CHAPTER 5

Pigs Get Fat, Hogs Get Slaughtered

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A sample chapter from The Real Estate Journey. Free to keep. No email required.

Having your finances in order is so important. If your finances are in disarray, it will negatively affect you in every other aspect of your life. Similarly, if your finances are in good order, every aspect of your life will reap the benefits.

Debt, Loss, and Borrowing Money

I hate debt. I do believe the borrower is a servant/slave to the lender. Debt has cost me much sleep, but it has also helped me ride waves of opportunity that I otherwise would have missed if I was not willing to take pretty substantial and scary risks. Please use wisdom. Do not throw your money to the wind, but also do not bury all your money and savings in the sand and accept a tiny interest rate. I recommend having two or three large credit cards of different kinds and credit cards like American Express.

> *"Those who can live without life's luxuries now are most likely to gain financial freedom in the long run."*

When you need to borrow money, where do you start?

- Home equity lines have the cheapest interest rate because they are secured.
- Equity lines on business or rental property are the second cheapest because they are secure, but the interest rates are higher because these properties are not as secure as your home. Banks know that if you come into a difficult financial season, you will abandon your rental property or office and keep your house last to protect your family.
- Unsecured lines of credit are worth looking into. Wells Fargo, BB&T and those types of national banks have some great business deals with unsecured lines of credit. This has helped me make money for many years.
- Business-secured cashflow loans tend to have higher interest rates at approximately 4% to 8% higher than your local bank unsecured line of credit. These loans are a bit high for my taste. Your daily, weekly, or monthly payments can be really high.
- I typically try to avoid loans from family and friends. Loans with family and friends can be complicated if expectations are not clear. It is particularly important to document the details of these loans so as not to lead to hard feelings down the road.

Budgeting

The first question to ask when preparing a workable budget is, "How much do I need?" Determine how much money is needed for your annual minimum required expenses. Each person's percentage will be a bit different, but here are some typical norms recommended by experts in the budgeting field. Below is an estimated breakdown of budget percentages that financial advisors often recommend:

- **Anticipated Expenses 40%:** These costs are associated with mortgage/rent payment(s), insurance/healthcare, groceries, vehicle expenses (including insurance, maintenance, monthly payment and gas), student loans, clothing allowance, household expenses like utilities/cable, self-care, kids' costs, and pet costs.

- **Taxes 22-33%:** Paying Uncle Sam is inevitable, so count on paying federal and state taxes. Self-employment taxes are a definite possibility as well, unless you plan otherwise and set up an LLC/S-Corp type of business entity.

- **Savings 5%:** Any fiscally sound budget is designed to consistently produce rewards, AKA savings.

- **Investments 17%:** This category is specifically for building a portfolio of performing assets. I typically will use some investment money for really high risk/high reward situations and then another section into more conservative investments that I feel are highly unlikely to lose the initial investment that I make.

- **Luxuries 5%:** Premium cable, exotic vacations, luxury vehicles, regular massages, and fancy dinners are unnecessary. Spend wisely in this area.

There is no need to wait to enjoy the finer things in life until you have reached your fiscal goals. If you do not experience the good things every now and then, you may find it hard to stay on track. Indulge in small extras and understand there are many more around the bend if you stay the course. One of my core beliefs is that those who can live without life's luxuries now are most likely to gain financial freedom in the long run. Walking the balance is a learned practice. It does not come overnight.

> *"Making money is one thing. Holding on to it is another thing entirely."*

Saving

Saving is a key component of any budgeting program. Making money is one thing. Holding on to it is another thing entirely.

- **Taxes:** Determine how much you need to save to pay your taxes (federal, state and self-employment or business tax) on or ahead of time each year. This is not a good bill to miss payment on since the government can take everything you have now and forever if they decide to come after your back taxes. The key is to not stick your head in the sand and think that you will not wake up one day and find your properties are all encumbered with government liens.

- **Unexpected expenses:** A recommended amount for homeowners to save for home-related expenses is 1% of the home's price each year. If you live in a $300,000 home, then you would put aside $3,000 each year. Other unexpected expenses include deductibles, car repairs, co-pays and general emergencies.

- **Reserves:** These funds are a backup in case something goes wrong for a short period of time, such as an uncovered illness, sudden job loss, or unexpected move. Experts recommend having at least six to nine months' salary in liquid form for a strong reserve so household costs can be covered without dipping into other funds or borrowing money.

- **Rainy Day Stockpile:** This category can be for anything from true emergencies to impromptu purchases and getaways. It is always good to have a little mad money.

- **Investing:** Putting money into personal investments can be a way to eventually gain financial freedom. Choosing those investments well will make a significant difference in the long term.

- **Vacation/Travel Account:** It is okay to take trips. I think it is very healthy to travel each year. Whether it is with your family or on your own, you need to step away from your world and from the daily race around the clock. You need to reset your brain and emotions, and that is the perfect reason to save for them.

- **College Account(s):** Avoid adding to the national student loan debt by saving for post-secondary education funds for your children. Consider using a compounding investment college fund. Do not wait until you are financially secure to start saving. That day may never come, but time will keep ticking, and kids will keep growing.

- **Luxury Purchases:** Save for items like luxury cars, expensive presents, extravagant trips, and parties in this category.

Investing

Effective ways to invest include:

- Separate savings accounts
- Financial education
- Index funds
- Certificate of Deposits (CD)
- Annuities

- Money market accounts
- **Real estate:** seller-financed notes, rental property, storage units, commercial buildings that you can lease or rent, land that you can buy and sell, homes you can buy and sell
- Stock and cryptocurrency trading
- Buy and sell cars
- Buy and hold quality merchandise and sell on eBay or online elsewhere.

- **Your talents:** find a creative investment that fits your gifts and network

Allocating Your Income

Take your income into account to get a complete picture of your budget. Allocating percentages may sound all well and good until you enter your specific income into the chart. Using your income makes this exercise real and can really get you thinking about where the money has been going and where it needs to go in the future. Allocating small portions of your income towards things that matter brings a great reward. For example, if $100 is set aside per month from a child’s birth, in 18 years that allotment will equate to $21,600 plus interest, which can be substantial if a good college 529 plan is chosen. It is much easier to come up with $100, $200 or $300 a month than it is to come up with $2,000 or $5,000 in one big after-tax chunk. Think long-term and allocate wisely. Watch your money grow and feel good about your accomplishments.

Want the rest?

This was one chapter. The full book is bite-sized on purpose — first home, becoming an agent, money, and the mind game.

Get the full book at briansimon.com/order

The Real Estate Journey — Dr. Brian P. Simon (Morgan James, 2019).