

Mitochondria Learns to Invest #02 by Klarise Yahya

Everyone knew Mrs. Langerhorn married late in life and had no children. Her husband passed away some time ago, and now she was alone and, I hoped, a little lonely. I know what I said was a cheap shot, but it worked. (*Continued from last month.*)

A couple of moments passed before either of us spoke, then Mrs. Langerhorn said “Well, the first thing to do is gather acorns. You must live beneath your means”.

I shut my mouth and didn't move a muscle. She got a distant look in her eye, then continued, “Back when I was a teenager my parents made a big dinner and invited all the relatives. Towards the end of the meal there was still one piece of my mother's famous roasted chicken left on the platter. I wanted it so badly, but I started thinking of excuses. *'It's the last piece and it's impolite to take the last piece ... People will think I'm a pig ... Everybody's waiting for desert and I'll just be delaying them and they'll be upset at me ... If I eat it, I'll never be able to fit into my blue dress tomorrow.* Well, my cousin just reached his fork across the table and speared that last piece of chicken. While I was still wondering what people would think, the opportunity ceased to exist! Many years later I was again reminded of the lesson. It was after Mr. Langerhorn and I had married. We'd just had an argument and he was very frustrated with me. He said, ‘One difference between men and women is that women find excuses and men just *make it happen.*’ He was right, you know. As women we get wrapped up in mind games, but a good man will not. He will just *make it happen.* And that's what you have to do. You must save part of everything that comes to you. You must just make it happen.”

You see, the best way I know to regain control of your finances is to be on a totally cash-only basis.

Well, I'd heard that before and I didn't want to seem unappreciative but it wasn't really very helpful. I was never able to save anything. But I pretended it was all new to me. I put a sincere expression on my face and asked, “How can I do that, Mrs. Langerhorn?”

It was easy for me to be sincere, especially when I faked it.

“You must pay yourself first, of course. This is not new information. You must have been told or read somewhere: *the very first debt you pay is to yourself.* The reason is that all the money you pay to others is your *overhead.* You pay your housing costs because you have to have somewhere to live. That money is not yours. It goes out. It is overhead. You buy food and utilities and gasoline because you need to eat, be warm, and get to work. All those items add to your personal overhead. Only the money you save, after paying your overhead, is really yours. So pay yourself first, then you adjust your spending habits accordingly, to minimize your overhead. It's what you would do if you were managing a business. You must think of yourself as though you were a business and strive to maximize your income and minimize your overhead. For example, you begin to purchase only what you need, and then only when it's on sale. You shop discount stores. Whenever you can, you buy generic. You raise the deductible on your car insurance, and then drive very carefully. You go to movies in the afternoon, when you can get matinee pricing ... or even better, wait until they come out on television.. You do your own manicures and pedicures. Find a cheaper place to get your hair done. Use the car guides at the library to find a car with low insurance and low maintenance and repair costs. And even then, the newest car you should ever buy ought to be a three year old, low mileage model just off lease ... let someone else eat the depreciation. Don't carry a balance on your credit cards. And always grocery shop with a list.

“These are just some of the obvious places to save,” she said. “You have to find your own ways, of course. Basically, any time you spend money you must first check prices at three places. That not only gets you a better price, but it also reduces impulse buying. For me, impulsive purchases were the thing I had the most trouble with. I'd see something pretty and just had to have it!”

Some of her suggestions may be workable for me, and some I could not do right now. For example, there was no way I could pay off my credit cards every month and I told her so.

“Well, then at least stop using them. Put them into a shredder and destroy them so you

are not tempted. If you continue to use them, you'll never be able to honor your promise to be on a cash-only basis".

"I haven't promised that!" I objected.

"Not yet, perhaps. But I hope you will before we finish this conversation," she smiled.

"You see, the best way I know to regain control of your finances is to be on a *totally* cash-only basis. It doesn't matter if you pay a bill with a check. Checks count as cash. You must, however, absolutely stop using credit cards. *Credit cards allow you to pay current expenses with future income.* You'll want to immediately stop that sort of nonsense. It will make a huge difference in how things ultimately turn out for you.

"Every month, take your paycheck to the bank and cash it. Right away, make a deposit to your savings account for however much you decide to pay yourself.

"Put enough money in your checking account that you can write checks for your normal monthly expenses. Some of these might be rent, insurance, car payment, credit card payments, student loans, or whatever you must make monthly payments on. These are your fixed expenses. They are called 'fixed' because they do not vary from month to month. Fixed expenses are paid by check. Over time you will strive to reduce your fixed expenses to a practical minimum.

"After paying yourself first, then paying your fixed expenses, whatever remains from your paycheck is for your variable expenses. Variable expenses are the costs you have some control over. For example, you can wash your car yourself rather than pay others to do it. You can do your own lawn maintenance. You could drive less.

"I would suggest that you take your 'variable' money out in cash and deposit it in separate envelopes at home. Decide how much you can spend in the beauty salon, label an envelope 'beauty salon' and put the exact change in it. Do the same thing with gasoline, groceries, telephone, utilities, and any other variable expenses you might have. Make one more envelope and label it 'Emergency Only'. Leave it empty for now.

"Your job is to never spend more money at the beauty salon than you have in the beauty salon envelope. Never spend more for gasoline than you have in the gasoline envelope. Never overspend one envelope and borrow from another to make up the difference. At the end of the month, the money you have remaining in any envelope goes into the 'Emergency Only' binder. Then you start over, exactly the same, next month.

"After paying yourself, then your fixed expenses, then providing for your variable expenses, the money is left over is your discretionary income. It is your allowance. You might wish to divide your allowance into equal amounts for each day until your next paycheck. Whatever you save from your allowance does not go into the 'Emergency Only' reserve. What you save from your allowance accumulates and is yours to spend as you wish."

I had to admit that what she said didn't sound very good to me. I would still be living month to month, but after I began saving I would have even less spendable money. I told her my objections.

"I'm sure it must seem like that, dear", Mrs. Langerhorn said. "But we have to start somewhere, and this is only the first step. Basically, since you've left home you've spent your life living *today* on money you hope to make in the *future*. What else could it be when you carry a balance on your credit cards? And that's the reason your future looks bleak. *You've already spent it!*

"As a first step towards wealth, what we hope to get you to do is to *save* today in order to *live better* in the future. It's an absolute reversal of normal consumer spending behavior, and that is one reason why so few people succeed."

"Even if I could manage to do that, Mrs. Langerhorn, how much of my salary should I save?" I asked.

"I know I used that word, dear, but only for convenience. Actually, it's better to refer to it as *paying yourself*. *It's the only real money you earn. Everything else you make goes to pay someone else.* Only the money you pay yourself is really, really yours. How much should you pay yourself every month? At least fifteen percent, and eventually you will want to build it up to half your paycheck."

I could just barely think of saving 15% if I moved to a particularly disagreeable convent, but I never, in my wildest caffeine induced hallucinations could imagine saving half my salary. I had no idea, back then, how much I underestimated her program. (*Continued next month ...*)

Klarise Yahya is a Commercial Loan Broker. If you are thinking of refinancing or purchasing five units or more anywhere in the U.S.A., Klarise Yahya can help. Find out how much you can borrow! For a complimentary mortgage analysis, please call her at (818) 500-9966.