IF YOU FOLLOW THE HERD

DOLLARS AND NONSENSE

YOU WILL BE SLAUGHTERED

Dollars and Nonsense

Transcripts for Episode 1: 3 Money Myths Threatening Your Financial Success

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3 Money Myths Threatening Your Financial Success

N: In this episode, we're going to be discussing the top three money myths almost everyone believes and why they're keeping you from the success you deserve. She's Holly, and she helps people find financial freedom.

H: And he's Nate, and he makes sense out of money.

H: This is Dollars and Nonsense. If you follow the herd, you will be slaughtered.

N: So money myths, we've tried to nail this list down as tight as we could. We're only going to talk about three, but I'm sure Holly would agree that we could do a lot more than three, but these three are the ones that have the biggest impact on people. So Holly, what is believing money myths doing to the mind of some of the listeners out there?

H: It's creating a sense and belief that if you earn so much money or you save so much money that you'll be okay for the rest of your life or you're going to reach success. I have a really good friend who, when he was younger, said, "When I make a million dollars, I'll get married, and I would have achieved success." And he wanted to do that by the age of thirty. Well he's now forty-four years old, and he's achieved the million dollars, but he still doesn't have enough to live on because more and more individuals are making more money today, and that's not enough for him, so the million dollars wasn't the end all be all. But he's still out there trying to discover what is that dollar amount he needs in order to feel that he has arrived or he is successful in his own right.

N: Right, and a lot of people would say, "If I can make a million dollars, my life would be a lot different." But you're right. If you're doing things wrong when you get the money, it really doesn't matter how much money you make. You can still wind up wishing you had more or wishing you had done more with it. And so people who believe money myths, and we all believe some. (I'm not saying I've come to knowledge and I know everything there is to know about money, I'm sure Holly wouldn't say that either ...)

N: There are weeds in our mind that grow that need to be plucked. And we're hoping to pluck a few weeds today in your mind that can let your garden and wealth grow better than you had thought it was.

And with that said, I think we can go ahead and get started with our three. The very first money myth that we want to talk about today is this idea of parking money. Now, Holly, what do we mean by parking money?

H: I would say that Nate means that you take your money and you deposit it in a bank, or you take your money and you put it into a retirement program. You take your money and you invest it into a financial opportunity. It's taking that money that you've earned and putting it somewhere that you believe you have access to it, but you have to wait a period of time before you can actually use that money.

N: Right, parking your money is something we've all been taught to do since we were little. You know, our parents said go open a savings account, or once you got employed go start your 401k, or if you're a business owner, you probably had someone knocking at your door – come open up this self-employed IRA. Or all these different things, and their whole goal is to have us park our money with them. And the longer that they can have it, and the more you put in, the happier they are. So why is parking money causing issues in people's lives today?

H: Really, the bottom line is, when you take that hard-earned money that you've earned and you put it somewhere that you can't use it, you don't have access to that money. Now, I'm going to take the retirement program or even the savings account, Nate, and most of us have been taught that you put it into a savings account and you earn compound interest, and that's a good thing. But what we don't realize is that we've given the bank our money, but the bank doesn't park the money that you've deposited there. They take that money and they use it, and they make more money. And if we really want to do with our money what the banks do with our money, (I mean, banks are in the money business) so really if they don't park money, why do we park money? It stops the growth or the movement of that money, and you want growth and you need cash today to live.

N: And parking your money, as you said, that's kind of following into the hands of what the big financial institutions want us to do in the first place, versus doing what they're actually doing. As you said, whenever you put your money into a bank or mutual fund or retirement program, it stops the motion of it for you—you can't access it, you can't control it—and it gains it for somebody else. And a lot of the times, we're the ones putting all the money in the game. And we're making very little of the profit. I don't know if you remember who's that guy, Jack Bogle, who started Vanguard, who said no one would buy a mutual fund if they really knew that you put 100% of the money in, you take 100% of the risks, but you wind up with 30% of the profits. And that's a lot of the times what happens in the financial world when we park our money. I have yet to really find someone who's extremely wealthy who's just gotten wealthy from parking [his or her] money. Most of them know how to use it to make money, instead of just letting someone else work with it. In fact, the only time you've lost money is when you gave it to somebody else hoping they could do better with it than you could. I find it a lot more fun to make money while it's under my control, keeping it in motion.

H: And how exciting it is, Nate, to think of even a retirement program, and I'm going to put my money in there every month, they're going to take money out of my check to put into this retirement program for the future, but I can't use that money or touch that money for ten, twenty, thirty years. Would that excite anybody that you're going to put money in somewhere that you can't use without penalty or taxation unless you leave it sitting there for a period of time? I know I wouldn't want to buy a car and be told I have to wait ten years or twenty years to drive it. And yet that's what we are doing with our money. We're taking it, and we are putting it somewhere where we can't use it, and it's our money to begin with, yet we don't have access to it unless we have to pay you to use our own money again. Who wants to pay somebody to use the money they earned?

N: And honestly, I find that that lifestyle, the one most of us find ourselves in with retirement programs, people are living paycheck to paycheck with a retirement program. They're causing themselves a lot of stress that they don't need to have. And it's because they lock all their money up. And that's the only thing we've really been taught to do is park our money, lock it up, and hope that it grows so that later on we can use it. Well right now you're struggling with credit card debt, business debt, car loans, mortgages, and we're paying interest out the wazoo to bankers, and we’re just barely getting by. Because all of our money is locked up. I’ve seen people with $50,000 or $100,000 or more in retirement programs, and yet they’re worried about money at this point and time where if you asked yourself as a kid, “Man, if I had $100,000, I wouldn’t have any worries.” Or whatever the number is for you, I’m just using that as an example. Essentially, we need to break free of the bondage that we’re in because anytime you lock money up, you give control of it to someone else, you can’t use it anymore; it puts yourself into a position of bondage. And that’s why this first money myth is so deadly. Parking your money leads to a lot of pain for your entire working life.

H: And, Nate, I even have clients who have $250,000 in retirement programs, yet they’re not old enough to touch that money, and they’re afraid to even go to the doctor because of what the Medicaid bill is going to be or what they’ll have to pay out of pocket because they literally don’t have any extra money to pay for that medical expense, so you put it off and you put it off until you actually saved enough in that emergency fund or reserve fund in order to then be able to pay for a bill, yet they have money that they’ve earned just sitting there waiting.

N: Exactly. It’s a shame. And it really does remind me of slavery. You do the work, but you don’t get any of the money. And the mutual funds of Wall Street, the biggest people in this parking money business, who thrive off you throwing money at them and never touching it, want to keep you as a slave. They want to keep you working for them where all the money that should be under your control is under theirs. So do the banks. So parking your money is not necessarily the best. In fact, learning how to use your money is key. And with that said, we’re going to have a quick message with our sponsor.

H: And that was a note from our sponsor, Living Wealth, who helps Dollars and Nonsense come to you every week. The first point in the top three money myths is that we have been taught to park our money, take our money and put it somewhere and leave it. The second point we really want to address in the money myths, and that you hear all the time whether you watch Suze Orman or listen to Dave Ramsey, is that you need to buy term insurance and invest the difference.

N: Yeah, this one is huge when it comes to the average individual, because we've all heard it. Now what [does] exactly "buy term and invest the difference" mean, Holly? I mean, when you say that, for those that haven't heard that, what does it actually mean?

H: So what it means is that you are going to buy term insurance, and term gives you maximum cash when you die, and it costs very little money. So really, you see advertisements on TV all the time for "$17/month you can get $500,000 in death benefits." That is money that is going to go to a loved one once you die. But the only way to have access to the money is for you to graduate from the earth. So if you were only spending $17 a month, the extra, let's say you're saving an extra $100 a month, the extra $80 there is going to be used to invest into some type of financial program in order to give you retirement for the future. And really most of us, though, are not taking that difference that we're spending when we buy term and going [and] investing it into something that is producing us any type of wealth or growth.

N: So really people understand they'll just go buy term, and whatever they would have paid into a whole life policy to build cash, they are going to go out and make an investment and hope the goal of that is, according to the proponents of it, let's go ahead and invest the difference because we'll go out and make a great rate of return out here in our investments. But the first issue with this, as Holly said, was how many people are actually doing that? It sounds okay, but as you said, very few people are actually going out and investing the rest. Most of us find a way to spend it elsewhere. So that can definitely be an issue.

H: Nate, also statistically, just when you think about term insurance and how it actually works, most individuals if they took that money they were putting into buy term insurance and went to Las Vegas, they'd have a better chance of winning if they bet it all in Las Vegas than they do of ever collecting on that term life insurance policy. So the only way you get to use your money is if you die, so you actually never get to use this money that you're putting into term life insurance.

N: Yeah, since only one percent of term insurance policies pay out, you're essentially paying for something that you hope you never get. Nobody wants it. It's a tough way to win. It would be more fun to win at a casino than it would be to win at the term insurance game. But the biggest issue that I see with buy term and invest the difference is that it kind of almost still follows along with the first point of parking money, [which] is once again, you're hoping that this money you're sending to somebody else is actually going to do well. And that they're going to do well with it, but of course, the quote invest means there's some sort of risk. And so it could be that you lose everything. If we go back to 2008/2009, there [are] a lot of people who had thought they had built up enough money to make it for the rest of their lives, and they were looking forward to retirement, and then suddenly it got wiped out. So it doesn't matter if they followed the buy term and invest the difference, they retired at an unlucky point and had to go back to work. And so the real key is learning how to build your money without parking and throwing it away and having some contractual guarantees. That's why we're big proponents of using a whole life insurance policy, built for cash, to help you build wealth instead of throwing it all into the market and hoping that it goes up.

H: And even in 2016 in January, you saw the market take drastic drops. And eventually, if you had money in there, you probably haven't even recaptured the money that was lost for retirement programs. So when you bought the term and you invested the difference, you lost out. I mean there [are] real-life people everyday that when they bought the term they got to an age where they could no longer buy terms. So they reach an age and the term has expired insurance. They didn't graduate from this earth in time. So they've spent that money, and their family has nothing. And they invested the money in the market; they gave control of their money over to someone else. And they have no money there. So they're left in their seventies with no reserve, and they have no death benefit to give to their family, and they have no money because of how it was invested or very little money due to inflation as well.

N: I know Dave Ramsey is a proponent of buy term and invest the difference, and he talks about when you're in your fifties, you've got your house paid off, you got a million dollars in your retirement program, your self-insured, you don't need insurance anymore, and so that's why it's okay to cancel the term policy or, as you say Holly, it's going to run out naturally anyway, but I think it's surprising the amount of people who actually believe buy term and invest the difference who really kind of wish they had life insurance who are in their sixties and seventies, and term insurance at that point is more expensive than whole life policy, and that's part of the issue, is that it may sound good, but if the returns that you make or the investments that you make don't come to fruition or there's another market collapse before then or things like this that do happen then you could find yourself without a policy and really without enough money to be insured that if you were to pass it would have an impact on your family's future. So I think it's a little bit more of a danger; it puts more of a risk on you. And that's of course, what you wanted to use insurance to put the risk on someone else. So buy term and invest the difference really puts a lot of risk on you and your ability to make money in the market or somebody else's, and so often it doesn't come true.

H: And, Nate, even in real life, as it happens, there are individuals, like you said, they just hit seventy and the term insurance ran out. They maybe bought it in their fifties for twenty years, and all of sudden, they're seventy-one or seventy-two and they have no term insurance, and the house is paid off, but that million dollars that they supposedly had in retirement program, they're realizing isn't a million dollars anymore. It's much less. And it can't cover their needs or the expenses that they have in life.

N: It's like comparing apples to oranges. In other words, you're comparing something that is volatile to something that's not. So personally I would much rather have a guarantee of a whole life policy to know that when I am seventy not only am I going to have this life insurance policy, but I'm going to have a lot of money built up without having to take any risk at all to get there. And then you can actually build a plan and know that you will have enough money to make it through, versus just hoping the market continues to go up. And if it doesn't, you can go to sleep at night. So it is like comparing apples to oranges to me. It's comparing something that has risk to something that doesn't. It's very difficult to make a fair comparison in that way. Wouldn't you agree?

H: I would agree. And I just want to say you don't want to wait for some tragedy to happen before you start planning for that future. And what I mean by that is I was speaking to an individual yesterday and they had the term insurance. The house is paid off. She's in her seventies. And within a few months of the term insurance expiring, her husband graduated from this earth a year ago. Now she has his 401k, there's $200,000 in that 401k, and she's earning $50,000, having to go back to work a year. Right? And how often is that money going to last her? If she lives for the next (she's seventy-one years-old) she lives for the next ten/fifteen years, is that $200,000 that she got going to be enough to last her for retirement? That's what she has to live on.

N: The chances are very low. You know, especially if she's having to replace $50,000 a year. That's going to be tough. You have four years of income there. Congratulations. That's a little bit scary. But a lot of people are finding themselves in that position. Especially if they bought into the buy term and invest the difference. You know, it's got all this fluffy, pie in the sky sound—it's very easy to sell. And that's why a lot of individuals promote it. But in reality, it hurts people. More often than not. Not saying it couldn't work. And I think Holly would agree, I would be terrible at investing in real estate. As my mentor Ray, the founder of Living Wealth, says, he's a terrible landlord. It wouldn't be for me at that point, but other people make a lot of money there. So it really is a personal thing on what you're actually good at and what you believe in. But a lot of people that believe that it's going to work ... things haven't come about like the guy promised, and now they're here without life insurance and they're wishing they had it, and they don't have enough money to be self-insured. And it really makes them a little bit scared at that point.

H: As inflation goes up, so does the cost of living. And they need more and more money to replace that income that was lost.

N: And that kind of brings us to a pretty good segue into the third money myth that we think almost everyone believes, and it's really keeping you from being successful. And that is the fact that retirement programs will make you wealthy. And most of us have been brought up to believe that retirement programs are the place where we put the money, but honestly, I've heard a lot of millennials who don't want to be involved in their 401k and their IRAs and things like that that their parents were because they saw how in their parents' lives it didn't really work. And so there's a little bit of a pushback to the conventional financial advice. That's what I've seen, that is, everyone needs to throw their money into retirement programs.

H: And also it goes along the same lines of do you believe a penny saved is a penny earned? And millennials are actually waking up to the fact that that actually isn't true. Just because you saved a penny doesn't mean it's a penny earned because at what a penny buys today it will not buy the same in ten years, five years, twenty years down the road. So really even if you don't take a penny, and you say I saved a dollar, a dollar saved today is a dollar earned in the future it's not the same. It won't literally buy the same amount of stuff that it will ten years from now. So they really are trying to ask other questions. What is a retirement program? And is a retirement program for me? And it really goes back to that we are taught to save instead of creating retirement income.

N: Right. And it’s this pie in the sky of this number. In other words, right now a million dollars still sounds like a lot. But I promise you, a million dollars twenty years from now won’t sound like it does today. As Holly said, dollars just get weak, and with retirement programs, you lock your money up. And you can’t use it, and the dollar you put in is not going to be the same dollar you take out. And with retirement programs, and you know this Holly, most people know this as well, but they don’t really register it; the retirement programs are touted as a tax benefit. But they don’t actually reduce your taxes; they just postpone your taxes. And the tax benefit that many people think they’re going to get is predicated on the fact that taxes need to go down in the future. Now I don’t know a single person that thinks taxes are going to go down in the future.

H: And, Nate, when’s the last time taxes went down in the U.S.?

N: It’s been a long time. What was it—Reagan? I think it was Reagan. [To] really reduce tax. Not just a temporary tax cut. I mean a full reduction in taxes. With 19 trillion dollars in debt, do we really think taxes are going to go down? I mean the chances are you’re going to be pulling money out of your retirement program that you’re thinking was giving you a tax benefit, but you’re going to pull it out at a higher tax rate than you put it in. And that tax benefit is going to disappear. It’s going to be a tax liability.

H: And, Nate, just think about when you were twenty- or thirty-years-old, your income was probably not as great as it is when you’re in your forties or fifties. You tend to earn more money the older you get and the more experience you have in life. And so this retirement program that we think is so great, that’s going to be tax deferred; actually, as you earn more money, you go up in the tax bracket, and as taxes rise, and you increase your wealth, you end up having to spend or use more of that money for taxes. So … even though it's tax deferred, it actually doesn't save you anything. In fact, most of the time you're going to have to pay more tax. The other thing to look at, when we're talking about retirement programs, is that you're putting the money in, but as the money grows you have to pay on the growth of that tax normally. And so what was a dollar, if it became five, you don't pay tax on the dollar you put in, you pay tax on the five dollars that it grew. Who wants to do that?

N: Right. And that's kind of the concept of paying taxes on the seed or the harvest. You know, you put in that one seed and you get ten years of corn back. Would you rather pay taxes on the seed or the harvest? And, of course, it makes more sense to pay taxes on the little amount versus the big. So the retirement programs, though they're touted to help you get wealthy because of their tax advantages, most of the time that's smoke and mirrors. It's much better to get into a tax-free environment, and there's a lot of ways to do that or think of ways to actually permanently reduce taxes, not just postpone them and hope for the best. And so that's one of the biggest. Another one that I've been discussing … is the fact that retirement programs, if you really take a look at it, of course, even as our tagline says, "If you follow the herd, you will be slaughtered," retirement programs are more based for the lower-income individual. Not saying that's necessarily a bad thing. But if you find yourself, and I didn't run the statistics, but … if I were to ask you the question "what do you think the top 1% made," I've asked that question to many people, and most of the time I get a million dollars. They think the top 1% makes a million dollars. But it's actually like $323,000; the top 5%—what is it $220,000. Top 10%—$125,000, the top 25% is something like $70,000. In other words, if you took a look at probably what your household income is, you're probably not an ordinary or normal individual. You're probably making more income than the average individual, the average family member. And though your income might be unusual, you're still using all the usual advice, and, of course, if you want to truly take yourself to the next level in wealth, you're going to want to take unusual advice just to go with your income. And the richest people in the world didn't get their riches in retirement programs. And we've spoken on this before potentially, but honestly one of the biggest issues with retirement programs is that they're 100% focused on having a nest egg. It's kind of an oxymoron to call them retirement programs because studies show they're one of the worst places to actually produce retirement income to live on. They just accumulate a number, but once you start getting the money from it, you have to pay taxes on it; you're hoping the money goes up. We can probably do a whole episode just on the lies that retirement programs actually produce you income.

H: And, Nate, really the key there in what you were saying is that your income is the key to becoming wealthy, not your retirement program. That's the myth. Your retirement program is not going to make you wealthy. It's your income and how you improve yourself and how you work with your money that you're earning everyday will determine whether or not you can truly get wealthy. Whether you lose control of that money that you're earning and you give it to everybody else or whether you truly come to understand the influence your income can have on your wealth and your future as well.

N: I totally agree. There's a big difference between locking your money up in the retirement programs and actually learning to use your money to do ways that actually help you increase your income. That's where you can truly find financial freedom. Locking money up in retirement programs has really never made anybody free. Probably just caused more stress than anything. And as we say people are living paycheck to paycheck with a retirement program. That's crazy to me. There's no freedom there.

H: There's not. And they have the retirement program and yet they don't have any cash to date to pay for their basic needs that they need.

N: It causes more stress than anything. So the top three money myths (almost everyone does believe them, but many times, especially if you're hoping for something better than the average person, if you're doing all the things that the normal people do, which we discussed—parking money, buying term and trying to invest the difference, and focusing all your energy on building your retirement programs) if you're following the crowd and doing these three things, that almost everyone believes is going to be the best for them, many times it's keeping you from being successful. And you'll find that if you break free from the herd and try something new, that you can actually buy into and increase your wealth differently, you may actually get better results than what everyone else is doing. Because if you do what everyone else does, you'll probably get similar results to everyone else. And if you look at, even you Holly, you've had a lot of stories you've told in just this episode about individuals who are in their sixties and seventies who have followed the advice and played the game right and done everything "right," following the rules, but they haven't actually turned out to be successful. It hasn't actually worked out. And that's a sad story.

H: And they worked really hard for everything that they've gotten. They've worked so hard. And they did everything. They parked their money. They bought term. They invested the difference. They put the money into that retirement program, believing it was going to make them wealthy. And they haven't even earned in their mind the success they deserve. They're still going to work everyday. Still making that paycheck to paycheck. Worried about where that next meal will come from. And they did everything everybody told them to do. And they never thought to do something different. And that really is why we want to expose these money myths is so that you're able to learn how to do something different with your money and not follow the herd.

N: Right. It's really just to have an awareness that there is other ways. You don't actually have to do what everyone else is doing. If everyone else was doing the right thing, there would be a lot more wealthy people in this world than there are today. You'd have a lot more money; everyone would have a lot more money if what we were all taught to do was correct. So you're exactly right. This episode will hopefully bring awareness to the fact that there are other ways to do it. And one of the best ways is to truly start taking control of your money. Don't park it for someone else. But take control of it now and start realizing there are things you can do today with your money by having your hands on it that can change the game for you down the road. Any final words, Holly?

H: This is your opportunity to learn more and we hope that you visit us next time when we talk more about retirement programs.

N: This has been Dollars and Nonsense. If you follow the herd, you will get slaughtered.

H: To get free resources and transcripts from this episode, please visit **LivingWealth.com/e1**.