

## Thinking Ahead

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A good budget is supposed to assist in coordinating income and expenses. For the most part they are used to make sure we don't spend more than we make. They also help you reduce risk by giving you guide lines you can use to determine if you are achieving your objective or if you are veered off track.

During the process of developing a budget we get a chance to analyze our income and expenses in detail. We generally have a pretty good handle on what our income is but the expense part is often nebulous.

I can't remember the number of times I have heard someone tell me they had enough money to buy a car so they did. They had the money to buy the car but didn't realize the cost of the car was only the start. Once you have the car now they have insurance expenses, fuel & maintenance expenses, parking expenses, toll expenses, etc. All these expenses can double the cost of owning a car. This is just one example of where putting together a good budget may have highlighted the real cost of a purchase.

There are three things you can do with your money, spend it, save it or invest it.

- If you spend it, it is gone. That nice restaurant meal you had last night, 24 hours later it's gone. That Cancun vacation you took, all you have left is memories, try buying a Big Mac with those. That new car you buy, gone in 10 years or less.
- If you save it you accumulate an emergency fund and you make a little interest. There is a thin book called "The Richest Man in Babylon" by George S. Clason espouses this very principle. It is a great starting point for anyone wanting to better their financial standing.
- If you invest it, you not only accumulate an emergency fund but you can earn a respectable return on your investment. The most important investment most people make is in their home. A car can also be an investment. You need a car to get to work to earn income. Yes the car will be gone in 10 years but during that time how much income will you earn because you have the transportation. Any extra features on the car that are not contributing to your transportation are basically spent money. That is you are not getting any return on these.

I mentioned emergency fund that should be pretty self explanatory, i.e. funds set aside for use in a financial emergency. The burning desire for a new digital TV or the uncontrollable urge to fly to Paris for a Christmas shopping spree doesn't constitute an emergency in my book.

Considering that in one month the rented TV gets repossessed, three months and the car is gone and in six months to a year the house is on the auction block, a good starting point might be to have an emergency fund that would cover your basic expenses for six months. If you loose your job then you would have six months to get another or sell off items before running into payment problems.

If you have a financial setback, a big hand is not going to come out of the sky and save you, there is one person who is going to clear this up and that is you. Even with an emergency fund the time to pull-in the reins, stop all discretionary spending and seriously consider your options is right when the setback occurs.

We can currently see the repercussions of not planning ahead as property foreclosures are occurring all around us and Hanover Square has its share. The adjustable rate mortgages many home buyers financed their purchase with are adjusting upward and out pacing increases in income. With the huge backlog of housing on the market right now, the option of selling the property to get rid of the debt is not as viable as in the recent past.

A lot of blame is being placed at the feet of the mortgage companies and brokers. You have to remember these guys are not in business to protect the borrowers, they are in business to make money selling mortgages. If they happen to protect the borrower in the process that's a lucky perk. Remember, Caveat Emptor (Buyer beware).

If you're not equipped to protect yourself, you should hire someone to protect you. You may say, well I've hired an attorney to protect me. Remember this, the primary responsibility of the attorney is to protect your legal rights, which is important but you also need guidance about the business decisions you will be making. The mortgage contract may be perfectly legal but the terms in it may sink your ship.

Where do you turn to make sure you make the right business decisions? Well you could ask your attorney but remember you will be asking him about business advice not legal advice. Real Estate agents, especially agents that own rental property because their interest is not only in selling property but also in making money with it which involves all aspects of owning a property including the financing, and management of the properties would be another choice. Remember in a real estate transaction the prime objective of the agent is to protect themselves and then their client. Are you getting the message here, there is only one person who's primary objective is to look out for your interest and that is you.

One important thing I learned from a good ole country boy who had learned a few things the hard way on his way to success was to "read all the documents". I would add to this "Read and understand all the documents". Your life will be a lot easier if you know exactly what you are agreeing to.

Ahead of time get your hands on a mortgage document. This probably won't be the same as the document you will actually use but it will contain a many of the same terms and have similar clauses. Buy yourself a Law Dictionary and a Real Estate Terms Dictionary. These can be had for under \$20. If you just don't want to spend \$20 you can go to the library and use theirs. If they don't have them ask the library to get them. Read the document and use the dictionaries to help you understand all the terms it contains. At first this may be slow going but you will pick up speed as you build up a knowledge base. A little time and a few bucks can provide you with some, cheap but valuable insurance against getting saddled with terms that don't favor your best interest.

Forget that 24 hour budget and really start thinking ahead. With a little practice it will become second nature and you will receive a return on this investment the rest of your life.

LMA

### *Final Thought:*

El respeto al derecho ajeno es la paz  
(The respect for the rights of others is the peace)

-- Benito Juarez (Mexico's Abe Lincoln)