MY TWO YEAR STRUGGLE AND VICTORY OVER $35,000 OF DEBT: EVERYDAY ADVICE FOR THE NON-FINANCIAL GURU

My name is Michael James Lestock and I am a single, 28 year old former high school French teacher in Washington, DC. The $35,000 of debt about which this article is written was accumulated from September 1996 to July 2000. During this time I graduated with a Master's degree in French Studies and International Business from Auburn University, spent an awesome summer in Kentucky selling books door-to-door with Southwestern, and worked for seven months teaching English in France. All were very educational experiences; none were lucrative however. By the time I came to DC in May of 2000 to toil away in a non-paid internship program and find my first real job, I owed over $32,000 on my education loans and another $3,000 on my credit card. I knew that I would need a very good-paying job to have any chance to get out of this debt in the next few years. Luckily, I was finally able to find one teaching high school French in Southwest DC for $45,100 a year. "Not bad," I thought, "with this much money I should be able to pay off everything in two years." I excitedly went home after signing the contract and began to add up some figures basing all calculations on the fact that I would work at the high school for two years and not get a raise (one never knows).

I knew from some online information that my total tax liability would be approximately 31% which would leave me with a two year net income of about $62,000. After subtracting the $35,000 of debt from the $62,000, I was left with only $27,000 or ($13,500 a year) to live on. Was that possible? Was I crazy to think that I would really have enough income to pay off the entire $35,000 and cover my living expenses?

It was a nearly impossible goal but **not impossible**. I knew that I would have to miss out on a lot during these two years – vacations, the DC night life, shopping sprees, etc. But I was determined and had a definite plan in black and white. To me there was almost nothing more horrible than having a huge debt hanging over me. I told myself that I could either go through financial hell and pay off this debt in two years or slowly and miserably pay it off in the next ten. I wanted to begin to enjoy my post-college life and did not feel that this was possible chained to a wall in debtor's prison.

I will not go into payment by payment detail of what I did. But here is a brief summary: I decided to take care of the higher interest debt first, which was my credit card, and was able to pay it off from September to December of 2000. On January 16, 2001, I mailed off my first payment of $643.13 on my education loans. It was a huge relief as I was finally starting on the biggest part of my debt. Throughout the 2000-2001 school year, I continued to send in as much as possible after having paid my other bills each month. By June 18, 2001, I had sent in a total of $7,400. This added to the $3,000 credit card pay off meant that I had reduced the $35,000 by $10,400 to around $24,600. I realized, however, that this would not be sufficient if I wanted to be out of debt by June of 2002. A huge boost to my income during the next school year was what I would need. Fortunately, I was able to fill in the void as a part-time caterer and sent in my last payment on June 16, 2002.

Words could never express my relief as I pressed the *ENTER* key to complete the transaction for the last on-line payment. It had been a long and difficult, but tremendously enriching experience. I had learned some of the tricks of the trade of wealthy people upon which I will hopefully be able to build my own fortune one day. If there is one general statement that best summarizes my financial knowledge up to this point, it would be rendered by the following:

Most fortunes and retirement plans are not built overnight. Financially successful people plan very carefully and spend and save every dollar very wisely throughout their entire lifetime. One of the key differences between making your money work for you and having to work for your money until well past retirement age is a daily discipline of attempting to avoid as many financial pitfalls as possible while applying strategies to save and spend intelligently.

I call these pitfalls "budget killers" and have listed the main ones that I was finally able to learn how to elude plus some strategies that I utilized to stretch every dollar as far as it could go. Obviously there are many more that I could have added and you may not become a millionaire from following my advice. It is my sincerest hope, however, that this short list will be an excellent guide for those who are attempting to get back on their feet and organize their financial life.

NINE OF THE MOST NOTORIOUS BUDGET KILLERS THAT WILL GET YOU IN DEBT AND KEEP YOU THERE AND STRATEGIES TO COMBAT THEM:

1. Not planning a budget.

Have you ever met a financially successful person who did not have a well-established budget? Here is a simple plan: Subtract from your projected income for each month all of the money (or reasonable estimates based on past months) that you will need for essential items and expenditures such as groceries, mortgage payment, credit card bills, loan repayments, and mutual fund contributions. Then with the money that is left over, plan your expenditures on non-essentials items such as going out on weekends, vacations, and that state of the art home theater that you have been wanting. Now that you have a monthly budget, take this one step further by setting up one for a three, six and twelve month period so that you can plan ahead for such events as holidays and vacations. Remember of course to always leave aside some money in your planning for unexpected expenses such as medical emergencies.

2. Not keeping track of all expenses.

How can you know where you are wasting your money and why you never seem to have a cent to your name if you do have not everything down in black and white? Try this simple trick: Each month keep track of every single purchase that you make and each bill that you pay. This can most easily be done by hanging on to all of the receipts from every purchase and going over your checkbook entries and credit card and bank statements. In some type of program like Excel or Quicken make three columns, the first with the date, the second with the price, and the third with the item. Then add up all of your expenses for a monthly total. When you can see all of your expenditures clearly delineated, you will probably be amazed to see where every last cent is going and will most likely find a lot of fat to trim from your budget.

3. Spend paycheck first – pay bills later mentality.

One of many lessons from my days working with my father: In our restaurants, Friday evening between 5 and 10 pm was nearly always the busiest period of our week. Why was this? In my home town, a large percentage of its citizens were paid on Fridays. And what do most people do as soon as they are paid? They go out and spend money. But what about the bills lying in some heap at home? Those usually get pushed aside and are only paid – the ones that cover the essentials such as mortgage and electricity – at the very last minute. The rest are usually put back into the pile to gain interest and further ensnare the debtor. The financial successful person pays all bills and puts a certain amount into savings as soon as he/she receives the paycheck and then spends what is left over on non-essentials.

4. Dollar here – dollar there mentality.

I always remember a story that my father told me about one of his employees. My dad mildly scolded this young man for having put some packets of dressing in with this lady's salad who had already refused them. This employee retorted "What is the difference? That could not be more than a dollar's worth of product." To which my father replied "John [not his real name], how many chances will you have to save ten thousand dollars in your life – very few, maybe none. But how many will you have to save one dollar – tens of thousands, perhaps millions." That story has always had a very powerful impact on my life. It has guided me through all of my endeavors to save money and intelligently spend.

You see, most of us do not feel the slightest compunction in the singular event of wasting a few bucks. What we forget is that every time we waste money, whatever the amount, it becomes easier and easier to make the same mistake again until these singular events slowly become unconscious habits. Throughout a lifetime, these habits can lead to tens if not hundreds of thousands of dollars down the drain. Financially successful people count every cent of income and, equally, every single penny that they spend to make their money work for them as efficiently as possible.

5. Not buying things on sale.

In this capitalistic and technologically-advanced society, nearly every product is sold in numerous stores and on a flotilla of web sites. If you are willing to wait, you can find nearly anything that you are going to buy at a reduced price. Do you absolutely have to have it right now?

6. Dining out.

I am not advising anyone to completely avoid going to restaurants. I am only saying that frequently dining out as an alternative to cooking is very harmful to your finances. (And to your health as well – it is very hard to control the fat, sugar, oil, and salt content of anything that you do not make yourself.) A meal at the average restaurant can cost much more than it would to make it at home. Quite often the excuse "I do not have enough time to cook" is used. Here is what you can do to avoid that problem: Every Saturday or Sunday, set aside two hours to cook all your meals for the following week. You will find that you can cook enough food for one meal or several meals during the same amount of time. A stove does have four burners, right? This will make enough to last the whole week and means that you will only have to pop the food in the microwave each night to enjoy a healthy and cheap meal after a long day at work.

7. Impulse buying.

Why are there so many shelves full of items costing less than a few dollars at the check-out counters? One, the store planners know that they can always squeeze a little more dough out of you by trying to remind you of something that you supposedly need. Two, it gives the kids (or a spendthrift spouse) one more chance to beg you to buy something for them. My advice: Before putting the item in your cart, ask yourself these questions – Do I really need this? Will it be worth the money that I spent? Is it what I came here to buy? If you can answer "no" to any or all of these questions, you would probably be wasting your money. Come to the store with a definite list and promise yourself to stick to it!

8. Name brands.

Don't get me wrong. I have my favorite brands when I shop to which I am loyal and that I always buy. But that is rare. In all honesty, when you buy a name brand product that costs more, thus is supposedly of better quality, you are not necessarily paying for a better overall product. Too often, you are paying more for the same quality and value that you would find in the no-name-brand product. What jacks up the cost is quite often the advertising campaigns. Do you want to keep more money in your pockets or enrich the bank vaults of some deca-millionaire celebrity or ad agency?

And last but not least:

9. Not seeking financial advice.

Pecuniary knowledge does not just fall out of trees. It, like most other types of learning, must be actively, not passively, sought. I was lucky to have my father and his number one student, my mother, to advise me. If you cannot count on one of your parents or a close relative, find some other financially successful person whom you can trust to guide you along in the process. Also remember to constantly read and study financial publications and books written by millionaires and other successful people where you will glean tons of useful tidbits. *Bonne chance and bon courage!*

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