



## PART 2: GETTING STARTED



Welcome to Getting Started Part 2 of Financing Your Detour After completing this lesson, you will be able to recognize the different steps along the road map to financial freedom, you'll learn why the first step to freedom is to save \$1,000 as quickly as you can, you'll understand how the debt payoff plan works and lastly, you'll become familiar the emergency fund and how and when to fill it..

### **The Road Map**

Obtaining financial freedom and happiness will require some work and discipline, but the good news is that the path, or roadmap is clearly marked. There are 4 basic steps along the journey. Because I know you are probably wondering, yes, the stops need to be completed in order. Unfortunately we can't jump to the building wealth step until we get a solid financial foundation and get out of debt... unless of course you win the lottery. And if that happens, don't forget about your friends here at Follow Your Detour.

Alright, back to the roadmap. The first step on the roadmap is to start your emergency fund. To achieve this, you'll need to save up \$1,000 as soon as you possible can. Step 2 is to aggressively pay off your debt by using the debt payoff plan. Step 3 is to fully fund your emergency fund. Lastly, once you are debt free and have your emergency plan fully funded, the next step is to start building wealth!

**Now, we are going to dive in a little deeper on each of the steps.**

### **Step 1: Start your emergency fund**

Many people believe that the most important thing to do for financial freedom is to get out of debt. While clearly this important, the first step of of financial freedom is actually to build your nest egg or your rainy day fund. To complete this step, put aside \$1,000 as quickly as you can.

Why is it so important to save \$1,000? What makes \$1,000 dollars the magic number?

Well for several reasons, really. The first being that no matter who you are or where you're from, life happens. Things are always going to happen unexpectedly. You never know when your car is going to break down or when your child is going to get sick and need to go to the hospital. Unfortunately, these things cost money.

Most of us use credit cards to pay for unexpected expenses. And sadly, most of us aren't great at paying off those credit cards each month. When you have an emergency fund with at least \$1,000 dollars, you can pay for many unexpected expenses with cash instead of having to use a credit card. If you don't pay with a credit card, then there is no way that you will end up paying expensive interest to your credit card company.

Having \$1,000 stored away, safe and ready to be used during an emergency provides you with incredible peace of mind! Peace of mind is what financial freedom is all about.

There are also other reasons why this is the first step in the process. For most, saving \$1,000 dollars is not easy, but it is achievable with some commitment. In the US, if you have a steady job and the desire to do it, you CAN save \$1,000, even if it takes some time.

No matter how long it takes to get there, saving that amount of money is really important to prove to yourself that you actually can save money. And once you have that amount of money saved, you'll also realize that you have the self control to not spend it!

Being responsible with your money is absolutely necessary for achieving financial freedom and funding your detours and saving \$1,000 dollars will help teach responsibility.

The second step on the roadmap is the elimination of debt.

There are many, many misconceptions about debt in our society that unfortunately have lead to some really bad spending habits for most Americans. And combine those beliefs and habits with easy access to credit, it's not surprising that many of us fall victim to ourselves and amass ridiculous amounts of debt.

Remember that being financially free and being rich are not the same thing. Eliminating debt is central to achieving financial freedom. This program wants you to get out of debt! With debt, every owed dollar becomes a dollar that isn't funding your detours or helping you to achieve financial freedom!

Let's clarify a few things about debt as it relates to this program.

1. It is our belief that there is no such thing as good debt. It may be necessary, but it is never good. There's definitely some people that disagree with this. Some people will justify keeping "good debt" for financial reasons, But many other financial experts will tell you that this is not a good strategy. Dave Ramsey is one of those experts and someone that we look up to tremendously, so we are in alignment with him.

Basically, don't keep debt around because you think you can earn higher returns in the market than what you are paying in interest. Even if that is true, there is risk in the market and returns are not guaranteed. What is guaranteed, however, is the compounding interest on your debt. That doesn't stop if the market takes an unexpected turn for the worse. If you can get rid of debt, always do so. Also, don't keep debt around for tax benefits. While there are tax benefits available for things like student loan interest or mortgage interest, they will never outweigh the benefits being debt free.

2. That being said, for the purpose of this program and this step in particular, we're not talking about mortgage related debt that you have as a result of owning a home. Paying off your home to rid yourself of all debt is part of step 4, wealth building, but the focus of step 2 is consumer related debt... which covers pretty much everything other than your mortgage, home equity loans or reverse mortgages.

With debt, every owed dollar becomes a dollar that isn't funding your detours or helping you to achieve financial freedom! That's why it is absolutely vital to get out of debt. Getting out from under a crushing debt is a remarkable feeling!

Now let's talk about paying off all of that nasty debt. The best way to pay off your debt is to attack your debt with an aggressive debt payoff plan. So what is the debt payoff plan and how does it work? The debt payoff plan is a simple, yet powerful way to eliminate your debt as fast as possible without necessarily impacting your monthly spending.

### **Here's how it works:**

First, you want to identify all of your debt. Then you arrange your debt from lowest balance to highest balance. For everything other than your lowest balance, you only pay the minimum payment. For you lowest balance, you pay the minimum payment plus the largest amount of extra money that you can afford to pay. This extra amount will differ for everybody and depends on a bunch of factors, primarily how aggressive you want to be paying off your debt.

Either way, once you pay off your lowest balance debt, you then carry over that entire amount to the next lowest debt. Doing so will keep the same amount of money dedicated to paying off debt, but now you are applying significantly more than the minimum payment to the next lowest debt. This will reduce the amount of time to pay off that debt. Once that is paid off, you repeat the process until you are completely out of debt.

Let's take a look at an example of the debt payoff plan in action. Here, we have used our debt worksheet to identify all of our debt. Then we arrange that debt in order from smallest balance to highest balance. In this example, we are only going to look at the three smallest balances. After looking at our expenses, we know we can pay an additional \$100 as part of our debt payoff plan.

The first thing that we are going to do is pay \$144 dollars to the Furniture card until that balance is gone. \$144 equals the minimum monthly payment plus our extra \$100. We are going to pay the minimum balance on everything else. Once the furniture card is paid off, we are going to CARRY over our payment to the next lowest debt, in this case, the American Express. Now we are going to pay \$183 towards the American express until that is gone. \$183 equals the \$144 that we carried over from the furniture plus the \$39 minimum payment that we had been paying. Once the American express is done, we move on to the refrigerator.

For that we are going to pay \$227 until it is paid off. \$227 equals the \$183 that we carried over plus the \$44 dollar minimum amount that we had already been paying. This is how the debt payoff plan works. Once you start carrying over your payments from one debt to the other, you will start making serious progress to eliminate them entirely. Of course, you'll need to stop taking on new debt for this to really work, but that's what the entire budgeting program is about!

### **Step 3: Completing your emergency fund**

Once you have completed your debt payoff plan and you have eliminated all of your consumer debt. It is time to fill your emergency fund. Experts recommend that your emergency fund should contain 3-6 months of living expenses. A fully funded emergency fund is an incredibly powerful thing. Most Americans live paycheck to paycheck. Any type of emergency can be debilitating to their lives. Knowing this, normally causes us to feel anxious and stressed about everyday life.

However, when you have an emergency fund, you can rest assured knowing that you are prepared for life's curve balls. It's truly an incredible feeling. When we finally got a decent emergency fund saved up, our entire perspective changed because we were no longer worried about what might go wrong. This feeling is one of the biggest reasons that we created this program... we want other people to experience what that feels like!

### **An important point about emergency funds:**

Having an emergency fund, especially one that has 3-6 months of expenses in it can be challenging. You may feel like you should be doing something with that much money, such as investing it in the market. Just remember that your emergency fund is not a wealth building tool, your emergency fund is designed to reduce your financial risk.

Risk can be hard to quantify, but realize that having the ability to suffer a financial hardship has a value to it - probably way more than any gains you might make in the market.

This is why your emergency fund should be held in an account that can be liquidated quickly such as a savings account or a checking account and should be fully funded before investing in other financial products such as mutual funds, bonds, stocks etc. Also, if you need to pull from your emergency fund at any point, dedicate yourself to refilling your fund before continuing with other investments.

Lastly, only use your emergency fund for true emergencies. It is not an emergency that your in-laws are coming into town and therefore you need a new bedroom set! Be smart about it and don't waste the money you have worked so hard to save.

### **Step 4: Build Wealth**

Once you have eliminated your debt and you have a fully funded emergency fund, it is time to start building wealth. Wealth building occurs through investing and through acquiring assets, such as your paid-off home. We're not going to spend much time on wealth building on this course because

1. This program is really designed to encourage people to learn a process for monthly budgeting. We want people to learn the basics, understand the process and use the provided tools to start winning each month at personal finance...winning meaning that they tell their money what to do each month and are meeting their savings and debt reduction goals.
2. We are not financial planners. We couldn't give you any advice or information on investment strategies, retirement planning, tax strategies or anything else related to building wealth. We just know that once you complete step 1-3, you're ready to have those conversations with a professional financial planner and you'll be wonderfully positioned for long term success.

### **This is the end of the lesson for Part 2, Getting Started.**

You should now be familiar with the following:

- The Roadmap to financing your detours and financial freedom
- Why saving \$1,000 is important and how saving \$1,000 is the first step to achieving your goals
- Why debt is so "expensive" and how there is no such thing as good debt
- Why the emergency fund is so important, but not for wealth building
- And knowing when you are ready to start building wealth

Thank you for watching lesson two, see you in lesson three!