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YAMAN Coach

EMPOWERING YOU

Debt's Amore

Do you need to borrow to get a good credit score?

A person's credit score is used to evaluate the probability that he will pay back his debt on time. Some of the benefits of a good credit score are: 1) access to low-interest rates on credit cards and loans; 2) more borrower negotiating power; 3) higher chance of credit card and loan approval; and 4) approval of higher credit limits.

But please understand that debt is not a necessity but a mere option. "An option to what?", you ask.

Look at it this way. Just as you will need capital to start, grow and maintain a business, so too will you need assets to start, grow and maintain your household finance. Ideally, the majority of these assets need to be earning as well, especially early in life.

Now there are only two ways to fund the acquisition of assets, namely: 1) by using your own money; and 2) by using other people's money or, in other words by contracting debt. If you are able to save a

good portion of your income throughout life by not succumbing to laziness and instead by religiously following a sensible cash flow budget, there is a good chance you will not need to resort to borrowing to acquire assets (or occasionally enjoy some of the luxuries in life). You can own a home without the loan and fund emergencies from your cash for contingencies.

But while debt is an option, some marketers use it as a love potion to lead you into enjoying things now and not after several years of being wise with your money.

Believe you us, lenders will pounce upon a person who has the capacity to repay even just based on his cash hoard without even looking at his future income stream. That is the whole foundation for back-to-back loans that use cash as collateral.

Plus, nowadays, credit worthiness is not just based on whether you had been paying your monthly loan amortizations on time. Creditworthiness, especially for a person who has not borrowed a single centavo in his life, can be based on how prompt he

has been paying his utility bills.

On the other hand, please do not think that debt is mother of all evils. When wisely used, debt can serve as a multiplier to earnings provided such earnings are large enough to offset the size of possible losses as well as the cash outflow from principal and interest payments.

Are there rules of thumb in acquiring debt? There are three. One is that the repayment of consumer debt should not amount to more than 20% of net monthly income. Another is that housing loan amortization should not exceed 20% of gross monthly income. A third states that the total loan amortizations for all household debt should be no more than 36% of gross monthly pay. But remember, these are but rules of thumb. It would be best to really analyze your finances to better see what amount of debt you should contract as a tool to reach your long-term goals.

Debt's amore? Well, when huge debt hits your eye like a big pizza pie, that's a black eye to your finances.

Are you still playing the lotto? You would be better off giving away the money as the chances of winning are infinitesimally small. To be specific, the chances of winning range from 0.000019063% for a 6/42 game to 0.000002471% for a 6/58 game.

Remember that it is not just in lotto winnings that we can receive potential windfall profits. Windfall profit can be defined as a spike in cash flow arising from unexpected, one-time events, which can include inheritance, donations received, profit sharing bonuses, or even selling rare piece of memorabilia. So, if you receive windfall profit, whether from lotto or some other sources, here is our recommendation on what to do with it.

In life, we will always have goals, even in our twilight years. Such goals can have monetary equivalents. So, what needs to be done with windfall profits is not to spend them to your heart's delight but to use them to help accelerate achieving such goals.

And when it comes to deploying newfound wealth, the most effective and efficient way to handle such wealth is through what we call **EnRich™** CD-RW management.

If you want to use windfall profits to help achieve your future goals in life, you will need to put that money to work by investing it. You can also amplify the returns on your investments by responsibly using other people's money or debt. But what is important is that the additional net profits you earn from investing your windfall profit is reinvested until that time you need to withdraw to realize your goal.

You will need to be efficient in earning gross income from employment, your business and investments. In other words, you need to have a lot of net income left over from your gross revenues. Put another way, you need to have a high net income margin. This is the "C" or cash in **EnRich™** CD-RW management.

What to do with Lotto Winnings

As mentioned, you can amplify the earnings on your investments by using other people's money to acquire your earning assets. But you need to do so responsibly. This is the "D" or debt in **EnRich™** CD-RW management. If you do not borrow responsibly, the interest expense may end up being too big to prevent you from earning a high net income margin. Also, if you merely use debt to enjoy life today, there will be no amplification of your earnings. Instead you might end up suffering from a cash flow crunch because of interest and principal payments.

Your assets can be funded only from two sources, namely: (retained) earnings and borrowings as demonstrated. But a good portion of your assets need to be earning as well for you to achieve your goals efficiently and effectively. That is why most of your assets, especially when you are still young need to be earning assets. This is the "W" or wealth in **EnRich™** CD-RW management.

But what about the "R"? In planning your finances, the sequence should be CD-WR, with "R" standing for risk management. Once you have established how to reach your goals through CD-W, you will need to protect those dreams through risk management, which is essentially acquiring adequate life and non-life insurance where the payoff is 100% guaranteed.

The sequence transforms to **EnRich™** CD-RW management when it comes to the actual execution as no investment is fully guaranteed and we do not know when we will be called from this life.

So, when windfall profits come your way, think of **EnRich™** CD-RW management.

Editor's Note

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Cannot Buy More of Forevermore

You cannot buy more, of forevermore. Your time is allocated, to the portion dictated. Time is the most crucial, to goals most personal. Time makes goals affordable, and makes life enjoyable. So, make the most of your time, while you are still in your prime. Plan for goals way ahead, avoid goals being shed.

Talk to a **YAMAN Coach** today. They don't tell your fortune. They simply help you build it.

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