

[Building Blocks of Financial Planning: Saving and Budgets]

Speakers: Tom Mullooly and Brendan Mullooly

Brendan: Hello and welcome to the Mullooly Asset Management podcast for January 3, 2013. This is Brendan and today Tom and I are going to be discussing some of the fundamental building blocks of financial planning, and more specifically, saving and budgets.

So, I think we're going to start with Tom's favorite quote about financial planning. Do you want to share that with us, Tom?

Tom: Yeah, it's really simple. It comes down to three words. It's save more money. And no matter what kind of sophisticated product, investment product, that advisors and brokers want you to get mixed up in, the end result is, you've got to save more money. You've got to save more than you spend and you've got to really just know your numbers. There's a lot of sophisticated products out there designed for financial planning, most of them are wrapped around things like life insurance. You really need to know what you're getting involved in. But the name of the game when it comes down to financial planning is three simple words: save more money.

Brendan: And you think three words like that, that sounds pretty simple, but saving money isn't really easy and it's really not popular either.

Tom: No, it's not. You know, we live in a culture now where we want to get the latest electronic gadget or we want to get a bigger house or a fancier car or—we're stuck in this trend, at least here in the United States, where we're in this spending culture. You know, most of the economy in the United States is driven by the US consumer, in fact 70% of the growth in the economy comes from me and you spending money.

In fact, back in 2007, we, as a nation, actually spent more than we earned. Not by a lot, only by a little, but think about this. If someone were to earn a salary of say, \$70,000, they may get take-home pay of \$57-58,000 after taxes and benefits and all other kinds of expenses, but yet we were actually outspending our gross income back in 2007. And of course, the recession in 2008 kind of whacked people back into reality and our savings rate climbed. But, you know, our savings rate in the United States has been the lowest ever for the last several years and it just

continues to bump along the bottom there. And every now and then we get a year like 2007 where we actually have a negative savings rate.

And so it's really counterintuitive or against popular mores today for people to say, "Hey, I'm going to save this money instead of spending." I think, you know, more people are starting to wake up to that, but there's still a huge amount of the population out there that can't wait to get their hands on, you know, the newest electronic gadget or, you know, something else that's going to give them short-term gain instead of, you know, instant gratification instead of something a little long term.

Brendan: Yeah. I think saving kind of has a stigma to it as well. If people could change like their attitudes or behavior toward savings, I think, you know, we could view that in a better light.

Tom: I completely agree. A lot of people look at the term budget like they look at the word diet. It's just something that they don't want to do and they don't think they need to do, but yet every year around the 1st of January, when people are making New Year's resolutions, one of the things you hear is, "This year I'm going to pay myself first." Well, that really requires a change in behavior and a change in attitude. I don't think people need to have an Excel spreadsheet with exact numbers like a budget and crunch those numbers every week or every month to stay in line. I think most people informally know, "Hey, I need X-amount of dollars every month for gas." "I need X-amount of dollars for food shopping, for my rent or my mortgage or for other expenses that come up each month."

The problem is that most people in the United States say, "Well, and if there's anything left over at the end of the month, that's what I'm going to save," instead of putting yourself last, you really need to put yourself first and say, "I'd really like to save X-amount of dollars this month," and then figure out, "All right, where else can I trim a little here, trim a little there, to make everything balance out by the end of the month?" But yeah, you're right, budgets are looked on like diets, they're bad.

Brendan: Yeah. And as we look at like spending as a habitual behavior, I think that saving could be viewed as the same thing.

Tom: You're right, it's really a change in the way we think about things. When I was growing up, I used to hear my mother ask my dad all the time, "Hey, you know, I'm going to go food shopping today, I need money." And between the two

of them, they knew exactly how much they needed for food, for groceries, each week. And they always seemed to work it out. My dad was a breadwinner, my mom stayed home with us kids, but after my dad passed away, the first thing my sister said was, "Mom, you really need to make a budget." And she looked at me and said, "That's the last thing I want to do," because she looked at it as pain, something that was going to be confining or restricting.

And I think when we hear words like budget, that's what a lot of people associate it with, it's like, "Oh, my goodness, I'm going to have to go on a diet." Well, I think you really need to know, formally or informally, how much you're going to be spending on a monthly basis, how much money you've got coming in, and how much is going out. But don't forget, that first thing that you've got to do is say, "I've got to set aside money for myself, I need to do things to take care of myself first," because it really does change your entire attitude if you're a debtor versus an owner.

Brendan: Right. And that's basically the reason why you should save, it's going to help the decision-making process that you have become smarter and better.

Tom: You're absolutely right. And you know, there's phrases that we've heard throughout history all the way back to biblical times, where we become slaves to debt. And it's true, because people say, "I work to pay my bills," which is really just a lousy attitude. But we also see it in a corporate culture when a business goes under and we see a business going through the bankruptcy process. The money that they owed, the bond holders, the debt holders, they're the ones that are actually called into the bankruptcy meeting and they're asked to split up the company. The bond holders, the debt holders, are the ones that actually wind up owning the assets of a company, and so it really is true, you do become a slave to debt.

In fact, when King George was running things in Great Britain, Oglethorpe set up a debtor's prison, which is now known as the State of Georgia here in the United States. They set up this colony and from 1733 until 1752, for that 20-year period, Georgia was a debtor's prison. If you owed money that you could not repay, they essentially shipped you off on a boat to Georgia and they gave you a plot of land and you were to become a farmer or to do something else productive to work off your debt.

But the main thing, like the point you were eluding to, Brendan, is that when you have money in the bank, or money socked away, you tend to make different kinds

of decisions. Suppose you were going through a scenario where you have no money saved, you have nothing in the bank, and the transmission on your car goes and that's \$2,500.

Brendan: Right.

Tom: It's really going to change things for you because it's going to push you further into debt.

On the flip side, if you had money in the bank, you could say, "You know what? I'm going to pay this off with the money I have saved, that's my emergency money." Or, "I'm going to put half of it away and I'm going to put half on a credit card." Or, "I'm going to work out some kind of payment system." When you have money in the bank, you look at the cost of things differently, and you start to place a value on, "Is it worth for me to take money that I've saved, I've worked for and saved, and use it for this expense coming up? It really does change your outlook and your decision-making process.

So in the sense of decision-making processes, you know, when we talk about different securities, in this particular presentation we did not, but any time we mention a specific security, please understand that we're not talking about a specific recommendation of Mullooly Asset Management. It's not like we're going into the past and cherry picking winners.

This video is not a recommendation to buy or sell any securities that we mention and furthermore, we also think that if you're relying on a podcast for investment advice, we think you're making a huge mistake. So we strongly urge our listeners to consult with their investment advisor before they make a decision to buy or sell any kind of investment.

Now, if you don't have an investment advisor, you can speak with us. You can find us on the web at Mullooly.net, that's M-u-l-l-o-o-l-y.net, or you can call us at 732-223-9000.

Brendan: All right. That's all we got for today, glad that we could talk about saving and budget a little bit. I hope that you learn something from it and we'll see you all next week on the podcast.

[End of Audio]