

STOP
Flushing
Your Money
Down the Drain

by

David A. Thyfault

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ATTRIBUTION

To my son, Adam, who attended one of my lectures and said, *You should write down some of that stuff.*

**I did as he suggested, then took the next step.
This book is the result.**

Thanks, Son.

DEDICATION

As a seasoned landlord, I have rented apartments to young tenants who are fresh out of high school and who have already abused a credit card. I have catered to old-timers who never could get on track. I have received countless bounced checks. I have watched adults cry like babies when bank representatives have visited our tenants to repossess their vehicles. I have known people who pay late fees month after month. I have had to evict too many families because they spent their rent money on other things they did not need.

I have observed their pain, first-hand, as their personal property was moved to the streets under the watchful eye of the sheriff and the courts. I have seen the fear in the eyes of their children as they wondered what would happen to them next.

Upon entering certain tenants' homes, I have witnessed the chaos in their lives. In the most extreme cases, they had not vacuumed their dwellings for months. Dirty dishes, trash and old clothes were frequently lying around. Empty cans of beer or pop spilled out of bags in the corner of the kitchen. The stench was disgusting. The bedrooms where the children slept were filthy. I have found mounds of fecal matter from pets in basements or bedrooms, as well as maggots, cockroaches, mouse tracks and signs of rats.

The saddest part is that, in most cases, the drama could have been avoided if only they had known how to use their resources more wisely. That is why this book is dedicated to anybody who

has ever been evicted, or had the misfortune of foreclosure, job loss, poor money management practices or personal tragedy. My goal is to extract something positive from the disastrous experiences I have seen, and use that information to help other people prevent or eliminate financial misfortune so that they can lead happy, prosperous lives.

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ABOUT THE AUTHOR

This is supposed to be a section in which I take on the voice of a third person and impress you with my background. Ideally, it would sound something like this: Mr. Thyfault graduated first in his class from Harvard Business School at the age of ten. From there he found a dollar behind the 7-Eleven and bought a can of lemonade and sold it on the corner for a handsome profit. Before he knew it, the President of the United States called him, seeking financial advice . . .

It ain't gonna happen. Who can really relate to somebody like that?

Instead of my blowing my horn, why don't I just tell you, in a straightforward way, why a guy who was raised in the lower middle class might just be qualified to discuss financial matters with you.

For starters, nobody handed me a fortune. When my dad died, I got a couple of his shirts, and a few tools. That was about all he owned. My mom passed ten years later. Her house was sold, and each of us kids raked in about ten thousand dollars. So that wasn't it.

I wasn't overly smart either. I graduated just a couple spots below the middle of my high school class back in the sixties. Ah, the sixties—the hippie years. I explored those years with enthusiasm. Too much, in fact. I flunked out of two colleges. So that wasn't it.

I didn't hit the lottery either, although I did manage to wrangle up a very special wife, or life-partner, if you prefer. That was as close as I got to hitting the lottery.

Best job? For two years, I was a produce manager for a grocery store. Next?

Brilliant inventions? None.

There are no oil wells from a rich uncle, no miracles, no extraordinary breaks.

Do you see anything in that history that intimidates you or out-classes you? I doubt it.

Yet somehow I managed to accumulate millions of dollars. More than several millions. Enough of them to last me a lifetime and beyond. It was all done before I reached my 50s. I retired at age 49.

So how did I do it? What secrets propelled me to financial security?

I seemed to have a lot of common sense, including financial common sense. For instance, we all know that time passes every day and people grow old, but I wanted to figure out how I could make those dynamics work in my favor. So I paid attention to things that others tend to dismiss as boring.

One thing I did was figure out a formula that would serve me and others, whether we were smart or not, had top paying jobs or not, were lucky or not and, eventually, whether we worked or not.

I decided that I hated most debt, but not all of it. I decided to save consistently, even if I didn't have any money to save. And I decided to invest money wisely.

The key to it all boiled down to figuring out where to get the money to invest wisely. Once I knew where to get the money and what to do with it, everything fell into place over time.

The cool part is that nearly everybody has the exact same resources that I had. They just don't know it. It's right under their noses and within arms' length.

So who's better qualified to help them: some smarty pants professor with a bunch of letters behind his or her name and who's probably always on the financial edge himself, or somebody who knows, firsthand, how ordinary people can become financially secure or even wealthy if that's what they want? Give me the fellow with experience. You can keep your sheepskin.

The bottom line is I know why and how people should hate debt; I know how and why they can save money they don't even know that they have; and I know how to invest that money wisely.

And that's all that really matters.

Call it a biography if you want to.

FOREWORD

*If you would like to get a better handle on your finances,
then this book is for you.*

If you are a financial novice, you need this book.

*If you want to avoid suffering through the pain
and discomfort of total financial collapse,
you should read this book.*

*If you are considering bankruptcy,
you should read this book.*

*If you are Bill Gates, Donald Trump, or Warren Buffet,
you are excused.*

Too many smart people let their finances happen to them in a haphazard fashion. When they want to buy something, they examine their checkbook balance, and if there is a sufficient amount to cover the purchase, a few bucks quickly slip away. If the checkbook is devoid of sufficient resources, they revert to Plan B: pull out the plastic money. All of this happens with little regard for the fact that the future is fraught with money-hungry obligations and opportunities.

These misguided people have no idea why they are always broke. They may not even realize some of the ways they lose the money they make. As a result, they are destined to live in the proverbial “poorhouse,” or at least well below their potential. It is a shame too, because it does not have to be that way.

There are all sorts of reasons why good people have financial

problems. Unfortunately, their parents and schools don't usually take the time to teach them what they need to know . . . frequently because those leaders suffer from the same lack of knowledge.

Other reasons include the following. They seek instant gratification. They cannot distinguish between wants vs. needs. They become addicted to spending and consuming. They borrow money from their credit cards or home equity to subsidize their bad money habits. They have never experienced the gratification of saving or investing. They don't mind living with monthly payments. They do not understand basic financial principles like compound interest. They justify unnecessary purchases with sentiment like, "I deserve this." They only make minimum payments on their credit cards. They like to have the same toys others have. And, they do not understand risk management. There are many more, but you get the point. Obviously those folks just do not know how to manage money and that is what this book is all about.

I am not talking about worshipping dollars, exploiting people, lying on your taxes or working two full-time jobs to get ahead. There is no need to do those things. Instead, my objective is to show you how to do a better job of using the money you already receive, and to help you attract new income in new ways. By adopting prudent money management practices you can improve your own life as well as the lives of those around you.

One of the most important things you can do is to become more proactive in determining how your money should be earned and spent. Oh, sure, you know how much money the boss pays you, and how much the car payment is, but how long has it been since you obtained a hard copy of your credit report or reviewed your auto insurance policy? Yawn! Who wants to do that? Right? Well, those are the kinds of habits that determine whether you get to use your money for things that matter to you, or whether you allow somebody else to decide how to spend it for you.

The point of all this is that you need to control your money or it will control you. This book will show you how to do that.

How Do People Face Their Finances?

One person told me that the people who need this information most are the ones who are least likely to read it. I suppose there is some truth to his point because a fair number of people don't read much of anything. It is unfortunate that many of those people respond to their financial woes by getting a part-time job or living beneath their potential. They would not have to do that if they would put a fraction of that effort into learning good financial habits.

Aside from those folks, I have discovered there are many other people who seek financial advice for various reasons. Perhaps you are one of them. Regardless of your motives, I am glad you dropped by.

I hope to reduce the bulk of this information to common sense because that should make it easier to retain and employ in the future. I believe that, by lending structure to some of the knowledge you already have and adding plenty of fresh information, this book will be both informative and profitable for you.

This book is comprised of three distinct sections. The first one is about the PAST. In it we review some of the unwise decisions you may have been making in your day-to-day life, sometimes without even knowing it. The second section is about the PRESENT. We will explore the actions you need to take right away in order to set your life on a prudent economic course. Finally, there is a section for the FUTURE. It addresses the financial decisions that come up from time to time as life unfolds. The objective is to provide some specific information, in advance of when you need it, so you will be better prepared when these choices do actually confront you.

You will get the most out of your time if you slow down and spread the reading out over multiple sittings, rather than to skim over the ideas in a flurry. The goal here should be gaining knowledge, not adding another finished book to a bookshelf.

Okay, then, let's see what this book is all about.

SECTION ONE

THE DIM PAST

THE WORST THINGS ON WHICH WE WASTE OUR MONEY

What is the most you would pay for a cup of coffee?

By seven o'clock this morning, I was at the local grocery store. There is a Starbucks inside and several people were already in line, including a few regulars.

Even though I have never bought coffee there before, I decided to get the biggest, best, most expensive cup of coffee they had. It was a large pumpkin spice Frappuccino with four shots of espresso. It had a healthy dose of whipped cream and some cinnamon sprinkled on top. It was chilled, like a fantastic malt. For the next forty-five minutes, I savored every sip.

Since I have only bought one other cup of gourmet coffee in my lifetime, I wanted to discover the very best experience somebody could have with such a purchase. For \$7.75 I spent 45 minutes in coffee heaven. But now the coffee is gone and so is the \$7.75. And I can say without any doubt, it was NOT worth it. To compound my misfortune, I will be paying interest on that money forever. That is because . . .

Every single purchase we make in life brings with it a lifetime of interest expenses, even if we pay cash for the items.

Let me use food to illustrate my point. Since you have to eat, some of the money you spend for this purpose is justified, but a lot of the money we spend on food is wasted. When you pay

somebody else to prepare your meal for you, some of your cost is a convenience fee.

For example, if you could grill a burger at home for \$1 but instead you drop by your favorite fast-food restaurant and buy a nice burger for \$3, you are paying them \$2 to do the work for you. From that moment on you will have an interest cost on your wasted \$2... FOREVER!

That is because you could have used that \$2 to pay off other debt you have. Let's suppose you have a credit card on which you typically carry an unpaid balance of \$500. For our purposes, we shall assign an interest cost of 12 percent to that card's debt.

Now, every dollar that you waste on some other frivolous purchase or some other expense that you could reasonably avoid (whether you know about it or not) is denying you the opportunity to pay off that high interest cost on your credit card. Therefore, if you flush \$2 down the drain on a burger or \$100 on the wrong insurance policy or a few bucks in ATM fees, etc., that is money you could have used to pay off that debt and thereby save the interest expense that is attached to it. But since you did not pay off that debt, the interest lives on and can never be recovered.

So every purchase you make also costs you 12 percent in a different pocket, even if you paid cash for the item in question. In this example, twelve percent of \$2 is twenty-four cents. Therefore every year after that fast-food burger is consumed, you will have to pay an extra twenty-four cents in interest costs.

That does not seem like much, but when we add that purchase to thousands of others just like it, we quickly get to an enormous annual expense. Two or three such choices a day for ten years will add up to an annual hit to your budget in the thousands of dollars.

Unfortunately, most of us do not restrict our poor choices to the ones that cost a couple of bucks. Sometimes we are talking about wasting hundreds or even thousands of dollars on ill-advised purchases, and that raises our annual interest losses to tens of thousands of dollars. If you can afford to ignore losses like that you probably don't need this book.

When I share this concept with students, there is usually somebody in the room who suggests that he pays off his credit card every month, thereby implying that he has no such ongoing interest expense. At that point I respond by asking if the person has a car loan or a home loan. Typically, he does and that ends the discussion.

Students then realize that they could be paying off those debts with the money they waste on other things, and, by paying off debts rather than spending the money, they save the interest expense of those loans.

Furthermore, even if they have no loans whatsoever, there is still an interest expense attached to any frivolous spending or misspent funds. The consumer who has no debt can invest his cash in various ways.

Savings accounts pay a small percentage and other investments can be more lucrative. Any dollars that are flushed down the drain could be used to generate that interest, so, if that opportunity is lost, there is an interest expense attached to the loss.

To simplify, any outstanding debt has an ongoing interest expense that you could reduce or avoid by paying down the loan; and, even if you are completely debt-free, you could invest wasted dollars and receive interest income . . . forever. But, by foregoing that opportunity, there is a FOREVER INTEREST expense to all of your purchases.

The Payoff

If we are only talking about one cup of gourmet coffee a month that may not be a very big deal, but people who buy impulsive and convenient coffee or hamburgers don't ordinarily do it just once. They do it day after day. They justify their purchases with self-assuring comments like, "I deserve this" or "It is only a few dollars" or "I can always cut back tomorrow."

These are the kinds of justifications that lead otherwise smart people into financial ruin. Their habit or laziness costs them a cash

register full of money every month. And, in the worst cases, they finance their extravagant purchases with credit cards, which they do not pay off at the end of the month. That is financial suicide.

Here is why this is all so important: If you only buy one Frappuccino per lifetime (or occasionally), I can assure you that it really is special; but if you can find just \$4 per day that you are wasting on such things and if you can redirect that money to pay off debts or make investments, you can accumulate \$465,000 in buying power in one adult lifetime (more on that later). Even a complete idiot would know that a daily cup of gourmet coffee is not worth that.

In this section we will discuss things like gourmet coffee, pets, alcohol, transportation, children and more. These are some of the worst things on which we waste our money. I am not suggesting that it is a waste of money for you to buy a cup of coffee or to have a child. That is for you to decide. What I am trying to illustrate is how much these things are going to cost in the long run. Once you understand this, you can redirect your resources more wisely if and when you want to.

CONVENIENCES

Americans pay through the nose for convenience. I know because a whole bunch of them pay me.

For years I have owned and operated one single vending machine, which dispenses soda pop at a 100-unit apartment building. I am constantly amazed because that one machine generates about \$2,600 in gross profit per year.

That machine is a constant reminder of all the people who struggle financially. Most of them fail to comprehend simple money priorities like how expensive “convenience” really is. Instead of buying their soft drinks at the grocery store, just like I do, they pay me to go get them for them. Eight thousand times a year, somebody in that building steps up to that machine and hands me 50 cents, of which 30 cents is gross profit for me . . . just for doing something they could easily do for themselves.

Sadly, these same people, and others like them, pay handsomely for conveniences in other areas of their lives too. When they go to the gas station, they pick up a pack of cigarettes because it is convenient. In so doing, they disregard the enormous mark-up they are paying for not buying their smokes by the carton at one of the giant food warehouses.

Later on, they get their dinner at a drive-through food chain or have a pizza delivered.

The “convenience factor” governs nearly every phase of their lives. They pay \$15 for a carwash even though they could get a bucket of hot water from the tap and perform that duty themselves

practically for free. In another example, every year millions of Americans pay tax penalties to the IRS because it is more convenient to put off filing their returns than get them completed on time.

I must admit that I also fall into the convenience trap. My weakness raises its head when the Girl Scouts sell their cookies. I like to be nice to youngsters and they come right to my doorstep to charge me for the privilege. I am a sucker for their little smiles and leprechaun-like uniforms. I am amused when they say, with a straight face, that they charge \$4.00 for each box of what amounts to a half-bag of cookies.

But before they leave I usually buy a box or two of Thin Mints for the freezer, plus a couple of boxes of Trefoils and several boxes of Do-Si-Dos. Ironically, I always thank them for “coming by” as they walk away with my cash stuffed in their little pockets. And I join the ranks of those who pay through the nose for conveniences.

I am not suggesting that we should always do things the hard way just to save a few coins. But unfortunately, the folks who ignore the high price of convenience are frequently the ones who can least afford to be so cavalier. Over a lifetime they would pocket many tens of thousands of dollars in savings if they would stop flushing their money away like they do.

How much are you willing to pay for convenience?

There are countless examples of entrepreneurs taking advantage of the convenience seekers. At a recent trip to the grocery store I noticed two containers of soup. They each held the same quantity of clam chowder. One container was a typical can and the other was a microwaveable, disposable bowl. The latter cost more than twice as much, so the consumer pays double to avoid a dirty dish.

The grocery stores are packed with other examples of the high cost of convenience. Have you ever strolled past the deli and noticed how good those salads look? YUM! I like the three-bean salad, but it is so easy to make, it is nearly sinful to pay them to

put it together in a bowl. The same holds true for macaroni salad, potato salad and Jell-O. These dishes are all made with simple ingredients and can be made at home fairly quickly.

The dairy case has a half-quart sized carton of “real egg.” What? Packaged real eggs! Are you kidding me? Eggs are already real and already packaged (in shells). Who the heck wants to pay for the convenience of somebody else cracking eggs and putting them in a carton? To be fair, the carton actually says egg whites and I will acknowledge that some people prefer them, so I will cut that group some slack, but common sense says that plenty of other people pick up that carton just because it is so convenient.

The frozen food aisle is packed with opportunities to flush your money on conveniences. On a recent stroll there I noted frozen pancakes and frozen sandwiches. Good grief! Is there any dish on the planet that is easier to prepare than a sandwich? A ten-year old can do that. It defies logic to pay somebody else to make a sandwich or a pancake for you. If you want to buy frozen vegetables to serve when they are out of season that is one thing, but pancakes and sandwiches are never out of season.

Perhaps the greatest example of people over-paying for convenience at grocery stores is single servings of microwaveable popcorn. You can buy a big bag of loose popcorn for \$2 and you can get a hot air popper at Wal-Mart, or similar places, for \$20 or less. The cost of a serving of popcorn made this way is less than 10 cents. But the microwave packages are five times as much. Now here is the surprise. The hot air popper actually cooks at a slightly faster rate than the “convenient” microwave. There is one other benefit to the do-it-yourself technique: You can control what ingredients go into your snack. There are only a couple of very minor drawbacks: You have to have a place to keep the popper and you have to wipe it off when you are done. That might take 15 seconds. The bottom line is you pay a forty-cent penalty for saving fifteen seconds of your time. That means you are paying \$96/hr. for somebody to clean up your popcorn popper.

That seems like a ridiculous price to me.

The last time I went to the grocery store I looked at the various ways to acquire a pepperoni pizza. One can buy the basic ingredients for a large pie at a cost below \$3.00. But you do have to take the time to find them in the store and make the pizza yourself. As an alternative, the customer can visit the spaghetti aisle and find a nice prepackaged box with all of the right ingredients to make that same pizza. You save some of the shopping time, but the price nearly doubles. There are still more options.

The same basic pizza can be picked up from the frozen food aisle for about \$8. You pay two dollars extra because you don't have to do all of the preparation. You just pop it in your oven. But the highest cost of all is via home delivery. Add a couple more dollars for the company to prepare your pizza and throw in a few more bucks for the delivery fee. Kick in an extra dollar for sales tax and about \$4 for a tip, and you are up to \$15 or so—five times the cheapest route. But there is still one more very expensive thing to consider.

A consumer who willingly pays \$15 to get a pizza delivered is severely penalized by the government. Before that person can pull \$15 out of her purse, she must first earn about \$20 at work. Then there are income taxes deducted from her check. What she has leftover is called “after-tax” dollars and that is what she uses to buy her pizza (and everything else). Therefore, the government is charging her something like \$5 for her pizza. The bottom line is this: the more convenient, the higher the cost.

The most frivolous food costs are borne at your favorite restaurant. In addition to the usual convenience costs (preparation, clean atmosphere, cooking and clean up) you must add 40-60 percent to any price on the menu. The sales tax is 5-8 percent and there is an 18 percent gratuity (even though we usually compute the tip based on the total ticket, which includes the sales tax). Then throw in the fact that you had to earn extra money at work and pay the income tax out of that and you might as well stop by the poorhouse for a donation on your way home.

Two days ago, I ate just such a lunch. I had a salad that would

have cost about 75 cents to assemble at home. I also ate about eight mushroom-stuffed ravioli that I could have made for less than two dollars. I paid \$10 for my lunch; then I compounded my problem by picking up the tab for my two friends. The taxes alone were more than I would have had to pay for my meal, if I had made it at home. The lost \$30 will cost me \$3 per year . . . FOREVER. All of that was with after-tax dollars. There is no doubt that I paid through the nose for convenience.

I really enjoyed the experience because I had not seen my friends for a couple of years, but it is not the kind of thing I do on a habitual, thoughtless basis. I know to save those frivolous moments for special occasions. Being lazy is not a special occasion.

Food is not the only way that we pay for our desire to take the easy way out.

The Trap of Credit Cards

Credit cards are among our worst enemies. We will have a nice discussion about this “funny money” a little later on, but for now we cannot overlook the convenience factor. Too many of us submit to the temptation of instant gratification. If there is no cash in the purse, grab the plastic money and get that new shade of lipstick before it gets away. If there is no money in the checkbook, call upon that credit card and drop by the sports bar for a good time. Who cares if the next paycheck is spent well before it is earned, as long as we can enjoy ourselves now?

Sometimes the financial considerations represent only one part of the cost for convenience. For example, environmental types are obsessed with disposable diapers. They say that such products take a long time to break down and the messy stuff attracts pests and diseases. Then, there are all of those Styrofoam containers we get from fast food restaurants. When we look at the combined costs of such convenience, we have to admit they are very high.

As I said earlier, I am not suggesting that we worship every dime. It is okay to order a pizza once in a while; but if you ordered

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a pizza last night and you go out to dinner tonight, then you microwave some soup in a disposable bowl tomorrow night, you are addicted to convenience and that is one of the worst things to waste your money on. A person who spends money like that instead of using it for necessities and investments might as well use a paycheck as toilet paper, because its greatest potential is flushed down the drain . . . precisely what we are trying to avoid.