Recession Recovery Roadmap

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Starting point
Recessions create many deficits that need to be recovered from.

The economy needs to recover, the stock markets need to recover, businesses need to recover, employment needs to recover, real estate values need to recover, all levels of government need to recover, and individuals need to recover. These recoveries won't happen simultaneously. Although they're connected, some of them are leading economic indicators, and others – like employment – are lagging indicators; meaning that some will turn positive earlier and others later. The key to smoothly achieving your individual recovery is to remember that, like the staggered economic recovery, yours won't be a single event; it will be a journey. And every journey has a starting point.

That's pretty self-evident. But when it's a financial journey many people either don't know where they are, or they misread where they are. So they think they're starting from somewhere other than their real financial location. And being under financial stress only makes starting point identification more difficult.

When we're under pressure, we humans have mental self-defense mechanisms that close doors to unpleasant issues. It's the old ostrich-head-in-the-ground response that we're so good at. So when money pressures build, we stop opening bills, stop answering the phone unless the caller ID shows someone we want to talk to, and we lose sight of our true location on the financial map.

This situation is often exacerbated by behaviors that cause us to spend money on things that "make us feel better," to counteract the stress we're already under. But these expenditures just make our financial condition worse and our starting point harder to define. After a while we lose focus on where our money is going, and – if we're falling behind – we don't have a clear picture of how far or how fast.

This is a cash flow problem

Get a handle on cash flow
Investopedia.com describes cash flow this way: *"In business as in personal finance, cash flows are essential to solvency. They can be presented as a record of something that has happened in*

the past, such as the sale of a particular product, or forecasted into the future, representing what a business or a person expects to take in and to spend. Cash flow is crucial to an entity's survival. Having ample cash on hand will ensure that creditors, employees and others can be paid on time. ***If a business <u>or person</u> does not have enough cash to support its operations, it is said to be insolvent, and a likely candidate for bankruptcy should the insolvency continue****.”*

So, what does it mean to have “enough cash,” to support your operations? It means that, if you had to pay every current payment you have due right now – your current month’s car payment, all your current month’s credit card payments, mortgage or rent payments, utilities, insurance, food, and so on –you would be able to do that from cash *you already have in your possession.*

If you’re counting on money you’ve yet to receive to pay bills you already have, or you’re using credit to pay bills or cover expenses because you don’t have enough of your own money to meet those needs, or you’re paying bills later and later, you likely have insufficient cash flow and you are heading in the wrong direction. Many people don’t realize they’re insolvent, because they push their debts out in front of them, paying yesterday’s bills with today’s money, and holding today’s bills until tomorrow’s money comes in to cover them. They technically and actually do not have sufficient current cash to pay current expenses.

Have you ever seen the circus act with the plates spinning on top of a series of vertical sticks, and the performer runs from one stick to another giving wobbling plates a fresh spin before they fall off and break? If you think you’ve been spinning some financial plates yourself, it’s time to be brutally honest and determine whether your cash flow is positive or negative. If it’s negative, you’ll *never* be able to improve your situation unless you do something to change it to positive. But you don’t want to just guess about your cash flow situation, because it may not be as black and white as you think. You need to *analyze* it to be sure. You need to work up a cash flow statement.

A personal cash flow statement is going to look a lot like a simple income and expense statement. To calculate your personal cash flow, start by selecting a time period for measuring your cash inflows and outflows. Since most people pay their bills monthly, a one month period would be simplest. If you get paid weekly, multiply your weekly take-home pay by 4.3 to approximate your monthly cash inflows from a job. And this amount should be what you receive after all taxes, retirement plan contributions, and other deductions are taken out by your employer.

Be sure to add in any other *regular, dependable* incomes that would normally be used to pay household expense. These should only include incomes that you receive in cash or a check. If you get credits, or products, or you barter for anything, these values should not be included. As I said, include only those cash inflows that are received on a regular basis. If you do not earn a given income stream consistently, leave it out because you can't count on it. For example, lottery winnings and tax refunds should be excluded. Add up all cash inflows to calculate a subtotal.

Next, list your cash outflows on a monthly basis. Add up all the bills that you pay on a regular basis. If you pay some bills quarterly, or at some other period other than monthly, add them up for a year and divide that total by twelve to come up with the monthly portion of that bill. At a minimum, your monthly bills will include your mortgage or rent payment, utilities, car costs or other transportation expenses, and food. If you make other loan or credit card payments, add those to the outflows as well. Children's school and living expenses should also be included. If you pay them less frequently than monthly, just add them up and divide by twelve. Don't forget non-monthly expenses like insurance premiums and property taxes. Once you have all your monthly cash outflows add them up to calculate a subtotal.

Finally, subtract your total monthly cash outflows from your total monthly cash inflows. This difference is your personal net cash flow.

If it's negative

If the answer to the final subtraction on your cash flow measurement is negative, you have work to do. How much work depends on how big the negative number is and how many of your expenses are discretionary. Discretionary expenses can be cut or eliminated without causing your household to stop functioning. Now some people might consider their daily latte non-discretionary, because they would stop functioning without it. Of course, that's not real-world thinking. In the real world, if you have negative cash flow you cut everything that is truly essential to life.

The accuracy of this cash flow analysis is so important to your being able to take the correct steps early in your financial journey that you may want to let technology help you get it right. At www.debtfree.com you'll find a free *Cash Flow Analysis™* tool that will literally walk you through this process. This fill-in-the-blanks process will not only tell you whether your cash flow is negative or positive, but it will also suggest *the optimal solution for your situation if it is truly negative*. Many people in a negative cash flow situation don't know which way to turn or what intervention service would be best for their situation: a consolidation loan, credit counseling, debt settlement, or bankruptcy. If you need one of these services, the *Cash Flow Analysis™* will tell you which one is best for your individual circumstances.

Financial programs, like Microsoft Money® or Quicken®, will also offer you automated cash flow analysis, usually on a *Reports* menu. But these programs do not have the ability to recommend a remedial strategy for negative cash flow.

If it’s break-even to positive

If your cash flow works out to be positive or even break-even, you know you are starting your financial journey on sound footing. You can begin moving forward.

With positive cash flow you can pay off all your debts and build financial security by simply doing the right things with that cash flow. That’s what I teach you to do in my *Transforming Debt into Wealth*® System. Unfortunately most people view their cash flow as fuel for their consumption. They see themselves as consumers and invest a lot of energy and emotion in buying things and experiences with their cash flow instead of building a financially-secure future with it.

Of course the problem with being a good consumer is that the definition of consume is to destroy. If a house is consumed by fire it is destroyed. So a consumer is really a *wealth destroyer*. But, if you intend to recover from the recession and build a more solid and prosperous life going forward, you have to stop being a wealth consumer (destroyer) and become a wealth accumulator.

In my *Transforming Debt into Wealth*® System I show you how to take your positive cash flow, even if it’s just barely over break-even, or even break-even itself, and marshal it against your debts, one at a time, until they’re all paid off. As each debt disappears, your positive cash flow increases by the amount of the paid-off debt’s former monthly payment. After just a few debts are paid off your positive cash flow can become a considerable amount. Once all your debts are paid off – in as few as 5 to 7 years, less if you don’t have a mortgage – all of what used to be debt payments is your new positive monthly cash flow. Just add up the total of all your monthly debt payments, including your mortgage, and see how much money you’d have at your disposal every month.

It’s that ultimate cash flow that will then build significant retirement wealth and financial security for you and your loved ones. But I’m getting ahead of myself on the recovery roadmap.

Let’s drop back to where you just determined whether your cash flow is positive or negative. If it’s negative, you need to act immediately to stop the bleeding and change it to positive. If you’re not sure how, the *Cash Flow Analysis*™ at www.debtfree.com can recommend which course of action best fits your individual situation. If your cash flow is positive, you have a sufficient starting point to begin your journey to recession recovery, and you know where you’re starting from.

Determine the lay of the land

Once you've determined your position on the map, the next step is to reconnoiter. The definition of reconnoiter is: *to explore an area in order to gather information, especially about the strength and positioning of enemy forces*. The enemy forces many people are facing from this recession include their debts, any potential job insecurity, possible unemployment or underemployment, higher-than-necessary living costs, depressed home value, foreclosure, and decreased value of retirement accounts.

Let's look at these potential enemy forces one at a time.

- **Debts**. My *Transforming Debt into Wealth®* System will show you exactly how to find all available money in your cash flow and focus it on one debt at a time, in the optimal priority order, to completely eliminate them – including your mortgage, if you have one – in the shortest possible time.
- **Job insecurity**. If you're not confident your job is secure, there are steps you can take. The first is to make yourself the indispensable employee that your employer would least like to lose. Help your immediate boss succeed at his or her goals. Learn other related jobs in your company. Seek out problems to solve, and make sure you get credit for solving them. Look for ways to increase your company's profits. These are just some of the strategies you could pursue to gain more employment security, up to and including changing to a more lucrative profession. I teach this entire strategy in my *Transforming Debt into Wealth®* System.
- **Unemployment or underemployment**. Dealing with this issue requires a similar strategy to changing to a more lucrative profession. Reasons for unemployment or underemployment could include your job skills or profession, your qualifications, or your location. Again, I cover how to overcome each of these challenges in my *Transforming Debt into Wealth®* System.
- **Higher than necessary living costs**. These costs could be caused by your spending habits or your location. Overcoming the enemy force of high living expenses will likely run the gamut of reducing creature comforts and entertainment conveniences to relocating to a less expensive house or apartment. These changes will likely be temporary, but they may be able to pull you from negative to positive cash flow or from just making it to having breathing room.
- **Depressed home value**. The real estate mantra of "Location, location, location" was never truer than when it comes to the recession's effects on home values. There are some areas where prices are still down more than 40% from their peaks, while other parts of the country are experiencing near normal appreciation. One thing is certain: prices will rise again in every market, so it's really a matter of hanging on. If your home is upside-down, meaning its market value is currently less than what you owe, take heart. By

following my *Transforming Debt into Wealth*® System you will drive down what you owe, and the marketplace will gradually increase what your home is worth. It won't be long before you're right-side-up again, and then a few years later you'll own the home outright and the full market value will be yours. Your home's value is part of your net worth, but it's not a spendable part of your wealth. So, in the end, your home is simply where you live. Its value is what it's worth for you to live there. Don't get hung up on loan-to-value ratios. If you like your home, pay it off, live there, and invest what used to be its mortgage payment to build retirement security.

- **Foreclosure**. If your home is in the foreclosure process, you're in a tough spot…but not a fatal spot. No one gets shot for having their home foreclosed; especially in the teeth of this recession. I've found that the worst crises in my life birthed the best times in my life. So use this opportunity to learn what went wrong, perhaps to change to a better occupation or a better geographic location, and start fresh on a new life. It's not an ending. It's do-over. And it's not a failure. It's education. Whatever it cost you was tuition. To get a handle on what to expect after a foreclosure becomes final, go to www.bankrate.com and type "life after foreclosure" in the search box.
- **Decreased value of retirement accounts**. The stock market is healing this problem. It's up between 60% and 70% since market lows in March of 2009. And though it's not completely recovered, the majority of analysts expect it to continue expanding for the foreseeable future. It won't repeat 2009's big bounce, but average gains of around 10%+ for 2010 are not irrational.

OK, let's assess our progress. You know where you're starting from on the *Recession Recovery Roadmap* and you know what opposition forces you're facing. You're almost ready to begin moving over, around, and through your enemy's forces…but first it's a good idea to solidify your expectations about the financial destination you're aiming for with this journey. In other words, where do you expect your *Recession Recovery Roadmap* to take you?

Expectations of the destination

Here's what got many people into trouble in the recession. They were allowing what I call the *Coalition of Four* to shape their financial expectations. The Coalition includes the advertising industry, the media, the merchants, and the credit industry. The simplified version of how they work together is that the merchants make and offer things for the advertising industry and media to sell to us, and for the credit industry to lend us money to buy.

Now you might think that the advertisers, media, and credit industry all support the merchants. But, in the assault against our wealth the advertisers, media, and credit industry are so good at selling us stuff that they only need the merchants to keep finding or creating new stuff for us to buy. They're confident that no matter what the merchants come up with, they can sell it to us.

Just look at all the junk offered for $19.95 on TV. None of it is necessary, but they keep coming up with more products, or resurrecting old products or experiences to sell to us again, because we continue to buy them.

Make no mistake. The Coalition is not a merchant-driven association. It is a money-driven association, with merchants playing a supporting, supplier role.

The only reason fashions keep changing is so the advertisers and media can sell us more clothes, while we throw or give the old ones away, even though they're in perfectly good condition. It's the same with cars, home décor elements, computers, home entertainment products, and the list goes on. It's all a giant manipulation and we continually fall for it. And they keep upping the ante.

In order to keep the cash registers ringing, the Coalition has to continually convince us that we need to be pursuing a bigger, fancier version of financial success and eventual retirement. That way we keep buying bigger and better cars, houses, TVs, and the list goes on. If they can keep us on that treadmill, most of our lifetime wealth gets transferred to them instead of ending up in our lives and the lives of our heirs.

So, as you reconsider your financial destination on your *Recession Recovery Roadmap*, make sure it's a destination of your choosing, and not one of Coalition design. Make sure it only includes what you'll truly need to be happy in the later stages of your life, and that it doesn't unnecessarily drain finances to pay for newer, bigger, fancier stuff just because the Coalition says it will make you "look" more prosperous.

The key to happiness in the area of finances is to actually *be* prosperous, not to just *look* prosperous. Nearly everyone filing bankruptcy *looked* fairly prosperous a year or two ago, but it was all based on Coalition wealth trappings purchased with debt. They didn't really own anything; they were just renting a lifestyle on a monthly basis. And when they could no longer afford the rent payments, they were evicted from the lifestyle.

It's no crime to say, "I was aiming too high." The fact is you were seduced into aiming too high. It's actually quite smart to lower your aim to a lifestyle that is easier to *attain* and *sustain*.

Planning the way ahead

OK…now we've identified where we're starting from on the *Recession Recovery Roadmap* and where we intend to end up. We finally have the two points on the map that allow us to draw a course line from one to the other.

I was recently watching the CEO of Alcoa on a financial news show, and he was talking about how he got his company from the teeth of the recession to one of the most profitable large businesses in the U.S. today. His explanation was similar to the stories told by many CEOs over the past year.

1. Cut costs as much and as quickly as possible.
2. Redefine short term and long term goals in light of the present and likely economic realities. This includes determining which of their customers are ongoing and future opportunities and which are dinosaurs who will be diminishing over time.
3. Consolidate operations, focusing energy and resources on only those areas that produce cash or are certain winners for the future.
4. Plan conservatively but without fear, because things are getting better. The only question is how fast.

I believe this is a good model for most Americans, as we occasionally glance in the rear view mirror at the economic calamity while concentrating on the great opportunities that lie before us.

1. **Cut costs as much and as quickly as possible.** Cut *more* than you think might be necessary and *sooner* than you think might be necessary. It's a lot easier to ease some expenses back into the budget than it is to constantly be behind the curve, cutting spending too late to really help.
2. **Redefine short term and long term goals in light of the present and likely economic realities.** Here you're looking at your individual economy, not the national or global economy. Your economic realities are unique, depending on the security of your job, the sufficiency or insufficiency of your income, and your prospects for cutting costs and growing your income in the future. Break large goals down into bite-sized pieces, and make estimates conservative.
3. **Consolidate.** This essentially means combining costs to reduce overall expenses. It could include simple things such as carpooling to consolidate multiple people's travel miles into one vehicle's expenses. It could also include larger consolidations such as consolidating multiple credit card balances into one home equity loan with a lower monthly payment that would free up more monthly cash flow to concentrate on debt elimination.
4. **Plan conservatively.** Look to eliminate any dinosaurs in your financial picture that add to your costs over time but offer diminishing benefits looking forward. Take fewer risks, especially in the short term of 3 to 5 years. This is a time to restore what was stolen by the recession, not to risk losing even more by trying to make it all up with one big payoff. Plan on things taking *twice as long* and returning *half as many dollars* as you estimate. That way most of your surprises will be favorable ones. In my *Transforming Debt into*

Wealth® System I teach how to mitigate risks in your investment portfolio through diversification and asset allocation.

As you connect the dots on this part of the roadmap – where you're cutting expenses, consolidating, and planning for the future – you won't be drawing a straight line between your current starting point and your desired financial destination. Some of the dots may cause you to feel like you're going backwards for a while, but what these retrenchments are really doing is helping you gain more fuel, more dollars, to make much more dramatic positive moves in the future. In this journey you're not looking for the shortest distance between the two points. You're looking for the route that puts the most dollars in your pocket at the destination.

Beginning the journey

We've defined our map. We have our starting point, our intended destination, and all the waypoints along the journey. All that's left is to start. The number one key to achieving anything in life is the ability to take action. To make it memorable, the way I like to say it is, "If you don't learn to do, you're life will end up do do."

But don't over-commit. Don't bite off more than you can chew. Pace yourself. Don't try to do too much too fast, because that can burn you out and literally fling you off the wagon.

Work out your route on your *Recession Recovery Roadmap*…then **start** on that journey…**today**.