists today and provided evidence that the cards are stacked against us. It's not all negative though, the book also provides a clear set of rules and tips for how to protect your wallet and get ahead. With real life examples of people from all walks of life, Jason illustrates that financial freedom is attainable for all of us."

—Jacob Glenn, Director Financial Services, Rosetta

"A must-read if the truth and reality of your financial future is important."

—Roger de Bock, Consultant, Western Financial Planning

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INTRODUCTION

Life as a Sucker

It's time we look honestly at what's really wrong with the American economy.

The whole thing nearly collapsed from overwhelming debt in a crisis that began in 2007 and is still raging as I write this in 2009. It seems the economy will survive for now, but thanks only to maniacal government spending—funded by taxpayers. The long-term consequences of that spending are probably dire, possibly catastrophic.

By most of the media's reckoning, the problem was that unscrupulous banks foisted bad loans on unsuspecting borrowers. Families were tricked into buying homes they couldn't afford, with mortgages they couldn't pay, based on incomes they didn't have. Because the banks bamboozled them, went the thinking, such people deserved to be bailed out. The mortgage payment plans *they agreed to follow* were restructured so they could stay in their homes. Both the bamboozling banks and the bamboozled people were bailed out with taxpayer dollars.

That's far from the whole story, though. The origins of the crisis extend much farther back than the bad mortgages of the early 2000s, to the creation of America's consumer culture of excess built on loose credit and mountains of debt. Responsibility became an endangered species, ravaged by ad-driven greed and instant gratification.

Washington justified its enormous bailouts. Banks that extended loans to people unable to repay were called too big to fail, and the people who borrowed their way into homes they couldn't afford were called victims.

For a moment, though, look closely at those victims, the supposedly poor people huddled in their supposedly humble shelters. The picture drawn by the popular story is of people in shabby clothes, sipping clear broth in a pool of candlelight for warmth, walking miles to a bus stop to go to a job that breaks their backs over the years. That's what hard times looked like to previous generations. It's not what we're talking about today.

Too many of today's "downtrodden" live in modern-day castles, wear designer clothes, drive opulent vehicles, eat in fine restaurants, take vacations, showcase "bling-bling" jewelry, and watch big-screen televisions. They fund their lifestyle with mortgages they can't afford and credit cards they don't understand. They live the life of Riley to show how sophisticated and cool they are, but when it all comes tumbling down they slink to Uncle Sam for help, not realizing that he's part of the problem. There's no dignity in that. It's shameful. Rather than whine for financial justice, they should hang their heads.

Banks got into trouble by lending money to such borrowers and then transforming the loans into exotic investments that skittered across the earth like locusts. The loans and securities based on them became known in the media as "toxic assets" that the government had to manage. Thing is, those assets didn't spring from nowhere. They were the prickly green weeds above ground, but they weren't the roots of the problem. The roots were the borrowers, those who signed on the line to a payment they couldn't afford. The borrowers, not the loans, were the problem.

Financially stupid people are America's most toxic asset.

They fail to see the money-trap society around them. They live in a world controlled by corporations seeking to extract as much of their wealth as possible, and the moronic masses open wide for every lure. They trust false promises of bought-off politicians. They sit mesmerized before advertising campaigns telling them to buy trifles they don't need using debt they can't repay. They stumble down the path paved by big business that transfers their income to corporate coffers. They don't realize that the way of the world is not the way they want to live, then they wonder what happened when they end up broke and hopeless. What happened is that they fell for the pattern, the easy route, the stairway to serfdom. They did not take control of their own financial future. They did not guard their wealth-building effort against the flim-flammery of a debt-based culture concocted by corporate boardrooms and made into law by puppeteered politicians.

Do companies try to trick people? Of course they do, and always have.

Take credit cards, for example. All you need to know about the credit card industry is that it couldn't exist if everybody paid on time. Profits come from people carrying balances at obscene interest rates. The smart people who pay off their cards every month get an interest-free loan. The morons who pay the minimum each month enter indentured servitude where every price becomes a multiple of its original value.

Wake up, America!

Yes, they're trying to trick you, but if you're not a moron and figure out the system, the joke's on them. They'll send you enticing checks drawn on your credit card and tell you to show yourself a good time. They'll affix advertisements to your payment slip to try to get you to spend more money even as you pay on what you already spent. They'll print in bold type the minimum amount you need to pay this month, not the balance in full. But if you laugh at their little tricks and pay off the full balance through it all, you win and they lose. It's their own fault for creating a system based on the principle of providing enough rope for people to hang themselves. If you use the rope for something other than tying a noose around your neck, it's a good free rope. If you use a credit card for something other than debt accumulation, it's a good free loan month after month on the bank's dime.

Society's trap is this simple: You're made to want what you don't need, then provided with debt to get it. When you dive down the debt hole, you can't easily get out so they've got you right where they want you, paying interest forever, stuck at a job you probably don't like, generating taxes that politicians transform into profits for their big business benefactors. Bought the wrong way, houses, cars, and all manner of trifles lead to that grim existence.

The only reason America wound up on a mountain of teetering debt is that financially stupid people piled it up. The banks offered—and they're a bunch of bastards, it's true—but it's the borrowers who accepted. People who accept debt are suckers. Instead of being a sucker, wouldn't you like to look across the desk at that scheming banker or blustering businessman and laugh as you turn down every gimmick he offers? Wouldn't you like to know he never got a single dime of damaging interest out of you, and will never lay hands on your financial freedom? I would, I do, and you can, too. We all can. That's the point of this book.

When you finish reading, you'll see how to buck the debt trend by following the First Rule of Finance and controlling the Three Cs. You'll understand the pervasiveness of the enemy around you, the government, bank, and big-business faction that engineered ways to get your wealth before you were even born. You'll understand that almost all of society's decisions are made financially, and that you need to think financially as well in order to grow your wealth. You'll employ a simple system for marching up the net worth slope against a gale force wind of special interests trying to slow you down.

Financial people are everywhere in society's leadership positions, pulling levers to make every option in front of citizens hazardous to their wealth. Financial*ly stupid* people are everywhere among the population, failing to grasp what's really going on and repeatedly making choices that benefit the schemers. Don't be one of the financially stupid. See through the haze. Guard your future. Refuse society's claim on your financial freedom.

The nature of your whole life comes down to how you answer one question: Will I live in debt or will I live free?

This book will make sure you live free.

CHAPTER 1

The First Rule of Finance

The First Rule of Finance is to live within your means by spending no more than 80 percent of your take-home pay.

If you take home $100 per week, spend no more than $80. If you take home $1,000 per week, spend no more than $800. If you take home $10,000 per week, spend no more than $8,000 or, better yet, keep living as you did back when you made only $1,000 per week, because that's enough.

From this simple rule, all else falls into place. If you don't spend more than 80 percent of your income, you won't get into trouble. You won't allow house payments, car payments, insurance payments, and shopping charges to exceed your 80 percent threshold. You may not be Einstein, but you can manage this concept, right?

That's all we're talking about here. When you read that people were tricked by mean bankers, remember the First Rule of Finance and ask how anybody can be tricked into spending more than 80 percent of their income. How stupid are they?

Prove to yourself that humanity is up to the task of adding and subtracting. Test a son, daughter, nephew, niece, or neighbor kid. Give them ten bucks and tell them they can buy anything they want with it, but you want at least two dollars back then they're done. Drive them to a store and watch the magic. They look at prices, they look at their ten bucks, if they're really sharp they account for sales tax, and they find something for less than eight dollars. Bingo! A financial wizard is born.

It's really that simple.

Wealth springs from this First Rule of Finance. That's why it's first. Troubles begin the moment it's broken. The day you commit to spending less than 80 percent of your income is the day you start getting rich.

Killing Themselves for the Joneses

Ever look at what people spend their money on? I have relatives and friends chronically in debt, spending $12 for every $10 they earn instead of the $8 you know they should be spending. When I see them, they're proud of their new whatever. Cars are high on the list. Electronics, too. A few boats have shown up. Designer clothing is popular. "What do you think of my new truck?" asked one from the driver's seat. "Do you like my new shoes?" asked another on stiletto heels. "Check out my new big screen," said a third while holding the remote in his living room. We've all heard people fishing for compliments on their new toys.

Theirs?

The first guy didn't own the truck, the bank did—and eventually repossessed it. The woman didn't own the shoes, she made payments on them to the bank issuing one of her many credit cards and still pays on them today even though they've long since gone out of style. What did she do? Replaced them with new ones, of course—before she'd ever paid off the old ones. The third person didn't own the big-screen TV, he financed it with in-store credit that came interest-free for 90 days, then hit him with all the backed-up interest plus penalties if he was late in paying, which, of course, he was. These people don't own anything.

Every one of them was proud of what they'd financed. They seem to have bought it for the purpose of being proud, of showing off, of keeping up with the Joneses. Nice cars beget nicer cars, nice shoes beget nicer shoes, and big TVs beget bigger TVs. "Look at my new . . ." is everybody's favorite phrase, even when the object in question isn't theirs at all and won't be new when they've finally paid for it, if they ever do.

They're proud of being stupid. They think it's cool to drive the financed car, wear the financed shoes, and watch the financed TV, but to smart people, whose opinions are the only ones we should respect, these people look dumb as rocks.

The Joneses Are Broke

The following is an *Investopedia* article on conspicuous consumption, by Lisa Smith:

> It used to be that spending money on status symbols for the sake of flaunting your wealth was an activity reserved for celebrities and millionaires. That has all changed. Conspicuous consumption, what was once referred to as "keeping up with the Joneses," has brought the lifestyles of the rich and famous to suburbia.
>
> Just as most people consider themselves to be above-average drivers, most people assume they aren't the ones doing all this needless spending. They aren't wearing ten pounds of gold chains or gowns created by famous designers. Four-hundred-dollar haircuts, sprawling mansions, Rolls-Royces, and private planes aren't in their budget, so they assume their spending is reasonable. However, a closer look at what you're spending might put your own lifestyle in a different light. . . .

(*continued*)

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Many of the people driving around the suburbs in their giant SUVs while talking on their new cell phones are deeply in debt. If you ask them how they are doing, they will tell you that they are just barely getting by. According to a Federal Reserve Board study, 43 percent of American families spend more than they earn.

Source: Lisa Smith, "Stop Keeping Up With The Joneses—They're Broke," *Investopedia,* http://www.investopedia.com/articles/pf/07/conspicuous_consumption.asp.

The Joneses, nine times out of ten, are financially stupid. That's why they have all that stuff, on borrowed money. Why try to copy them? Worse, why try to impress them? Copy and impress smart people, the ones who own their stuff. If you want to impress smart people, debt is the last way to go about it. Trying to impress a money-smart person by going into debt is like trying to impress Olympic swimming champion Michael Phelps by drowning in a pool, or golf pro Tiger Woods by driving your ball through the windshield of a parked car. Michael Phelps is impressed by good swimming, Tiger Woods by good golfing, and a money-smart person by good money management.

First Save, Then Buy

If you ever want to know how predictably stupid most people are and how smart people are onto them, attend a product-and-marketing meeting. Companies that make and sell shiny objects know what they're doing, and they consider the average consumer to be a complete dope. I once joined a meeting at an electronics manufacturer where a manager asked if people would really buy a big-screen TV model as big and expensive as the one discussed that day. "Sure," said an executive, "just show a celebrity using it and break the price into 60 monthly payments that don't begin for six months, and they'll buy anything." Everybody laughed and nodded, because he was right. The same meetings happen at car companies, clothing companies, furniture companies, and jewelry companies. Most consumers are just walking debt dopes. Companies know that and have learned the language and images that trick the dopes into piling on more debt.

"I deserve this," says one debt dope.

"It fits my lifestyle," says another.

"In today's world, your car is your home away from home," regurgitates a third.

O First Rule of Finance, First Rule of Finance! Where art thou, First Rule of Finance?

Here's a little secret: most of the joy of buying is anticipation. Dreaming and saving for the car of your dreams is the best part. Once you buy it, it's just your car. Same with a pair of designer stilettos. Same with a big-screen TV. Life is long. When you buy everything you want immediately, there's nothing to look forward to anymore.

Instead, get your life on the First Rule of Finance, save a foundation of money, and make purchases from it. If you see a big-screen TV you want that costs $5,000, break it down into 24 monthly payments of $210 into your own savings account *before you buy*, and enjoy counting the months and watching the cash pile up. On top of the joy you'll get anticipating the day you walk in and slap cash on the counter, four fringe benefits will emerge:

1. The money you save will generate interest until the day you use it. Keep that for yourself instead of paying it to bankers and corporate tycoons. You'll read later how the Federal Reserve sometimes destroys this benefit by lowering interest rates to encourage spending, but for now just know that saving puts whatever interest is available into *your* pocket, instead of a corporation's.

2. By the time you've saved enough for the object of your desire, there will probably be a newer and better model available for the same price or less.
3. You will own free and clear the object in its most pristine state when it's brand spanking new. Debt dopes never own anything, or by the time they do own things they're old and in need of replacement—with further debt.
4. You will never suffer buyer's remorse because your purchases will be carefully planned. You won't jump into anything lame and then suffer paying it off for years.

First save, then buy.

By saving and then buying, you pace your purchases, enjoy them much more, and never get into debt. Most people do just the opposite. They buy everything they want the moment they see it, rack up a mountain of debt, and add to the mountain when they buy new things.

That's the debt cycle, and the economy is built on it. During the credit crisis, the government said repeatedly that it needed to get banks lending again and people shopping again, even though it was excessive borrowing and shopping that created the crisis. "Holy smokes!" Washington exclaimed. "We have to *stimulate* banks into lending so people and businesses borrow and spend, so we can get right back to the debt-based economy that got us into this mess. Hurry!"

At the time, I remarked to my smart friends that if everybody lived the way we do, there could be no debt economy. Companies can't force us to buy things. Buying is voluntary. If people restricted themselves to buying what they could pay for with cash, companies would adjust by offering only reasonably priced goods. Companies will never stop making shiny objects that are too expensive as long as debt dopes line up to buy them on credit. If enough people wise up, though, companies will change their ways and surround us with affordable goods.

CHAPTER 2

Credit, Cars, and Castles

The serial killers of financial lives are credit, cars, and castles. Almost every debt disaster on two feet began among the Three Cs. Credit card debt is some of the most expensive on Earth, topped only by cash from Tony Soprano. New cars have been too expensive for decades, but continue being offered at obscene prices because stupid people fall for financing programs. Castles are our homes, and despite their ability to boost net worth by appreciating, stupid people found a way to screw them up, too. Let's look at all Three Cs.

Credit Cards

If I were named America's financial czar for a day, I would outlaw credit cards. A collective outcry would blast from banks and idiots, but then people would adjust. Under the Kelly regime, the only legal plastic spending would happen on debit cards limited to the balance in the buyer's account. People would carry those or, here's an idea, carry cash. Either way, they'd spend only what they have. Within a few years it would be the norm.

It's already the norm in Japan. When people from the countryside go on day trips to Tokyo, how much cash do you think they carry? No, not $10. No, not $100. They take somewhere between $500 and $1,000. It helps that there are no criminals, of course, but that's the subject of a different manifesto.

I've seen people in Japan pay for five-course dinners with cash, new wardrobes with cash, new cars with cash, and a $30,000 funeral with cash. Many restaurants and stores in Japan don't even accept credit cards. "Why would I?" one store owner asked me. "I'd have to pay a fee, and it's bad for customers." Indeed!

You've heard the knee-jerk defenses of credit cards: they're convenient, they provide a back-up in case of emergencies, they're safer than cash in cases of theft or loss. All true, but debit cards provide those same benefits without any danger of debt. With credit cards, all of those benefits are overwhelmingly outweighed by the financial damage that credit card debt has caused. Like the toxic assets of bad loans in the credit crisis, though, the cards themselves are not the root problem. The idiots carrying them are. So, let's focus on the idiots, *again.* Don't you get tired of them?

Here's quick proof that most people are financial imbeciles: Only improperly used credit cards are profitable to their issuing banks. The banks keep issuing cards, though, so you know the majority of people use their cards improperly. Improperly means carrying a balance and paying interest and late fees.

Credit-card industry revenue breaks down like this: 80 percent from interest payments and late fees, 20 percent in fees paid by merchants who accept the cards. If people smartened up, the 80 percent would go to zero and the 20 percent would probably drop dramatically because overall use of cards would decline as people stopped needing debt. Former card-swipers would see that, since they pay their balance off each month anyway, they might as well pay cash and avoid the whole billing hassle. That's why I claim that if everybody used their credit cards properly, the industry would disappear.

If you pay off the balance on a no-fee credit card every month, the joke's on the issuing bank. They're giving you a free loan while hoping with their greedy stone hearts that you slip up some time or, even better, repeatedly . . . forever. It's so much fun to never slip up, though, and giggle each time they print the minimum payment bigger, or try to hide the balance in fine print, or send a letter encouraging you to use the card in new ways for "the lifestyle you deserve," or offer an incentive interest rate on balance transfers. "Balance?" smart people say. "Oh, no, no, no, my little banking demon friend. I *never* carry a balance, so there's nothing to transfer, and I couldn't care less what interest rate you're offering because it *never* affects me. So go to hell."

To financially smart people, credit cards pose no danger. To the really smart, they provide an easy way to use the bank to one's advantage for a change.

Here's one of my all-time favorite credit-card stories. Years ago, I self-published a book. It sold well, and I went back to the printer several times for more copies. Each time, I needed to pay the printer immediately for the work, and then sell the books. I paid expenses before receiving income, so cash flow was tricky to manage. If I wasn't careful, I could run out of cash during the time between paying for books and receiving income for their sales. The printer would not grant my small company a line of credit. What to do?

Turn to my credit card. It was already a line of credit, after all, and if I timed the big printing charges correctly, I could get up to two months of interest-free money. How did that work? The end of the billing cycle happened on the 20th of each month. I told the printer to charge the entire cost on the 21st. The next credit card statement wouldn't be mailed until the following month and wouldn't be due for payment until the month after that. Ta da! Two months of interest-free money. That was enough time to capture cash flow from selling the books, so I'd be able to pay the printer charges in full when the credit-card bill came due.

That, right there, is enough to make this a good story, but here's what makes it a great story. My card rewarded me with free gasoline at a national chain, based on a percentage of what I spent on the card. That's what incentive programs are supposed to do, encourage people to spend. The programs work for the issuing bank because the bank knows most people are financial dolts and will end up carrying their balance forward, in the process incurring interest and fees that *greatly* exceed the value of the incentive program. My card gave 1 percent of all purchases back as free gasoline credits, and 5 percent of purchases made at that chain of gas stations. My printing charges came to $10,000 or $20,000 each time. At a rate of 1 percent, I would get back $100 or $200 worth of free gasoline every time I printed more books.

I got my books printed, paid the printer immediately on the card, sold the books, paid the full balance on the card two months after printing, never paid a dime of interest, and built up a ton of gasoline credits. I enjoyed free fill-ups for more than a year because of that. Who paid for them? The bank, but you know who really paid? All the stupid people carrying balances on their cards. Thanks to their financial witlessness, the bank makes enough profit off the card program to be able to offer free gasoline to all card holders. The dopes revel in every $1 of free gasoline they receive while paying 18 percent interest on the $100 they spent to get it. Basic math, people. Basic math.

In a sense, we smarties should be grateful for the dummies because their mistakes help us get ahead. I'd rather see a country filled with financially stable households, though. I'd pay for my own gasoline in exchange for that.

The simple rule for credit cards is this: Never carry a balance.

Is that so hard? Of course not, and especially not if you're already following the First Rule of Finance. Limiting your spending to 80 percent of your take-home pay automatically keeps you from going nuts with a credit card.

If you can't follow the never-carry-a-balance rule, then at least be smart enough to cut up your credit cards and replace them with a debit card. Notice, a *single* debit card. An overabundance of plastic casts immediate suspicion on a person's financial intelligence, and *Newsweek* reported in 2008 that the typical American household held 13 credit cards, so you know it's a nation of nincompoops. There's no reason to carry a wallet or purse filled with multiple credit and debit cards. If you have your act together, you need just one. If it's a credit card, you make the month's purchases on it, then pay it off. You'll never max it out and need to use another one. Leave that humiliation to the debt dopes. You either pay your credit card in full each month so the balance is never in danger of maxing out, or use a debit card that is good for the full cash balance of your bank account.

And, here's a thought. If you ever max out, *stop buying things*. That's an option.

This stuff isn't hard. Anybody can do it, and we need to stop feeling sorry for those who are "in over their heads" because they couldn't understand four stinkin' words: Never carry a balance.

Cars

Right after credit cards, automobiles rank as the most dangerous liability in America. Notice, not *asset*, but *liability*. Few people own their cars. Most people's cars own them. Automobiles begin depreciating the moment you buy them, and cost a fortune at face value and a double fortune when financed. Naturally, because the country is filled with financial fools, most people finance.

Automotive financing is the reason shaved-headed punks can drive $40,000 SUVs in Los Angeles. One day, I grew so fed up with seeing that, I approached a punk in a parking garage where he hung out with friends in front of a new black SUV with chrome hubs and tinted windows and a pounding stereo.

"Nice ride," I said.

"Thanks, man," he replied, and he and all his friends nodded and gawked at the SUV.

"When will you own it?" I asked.

"Whaddaya mean? I already bought it."

"Really? That must have set you back. How long did it take you to save that kind of cash?"

"No, I didn't have to pay cash. I make a payment every month." He looked at me like I was crazy. Hello? Doesn't everybody make payments?

"Oh, so then you don't actually own it yet. When will you own it?"

"I don't know, seven years or something," he said.

"I wonder if it'll still be cool when you finally own it?"

I then walked away to the sweet sound of insults. I checked the price of that SUV at a dealership. Sure enough, $40 grand. That was pre-bling. He probably added another $2,000 in hubs and rims and whatnot. When you're spending funny money anyway, why stop?

So, how much do you think the cool cat in L.A. paid for his ride? If we take his "seven years or something" to mean seven years (Can you imagine not even knowing the length of the loan?) and the interest rate was 10 percent, Boy Genius ended up paying $55,776. That's a $664 payment for 84 months.

The curious thing is, if he and I went together to the dealership and he jumped up and down and pointed at the SUV screaming "gimme, gimme, gimme!" and I said only after he saved $664 per month for the next 84 months, he'd have thrown a tantrum. "I only make $2,000 a month," he'd have said. "So how can I possibly save that much?"

Righty-o, tough guy, which is why it's the wrong vehicle for you.

By the way, we're not even done with how much the SUV actually cost. On top of the $664 monthly tally, he had to pay insurance and registration. Insurance would have cost at least $100 per month and California would have added $3,600 to the initial cost of the vehicle.

If people needed to pay cash for cars, how many models do you think would sell for more than $10,000? Very few. Saving $300 per month for three years creates $10,800. That should be enough to get a decent car, but people's idea of a decent car has been warped by years of advertising, and car companies have succeeded in convincing the financially brain-dead that every car should be bought with financing.

It need not be so.

For starters, there are plenty of good used cars available. Let nitwits like Boy Genius in L.A. pick up the depreciation tab. He's dumb enough to want a brand-new SUV within a year or two, well before his "seven years or something" are up, and he'll then trade in the one I saw for a new one. If you want an SUV like his, just wait for his attention span to expire. He will have suffered the damage of the steepest part of the depreciation curve, after which you show up. He's off to another financial disaster, you're off in a fairly new and still very cool vehicle at a fraction of its sticker price.

I sometimes lurk in dealer showrooms to overhear the accidents in progress. These occur more often in showrooms than on the road. Salespeople say things like "fits your lifestyle" and "matches your image." The most common debt-dope comment, heard before he or she signs the dotted line into servitude, is "I deserve this."

Says who? Deserve is an odd duck. What's it based on? Who decides what adds up to deserving anything? If we remove the ability to pay from the definition, then it's just a feeling. You know how to know when you deserve a certain car? When you set your sights on it, save carefully for it, and show the discipline to gather enough cash to buy it. Then, and only then, can you walk into a dealership and point to the car of your dreams and say proudly that you deserve it. Before that day, you're just another debt accumulator.

The simple rule for buying an automobile is this: Don't finance.

Pretty straightforward, isn't it? That one idea will automatically force you to think carefully about the kind of car you really need. If you decide that you want a whopper like that $40,000 SUV, then you're going to have to work really hard at your job or business to save the cash needed to make it happen—and that's how it should be. The process will build in you a deep love of that vehicle you want so badly. The steady saving of cash will build in you an appreciation of the value of money. Each $100 you sock away will represent a number of bricks delivered, or shelves stocked, or children taught, or engines fixed, or juries addressed, or fields plowed, or eyes checked, or whatever it is you do. If you still want the dream car after you've saved enough to buy it, that will be a day circled forever on your calendar as the day you stood proud and paid cash for what you dreamed about for years.

Before that day, you'll need to get around in a car that's not the one of your dreams. So what? Sam Walton of Wal-Mart drove an old truck even *after* he became a billionaire. Warren Buffett drives a 2001 Lincoln Town Car with a license plate that reads THRIFTY. Microsoft cofounder Paul Allen drives a 1988 Mazda B-Series pickup. If anybody deserves fancy cars, it's these billionaires, but look at what's good enough for them. Rather than trying to keep up with the Jones jerks and their chain debt habit, keep up with the billionaires and the affordable cars they own. Not *finance*, mind you; *own*.

The best way to avoid finance charges and keep taxes, registration, insurance, and maintenance costs low is to pay cash for cars that are two or three years old.

When you're starting out, you may find yourself in a pinch where you need to finance in order to get a reliable first car. If so, do it reluctantly and promise yourself that you're breaking the rule for just a short time until you pay off that car, then keep driving it fully paid while you save up enough cash so that you never need finance again. The bozo habit to avoid is making payments on one car right up until you buy another car, then making payments on that one until you buy another one, and so on, until decades go by and you've lost thousands of dollars by making a rip-off car payment every month of your life. Don't be a bozo!

How about a rule for breaking the rule? If you *must* finance your first car for reasons I don't even want to hear—undoubtedly taken from the latest car commercial canard about safety, because everybody feels good about that—at least keep the payment under 10 percent of your take-home pay. If you take home \$3,000 per month, spend no more than \$300 on a car payment, and do it for just three years. At a 10 percent interest rate, that'll get you into a \$9,300 car, a price that includes many fine models made in the last few years.

I can't emphasize enough that this is not an excuse for you to blow 10 percent of your take-home pay toward a car for the rest of your life. It's just a stopgap measure for people in a pinch, and should not last longer than a single three-year period. No exceptions. Financial pinches that last longer than three years are not pinches, they're permanent bad habits, and are precisely what we're trying to avoid here.

Conserve Car Cash

It never hurts to save a few bucks on the car you already own. Here are some tips to keep expenditures down.

Skip the premium gas. Buy the cheapest gasoline that doesn't cause your engine to knock. The only benefit of higher octane is the absence of knocking, so pay as little as possible for that benefit.

Don't automatically change your oil every 3,000 miles. Check your car's manual to see what the manufacturer suggests. Newer cars can often go 5,000 or even 7,500 miles between oil changes.

(*continued*)