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COMPREHENSIVE BUDGETING – THE FOUNDATION OF IT ALL

WITH TODD ROOKER

Scott: Hello. This is Scott Letourneau, the CEO of Nevada Corporate Planners and Fast Business Credit. Welcome to our Business Credit Builder System and our educational training. Now, your business can get in a better position to secure more cash and capital to grow and beat the odds. As you know, over 95% of business owners fail within five years. We want you to be part of the top 5% that succeeds in building both vendor and cash lines of credit, which is a critical part of the process for success. Enjoy the training.

Our special guest is Todd Rooker. He's the president of Armor Financial Services.

He's developed a credit scoring improvement and repair educational program that really works. If you're paying now for credit issues of your past and you want to improve your credit rating, this is certainly the right program for you.

The credit score improvement program empowers you to take control of your personal finances, giving you inside knowledge to credit reports, credit score, and debt management.

Again, our special guest has a tremendous background that makes him very unique in not only credit repair but in financial services, and has a very unique blend of experience that allows him to be an expert in this subject.

This is, I think, so important – most people overlook it – which is comprehensive budgeting.

So again, I'd like to welcome our special guest, Todd. Todd, how are you doing this evening?

Todd: Very good, Scott. Thank you so much.

Scott: I'm excited to be with you once again. I would like to interview for 10 hours straight, if possible. I know you're a busy, busy guy and very popular, which is rightfully so with the information you have.

So we have scheduled 60 minutes tonight to get into a lot of detail on such an important subject. If you can, just for a couple minutes, maybe share a little bit of your background, maybe more as it relates to kind of the financial planning and how you got into that part of it along with credit repair, that leads into the subject this evening. Then I'll let you take it away.

Todd: Sure. My undergraduate education is economics. Graduate school was in finance. So I always intended to get into the financial world in some way. Financial planning seemed to be a logical fit. So it is what I have done most of my adult life. In fact, frankly, nearly all of my adult life other than college and the military.

The reason that I became so interested in financial planning in general is that even as a young man growing up, I saw so many people struggling with personal finances, and never mind the fact that many of the people who were doing it were people did very well financially yet always seemed to struggle. I saw that even in my own home.

My father owned a relatively large company and employed, at one point, over 120 people. Yet in our own home, money was always that issue. I had seen that to be typical throughout my career.

Helping people with money, helping people with financial planning has always been something that I've done. The reason I am passionate about it is because I know what a profound impact it can have on people's lives and, moreover, people's relationships. That's the thing that has really become very poignant in my life now at the age of we'll just call it nearly 50.

I have just witnessed the difference in a person's life when they have financial stability, which by the way is not to say that person needs to be wealthy, because that's a fairly subjective thing anyway. But really, just to have stability and the astounding impact that that has on a person's relationship with their spouse and their kids and their ability to really be in the moment, because they're not so distracted by menial things, paying a bill that can really ruin the day over $400, $500, $1,000. So that's kind of how I became interested in finance and money and financial planning overall.

Scott: Tell me about the subject tonight. How would you like to set the stage before we get into the significance of comprehensive budgeting? Do you want to kind of give us a little background to what's happening with the credit markets, maybe a little bit why people aren't able to frivolously overspend and just refinance their house and why, probably for the first time in a long time, this must be mastered?

Todd: This is a point that doesn't come home to roost until it's late. It is often for people who are often, forgive my terminology, for folks who are out there trying to just survive the day. It's always that issue.

But there are many people who don't have the challenge. All of a sudden, the whole world changes. So, let me be specific.

Credit in the way that we have known it for 2 and 3 decades is becoming less and less available to many people who have never done anything wrong.

Case in point. You and I, Scott, talked about a gentleman, which is not the first and certainly won't be the last of many people that have had an abundance of available credit in the past.

This gentleman had a home equity line of tens of thousand of dollars. In fact, he had I believe it was, this one in particular, $50,000 on a home equity line. He looked upon it as his backup plan, and many people do.

Well, he had used up $20,000 of this home equity line that he had. Still had $30,000 left. He was in good shape.

Well, surprise, surprise, he's in a declining market. Frankly, in real estate who isn't in a declining market anymore? I think I'd really like to know that one the most.

Anyhow, they took and dropped his credit limit back from $50,000, sent him a letter letting him know that his credit limit had been dropped back from $50,000 to $10,000, and they sent him a payment book to pay the $10,000 that he was now over his new and obviously not improved limit, because he had already charged up $20,000 of the $50,000.

Immediately, the credit-scoring model is now reading him as having a credit limit of $10,000 and a current balance of $20,000. It absolutely decimated his credit, and instantly he's upside-down in terms of credit and, of course, finances. For the first time in his life, he is now having to learn how to live on his income to the dollar.

Many business owners, many people who are even W-2 employees, have become so accustomed to overspending their incomes, and the reason that they can do that is because they've always had credit to back them up, and the peaks and the valleys are overcome by having an abundance of credit.

Well, when you don't have that credit, when that all of a sudden is just gone – and, believe me, in this market today, we can all agree that no one wants to be second position on a title on a piece of real estate given that many people in our country are in a declining market – consequently, the access to that money is becoming incredibly tough to find.

The credit card companies who, for many of them – if you think I'm wrong about this even a little, go on the internet and Google this or check it out – you will find that large organizations like Chase and Bank of America are increasing credit card rates into the high 20, as in 28%, on people who've never missed a payment because they know that previously people have had access to home mortgages that they could refinance, second mortgages that could, in essence, keep a credit card company at bay.

Today, people don't have those tools. They know it. They utterly believe that we're addicted to credit, so they can crank up those interest rates and they really don't care what we think.

For the first time, people are upside-down. They've got to learn how to live on their incomes to the dollar. For most people, it's not something they've ever had to do.

Scott: That makes sense. I think people sense that coming. They know it's happening. Can you give them a couple examples?

For example, if somebody still has a HELOC and they're relying upon that as the extra cushion, they might be saying, "Well, I know we should do this but I still think we have the HELOC to rely upon. I still think we can increase our limits on our credit cards, perhaps." Can you go into that for a moment?

Todd: Sure. Here's the first thing that we've touched on in the past, and I'll reiterate this fact, and any thinking person can understand this. But often, many times people don't even look at is this way.

No one credit card company, no one is going to give someone these unreasonably large availabilities of credit unless they plan to have some other strategy – ulterior motive if you will – to get them to pay more money. Some of us, and many people on the call, are probably folks who have credit lines that are in excess of $50,000 and more on one credit card.

Well, these introductory interest rates that they offer, 1.9%, 2.9%, 0%, let's be honest, if any of us were looking to try to make money as business people, and obviously people in the credit card industry and in the finance industry in general are looking to make money, who in the world would ever give somebody $50,000 and $100,000 of credit, unsecured credit no less, which is to say that if you default, they have no collateral to take back and for the risk that that represents, they're going to charge you 1.9%. I mean, really? It's absurd.

The reality is they don't give you the 1.9% interest rate because they love you so much and they think you're so trustworthy. What they're actually getting you to do is to put your head in the noose, so that they can string you up with it. When 1.9% becomes 22½%, your entire world changes.

So there's no question that that is a strategy. It always has been. For everybody out there who thinks they're a genius because they can play musical credit cards, changing one credit card to the next, from this 0% to that 0%, all I can tell you is after 24 years of seeing people do that and watching them get caught, and of course everybody thinks they're a genius until they get caught and they never will get caught until of course they do, for all of those people I'll just tell you this: the credit card companies are a whole lot better at playing the game than those people ever will be. Inevitably, something's going to happen and you're going to get strung up with that whole game.

You got to learn how to live without the credit. That's the reality.

Scott: That makes sense. We're going to talk about budgeting and doing that. We're going to talk about individuals. I think this is probably the #1 stress in any marriage is financial stress, arguments over money.

Can you give us a couple tips about if you are married, should you have joint accounts, separate accounts, a little bit about a savings account? Then we'll go into the emotions about budgeting and how they might go about solving that problem.

Todd: I think it always makes sense, in terms of managing money, if you keep things separate as a couple. Just from an asset protection standpoint, it always makes sense to have 2 solid rocks, rather than one piled upon the other; because if one goes down, they may both go down.

If you can keep your credit and your finances separate then, God forbid, at least you minimize or mitigate the potential damage to one person and you have the other person who can be the rock that the family stands on. But so often, all bank accounts, all credit accounts are commingled in both people's names.

If, God forbid, one person's income, which represents half or more of the household income is diminished, depleted, or goes away altogether, the other person is going down at the same time because you can't make half of a minimum payment on a credit card. You can't make half of a minimum payment on a mortgage or a car payment.

So when that happens, everything goes bad. If you can keep things separated as a couple, then you don't have that issue and you can minimize the damage. Interestingly enough, one person may really be beaten up but the other person can then go on and be able to transact on behalf of the family. If you commingle everything, you just simply don't have those options.

Scott: That makes sense. So let's start from the beginning. Let's say a couple's just about to get married and they're coming together.

So what I think I hear you saying is they really should keep things separate, not put each other on each other's account, keep separate credit cards, separate checking accounts. Is that the best approach?

Todd: Exactly what I think! That's exactly what I think!

A lot of times people come to a marriage, they don't know a whole lot about how things work. Oftentimes, you will hear a term that is used by realtors, in many cases. That term that they use is "one to buy, 2 to sell," because in many cases it will take one person to buy that real estate. But because there are 2 people who will inevitably be entitled because it's a married couple, depending on the particular state the we're talking about, you won't be able to sell that piece of real estate without the second person signing off because they're entitled.

So, in that instance, that person doesn't need to worry about losing their equity. But that's really the reason that people, many times, will want to have both names on a piece of property or on even a financial obligation of any sort.

There's other ways to accomplish that and ensure that you'll get your percentage of the value of a piece of property that you endeavor to pay for or to own as a married couple. But that being the case also, you can do it in such a way that it won't bring you both down simultaneously. So you just need to be conscious of that from day one.

Scott: That makes sense, because I can understand more of a liability if you own real estate. Separate subject. Obviously, there's 9 community property states that have different rules. But we're generally talking about credit and maximizing your credit, separating it, then we'll talk about budgeting and how to do that to be successful at it. But that makes sense.

Todd: I agree with that, Scott. I just want to add to that. I agree with exactly what you said, because it is different in different states.

I think what just typically happens is people tend to just want to be on everything because they just don't know the ins and outs of any of it. That's really what presents the problem. If you know enough to be that savvy, then you probably understand the rest of it, as well.

Scott: I would agree with that. When I got married 12 years ago, I figured getting married together, it's time to join things and let's get a joint account and do all these things together. That was part of being together.

Never really went to a class or got the educational reporter or CD that said, "Well, it is still possible to keep those things separate, maximize your credit and it's still okay because you're still married." I never went to that course, so that's why we're covering this subject.

Then would it make sense, too, we talked about the individual couple to have separate savings account versus one joint savings account?

Todd: Utterly, utterly correct! Because when things do go bad, envision that when you really have to, in some situations, and I know this is almost so far off course, but I think given the business that I deal with on a regular basis, which is oftentimes catastrophe management or catastrophe planning as the case may be, because you can minimize or plan for this potential risk.

So, if you look at somebody who really is in a bad situation and there is the lesser of evils as options, in some cases, sadly, bankruptcy may actually be the best option for a person. But remember, there's 2 tests for bankruptcy. One, of course, is the asset test, meaning the insolvency; and the other one is the income.

Well, if the bank account is held in both people's names, that can be problematic. If the bank account is separate, one person potentially could file bankruptcy, could meet the means testing in both cases, qualify for the bankruptcy, and the other person could be completely preserved and, here again, could go on and transact on behalf of the family.

So there's so many reason why to have separate bank accounts, separate credit accounts in the end result. The sad portrayal on all of that is that most people don't figure this out until after it's already happened to them, and it's a little bit late in the game to be doing that, because now then all of those things just become fraudulent conveyances and you can't fix it after the fact.

Scott: That makes sense. One of the things came up, somebody asked me a question and they said they're getting married. One person had a bankruptcy on their record and they're getting married to somebody who has very, very good credit. Is there anything they could do to kind of screw it up, where that bankruptcy filters over to the new person who has great credit, or is that not really possible?

Todd: It is, generally speaking, not possible. Obviously, boy oh boy oh boy, that's a complicated question.

If you've got 2 people who are on a credit card, let us say, if one person does file bankruptcy and they're both on that credit card, that person then, let's assume, is able to file a Chapter 7 bankruptcy and expunge their unsecured debt obligations. However, the other person who's on there now becomes, or would be in any case anyway, could be held 100% responsible for that debt.

That could certainly be challenging. I'm not sure if that's exactly what you were asking, but that certainly is a possibility.

There's ways to build credit if you want to try to help your spouse out, but it is dangerous. Because when you think about credit card companies who are constantly seemingly soliciting us to say, "Is there anyone you'd like to add to your credit card," and you may almost wonder, "Why do they keep asking me that?" Because what they're going is they're diversifying the risk.

If you add that person onto your credit card through a joint account holder's status, which we covered in the previous session, that could actually be good. You could actually add your good payment history onto that person's credit report and it could have an incredibly positive impact.

The flipside to that is that with that responsibility that they get to be able to enjoy that good payment history, also some the possibility that that person would have to pay all of that money. So the reasons the credit card companies are constantly soliciting someone to add to your credit account is because, Lord forbid, you file bankruptcy and walk away or don't pay the bill, they've now got somebody else to pursue and they've just diversified their risk on that debt.

Scott: Several things that are coming to my mind, and we'll get into the comprehensive budgeting in a moment. But these are great foundational issues.

What happens if you're married and one of the spouses passes on? What happens to the credit card debt if you had a joint account?

Todd: That other person becomes responsible for it. A lot of people believe, "But yes, it's my account. I'm me; I'm the cardholder."

Scott: The primary.

Todd: Yes. "Then it won't affect me." No, trust me on this one. That is not true. They can and will.

Here's the other interesting thing. Let's assume that you put a person on at a time when you have very good credit and your balance credit ratios are good, and the adding of that person onto your credit was a very positive thing for that person.

Now, let's assume that you've experienced some hardship and your own personal financial situation is not nearly so good. Maybe it is a spouse, maybe it's a boyfriend, maybe it's a girlfriend.

Okay, but now you want to remove this person because what was previously good for them is no longer good because you're experiencing hardship, your credit cards are now all maxed out, and obviously what that card previously did in terms of helping them is now hurting them every bit as much as it's hurting you. So you'd like to remove them because you feel bad that now you're in this position that's affecting them.

Well know this: they – the credit card company – will not let you remove that person unless the credit card is completely paid down. Even in some instances, even if it's completely paid down, they won't let you do it and then you will have to close out the account to end that. So that's how adamant they are about holding each person accountable.

Scott: Very interesting. It just brings up other ideas or questions.

Back to the spouse, one passes away. The thought was going to be if you're going in that situation, somebody's very sick and it could happen, separate yourself from the accounts.

But what I hear you saying is you can't separate yourself. Ideal would be you'd have to pay off the credit card, shut down the account, and do that. But normally, if you're married and you had separate credit cards and the one person passes away, what happens to the credit card debt?

Todd: It is their debt and they either have it or they don't. There are instances, I'm sure, where they could pursue a person legally. I almost never see that happen.

Scott: So would they go after the estate of the part of the person who passed away?

Todd: They certainly would do that. For the person who passed away, they would certainly go after the estate, but it would be limited to that person's estate is what I'm saying. So even though they had joint property, if they have that then, of course, it can be attached to that person's portion of that property, but it cannot bleed onto the other person's portion or equity within other things.

Scott: The credit card company does have the ability, if you pass on, to go after your estate to collect the debt but it may be difficult for it to happen.

Todd: They can and do. They can and do. They often will do that, depending on the amount.

The interesting thing is that I don't see it happen very often. I don't know how many of these you've been through. I've been through a lot of them, and almost never do I see the credit card companies being one of the creditors that are being paid out, unless it's just voluntarily being done by the person who is wanting to do it.

But rarely are they judgment creditors within probate. How often have you seen that, Scott?

Scott: No, I don't. I think they do a couple calls and, like you say, if somebody wants to volunteer to pay it off. Other than that, I'm sure they just write it off as bad debt.

Todd: I think you're right about that. That's what I've experienced, as well.

Scott: So that makes sense. So going back to kind of one of my thoughts earlier, let's assume we have 2 people that haven't gotten married yet, one person has a bankruptcy and the other person has great credit and they're about to get married. If they get a joint credit card or do something jointly, again, the bankruptcy was before they got married, will that bleed over and affect the other person?

Todd: No, it will not. It will not.

Scott: That makes sense.

Todd: There's one thing I'll say to that, Scott. One thing I will say – through experience – that is, without question, spot on, and it's this. You rarely see, rarely, a person who has great credit who will build up the other person to the same level. Generally, it is the person who has the issues who typically tears the other person down more to their level, rather than building the person up. So the combination 2 almost always averages down, rather than averaging up.

Scott: That would make sense. I'm sure they've figured out the system that there's not too many loopholes where people are finding out ways to add your son for a week, take him off the next week, and all of a sudden he has an 800 credit score. If it was that easy, it would be on the Internet and everybody would be doing it. So we all know how that story goes.

Let's transition into a family budget, comprehensive budgeting. For the listeners, can you give us a little bit of feedback of some of the individuals; I know you've talked to some high-level individuals, very sophisticated. They weren't able to do this personally. Can you kind of delve into a little bit, from your experience, why do you think that is?

Todd: There's a lot of reasons why people who obviously are intelligent and understand how to do budgeting, or at least should, and maybe people who actually, in their day jobs, are assisting other people as their full-time occupation. Yet when it comes to doing their own, they have challenges, which should be telling for all of us.

I think what you're alluding to is the fact that we, on a regular basis, are doing personal financial management, as in running a household budget and spending plan for people who are accountants and financial advisors who are regularly, as I say, in their day jobs, this is what they do for a living, yet they can't manage their own finances. In fact, personally, in my own practice, I always keep track of it.

In 2007, I did comprehensive money management and budgeting for 23 accountants. So far this year, as of just last night by the way, my 19th in 2008. So a lot of CPA's, a lot of accountants, a lot of financial types who are excellent at managing a financial spreadsheet and know how to use a financial calculator, but just have a heck of time managing their own personal money.

Scott: What's the reasons for that, from your experience?

Todd: First of all, they have a hard time considering all the things that they spend money on because psychologically there's a block. They simply don't want to know. They don't want to take it all into consideration and they always want to look at what's actually already happened, meaning reconciling in arrears.

After it's already happened, that's when they want to manage it. Then when the money is more than what they wanted it to be, their answer is either they're going to do better next month, which does you virtually no good if you're balancing a budget in arrears because you won't know how well you did the following month until the month is over again.

The other issue is their answer, oftentimes, to whatever that number is, "I'll simply just make more money," which is absurd because everybody can spend more than they make, no matter how much money you make.

Scott: So they're kind of justifying it in their own mind for the reason why they don't want to spend the extra time to get the budget down, track all the numbers. I know a lot of times I'll hear, "Well I just deserve it. I work so hard and I do this and I deserve this extra thing." Whether it's in the budget or not is a whole different subject.

Todd: When people do their own budgeting, that's a fact. That's a fact. They really can justify anything.

But when people do their own budgeting, they're looking at what they spend in fixed expenditures. So, envision people sitting down at their kitchen table, writing down all of their bills, taking a sharp pencil and a calculator and figuring it all out, then determining how many pay periods they have between now and the end of the month.

They take a deep sigh of relief, look at their spouse maybe, and say, "Thank the Lord! We're going to be able to pay our bills this month!"

However, when the end of the month comes, those very same people would swear to you that someone must have stolen the money out of the checking account because they don't have enough money to pay the bills anymore. The reason is because they only factored in their fixed expenditures, those being the budget items that consistently show up every single month, but they forget all about subjective and discretionary spending and the variable items such as hunting, fishing, going out to eat, Christmas, birthdays, Hanukah, anniversaries, hockey sticks, dance lesson, swimming lessons, getting the hair done every 6, 8 weeks, getting the oil changed every 3 months, putting the items such as home maintenance in, like getting the lawn done, tuning up the lawnmower, all the things that people do religiously but none of them find their way into a person's budget.

So the reality is their budget is messed up from day one and it isn't inclusive of even a fraction of the things that they're actually spending money on. Surprise, surprise! The end of the month comes and they're struggling to pay the bills.

Scott: I know that because just for ourselves I have a fairly detailed budget. Oops, forgot the roof could leak, and that's only $1,000. Forgot the air conditioning unit could go out. Well, that's only $2,500. Oh, the heater one is coming up in November; that's $3,000.

You're right; you don't add those. It's not like I got that spread out through the year in the budget, personally. So I can see how those things certainly happen and add up.

I think the biggest challenge, and we'll get into the process here in a few minutes. The biggest challenge is, especially if you're married, you have the spouse, what do you recommend to avoid what's become so emotional?

Like you've said before, you have 3 kids. The holidays are coming up. "Let's allocate $150 per child. What are we going to spend on each other for the holidays?

"What are we going to spend when the family comes over? Oh, your family's coming over, we'll spend $200. When mine comes over, we'll spend $100." Like that's going to work.

Because it's hard. How do you go to your spouse and say, "Let's cut costs here."

"When are you going to bring a bag lunch to work?"

How do you get through that emotionally, so you can not get in a wrestling match with your spouse and get on the same page so you can get over the hump to be successful?

Todd: Scott, it's a huge challenge, and you have to have willing participants. That's part of the trouble that you must assess at the onset.

Frankly, if life hasn't beaten them up enough yet, in some cases they're not prepared to relinquish any of that. So it is challenging. I wish I had the simple answers to that.

But what we typically do in that situation, the first and most important thing that we must do, is you've got to have people working together. I just utterly detest the notion that one spouse in a household is the one that handles all the bills and the other one is just absolutely oblivious to what's going on.

As you and I have talked and as you, in some degree alluded to, you have one person who has this silly notion that because they work hard and they make good money that that answers all of the problems, regardless of how the money stacks up. So they don't want to know about it.

Inevitably, the other person is always the spoiler of all the fun because they're constantly saying, "We don't have enough money." The other person says, "What do you mean? I work hard. What are you talking about?"

The reality is you got one person looking at the numbers and the other person doesn't want to look at the numbers. So until you fix that, until you have 2 people who'll come to the table willing to hold hands and do it together, you're not going to get anywhere, because you're going to have one person rowing in one direction and the other person rowing in the other direction.

It's tough to bring people together to do it, because I know that I have clients who, on a routine basis, have money management appointments scheduled with me. They will reschedule these appointments on a regular basis. I know why, because they'd rather go and have their teeth pulled out than come in and fix it.

But here's the other side to that. At least in some cases, people believe that the financial advisor is going to tell them what they can and can't spend their money on. When you pay somebody $200, $300 an hour, you almost, I guess, expect that.

But I can tell you in my own experience, for 20 years of sitting with people and this, I'm just frankly not that stupid. I am not going to tell the guy that he can't spend money on fishing and hunting and the wife that she can't spend money on shoes. There is no way!

They would walk out my door and say, "Who in the world does this guy think he is?" They'd be right. They'd be right.

So instead, what we do is we pull out all of the expenses and we come to a consensus. I make it a very comfortable environment for them, in that they feel comfortable that they can really tell me what they're going to spend on things.

You put limitations on things. You say, "This is what I'm going to spend and this is reasonable and I know that I can do this."

Now whether or not that number actually balances is an altogether different thing. But when you get to the end, you're going to look at the total expenses, including everything, and then you're going to look at the income, and you know what? It may not balance.

If that is the case, their first homework assignment is to go home together and characterize these different expense classes. Obviously, there are priorities as opposed to others, and they are going to determine how they're going to make that budget balance.

But it can't be just taking a pen and wiping things out and changing numbers, because the truth of the matter is I can do that for your budget, Scott. But that doesn't mean anything unless you're committed to living by it.

So wiping out a bunch of numbers doesn't mean anything. You have to know how that correlates in your lifestyle.

You can't say that you're going to spend $300 a month on eating out unless you have an exact number of times that that represents, because maybe you can't afford that much. So instead of going 2 nights a week, you're going to go one night a week.

But if you just have a number and it doesn't correlate with the amount of time that you're actually going to do something, when you go back to try to balance it, how are you ever going to do that unless you can tangibly say, "We're going to have pizza every 2 weeks or once a month," as opposed to, "We're just going to spend a number on all the times that we're going to eat out"? It doesn't work.

Scott: That makes sense. I can calibrate as I hear that, because I have that in my budget. You're exactly right.

If we don't break it down to the next step, "We're going to go to a nice restaurant once," okay that's once, and 3 other medium-level restaurants. Okay, we have 5 times to go out this month. Oh, it's the first 10 days. Looks like we got one time left in the last 2½ weeks here." I could see how that gets out of hand.

Todd: You know what? That's a perfect scenario that you just described, because that's the way that you can keep spending limitations on. But without that, it's kind of like saying, "Well, we're going to spend this amount of money for this particular issue," as though you're going to spend money on 15 people for the holiday season and you walk into the store with $1,000 and you'll just find a way to make it all work out.

You won't. You'll overspend. You'll overspend.

But if you say, "We're going to spend this much money for this thing, we're going to spend this much money for this, birthdays are going to be $50 for each one of our children, we'll do $25 for each of us, we'll do this for our siblings and our parents," you have it all broken down to the number. Then when you walk into the store, you have that number in mind, and including tax and everything else, you don't exceed the number. Makes it a heck of a lot easier than having one lump number, which really has no value in your mind.

Scott: So let's do this. Let's kind of walk people through the process. I know you've already started parts and piece of it.

Then at the end, I think you're going to tell them about a program you have or some software and how it can automate some of this. But if you met with somebody, again, can you walk us through the process you'd take them through, so our listeners can calibrate themselves, at least take some steps here that they could do either individually or with their spouse or significant other?

Todd: I certainly can, Scott, and thanks for the opportunity to do it, yes. What I do first is to sit down and establish the psychology behind the budget and reestablish or reinforce the notion that they really want to do this. It's kind of a big issue.

Once I do that, I go through basic things and I say, “Alright, we’re going to come up with categories. Each one of these categories within the budget may have multiple categories.

“Every time I tap on the desk, I want you to take notes. The notes that I have you take within this category are not so you can prove to me that you’re actually staying awake. These notes that you’re going to take are to be able to come up with the formula that created the number in the first place.

“So as an example, if we get to gasoline and you tell me, ‘Well, I fill up my tank every 2 weeks and it cost me $70 to fill up the tank,’ I’m going to take that number, $70 divided by 2 to get a weekly amount. $35, times 4.3 weeks in the month, and boom, there’s the number.”

If you don’t know the formula, you’re going go to be looking at an arbitrary number in your budget that has utterly no meaning. You may also break it down, in that particular instance, to the number of gallons that you’re putting in on a regular basis, knowing full well that these things fluctuate, but always want to round up. Not excessively; we don’t want to encourage people to spend more money. But by goodness, if it’s going to be in the budget, we have to have it in here.

Then we start walking through and I talk to them about things like let’s say utilities. Those utilities obviously can fluctuate quite wildly, depending on the time of the season. It’s ironic to me that many of the utility companies around the country will allow you to do a budget plan, but people are so unwilling to do that because they’ve heard all of these silly horror stories about getting hit up in the twelfth month, when they reconcile, getting a bigger bill.

The most important component within a budget is that you actually have an emergency backup plan or emergency funding, so it really shouldn’t be that much at issue. But the reality is that the more static your budget is, meaning the more dependable the number that you need each month to live, the better and easier it is to manage a budget, and especially, especially, especially for people who are self-employed, who will all tell you, “How in the heck are you ever supposed to do a budget when you don't know how much money you're going to make?"

My answer to that is pretty simple. You got 2 sides to money management. You got the income side and you got the expense side.

So if you don't know the income side, does that mean you shouldn't know the expense side either? Kind of absurd.

We walk through these issues and we go to the utilities, we go through the budget. We get to the water. We talk about, "Okay, do you have rock salt? Tell me a little bit about how much you spend?

"Do you have a water softener? Do you rent it? Do you own it?" We go through each one of these items, infinitum, and they take detailed notes on every single one of them, so we know exactly how they came up with those numbers.

You would be surprised at how much time it takes to do this, because most people would assume you could rattle those numbers off and in 15 minutes you'd be done. Let me guarantee you that when you do it the way we do it and when you do it right, you'll literally be dealing with this for 2 to 3 hours. That's how long it will take.

So don't think that you can sit down with your spouse real quick on a Saturday afternoon and whip this out in 15 minutes, or think that because you're just so much better at this that you can do it faster. Because all that says to me is you're just simply not doing it right. You go through every single thing that you have within a budget.

Now, once you complete this and you go through and you determine, as we've talked about, spending limitations on everything. Let me just give you some examples.

When I talk about special occasions, I'm going to glance right up at my big 60" LCD that I have in my office here. We put the budget right up in front of people, which is a little intimidating.

Christmas and Hanukah, you're Muslim, Jewish, Christian? Tell me, what are you?

Do you spend any money on those holidays? We go through what you spend. The food, all the things that you spend money on.

If there's gifts, if you go somewhere, if you do that. Every single one of those things is in there.

Then we have New Year's. Then we go to Thanksgiving, and then birthdays and anniversaries, yours, your family's, all of that.

Weddings. Do you have any wedding you're going to be in? Any wedding showers? Any baby showers?

Valentines Day, for you, your parents, anybody else? Easter, do you celebrate that? Do you put that in there?

Easter baskets, Easter dinner. Halloween, Halloween costumes, all of that.

Parties, Memorial Day, Labor Day, Fourth of July, Mother's Day, Father's Day. Do you go to the state fair? All of that is in there.

It's ironic. You get done doing this, Scott, and for just an average family, you'll be talking about anywhere from $2,000 to $4,000 by the end of the year.

By the way, that's not excessive. We've had people who are in the tens of thousands of dollars for these items.

Well, for the average family, my goodness, you divide that by 12 and you're talking about another car payment. People didn't even have it in the budget.

Scott: I'm sure as a minimum, yes.

Todd: Exactly! Exactly! Here's the other thing that we must also consider. When we go through all of those holidays, as an example, for many people the holiday season is very much upon us.

So does that mean we get to factor in that our $2,000 expense for the holiday season is going to be divided by 12? I don't think so. You've got 3 months.

So you're going to take that number and you're going to divide it by 12 after the holiday. But leading up to now, forgive me, leading up to now you're going to have to divide it by 3.

"We can't afford that!" Well, then a I guess you can't afford to spend this money, can you?

So you really have to have, as I like to call them, these are the real come-to-Jesus meetings. We're going to talk about this and you're going to have to come to the conclusion that this is all you have to work with and there is no more.

When we get down to the end of this and we are completed, we have a total number, surprise, surprise, 9 out of 10 times, believe it or not, the expenditures, the total expenditures are there. Also, too, as I talked earlier, I talked about the fact that we round up. Rounding up meaning we want to be wrong in the right direction.

So if we're off, things are better than what he had anticipated, that could give a person more consolation than what they're really deserving of. Because even though we're being inclusive of as many things as we can possibly come up with, guaranteed there will still be things that we will miss.

So insomuch as a person may take consolation in the fact that you've rounded up, believe me, you might be surprised that you may still not have rounded up enough because of other things that you haven't factored in. What do you give your kids for allowances? What about band? What about the Boy Scout cookies that you buy? Is all of that in there?

People say, “Oh c’mon! This is ridiculous! You can’t put that in a budget!”

Oh yes, you can! You put limitations on every one of these things.

A spending plan is putting limitations on what you’re going to spend. You get to clothing, tell me what you can live with; because whatever that number is, that’s all there is and there is no more, and when it’s done, it’s done.

So, once you get to the bottom, surprise, surprise, 9 out 10 people’s budgets don’t balance. Of course, it is not a good situation when it happens. You can just feel it coming.

They get to that and they want to justify. “Well, you know, we’re not extravagant people and we don’t do this.” Yeah, yeah, that has nothing to do with anything. Everybody says that. That doesn’t mean anything.

Scott: I’m sure the multimillionaire or multibillionaire says that, too. “I only take a few jet trips. I only got 4 houses, not 10, like my buddies.” So I’m sure everybody justifies that.

Todd: Absolutely! I’ll give you a perfect example. I had a gentleman who did exactly what I’m describing to you. Then we get to hunting and fishing and he tells me how he puts his hunting dog in dog schools every year and spends about $3,000 a year putting his dog through hunting dog schools.

It’s all a subjective thing, isn’t it? Everything’s relative.

But at the end of the day, the budget must balance. Even if you’re going to pay somebody like myself $200 an hour to do this, my calculator still works the same as yours does. You still have got to make a budget balance.

So there’s 2 ways to do that. Either #1, you make your money, which presumably most people are already doing everything that they can. So unless you’re willing to go and start seeking part-time employment tomorrow, chances are the other alternative, which is the only other one there is, which is you’ve got to stop spending the money that you obviously can’t afford to spend.

So there's 2 options to fix a budget that doesn't balance. Make more money or spend less or a combination of the 2. But there is no third answer.

Scott: I suppose because of the challenging credit market, as far as buying and selling a home, if somebody has a home that they probably realize is too big for them, they could say, "Well, instead of a $4,000 mortgage, if we got down to a $2,500," or whatever the number may be, that may be easier said than done. They might be willing to sacrifice to go into a smaller home instead of giving up the extra things they do but, like I say, it's not so easy to go sell your house and do that.

I suppose you've got to calculate all the expenses of the move and factor that into the budget also. Would that be correct?

Todd: Without a doubt, Scott. Here's the thing that I'll throw at you, having brought up what you just did. Isn't it amazing that nobody does this until after they've already made the major purchases in their lives?

People go qualify for a loan and they think, "Honey, they wouldn't give us the mortgage if they didn't think we could make the payments, right?" How absurd!

The truth is that when you go looking to make purchases, if you don't have a comprehensive budget that enables you to see exactly how much you're spending currently and what the new expenditure is going to do to your budget before you go saying, "We're going to purchase this," then you are literally playing Russian roulette. This silly notion that, "Honey, we'll just find a way to make it work," that doesn't fly at my place. I think that's crazy.

Scott: That makes sense.

Todd: You have to have everything in there. So they've got to make the budget balance.

But you know, everything that you brought up, for a lot of people who are really in a precarious position, at least maybe if they're in a position where things are going bad and maybe they're losing everything, but ironically they go through a foreclosure or they go through a major issue, but maybe for the first time they're actually going to use a budget before they enter into a lease or the purchase of another house, as bad as that whole situation is, it could actually transform a person into being a lot more fiscally responsible.

Regardless, once they do that, once they come back and they've made the budget balance, and for some people who are non-drinkers, they may actually become drinkers having tried to do that.

Scott: I quit a long time and I've considered starting again after you look at those numbers, yes.

Todd: They come back and they try to make that budget balance and they get it to work. Now, the main thing within the budget is that not only do we want our budget to balance but we want to be able to put away 10% of the total cost of keeping our, in essence, boat floating, we want to put 10% of that number away every single month in an emergency fund. As we look at the expenses, let's assume there's $3,000 or $4,000 or whatever that monthly number is, we also need to be able to put 10% of that number away and make it fit within the budget.

I am often asked, "How quickly can we pay the credit cards off?" I've always held that I would rather see you put more money away, make the minimum payments on the credit card. Get yourself accustomed to putting a portion of your money away every single month in an emergency fund, to begin to build a bit of a backup plan and acclimate yourself to living without that money.

So if you're going to push yourself against the wall hard, you find out if you can live without it. But more often than not, people will take every extra dime that they have and throw it at paying down credit card debt, which I understand why they do it.

The problem is the credit card companies never give you credit for overpaying last month when you can't make the minimum payment this month. Not to mention that in life, things always go wrong.

Let’s be honest. When in life do things ever, ever, ever go exactly as planned as it relates to money?

So when something goes wrong, having no backup plan, it takes a small pebble in the road to tip over your boat or trip you up. Here we go all over again, and all of those good intentions were all for naught.

So an emergency fund is probably the most important success indicator of the success of a budget in that they’re consistently putting a portion of their money away. The goal is that we want to have 10% put away every single month to a point where we have got 3 months of expenses for a W-2 employee put away.

Even for an individual who is self-employed, that’s a mile marker. Every financial advisor out there will tell you 6 to 12 months as a self-employed person, which I won’t disagree with Suze Orman and all the other folks who are out there. I’ll just simply say this. You’ve got to walk before you can run.

For many people, the notion of having 3 months set aside is almost utterly inconceivable to them because they’ve never had it in their lives. They’re 40, 50, 60 years old. Yeah, they got $300,000, $400,000, $500,000 and more in a pension plan, but they don’t have dime one in an emergency account.

Scott: That’ makes sense, Todd. Let me ask you this because probably a lot of people are going to listen to this and say, “Okay, that sounds great, but we did it, we got the detail,” after they probably had to go take a breath of fresh air outside to recuperate or something when they say the numbers.

So now they got over that. Their heart’s still beating. They’re still alive. Now you’re $500 to $1,200, $2,000 over on a monthly basis because you’ve added up all the stuff you’ve never considered.

Separately from the subject, for those people out there having a business not making enough income, which is a totally different subject, but let’s say that people who have a W-2 and are getting income, what do you recommend for those people? Where do you start cutting when you’re $500 to $1,000 or maybe 10%, 20% over on your monthly income? How do you go about cutting where you don't get in a wrestling match by the end of the night?

Todd: Perfect! First and top priority expense are fixed expenses. Fixed expenses or fixed expenditures, which are typical bills that can be consistently paid.

They may be bills that are paid every single month. They may be bills that are intermittent, that are paid every 2, 3, or 6 months. But they are fixed expenditures which can be consistently paid and the number remains relatively constant.

Those are the bills that need to be paid, and that is at the top of the food chain in our priorities in terms of cutting things out. We are not going to cut these out. These are necessities; they must happen.

Those are the things that will be paid automatically within our budget. We'll get into that more later.

But these things are going to be automatic. These things are required, no choice.

Second expenditure class. Second is going to be variable and/or subjective items, meaning these are pay-as-you-go items. Things like food, clothing, gasoline, and you will notice that clothing is an intermittent item.

But these are the things that kind of operate out of your back pocket, so to speak, in that you are actually doing them on a day-to-day, week-by-week basis, and generally cannot just send someone a payment each month because it may fluctuate and you do it as you go along. So those are those subjective variable items.

The third group, which is a distant third in terms of its priority, is the discretionary. Discretionary items are lifestyle items. These are things you love – you'll love this definition, Scott – not required to sustain life. How about that one?

Not required to sustain life. Really draw a line in the sand. And that is, obviously, where the budget is going to need to be cut. For some people, let's get real. These fun things that make life worth living, those are the things you're going to have to cut.

But at the end of the day, when you really look at it and you say, "You know, if I really want to get financially strong," and people will often only look at what they're giving up, but they don't understand that the security and stability of having money set aside, what that means to their overall demeanor and their general sense of well-being is so powerful and worth so much more than the frivolous things that you'll give up that are here today and gone tomorrow, that you can't imagine what a simple tradeoff it is once you actually enter it to it. But when people think about it, it's excruciating.

The truth is you draw that line in the sand and you say, "Alright, look, my family's sick." Picture this. "I've got major issues and I need to protect my family. It's really going to be a hard decision to take those things and cut them out."

It's not going to be hard. It's not going to be a hard decision, but you must do it with your spouse. You've got to do it together and you have to have agreement upon these issues.

What that means is some of the things maybe cut out altogether, some of the things you may be doing, to varying degrees, to make your budget balance. But without a doubt, the discretionary items like entertainment, dining out, vacations, those things are going to have to go.

Now there's certain things that you can do. There's holiday spending where I've seen some innovative things that people come up with.

One of them in particular, I had a gal in my office who said that she gave a coupon book out to each one of her grown adult kids. The way that she cut back on her spending was by simply creating a coupon book where they'd have a coupon and they would tear it out and call her up, and it was for one free home-cooked meal. The other one was a free babysitting for an evening out on the town, and things like this.

This is the way she overcame having to pay money that she, quite frankly, just couldn't afford to pay. I thought it was an incredibly innovative way to do that.

There's many strategies and you can pick up books and find out how to do that. But from the very beginning, you have to have a desire to do it. Because believe it or not, you can make your budget balance if you really want to.

Scott: It sounds like at the end of the day, if you go through this, if people listening say, "Let's commit to this for 90 days, cut out some of the extra frivolous stuff," maybe it feels like you're going to be missing out on a lot. But at the end of 90 days, you've met your budget, you have money set aside in your savings.

Then you've got to step in and ask yourself, "Was it that painful?" Did you really miss out on everything? Or do you feel better knowing you met your budget, you have money in the bank account, you have a savings account, and do you feel better about overall your relationships and do you miss the fact that instead of 20 times to dinner in 3 months you went twice and you actually cooked at home together for once? You bought a cooking book and experimented and had some more fun at it.

Todd: It's funny because a lot of people think that, when you're saying these things, that you're just making excuses. The fact is is that you're absolutely on the money, Scott. That is the truth, and it really does work out that way.

It's sad that most Americans can't imagine, again, in your own income, your own take-home pay let's say, 3 months. For a lot of Americans, they can't imagine that you would work that hard to save that much money not to buy anything with?

Because they save money, but they save money for one reason: they want to buy something.

But the idea that you can go home and you can sleep at night.

With all the things that my wife and I went through with my wife's cancer and my son's medical issues. I remember coming home some nights working until late in the evening and coming home and turning on the light in our closet and the light would shine down on my wife's face and I could see the tears that had streamed down the side of her face. She was looking up at the ceiling and the tears were there from all the bill collectors that had been calling us, the medical bills that we had. Even in her current state, how it was just beating her up and how desperately I wanted to provide some stability for her in our lives.

I tell you what, that was worth all gold in the world to be able to do that. I would appeal to people that this is really what it's all about.

When it comes to putting money away in emergency funding, remember in terms of priorities; college education, retirement planning, or emergency fund. There isn't even a question which one comes at the top of the food chain, which is the top priority. It is an emergency fund.

You put money away. Why don't most financial advisors talk about emergency funding? Because nobody makes any money on it, that's why!

Scott: I could see that coming, yes.

Todd: When you put $10,000 away in a bank account as opposed to Roth IRA, nobody makes any money on that. Everybody's so concerned at the rate of return.

Screw that! Just get some money put aside that we can talk about, then we can worry about the rate of return.

Scott: In today's market, zero is good for me. I would rather have zero.

Todd: But you know, and here's the other thing about doing that. You never want to have somebody take a lump sum distribution. People say, "Yeah, I got a bonus," or, "I got an inheritance," or, "I got my tax return and I'm going to fund my emergency fund with that."

I say, “Look, great. As opposed to not having it, love it!” But the truth of the matter is there was no discipline created by doing that. So consequently, it doesn’t succeed because people will take that money out as quickly as they put it in.

On the other hand, if you put that money into an emergency fund and it happens automatically – I’m going to get into structuring of bank accounts here – but when that happens and you grind it out month by month at that time, incrementally, you will have an appreciation and respect for that money that will not be derived in any other way. You will be so reluctant, once you achieve your goal of having that 3 months set aside, you will take out $1,000 for a bonafide emergency and you can’t get that money put back in there fast enough because you’ve become so accustomed to having that security blanket that once you’ve got it there, you can’t imagine living without it, and you will struggle to get the money put back in there and be in that strong, solid position again.

Scott: That makes sense. So we’re really talking about developing a new pattern, a new habit, of how you approach your finances and your budget.

Let me ask one question before you go into bank accounts and we’ll get into your solution and the software you have.

If you go through your budget, you’re over each month, you agree upon things you’re going to cut in the third category, now you don’t have enough for the emergency fund. But within your budget, you have so much each month going into an IRA or Roth IRA, should you stop that, fill up the emergency fund first, whether it takes you a year to do that, a year and a half, and once you have that in place then go back to contributing to the Roth IRA, in your opinion?

Todd: I would. I would because the reality is this, guys. If you can’t get to work tomorrow, you sure as heck don’t need to worry about the retirement account.

You need $2,000 because the engine blew up on the car and the warranty doesn’t cover it. If you’re going to have to take the money out of the pension plan and take a penalty, an early withdrawal, pay a penalty, look, whatever rate of return you were going to gain you've already lost anyway.

The fact is, you develop the discipline by funding an emergency account. You put yourself against the wall. You become acclimated to living without that money.

Once you achieve the first objective, it is very easy to take that same amount of money that you now have become accustomed to putting away for yourself and divert it to your investment accounts, your Roth IRA, your 401K or what have you. But first priority is having money set aside for bonafide emergencies.

Scott: That makes a lot of sense. So you're going to add a couple thoughts about managing bank accounts.

Todd: Certainly! Alright, now we did split up the individual expenses. So for some of the listeners to this, they're going to be familiar with a book that I wholeheartedly endorse. It's called *The Automatic Millionaire*.

It is all based upon systematic savings, and I absolutely embrace that notion because, as we've already talked, we're asking people to change the way that they manage money. Very honestly, I don't have a whole lot of faith in that because I've always believed that if it takes a lot of discipline to do this, well then maybe you should give up and go home because people just simply oftentimes don't have the discipline.

So what you really have to do is you have to create a system that is so good that it overcomes the failings of the human being. By that, I mean myself included. We all have these weaknesses.

I always say when we start a budget with a client, and maybe I should've said this right at the onset because I am so accustomed to doing this regularly, I will say, "Here's the way we're going to start this budget. The premise is this: I don't trust you and you don't trust yourself, and we do good, then that's it, because we have to have to consider the fact that most people aren't going to have the discipline."

And we can very readily demonstrate that by saying that if you take the appreciation that people build within their real estate over a lifetime and the amount of net worth that they derive from their pension plans at work, if we eliminate that from most people's financial portfolios and their net worth, you will find that people have very little money after that.

Now here's the question I would pose to that. If a house goes up in value in an appreciating market, you had to pay rent or a mortgage payment. Regardless, you are going to have to pay for housing somewhere, somehow.

So the fact that your house went up by 20%, 50%, 100%, does that make you a financial genius because you moved into that neighborhood or does that make you lucky? I would say that it's more about the fact, for most people, that home ownership was something they knew was valuable, but the fact that they actually had anything to do with it on a day-to-day basis is actually not realistic.

Now, if they actually have the discipline to leave the equity alone and not continuously refinance, I'll give them a lot of credit for that. But nonetheless, they're not looking at the money every month and deciding whether or not they're going to make the house payment. Because if they actually had that option, which, of course, they don't, they may not have done that.

When it comes to a pension plan at work, the reality is when people have money set aside every single month, they make one decision one time. But if they have the option every single month, the money in their hand every month and had to make the decision as to whether or not they were going to put it in their pension plan each month and it wasn't automatic, chances are it would never happen.

This is the way it is with real estate. This is the way it is with pension planning. Oftentimes, we need to have that people who are going to do it automatically.

When it comes to funding your budget, same situation. We want it to be automatic.

So if we have a number, we've determined this is what it takes to survive each day, a total amount that we're going to spend, let us say that that number is $4,000 a month. We've got income and we've found a way to make our budget balance.

Let us then assume that of the total amount that we need for fixed expenses, we need $2,500 per month. What we recommend is this. We have, first of all, the business or your employer who is going to automatically pay – because I do love direct deposit – pay your account, your personal account that you're going to operate out of.

But that personal account is going to automatically pay a separate account that you'll set up, which we will call the bill pay account. So of the $4,000 that flows into this, envision that you have one account at the bottom of the page, which is your personal account that's being funded by your employer or if your business is your employer, is being funded each month at a number that makes your personal budget balance.

Of that amount, which we've deemed to be, in this little story, $4,000, we have another account directly above it. We'll call that the bill pay account.

Of that $4,000 that comes in, let's assume that we have $2,500 that automatically is transferred into the bill pay account. The bill pay account is set up to pay each one of the fixed expenditures automatically every single month, through bill pay.

It doesn't need to be on the same day each month. It can be based on your pay cycles. But it will pay the mortgage on the fifteenth this month, next month, and the month thereafter. It will pay the car payment that maybe is due on the first, on the first each month, this month and those months thereafter.

It happens automatically, and at the absolute top and most important of the fixed expenditures that will be paid, there will be a separate savings account. That bill pay account, that second checking account that you have that is reserved simply for paying bills, for bill pay, that account is also going to pay your savings account automatically 10%, like we described, of the cost of total expenditures each month.

That account, if you're married, will be set up in both names of the husband and wife. So it takes 2 signatures to withdraw one dollar.

The notion is that you have to have a committee meeting and nobody can rob the piggy bank without talking to the other person. You're protecting yourselves from yourselves.

Scott: So the savings account, if you're married, each spouse doesn't have their own savings account? You have one savings account together?

Todd: You can certainly separate it out, but I want there to be a committee meeting to pull that money out. That's the main thing.

A lot of times this I'm describing for a couple will have it separate, but will have one person doing the same thing and they've got their group of expenses that they'll cover and the other person doing the other thing. But they are both on each other's accounts simply as a bit of backup plan, to guarantee that nothing goes sideways for them.

Scott: Okay.

Todd: They build that money up over a period of time. Now, the income that's left after you paid the $2,500, so of the $4,000, $2,500 is gone. The bills are paid. There's no stress.

Well, now we've got $1,500 left over. That is the money that, by goodness, you will learn to live on within your subjective and discretionary spending. There will be no more.

You will never take money from that bill pay account that is set up to pay those fixed expenditures. You will never transfer that money down and make some silly statement to yourself like, "I'll pay it back on Friday." That money goes up in there, it's gone. Here's the money you have to live on and here's the way you'll manage those accounts.

Now beyond that, I can talk about the software system that we employ to ensure that you never go beyond those expenditures. Would you like me to do that, Scott?

Scott: Yes, absolutely. Let's do that.

Todd: So now, if we did all of that, it would be wonderful except we would be in the same position as everyone else. At least we've got a balanced budget. At least we're separating ourselves to try to protect certain expenses that must be paid automatically every month. But we could still very easily spend more than what we make because we wouldn't know it unless we're reconciling on a daily basis.

What we use as a software program enables a person to see every single one of these expenses classes. It is all based on the concept of putting money in each individual account and literally not having separate accounts, but having every individual item separated, line items that are on your account, literally down to how much you're going to spend on each child.

So imagine this. If you had every single account set up in such a way that you knew our grocery bill, in a way that we can manage our budget, cannot exceed $500 per month. Wouldn't it be something to be able to look within as simply as checking your bank balance, which frankly everybody seems to do that but I think it's just a waste of time because it really doesn't tell you anything other than you happen to have the money in there at this moment. Nevermind all the other things that are going on.

But imagine if you could partition everything off and say, "Thus far, we have funded $500 for the grocery bill. And, to the dollar, we have so far, in the third week of the month, spent $297.32. Here is exactly what we have left to go to the end of the month."

When you go to the grocery, you have the number in mind and you don't exceed it. If you did that, if you had a system like that, it would change your life.

Scott: That would be amazing.

Todd: Yes, I know it would. I can tell you this: we are all human beings. And I'll tell you that with my sons, who are 20 and 21 years old, if they go off for the weekend and I give them $50 or I give them $100, here's the one guarantee I'm going to give you. They're going to come home with no money.

They won't be able to tell me they had a better time. They just know they won't have any money.

I'm sorry to say, but we're all like that as adults. But if you have limitations and you know what that number is, you will stay within that. But you at least have to have a semblance of what that number is for you to be able to even manage and control that spending.

If you had that in every single category and it was readily available to you, quite honestly, you could look at your cell phone and, in an instant, you could tell how much you have allocated for clothing, how much you have allocated for gasoline, how much you have allocated for wedding gifts; every single thing, and you could access it, boy oh boy, change your world.

This is the way you manage a budget and this is the way you become financially strong. Without it, you're really pushing an uphill battle.

Scott: That sounds amazing! I know my wife does an incredible job with our budget's detail. But as I'm hearing, of course, I'm thinking of different categories that are not in it.

We have a very complex Excel spreadsheet. For a period of time we attempted to sit down every Sunday for an hour and half, 2 hours. She would put in the grocery money for the week and all the different categories.

It was extremely time consuming. Of course, as you can imagine, kind of dropped off. We're so busy.

But I could see that that was the attempt. If your grocery budget's $500 or whatever it is a month, that was the challenging part. You kind of know how much you may have spent, but you don't know how much you spent in each category. Then if you have 15 categories, you're over $100 in each category, that adds up in a hurry.

Todd: Scott, the average family has more than 100 transactions in a month. That's the average family.

Scott: Wow!

Todd: That's a lot of checkbook balancing, isn't it?

Scott: Yes, it is.

Todd: When you consider the fact that people are spending from multiple, multiple tools, they've got the bank card, they've got the credit card, they've got the checkbook, they've got all of these different ways that they spend money, the bill pay system, to be able to put all that together and be able to have access to all of that readily, it just changes everything. It simplifies things and allows a person who maybe, quite honestly, doesn't actually have the discipline to do it. I'll include myself in that category. It allows you to be assured that you know exactly where you are and makes you strong and puts you in a position of strength when making decisions about your finances, because you have all the information in front of you.

When you think about a business and you think about MIS departments that give the company managers the ability to have those management information systems and those tools available to them to make major decisions, companies, corporations wouldn't consider making decisions without having access to that information. Yet in our day-to-day lives, those very same people who own and run those companies go home and don't have any such information at their fingertip as it relates to their personal finances. This is what we're talking about here, isn't it?

Scott: Absolutely! We'll talk about in a minute how to get a hold of your company. So, they call your company. Is this something that's online or they put it in their computer? How does that work?

Todd: It is simply a program that they will download. It is Internet-based. Forgive me; they don't download anything more than just the interface.

But it is Internet-based, so that you can access it from any computer, anywhere. You can even access it from a cell phone.

It does not actually transfer money into the account. It simply keeps track of everything with every tool that you use, credit cards, auto loans, mortgage. It even calculates your net worth.

All of it is available to you in an instant, and you don't have to take the time to do it. So it's very easy to use and you don't have to pay a lot of money for a software program. It's a fantastic tool. That's all there is to it.

Scott: That sounds amazing! So would they just call your office? Is that the way to get ahold of this tool?

Todd: It is. It is. Do you want me to plug it or are you going to do it?

Scott: I'll go ahead and do that for you. So what you want to do to take action is to call Todd's company, Armor Financial Services. It's at (763) 559-3800. Again (763) 559-3800. Armor Financial Services.

What's the name of the product, Todd?

Todd: It is called Envelopes.

Scott: Envelopes.

Todd: That's correct.

Scott: So that's the name of the software program you want to ask for. Install it, take action, and get it into play.

So what should somebody allocate to get it started? Is it something where you spend an hour or 2, get everything uploaded, update the accounts, get your information into it?

Todd: Pretty inexpensive software program, to be honest with you. The total cost is, I believe, about $150 for one year. It's a pretty inexpensive tool.

It is just a very efficient and effective tool. It is an ongoing cost each month, but pretty small, especially when you consider the fact that we do budgeting, Scott, for people who desperately need help with their finances. Yet you look back 90 days and they have $200 to $500 a month in overdraft fees.

When you consider those things and see that overdrafts are costing people $30 each, it doesn't take very long to realize that having a tool to properly manage your finances and eliminate that is more certainly worth $10 or $15 per month.

Scott: No question. Also a lot less expensive than a divorce, so I certainly recommend it to keep the marriage together, and even individually, because it's a tool for you to keep on track. It makes total sense.

Again, what would you estimate somebody, if they got the program, should they allocate an hour or 2 to get everything kind of uploaded, the categories in that area?

Todd: Yes, I would say that's about right. I would say work on it on a Saturday afternoon. It may take you a couple hours.

Maybe the biggest challenge is just getting it set up. But once you get it set up, it is just fantastic.

I will tell you that part of the frustration in ever using tools such as these is that people are very excited about doing things, but not unlike other things, their enthusiasm wains. We have found that, in a lot of cases, we will help people set up the budget, we'll create the budget in a way that I described for a person, charge them $200 an hour to create it, provide them with the software tool, the link, and the spreadsheet that we've created all these. And 3 months later, we call to do a followup and they've done nothing.

So we become frustrated with that fact, Scott. We now have employed people who literally will take the information from a person and upload the information and put it all together so a person can do it, and then teach them how to use it because, sorry to say, sometimes it doesn't happen.

I've had folks say to me, "Well, if you don't do it, it probably isn't going to happen. So just have your people call me."

Scott: I could see that, yes.

Todd: If somebody chooses, we can do that.

Scott: I could see that where some people if they're honest with themselves, they're better off to add it to the budget and just outsource it to your company and have them kind of upload and do the information for you if you're really not going to commit to it. Because a lot of people, it's changing a pattern and you really need to get some leverage on yourself.

I know when I used to go to a lot of the Tony Robbins seminars, he'd do something called a Dickens Pattern, where he would take you with some of your limiting beliefs or patterns and what's going to happen a year from now, 2 years from now, 5 years from now if you drag these same ineffective patterns or belief systems into the future, what's going to happen to you personally, your marriage, your relationship, your life, and all the pain and the challenges, your health and all the stress, and what's going to happen to you if you don't make a change.

Really, only you can put leverage on yourself emotionally.

Then the good news is once you adopt this new system, the opposite side of that is how's your life going to be different a year from now? You've used this system for a year with yourself personally, your spouse.

Now take that 2 years out with these new patterns. How's your life different? How are you enjoying things?

You see your friends that you haven't seen for 2 years. They look like they've aged 10 years. Now you look like you've gotten younger.

Well, all these things make a difference, right? And then 5 years. Now you have more time with your kids, you're enjoying life.

It really is life-changing. But you have to step into that experience. I just said only you can put the emotional leverage on yourself to be able to take action to do these kind of things.

Todd, this has been amazing. I have one more request, if it's okay, before we end the call. We're doing a very exciting call coming up in October, a very timely subject, which is going to talk about credit options if you have an issue where your home could be in jeopardy, if you know someone whose home's in jeopardy.

What are the differences between looking at bankruptcy, maybe a foreclosure or short sale when it comes to real estate and the short midterm and long-term ramifications on your credit? Can you kind of give us a little bit of a preview what we're going to cover in that call?

Todd: There's a lot of people in this country who have never been in a compromised position financially in their lives insomuch as they've never missed a payment in their lives. For the first time, they are finding themselves in unchartered water, where they have exhausted all of their financial resources in an effort to make their payments on time and do the so-called "right thing."

What happens is that, for many of them, they will exhaust those financial resources and get to the end of the rope and they will look for help as to what to do next. What is the strategy? What am I going to do?

They will find it nearly impossible to get any good advice on the subject of what will happen to me afterwards. You'll find plenty of people who want to sell the houses in the short sale and a whole lot of other people who'll want to take advantage of what's happening.

But the people who can actually help them strategically plan to get through this system or this situation, not very many people exist. So today, I can tell you that we have become quite the answer to those problems.

Many of those people will come to us and say, "Alright, Todd, I don't know what to do. I have exhausted all my resources and I know starting next month or the next 2 months I'm going to go down very fast and very hard, and I don't know what to do. Should I let my house go into foreclosure? Do I need to consider a loan modification, a deed in lieu a short sale as an alternative?

"Do I also need to consider bankruptcy? What are all the implications of these things? Most importantly, how do I rebuild myself and my credit in the future?"

We are literally deluged with those people and we are infinitely qualified to help with that issue. That's the topic we're going to be covering: strategically planning before, during, and after, to minimize and mitigate that negative impact and bring a person back on their feet within 2 to 3 years, and get them to a position where they can actually get back into the world, have good credit, and be far enough away from that major issue and now be in a good enough position financially and credit-wise so that they can transact and get themselves back into the world.

They are told, many times, that it will take them 7 to 10 years or longer to rebuild themselves. Don't you believe it! The truth is that in many cases it works out that way, simply because people don't have any strategies and don't know who to go to to get these strategies.

When I talk to people, they say, "I've gone to see my attorney. I've gone to talk to my attorney about bankruptcy. I've spoken to my CPA, my financial advisor, my mortgage person, my realtor. You've told me more in one hour than all of those people combined. I didn't know that this information was even out there."

So, that's the information we'll be sharing on our next call.

Scott: That's amazing! I know one banker I talked to last month, and the statistic may be plus or minus a couple billion dollars, but said even within the next 6 months there's about $48-billion to $49-billion of ARMs coming due. I wonder how many of those people would benefit from a call like this, that really emotionally could use a game plan, like you say. What are the options going into it? What are the best options, pluses and minuses and, of course, which nobody seems to really cover, what's the strategy once you get beyond that, to get back on your feet in the fastest way possible?

Because I know once you at least have a game plan, you know what to expect, it removes a lot of the emotion and the stress from the whole experience because you have a game plan and you know what to expect. I think for those who are part of this course who want to share this opportunity with others so they can be a part of this incredible course and get access to this call coming up next month, it could be really life-changing for many people.

So Todd, once again, I appreciate your insight and your incredible wisdom to help make a difference and share this information with people. Again, if you want to contact Todd's company, Armor Financial Services, it's (763) 559-3800.

Todd, it's been a pleasure once again. We look forward to talking to you next month.

Todd: Thank you so much, Scott. I appreciate the opportunity.

Scott: You're very welcome. Everybody have a great evening!

Todd: Good night.