Secrets of the
Money Masters
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INSIDE...

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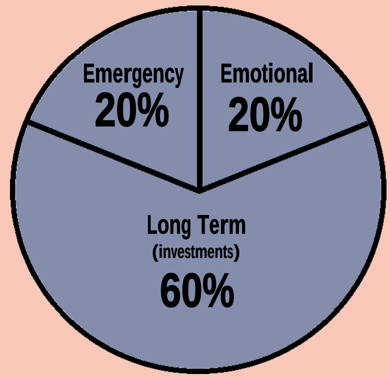
- Getting Taxed on the seed or the crop
- Tool for Success: Master Plan Software

According to a study by New York University economist Edward Wolff, the average net worth of the richest 1 percent of families was $9.7 million in 1997, while the bottom 40 percent averaged just $3,000.

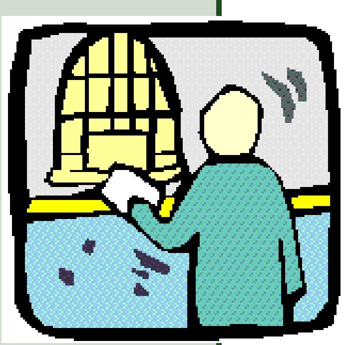
The 60-20-20 Rule

Looking at Savings In an Inspiring New Way



"Saving money has always seemed like a total impossibility to me," says Laura Preston*, a customer service rep from St. Louis. "I live for today and putting money away for the future just didn't thrill me because I wanted to see immediate rewards for all my sacrifice. Then I learned about Emotional Savings and that has made all the difference."

Preston is referring to the 60-20-20 Rule, a method of saving that makes the necessity of putting money away more realistic and enjoyable. Emotional Savings is part of that 60-20-20 Rule and it can change the way you feel about saving money too.



In last month's issue, you learned the importance of setting up a "savings" spending category, a means by which you pay yourself each month, the same as you would pay anyone else to whom you owe money. After tracking your spending, you should be able to find at least 1 percent you can spend into this savings category.

best way to make it work for you is to divide it into three categories: Emergency, Emotional, and Long-term (Investments). Using the 60-20-20 rule, you should allocate 20 percent to Emergency savings, 20 percent to Emotional savings, and 60 percent to Long-term savings.

Why split savings up in this way? Everyone knows they need money for long-term security and a solid retirement and that this will require the most amount of money to fund. So setting aside 60 percent of savings for this purpose is obvious.

Most people also realize that emergencies do happen, but few are prepared with available funds that they can immediately access when trouble occurs. But with a specific category of say 20 percent set aside for this purpose, it's more likely that a person will have the money available when problems arise.

The value of Emotional Savings is not so obvious, but we have found this to be the most rewarding category that people can spend money into. As Money Mastery Principle 1 teaches, money is more about emotions than it is about math, so it goes without saying that we will often spend money for purely emotional reasons. This, in and of itself is not a bad, thing. It is simply something we should plan for, just as we would an emergency or for our retirement future. In today's product-oriented society where we are often enticed to make impulse purchases, we will often spend money for things we want whether we have the funds or not. Saving money for emotional spending takes into consideration that there are many times we need to spend money for reasons that go beyond the categories we have assigned for basic daily survival. Tracking money will help you balance your spending to your income, but it will not be enough when an emotional event occurs. You must put aside even more money so that you will be prepared when these emotional events arise.

What are some of the emotional needs for which you should be saving? Typically they include such things as family vacations, holidays, or new recreational vehicles. Some people use their emotional spending money to purchase clothing for a special occasion, to buy novelty decor or to treat a family member with a sur-

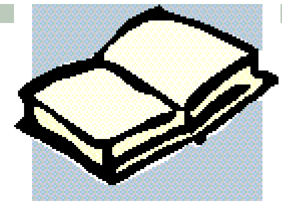
(continued on page 2)

Money Mastery®
Principle Based Money Management

The Secret Principle

Once you have found that one percent, the

Book Review



Tax Strategies by Sanford Botkin

Today's Most Comprehensive Workbook For Saving Tax Dollars

Tax Reduction Institute
www.taxreductioninstitute.co

Tax Strategies is part of Sanford Botkin's popular nationwide tax saving seminar. It is a comprehensive workbook that emphasizes the tax saving tips Botkin teaches in his informative lectures. Over the past 10 years, Botkin has taught more than 50,000 taxpayers how to legally and ethically save anywhere from $2,000 to $10,000 on yearly taxes through his seminars and easy-to-follow *Tax Strategies* workbook.

Tax Strategies begins by dispelling several myths that many tax payers have been taught to believe including the idea that it's an accountant's job to take care of a taxpayer's taxes. The workbook underscores the foolishness of this notion and helps readers see the importance of taking personal responsibility.

Tax Strategies then outlines the methods for completely audit-proofing a tax return. To do this, Botkin spends considerable time on the importance of documentation and how to properly record tax deductions so that they may be taken with confidence.

The workbook then outlines, in detail, the importance of starting a home-based business and how this saves serious tax dolla how to maximize deductible entertainment expense how to combine personal pleasure with business tra el, how to hire and lease from relatives, and how to get maximum automobile deductions.

Tax Strategies is chocked full of flowcharts an graphs outlining how to determine if a travel expen is tax deductible, how to figure the depreciation on cars, how to properly record tax deductions and much more. Fully referenced to IRS tax code, the workbook also includes a chapter on IRS audits an how to properly deal with them and an extensive appendix with valuable resource information.

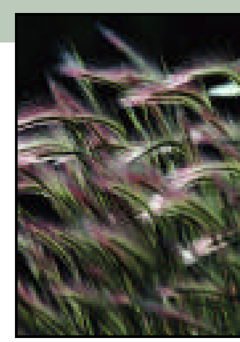
If you haven't been exposed to this important t saving workbook, now is the time to sign up for a T Reduction Institute (TRI) seminar. Call (800) TRI-0TAX or visit www.taxreductioninstitute.com today.

Remember... You can have anything you want, you just can't have everything you want.
— Money Mastery

According to the U.S. Economic Development Committee, by the year 2015, 77 million people will be over the age of 50 but only about one-third will be financial secure enough to retire.

Tax Tips

Taxed on the Seed or the Crop...Which Would You Prefer?



Taxes have such a subtle, yet profound effect on our money. That's why it's important to organize retirement funds based on how those funds will be taxed (Money Mastery Principle 8). By doing so, it becomes easier to see how taxes will affect retirement money over time. In addition, using calculating tools like the Money Mastery Master Plan software (see page 3 for more info) can help project how much money will be available at retirement age and what percent will be subject to some kind of taxation.

For example, without the tools to play "what if" scenarios with your money, it may be easy to get caught up in popular retirement and savings programs that may actually end up costing you serious tax dollars when it comes time to retire. Take 401(k) programs for instance. The argument for these plans is that when a person begins to withdraw funds at age 65, he or she will usually "be in a much lower tax bracket" than they were during their working years, so theoretically, they should pay much less in taxes. But that may not actually be the case.

Bart Croxford, a CPA writing for the *Salt Lake Tribune*, spells out what may be closer to the truth: "I have never seen anyone who promotes tax-qualified plans [such as IRA or 401(k) plans] run the figures through retirement. They run the figures to age 65...But in savings, as in sports, it's the final score that counts, not the score at half-time or even after three quarters. The real clincher...is the fact that with tax-qualified plans, one must pay taxes on the entire amount taken at retirement, *including the growth*, which accounts for the largest portion by far. Whereas on tax-free plans, one pays no taxes on the growth at all. In other words, one can be taxed either on the seed or the crop. With tax-qualified plans, one pays on the crop and on tax-free plans, one pays on the seed. One does not receive the tax deduction now, but he or she receives a far greater benefit by not having to pay taxes on the amount received at retirement."

Of course this does not mean you should automatically dismiss 401(k) programs, and we strongl encourage you to take advantage of matching contri butions your employer may make towards a fund. However, it is important to consider how retirement funds will be taxed in the long-run. For more information, read *Money Mastery: 10 Principles That Will Change Your Financial Life...Forever*

Wit & Wisdom
"The safest way to double your money is to fold it over once and put it in your pocket."
-- Kin Hubbard

Q: I want to start saving money, but I have such a hard time controlling my impulse spending. How can I fix this problem?

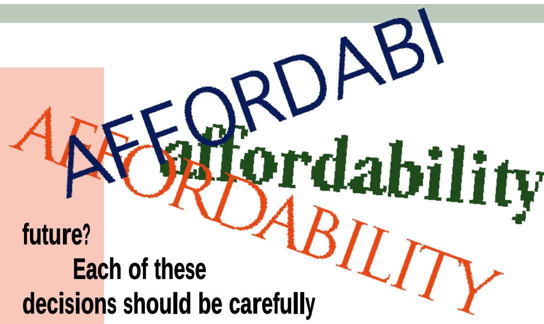
— David S., Phoenix

A: One of the best ways to combat irresponsible overspending is to become aware of what's called "The Spending Decision." Each time you decide to spend money, you should be considering the following three fundamental elements of the Spending Decision:

1. Utility: Do I need or just want this item? Do I like the color, taste, size, power, dependability, performance, etc., of the item?

2. Availability: Do I have the money "available" to pay for the item? Do I have cash in my pocket, can I write a check, should I use my credit card, will the bank give me a loan?

3. Affordability: Can I "afford" the item? Does it fit into my long-range goals? What *impact* will this purchase have on my financial future?



Each of these decisions should be carefully considered *before* you purchase something. We have found, however, that most people do not often give the third element any real consideration. In fact, most of the time, they think that because they have access to money in the form of cash or a loan that they can afford the purchase. Nothing could be further from the truth!

The most critical question of the three you should be consciously asking yourself is whether you can afford to make the purchase. Understanding the definition of *affordability*, along with solid tracking habits, will enhance your capacity to curb unrealistic spending over time.

Tools For Success

Master Plan Software

Money Mastery's Master Plan software is a powerful forecasting tool that allows you to play "what if" scenarios with your money. The software includes worksheets for setting up spending categories and tracking monthly and yearly spending habits, reports that reveal actual debt loads and how much time it will take to get out of all debt, forecasting tools that help you see how much your savings and investment programs will be worth over time, and worksheets that can help you see how much you will need to save each month to meet retirement goals and tax obligations.

No other software allows you to sweep all financial elements (spending, borrowing, savings and taxation) out to a future date and look at the results. By doing this, it is easy to play "what if" so that you can test how a financial decision made today will impact your future.

To order this valuable software program call: (888) 201-2524 or visit www.moneymastery.net.

The 60-20-20 Rule

(cont. from p. 1)

prise gift or getaway. Whatever the money is used for, it is important that it be spent on something fun, and not for routine, daily sustenance. When you have the desire to buy a new DVD player, or take a quick trip for instance, wouldn't it be wonderful if you could fulfill those desires by dipping into a savings account that has money you have actually put aside expressly for that purpose? Preparing for the need to spend money for purely emotional reasons eliminates reckless spending of the money that has been set aside for daily survival or long-term investments. It helps curb debt, and it brings wonderful psychological rewards immediately into your life and the lives of your family members.

How to Save Using the 60-20-20 Rule

Let's suppose that Hayden and Rose have a combined gross monthly income of $6,000. After tracking their spending, they find an extra $60 a month (or 1 percent of their gross monthly income) that they can use for savings. Hayden and Rose could do the following:

- **Emergency Spending:** Deposit $12 per month (which is 20 percent of $60) into a low-risk fund such as a certificate of deposit, money market account, etc.
- **Emotional Spending:** Deposit $12 per month (which is 20 percent of $60) into any type of savings or investment account.
- **Long-term Investments:** Deposit $36 per month (which is 60 percent of $60) into any long-term retirement account such as a 401(k), Roth IRA, etc.

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