

Pay Yourself First



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Financially Speaking by Fred Dunbar

THINK AND GROW RICH

Napoleon Hill wrote the timeless book, "Think and Grow Rich," in 1937. Hill writes that he was inspired by a suggestion from the business magnate, Andrew Carnegie. Read it and you too can be inspired to think and retire rich.

Earlier this summer, I discussed helping your adult children grow up by closing the bank of Mom and Dad. It certainly got people talking. I had several people stop me while I was out to let me know that they thought the article was spot-on. It also caused a number of grandmoms (and granddads) to contact me about an article I wrote approximately 10 years ago. They were looking for advice to help their children and grandchildren who are in their mid-20s.

Well, not much has changed in 10 years except my hair is grayer and sparser. With summer about half over, there is still plenty of time to discuss how to stop living paycheck to paycheck. I'm gearing this article toward the 25-year-olds who have graduated college and are now working full time. By the way, this works if you are age 30, 35, 40 and so on.

HOW DO I DO IT?

The first thing you have to do is have a plan. Remember that people don't plan to fail; they fail to plan. I don't care what you do in life, you too can become a millionaire. There are those who work in grocery stores who will retire with more than a million dollars in their retirement plans. There also are doctors and lawyers who will retire with less than a million dollars in their retirement plans.

The secret to success is very simple: Spend less than you earn.

NO PAIN, NO GAIN

First and foremost, wishing won't get it done. As you go through the journey we call life, remember these two words: NEEDS and WANTS.

Transportation

Just because you see a BMW in the driveway doesn't mean that person is wealthy. And if you see a Chevy in the driveway, it doesn't mean that person is just getting by. It is a perception. The person with the BMW might have a \$700 monthly car payment where the Chevy owner might have a \$300 monthly payment. All cars will get you to your destination. Oh, by the way, we do have speed limits in our country so the Chevy will get you where you are going in the same amount of time as the BMW. You NEED transportation but you might WANT a BMW. If you buy the Chevy, the difference in the

car payment can be invested in your retirement plan. If you are age 25, the difference might turn out to be worth more than \$1.4 million.

(All of the hypothetical examples are based on earning 8 percent annually. No specific investments were used in these examples. Actual results will vary. Past performance is not a guarantee of future results. The examples did not take into consideration market fluctuation, fees and expenses associated in the retirement plan or investing, and assumes no withdrawals will be taken from the retirement plan before age 65.)

Little things add up ...

18 and Cool

If you look around, you'll notice there are still a fair amount of people smoking cigarettes. I tell students ready to graduate high school or attending college that although it looks cool to smoke, it is way cooler to be wealthy later in life. Today in the state of New Jersey, the average cost of cigarettes is \$8.20 per pack. For all of you ex-smokers, can you believe what a pack of cigarettes costs today? Not only is it bad for your health, the cost of a pack of cigarettes can send your future retirement up in smoke. I tell these young adults that if they would take the money they would spend daily on cigarettes and invest, they could have more than \$848,000 at age 65. For this example, they invest \$249.60 per month (\$8.20 per day) for 40 years, which is called "dollar cost averaging."

Coffee

If you buy a cup of coffee at the local convenience store or Starbucks every day on your way to work, stop. If that cup of coffee cost \$1.75, at the end of one year you will have saved more than \$638. It doesn't sound like much, but if you were to invest this money, you might have saved another \$187,000. I know there are some of you out there who don't drink coffee, but the same principle applies if you are buying energy drinks. Chances are if you drink energy drinks, you are buying more than one a day.

Lunch

We all like to eat out. It's fast, it's convenient and, many say, delicious. Change the habit of eating out every day. Bring your lunch to work four days a week and treat yourself by eating out just one day, maybe Friday while gearing up for the weekend. In this example, I use \$7.50 for the cost of lunch. If you're eating at a restaurant, it will cost more. Besides eating better, you will save a small fortune. The cost of lunch would equal \$228 per month (remember dollar cost averaging) which if invested might accumulate more than \$800,000 when you retire at age 65.

Dinner

Does anyone even eat at home anymore? Dinner can easily cost \$25 per person or more, without an adult beverage. If you would stop eating out, just two nights a week, that would enable you to save another \$2,600 annually, or invest \$216.67 per month. If you invested this money monthly, you could accumulate another \$761,427. If you are a couple, then double the cost and double the reward. Amazing, I meet young adults who eat out five or six days every week

One of the oldest methods of growing wealthy is to “pay yourself first.” This simply means before you pay any other bill, you set aside money for yourself. I would recommend 10 percent of what you earn should be invested regularly. As you receive raises and bonuses over time, increase the amount of money that you pay yourself. Most of you who graduated college or are working in the trades make more than \$30,000 annually. I wanted to use a lower amount to make a point. For this example, if you are earning \$30,000, you are investing \$3,000 per year or \$250 per month. Again, investing and earning 8 percent (and never receiving a raise) you could have another \$878,570 at age 65 when you retire.

Stop and take a moment to slow down and read the above again. Every one of you can retire well. You simply have to start now and continue on.

In 1980, the movie “Caddyshack” came out and became an instant classic. Who can forget Ty Webb (Chevy Chase) telling Danny Noonan (Michael O’Keefe), “Danny, see your future, be your future ...”

Now that you have an idea of what has to be done, go ahead and head to your favorite no-shower happy hour.

Fred Dunbar, CLU, ChFC, RFC, AIF,[®] is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He is also a registered representative of and offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. “This material is intended for informational/educational purposes only and should not be construed as investment advice, a solicitation, or a recommendation to buy or sell any security or investment product. Please contact your financial professional for more information specific to your situation.”