



MONEY

A WORKING MAN'S GUIDE
ON HOW TO KEEP FROM GOING BROKE
By Understanding the World of Finance

BY: Michael L. Hill
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A Mini-book Cyber Publication

THIS WORK IS DEDICATED TO:

Yeshua Ha Mashiach
(Jesus, the Christ)

And

My Precious Wife and My Parents

Introduction

Before we begin it is important to set the record straight. I am not a Certified Financial Planner; tax expert or Certified Public Accountant. I am an average American who has been blessed to learn some fantastic principles, which have changed my life. I've made my share of mistakes; I've been nearly broke and I've been prosperous. I must say I do like prosperous better. It was my desire to write a book that everyone can understand, yet detailed enough to give real assistance for specific situations. It is my hope that I have succeeded.

This Book is intended to be a quick survey course on Money and Finance. It is by no means exhaustive. But, it does give the average working Man and Woman the basic Information that they need to manage their financial world. It is my hope that by using the information in this book, many people will experience the personal and financial fulfilment, which, I believe God intended for us all.

This Purpose of this book is to promote **SIMPLE LIVING** and **SUPERNATURAL GIVING**

Ladies and Gentlemen please strap yourselves in; we're getting ready to begin your

FINANCIAL JOURNEY

God Bless,

Michael L. Hill

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“Yes, the payment is in the mail!” Jim Caspion snapped. “Are you callin’ me a liar or somethin’?” he snapped out at the collections department manager.

Jim continued, “I’m really gettin’ sick and tired of you people calling here at my home and my work badgering me about these payments—I’m doin’ the best I can!”

With that, Jim slammed the phone handset down on the cradle and said “Now, does that answer your question?”

The payment was in the mail—technically. You see Jim had been skipping a payment here and there. He had been playing the Peter/Paul game. To be totally accurate, he had full intentions of putting it in the mail—as soon as he had the money.

His mind began recalling the incident at work earlier that week. His secretary, who had been screening his calls, came in with a list of calls—a full two pages worth—all were from collection departments. He could still remember the embarrassed, uneasy look that she had on her face. She just wasn’t sure how to hand this to him, but as she did she said, “Jim, is everything alright? I mean I’ve been taking so many of these calls that I can’t get anything done.”

Jim didn’t know what to say. He just looked down and rested his face against his fist.

She continued, “Jim, you know I’m on production here in the office; personnel watches what I do—these calls are lowering my productivity rating. I’m a single mom, and I need my production bonus every month just to scrape by.” She concluded, “You don’t have any idea how much I enjoy working with you; you’re the best boss I’ve ever had, but I really need this job. If you can’t stop these people from calling here, I going to have to file a report with personnel explaining why my production is down and I don’t want to do that to you.”

Jim was stunned. All he could muster was a simple, “I fully understand your position, I’ll see to it.” Then as she turned to leave he stopped her, “Jenny,” he was beginning to cry, but he managed to stop short of a sob, “You’ve been so good to me. Thank you so much.”

She was overcome by the broken-ness of his voice and the obvious embarrassment that her statements had just precipitated. She just said, “You’re welcome, Jim” and then as she wiped a tear from her own cheek she reiterated, “so very welcome!”

Suddenly, his mind recalled a fight between Janice, his wife of 15 years, and himself just two weeks earlier. They had been out to dinner at their favorite pub and as they were leaving the manager stopped them, pulled Jim to the side and said, “Mr. Caspion, I hate to address you about this matter, but I must. You have been such a good customer, but Sir, we can no longer take checks from you nor will we carry a tab for you. The last check that you gave us for your tab was returned to us for insufficient funds.”

“Just run it back through,” Jim confidently suggested, “I’m sure there’s been some mistake.”

“That’s possible,” the manager said, “but we ran it through three times over the past two weeks and each time it came back marked insufficient funds.” Then he offered, “ Since you’ve done so much business with us over the years we’re willing to overlook the service charges on the returned check but we can’t extend credit to you any longer, and please find some way to pay your tab over the next ninety days.”

“Thank you, Phil,” Jim replied. Then he rejoined Janice outside.

“What was that all about?” asked Janice.

“Oh, it was just some asinine mix-up about a check I sent them for our tab—that’s all,” he said.

“ What kind of mix-up—what do you mean?”

Jim leaned back against the building partly to appear relaxed and confident and partly to support himself because his embarrassment was making him feel somewhat unstable then he replied,

“Well, the bank must have screwed-up and not included my deposit in our account this month and so somehow the check for our tab here didn’t go through—that’s it.”

“What do you mean, that’s it?” she asked.

“I mean, that’s all there was to it.”

“Jim, you mean you didn’t know if we had enough money in the bank to cover what little we spend on eating out each month!”

“Calm down, honey,” Jim assured her, “it was actually a pretty large check.”

“What do you mean a large check?” she shot back, “We only eat out four times per month!”

“Well,” then he stopped and said, “Let’s get in the car and talk about this.”

“No, let’s talk it about it here. We’re here alone. Now tell me...” he interrupted her.

“The check was for several months of billing, OK?” He said patronizingly.

“How many month’s,” She asked.

“Oh, I don’t know...”

“How many, Jim!” She Demanded.

“A damn year’s worth, alright! Are you satisfied, now?”

“A year’s worth? How in the world could we not have...you not have paid them...how much was the check for, Jim?”

“Nineteen hundred and some odd dollars,” Jim replied weakly.

“Nearly two thousand dollars!” she screamed. “My g_d, Jim, have you lost your mind! You let us run up a two thousand-dollar bill just for eating out and then you give them a bad check for it? Jim don’t you realize that they could have you jailed for that much; that’s grand larceny!”

JAILED, GRAND LARCENY: those two terms still sent the same cold chill down his spine that they did when she said them. For all his aggressive confidence on the phone just moments earlier Jim was experiencing something that he had never known—absolute panic.

A thousand fears flooded his mind all at once: what if I loose my job; what if they foreclose on my house; will I be able to retire; what if I do end up in jail; What if Janice leaves me...My g_d! Will I be homeless?

Jim was in the house by himself. There was no one to comfort him, no one to reassure him; he felt terribly alone. He had sent Janice shopping with her friends and gave her the only credit card that had an available credit balance remaining on it. As he sat there, he reflected on the fact that, here he was a young 27-year-old executive who was on the brink of bankruptcy.

He and Janice were planning to have a baby before their 30th birthdays. They had figured that this would give them time to pay off their home and allow Janice to take a sabbatical from her work with multi-handicapped children. They both had such wonderful dreams for the future. Now, Jim even wondered of they would have a marriage; especially when Janice found out all of the poor decisions that Jim had made, and there was no chance of her not finding out.

The day before, the bank had sent a collection agency to enforce repossession on Jim’s Jaguar. He lied and told Janice that he had to put it in the shop and needed a ride home. He was glad that he had made sure that all of her car payments were current.

What was so ironic, though, was that Jim and Janice together produced an income of over \$100,000 per year. Both of them had come from humble means—from families of coal mining in West Virginia. Neither of their families had indoor plumbing until just recently, and that was because Jim and Janice paid to have it installed. Their families were so proud of them both. They were “the talk of the town” in their hometown. They were the shining lights which people referred to when telling their kids that “Jim and Janice made good, so can you!” If Jim’s Daddy had told him about how proud the community was of he and Janice once, he did it a thousand times.

“Boy,” Jim said out loud, “If they could see me now.” Jim was looking out of the window aimlessly. He was glad that he was alone in one way, though. There was no one to blame him for his foolishness—Janice had been incessant in doing that ever since that night at the pub. “Hell, she’s justified in blaming me!” Jim thought, and then just for a moment a thought came across his mind that was strangely comforting. “You know Jim, you’re worth a lot dead.” The thought continued, he didn’t know where from, “aren’t you glad you’ve made sure you paid your life insurance all these years. That would sure allow Janice to fulfill all her dreams—and you love her so much, that’s what you really want for her.”

Jim was sadly comforted by this thought. He remembered all the families, which suffered back in his old community when the father died and had no insurance or such a paltry amount of insurance that it barely paid for the funeral. “Those families went through hell!” He said out loud. Then he said, as if prompted by a force deep within the darkest corridors of his psyche, “I am one sorry son-of-a-bitch! I’ve let everybody who loves or counts on me down. Back home, at work and here with Janice. They would all be better off if I were dead!”—At that moment a dark depression and inner-hatred of himself began.

“Two weeks later, at twelve o’clock midnight a call came into the Fulton county emergency management office:

“Fulton County 911, what is your emergency”, the dispatcher requested.

“Yes, this is Charles Wofford, I’m travelling northbound on highway 29 just outside of Chamblee near the Wal-Mart super center and there’s a car, my g_d!” He hesitated, “there’s a car flipped over the guard rail and it’s landed head long into the on-coming traffic below—it’s torn all-to-hell!”

Jim was the driver of that car. Miraculously, no one else was injured. Jim, however, was dead. Jim’s blood alcohol level was 2.0 nearly three times the legal limit.

By the time Janice arrived at the hospital, Jim was already dead. She was hysterical; she wept uncontrollably as in-between sobs she blamed herself for his death. “Why couldn’t I have just kept my mouth shut!” she cried. “I killed him with every bitter word I said!” Even though it could not be proven, Janice believed Jim killed himself.

Jim’s insurance did pay, though. It had been issued three years before, so it would pay even for suicide—The policy had to be in-force for at least two years for the suicide exclusion to be satisfied. Oh, and he carried a substantial policy amount: two million dollars to be exact. Janice would be well taken care of, and of course, all his bills would be paid off.

Yet he left behind a widow which would never forgive herself for not being more understanding, more loving, more helpful, more responsible, more involved in their finances, or more supportive when her husband was in a dark fog—She would never be the same. He left behind aging parents who would probably die a little sooner because they lost the dearest thing in their lives. He left behind his life. Hell’s angels whispered that diabolical thought into his psyche that day, but it was Jim that created the mess in his financial world. That existence of that mess and his reaction to it stole much from Jim and all his loved ones. Debt by debt, bill by bill, signature by signature, day by day, Jim enslaved himself to an economic system, which operates by one principle and one principle only:

The rich rule over the poor, and the borrower is servant to the lender. Proverbs 22:7

No one has to fall victim to this kind of situation. There are principles of finance or money management that can make you free. I believe the Creator, God, established principles of finance which were intended to allow us to be free from the tyranny of an economic system which in many, (if not most) cases does not care about our particular financial needs. That is left to us. The more we understand, the more financially powerful we become—And the more liberated we become.

Let's begin the emancipation!

Section I

Our Understanding and Feelings about Money

According to Webster:

Money- Coin; pieces of gold, silver or other metal, stamped by public authority and used as a Medium of exchange; a circulating medium (means of motion); wealth; affluence

The Origins of Money

It's hard for us to imagine a world without money. We have been exchanging "ol' George" since we were kids. Many of us really did have a piggy bank in which we saved every penny, nickel, dime or quarter in hopes of having enough for something really great! Maybe a new doll, skates, pocketknife or something for our bikes. Without realizing it we developed views and feelings about money and what it could do for us. These ideas and impressions became so second nature to us that we may have forgotten about what money really is or how it developed.

In our modern world money has become abstract. In other words we accept the fact that money exists even though we can't see it. Let me give you an example from my own world. I am involved in real estate development and recently built some rental property in a high-demand tourist district. Each month I collect checks for these rentals, I deposit these checks at my bank and they give me a deposit slip. I go to the places where I shop for my groceries and so forth and I either give them a check or a credit card; they give me a receipt. It's very rare for me to use dollar bills but sometimes I do, especially if I'm eating where they don't take plastic.

Did you notice what happens? I never really used real money! "Oh yes!" You might say. "You did because you used dollar bills when you ate out sometimes." Think again. What does every transaction, which I described above, involve? PAPER! In every transaction, I used paper to either tell me how much I spent or to pay for the item itself. In every case I received something of real value without giving something of real value—Even the paper dollar bills. The real cost of producing an actual dollar bill is less than five cents. The only real value was the physical food, gas or clothes, which I had purchased with the abstract money.

If you're confused at this point, that's natural. I was confused the first time I heard this concept. But understanding this key point will forever change your use and feelings about money.

Now how did all this confusion come about? For most of human existence the most common means of exchange was the barter system. I traded you two bushels of corn for two bushels of apples. Maybe I wasn't a farmer, but I was a blacksmith, so I would take care of all of your metal forming needs if you would trade me so many bushel of the foods my family needed. No taxes, no banks, no middlemen, no salesmen, no grocery lines, no government intervention—It should have been heaven on earth—But it wasn't. The problem was, if you needed something outside of your community you may not have been able to barter for it, because what you could trade might spoil before it got to the person you were trading with; then it was useless as a tradable item. So, man came up with the idea of coins. Most every culture has valued gold and silver as having intrinsic value and even if a culture didn't, they soon did after the invention of coins. Coins didn't do away with the barter system when it was developed, but it did begin to raise the process of trading to an abstract level. Now instead of trading actual corn

for apples people were trading coins for corn and apples at a rate, which each trader agreed upon. The receipt of these coins transferred the value from the corn to the coin. This coin could be traded for anything anywhere. Commerce was on a roll.

Since gold and silver became universally valued, there developed an interesting problem. Everyone came to realize that gold and silver could be traded for anything, therefore gold and silver was the determiner of wealth. Wealth allowed you to buy anything that you wanted or needed, and so theft of these most precious metals became a problem. People started realizing that there needed to be a safe place to store these metals.

There arose around this juncture, the craft of silversmith and goldsmith. Some of these artisans came across an interesting trade in addition to their craft of shaping the metals. They built extraordinarily safe vaults in which to store their own gold and offered to store other's gold for a price. The goldsmith would give them a certificate for the gold he was storing with his signature, which showed that they actually did own a certain amount of gold. This was the advent of banking. Though rudimentary by our modern standards, this created a real institution. It was also the beginning of the second level of trading abstraction.

The goldsmith/banker soon found that people were fond of these certificates. They were less cumbersome than the gold itself and if lost could not be used by anyone else like the gold could. People actually started preferring these certificates. Since the certificates represented the gold everyone started thinking of them "as" the gold. Also, they knew that the gold did exist at the goldsmith's vault. This was the second level of abstraction but the third was right on it's heels.

Some goldsmiths began to discover that people were so secure with these certificates that they believed that if the certificate said that they had the gold, then they did. Over the years some dishonest goldsmiths gave out more certificates than there was gold backing it—But people didn't care! They believed that the certificates were the same as the gold. So, the goldsmith kept the gold and just issued certificates! This was the third level of abstraction.

"What a crook!" You may say. Well, don't be too hasty. His motives were crooked but the result was that his methodology became the basis of all of our banking and financial systems.

We've been operating off of the certificate system for hundreds of years now. We call it currency or dollar bills. But, the un-backed certificate was seen as foolish and evil, that is, until the last century. Our banking system here in the USA was based on the goldsmith system where a certificate equaled an actual amount of gold held by the goldsmith. In other words every paper dollar equaled a gold dollar.

The Great depression changed that, and led us into the third level of abstraction. There is a quite complicated series of events leading up to this point, which are too exhaustive for this text, but let's just look at the outcome and its effect on your understanding of money. The impact of the outcome was one, which not only involved the abstraction of money but also forever changed banking in the USA and the world, and to understand money, you have to have a conceptual picture of the banking system.

Our Banking System

The cause of the Great Depression, simply put, was that the banking industry fell flat on its face. Banks had been “bloating” the stock market by buying stocks at higher and higher prices. When the market rose, small investors, hoping to make a profit, would buy in. Then the larger banks would start a sell-off of stocks and cause a bottom-out of stock prices and would then re-buy these stocks from small investors as they started the next upward climb. Then as the invented climb began, the banks would sell at a substantial profit. On October 29th, 1929, their strategy failed. A sell-off of stocks sent stock prices plummeting—Banks lost billions—Their customers lost their life savings and their homes as banks, desperate to recoup their losses, repossessed the very houses of the people who had entrusted them with their money. In other words, the reason people could not make their mortgage payments was because the banks poor investment strategies had lost the peoples money, yet the banks still foreclosed on their houses. Needless to say, nobody really trusted the banks anymore.

Now remember, every dollar lost was backed by gold. This gold was minted and created by the United States Government. So, this loss hit everybody. Except those who were wise enough to get out of the market before the crash. The Nation was economically ruined. The unemployment rate was averaging around forty-percent. No One would make loans to help those who had lost everything because money was so scarce.

The following is an extraordinarily brief summary of what happened next. About this time the Federal Government instituted the Federal Reserve System to stimulate the banks to make loans and the Federal Deposit Insurance Corporation (FDIC) to insure deposits (up to 100,000 dollars) placed in banks that were members of the Federal Reserve System. Remember the dishonest goldsmith, well, they borrowed an idea from him. First, the government outlawed the hoarding of gold, then the government took the nation off the gold standard for backing currency. Finally, the government arranged that the Federal Reserve would encourage member banks to make loans so that people could rebuild. This is generally how it worked and still works today:

- A member bank would send, let’s say, \$10,000 to the Federal Reserve Bank
- The Federal Reserve Bank would send \$70,000 back to the member bank
- The member bank would loan local citizens the new \$70,000 of cash
- The citizens would deposit their money in the FDIC insured member banks
- The member banks would send the deposited monies to the Federal Reserve
- The Federal Reserve would multiply the deposits back to the member bank

The cycle would be repeated over and over again all the way up to this present day. Banks were now fully government regulated. Most citizens gave a sigh of relief.

The FDIC

The Federal Deposit Insurance Corporation gave and still gives much comfort to conservative investors like myself still today. But we need to be realistic about its true nature. It’s true that a FDIC insured bank will protect my deposits up to \$100,000. If you have more than that what you must do is go to another FDIC insured bank and deposit the other \$100,000 and so forth. But the FDIC doesn’t really have enough money to insure every deposit of every bank in the nation. Actually it has less than 10 percent of that amount at its disposal. What’s really backing the FDIC is me and you—All us taxpayers! It was the taxpayers that bailed out the Savings and Loan failures in the 1980’s—That cost

each of us tax payers approximately \$3,000 each—There wasn't nearly enough in the FDIC to make good on these failed banks. Is the FDIC better than nothing? Yes. Is it really safe if all hell breaks loose? No! Not at all!

This all means that a dollar is not necessarily worth one dollar in gold anymore. It could be worth more or less, usually less. It also means that the government "creates" cash that doesn't really exist. We have finally reached the third abstraction of money that the dishonest goldsmith had discovered--and everybody was glad about it. They had their certificates back. We've truly become comfortable with our "paper" money. But we're entering the last level of the abstraction of money: Cyber-cash. Soon cultural and technological forces will demand that our trading/spending will be done with nothing less than an electronic "blip" on a microprocessor implanted in our hand or forehead. Money just gets less and less real as the time goes by!

But don't be stressed, money never was real. The farther we abstract money the closer we come to the beginning. In the beginning man bartered based on some arbitrary value system, which they set among themselves. Things really haven't changed in the last 24,000 years! We've come this far to get to this conclusion: money has no reality to it at all. Maybe that's the reason that Jesus Christ told us two thousand years ago "lay not up treasures on earth." Money only has the value that we place on it and the value that we place on the things that it can buy. It is very important how we view money. If we view it with the wrong perspective we will find ourselves impoverish, unable to help others or ourselves. As you start you financial journey take this warning to heart:

**Cast but a glance at riches, and they are gone, for they will surely sprout wings
And fly off to the sky like an eagle.
Proverbs 23:5**

Money is merely a medium of exchange—Webster had it right after all!

Our Feelings About Money

You might be taken somewhat aback with me using the word “feeling” as it relates to money, but that is exactly what I mean. All of us buy things based upon how we feel. Some people buy all most everything based upon how they feel about it; while others buy very little based upon how they feel. It is a fact, though that all of us buy some things based solely upon how we feel about the product. We may not be aware of it, but marketers sure are. They spend billions of dollars annually studying and advertising to the public based upon the public’s “feelings” about their products.

I’ve really introduced two ideas here. The first I would like to refer to as our Base Motivating Emotion (BME). The Base Motivating Emotion refers to the feelings within us that stimulate us to act in a particular manner. These feelings are subconscious; as I said in the first paragraph of this section these feelings are “second nature” to us. We have built them day-by-day since childhood. They are truly a part of who we are, but not necessarily who we need to be.

The second idea is what is referred to in marketing circles as one’s Psychic Wound (PW). Here, marketers, after studying the emotional needs of a population of their market segment (i.e. females between the ages of 20 and 30) structure their advertising to try and transfer the good feeling that the potential customer wants to have unto the product that they’re advertising. The hopes are that the customer will associate the good feeling with the product when they see it on their local store shelves and buy it—Guess what—it works.

Understanding your Base Motivating Emotion

Try remembering the first time that you had cash of your own to spend. By “your own” I mean that no one was standing over you telling you how to spend the money—you were making all the decisions. How did spending it make you feel? Were you excited? Were you thrilled? Did you have regrets about what you spent it on? Did you look around at other more expensive choices and decide to save your money, put it with some more money and wait?

Whatever your feelings were at that time, they began to shape your Base Motivating Emotions regarding money. This is not to say that you couldn’t change these later, but those feelings associated with spending money for something which you wanted, began at that moment.

Environmental factors affected these feelings. For instance, if your home environment was such that you were unhappy, you might have seen the spending of money as the only time that you were in control, getting what you really liked, happy. If you found that spending money made you happy or “stroked you” you might be a big-spender. Let’s say that you had a demanding parent who looked at you to produce. The more money that you made on your paper route or lemonade stand the more you were praised. You might have come to associate your worthiness as a human being with the making and acquiring of money and the result may be that you became a miser and find your security in storing money.

The combinations are truly endless, but if you’re ever really going to get a hold on how you use money, you first have to spend some time discovering how you “feel” about money. In other words what about using money motivates you—how does using it make you feel good or bad about yourself.

These issues are very vital to your success in handling money. As the old saying goes “they can make you or break you!” Use them to make you. If you need a coach or therapist to help you, find one. Choose to succeed!

Understanding How Marketers Use your Psychic Wound To Make You Buy

All of us have some type of Psychic Wound. A Psychic Wound (PW) is a negative feeling caused from the constant recurrence of a painful situation. These “wounds” are deep and pervasive. They drive us to want something better: something to waylay the pain. They are usually the result of a poor relationship with someone who is close to us. However, they can also be the result of an unavoidably painful or stressful situation. Advertising companies study people through surveys to gain this information. They hire psychologists to give them advice about what would most likely help sell their products, based on people's fears, hurts and dreams.

Here are two classic examples:

Example Number One: there is a real problem with daughters who do not have a close, warm, personal relationship with their mothers. These young women have a deep Psychic Wound regarding their deep desire to have a loving warm accepting mother—they actually crave this relationship, because they have never had it. They try and try to get close to their mothers but because of whatever reason, these mothers won't fully accept the daughters. Marketers employed psychologists to discover this PW and then built an ad campaign around it.

I clearly remember the ad. Picture this: an older woman and younger woman are walking along a beautiful beach they are enjoying a wonderful peaceful time together. The conversation is warm and intimate and it becomes clear that this pair is mother and daughter. What are they discussing on this ad? Feminine Napkins. The company is hoping that the young female consumer will associate the good mother-daughter feelings, which she has just seen on TV with their particular brand of Feminine Napkins when she goes to purchase these products. They are counting on those feelings to become lodged in her subconscious mind. More often than not, it works—but only if she isn't aware of what they're up to.

Example Number Two: Marketers realize that many people, both male and female have a poor self-image of themselves. They feel powerless, less worthy and inferior to everyone else. This sense of inferiority causes them to go through life “existing” rather than “living.” This is their PW. It affects everything they try to do. It seems to them that everyone has more money, fun, sex and love than they do. Enter the credit card industry.

Most of us have gotten credit card solicitations. Notice the verbiage: You are such a responsible person that we have pre-approved you for a \$5,000 line of credit! Now some people would say, “what a crock!” But, to someone who feels withdrawn and un-noticed these words are like the affirmation, which they never got from their closest loved ones and friends.

It doesn't stop there; these credit card companies then advertise how their card can get you anything! Empower you! Make you Free! So, you start spending and enjoying this new found “freedom” and it does feel good to get something without worrying if you have the money at that very moment—that is

kind of freeing. So one day you've spent up to your credit limit, and you've only been making the minimum payment, which was, by the way, nothing but interest.

What do they do? You get another letter, it says: Congratulations! You are such an IMPORTANT customer to us that we are raising your credit limit to \$10,000! This is due to your fantastic payment history and we just want to say THANK YOU! Again, appealing to the person's low self-esteem.

You see these companies don't ever care if you pay the balance off—it's in their best interest for you not to pay it off. Why? Because, if you don't pay them off, then that \$10,000 every five years will come to them as nothing but interest. And you'll still owe them the balance! Does it work? Well, ask yourself this question, if it doesn't then why do companies spend billions using these methods?

How we feel about money does affect us. And how we feel about ourselves can affect our view of what money can do for us. Be alert, and don't be driven by those who would use your deepest emotional needs against you and then when you can't pay, harass you. Remember the warning of this proverb:

**Do not be a man who strikes hands in pledge, or puts up security for debts.
If you lack the means to pay, your very bed will be snatched from under you.
Proverbs 22:26-27**

Begin the path to true financial freedom—begin by knowing yourself and the world around you. The Apostle Paul left us these words nearly two thousand years ago:

**Owe no man any thing but to love him.
Romans 13:8**

The Seven Key Concepts About Money

These concepts are not all unique to me. I lived by them for many years, but it wasn't until I read a book Rich Dad Poor Dad, by Robert T. Kiyosaki and Sharon L. Lechler that I realized just how powerful these concepts were. Robert enumerated them in that book and I found myself saying out loud as I read the book "That's right, that what I've been saying for years!" Thanks, Robert and Sharon for helping to ordering these concepts for me. I highly recommend their book!

Concept 1 Assets and Liabilities

Anything that makes you Money is an Asset; anything that costs you Money is a Liability

Forget what you learned in Accounting; forget the other definitions that you may find in the dictionary, if some thing (Not people) cost you money it is a liability and you should be consider it expendable. In other words...Limit Your STUFF—it usually becomes junk quick. Live Simply! Accumulate things that make you money.

Concept 2

Make Money Work for You

*It is critical that you arrange your money so that it works for you...
... if you don't you will work for money*

Most people spend their whole lives working for money, week by week, month by month, then year by year. One day they wake up retired into poverty. Of 100 people retiring this year, born in 1937, on average:

2 are dead
8 are disabled
1 is filthy rich (as opposed to financial independent)
4 are financially independent
85 are dirt poor

Average ain't good. The average American is 30 days from homelessness. Don't be average and don't be normal—it will cost you and your loved ones dearly.

Concept 3

Your home is a Liability

Your home cost you money, so buy only as much house as you really need

Most people buy a home for how it “makes them feel.” You better check to see if your emotions are getting in the way of good sense, you can go over board either way. Balance is the key. Your home mortgage will constitute up to 33% of your gross income in many households. You may not need a in-home sauna and heated pool, but it may mean a lot to have a big kitchen that the Kids can always call “home.” Again, Live Simply! Enjoy Life!

Concept 4

Pay God First

*One Man giveth freely yet gains even more, another withholds unduly but comes to poverty
Proverbs 11:24*

I hope this doesn't offend my non-faith readers, but a giving spirit is the cornerstone of building great wealth. Andrew Carnegie, an industrialist said: “give ten percent and keep ten percent, if you do, it won't really matter what you do with the rest.”

Concept 5

Pay Yourself before you pay your Creditors

If you don't save money, you will always be in debt!

I'm not suggesting you be a bum! But you have to learn to see the big picture. You can pay off creditors little by little, declare bankruptcy or allow something to go back, none of which I'm suggesting you do if you can help it. But you must get the priority of taking care of your financial future before any creditor's interest solidly in your mind if you're ever going to succeed! While there are moral and financial exceptions to this concept, it will serve you well most of the time...it will force you to find creative ways to make extra money if you know you just saved what you needed to pay a bill with this month. Just think about it.

Concept 6

Never Say: "I can't afford it"

Whatever we say controls what we do and become!

Not one single businessman that I know of ever could afford to go into business. "I can't afford it" is a negative message sent right straight to our brain. It sets the tone on everything that touches our life. You can watch an adult child who has grown up under a parent that uses this phrase, they will usually always be talking about their lack and how much everything cost. They will usually be an employee always working for that "stingy old boss," you can find them buying lottery tickets to try and "hit it big" because right now, "they can't afford it"—whatever "it" is. This phrase stifles creativity in people; they stop thinking. Instead, start asking "How can I afford it?" That will get your juices working!

Concept 7

You Better Run Your Own Business

Even if you work for an Employer, you are still Self-Employed

There is no shame in working for someone else. All work is honorable. But never forget, you are always self employed—never forget it! The employer you work for is not your source, God is. God is blessing you, through your employer and your paycheck is your seed, not your source. You have to "plant" it in the right places and make it grow. Too many people are "eating their seed" instead of planting a garden to make the seed reproduce more seed. The most important business is "your business," your personal finances. All it takes to prosper is three Little things:

1. A Little **Time**
2. A Little **Money**
3. A Little **Discipline**

Every good business person needs to do three things and you will too—when it comes to running a successful business they have to do these things continually, I call them the 3 F's...

1. **Face** the Problem
2. **Fix** the Problem
3. **Forget** the Problem

Section II

Understanding the Financial World

Finance- The science of public revenue and expenditure; management of money matters

As you might have guessed from reading the last of the previous section, I really pay close attention to TV commercials and advertisements of every type. I recently saw a commercial from a large bank, which displayed a chaotic city where all types of financial terms and symbols were being strewn across the screen. It was a labyrinth of symbols, which created the complete illusion of fear and confusion about financial matters. The bank was advertising itself as the answer.

This advertisement told me something, which I think most of us know instinctively—the average person, is scared to death of finance! It seems so complicated that most people go through life unprepared for the future. In fact, some studies indicate that 95% of people retire into poverty and only 1% of Americans actually own their homes free and clear—no mortgage attached. That means that you have a 95% chance of retiring **impoverished**.

Most people seem more willing to discuss their sex lives than their money; yet, more people live depressed existences in their later years not because they didn't have a good sex life in their productive years, but because they didn't follow basic financial principles. What's worse, most of them probably didn't know what these principles were. Sex only goes so far!

What I am giving you in this section is what I call a “layman's” guide to finance. You can get really fancy with finances, but most average people really only need basic financial information to succeed. Not following the basics has ruined more “professional investors” than anything else. If you'll follow the basics, success is almost guaranteed.

The **Big** Picture

The Financial World is really sub-divided into several different segments. Knowing about these segments and what they can do for you is critical to your financial independence. Let's look at these segments.

Segment 1: Banking

Segment 2: Investments

Segment 3: Asset Allocation

Segment 4: Risk Management

Segment 5: Debt Management

Segment 6: Tax Management

Segment 1: Banking

There are basically three types of banks, these are:

1. National Banks insured by FDIC
2. Savings and Loan Association insured by FSLIC
3. Credit Union insured by NCUA (National Credit Union Association)

All of these types of banks insure deposits up to \$100,000 per depositor. Each of these has a different approach to lending and customer service. This difference could drastically affect what you want to achieve in life. Here is a very broad description of these differences.

National Banks

Most banks fall into this category. These banks vary in size from relatively small, like a hometown bank, to very large, like CitiBank. With the exception of hometown banks these National Banks tend to be chain-banks, that is, they have multiple bank sites in various locations across a region.

Features:

- They generally have a broad range of banking services.
- They tend to have a very objective (impersonal) approach to lending money.
- It is generally easy to do business across state lines with branch banks

Savings and Loan Associations

These are local hometown lending institutions. They usually specialize in personal loan situations and provide checking and saving services. They are usually only found in a single county or state.

Features:

- They generally have a relatively narrow range of banking services
- They have a very personal approach to lending money
- There are no branch banks if you're traveling out of state or town

Credit Unions

Credit Unions usually center around a large local employer or workers association. They, like, Savings and Loans specialize in personal loan situations and are usually in only one town.

Features:

- Fairly liberal lending practices
- Highly personal approach to banking; a fraternal “feel” among members
- No access to branch banks when traveling

As you can see you need to know what you want to achieve before you choose your bank. Choosing a bank is a very important step in your journey to financial independence.

Segment 2: Investments

Investments fall into two broad categories: SECURED and AT-RISK. I am making a distinction between Investments and Asset Allocation (Segment 3) even though Asset Allocation involves investing. Here is the reason. Usually when we think of investing, we are thinking of investing our money—cash. When we do this we have to consider the benefits versus the risk of putting our money into a particular financial product. Below is a table, which illustrates the relationship between total possible return on investment and risk of losing your money in that investment. **Notice that as the Potential Yearly Return increases the Risk Rating increases.**

TABLE 2.1

Risk Rating	
0	No Risk , Your investment is SECURED. Your Money is as safe as possible
1	Low Risk , there is a remote chance that you could loose your money—but not likely
2	Medium Risk , even though the risk isn't big, you could loose most of your money
3	High Risk : You could easily loose most, if not all, of your money
4	Very High Risk : You're gambling, you could loose more than what you invested

TABLE 2.2

Type of Investment	Potential Yearly Return %	Risk Rating
U.S. Savings Bonds, T-Bills, Treasury Notes	4 to 6	0
Bank Savings Accounts, Certificates of Deposit	4 to 7	0
AAA Grade Bonds, AA Grade Bonds	4 to 7	1
Money Market Savings Accounts	3 to 5	1
A Grade Bonds	4 to 7	2
Income based Mutual Funds	6 to 20	2

Growth based Mutual Funds	10 to 100	3
Blue Chip Stocks	6 to 12	3
Mainline Stocks	Unlimited	3
BBB Grade Bonds	6 to 10	3
Penny Stocks	Unlimited	4
Futures	Unlimited	4
Stock Options	Unlimited	4
Foreign Currencies	Unlimited	4

I have listed a broad range of investments in the previous table. For the average person who is looking to do as much as possible with the limited funds and limited time to follow the market, it's safer to stick to the following investments:

Low Risk Investments:

These include U.S. Savings Bonds, T-Bills, Treasury Notes, Bank Savings Accounts, Certificates of Deposit, AAA Grade Bonds, AA Grade Bonds.

Medium Risk Investments:

These include A Grade Bonds, Income based Mutual Funds and to a limited degree Growth Mutual Funds.

High-Risk and Very High Risk investments should **only be engaged in if you truly have “money to burn” or you have a very high NET WORTH**, which will be discussed in the next segment.

Segment 3: Asset Allocation

Assets fall into two broad categories as well: LIQUID and FIXED.

Liquid Assets are those assets, which can easily be turned into cash or already are in the form of a cash equivalent. These include:

- Cash in Banks
- Stocks and Bonds
- Mutual Funds
- Other Investments (see Segment 2)
- Cash-Valued Insurance Policies

Fixed Assets are those assets, which are only convertible to cash if a physical object, which has been purchased, is sold or collateralized (mortgaged) for its value. These Include:

- Your house
- Your car
- Your gun collection

- Your coin collection
- Your rental property
- Land
- Equipment/tools

As a general rule, it is a good idea to keep as much money as possible in the **Liquid Asset** category. **However**, if you have a **Fixed Asset** that is producing more income for you than you would get from investments in **Liquid Assets** (taking into account the investment's Risk Rating), then this rule may not apply. In that situation your personal life style factors become paramount.

NET WORTH

Net Worth is probably the most important; yet least understood of all of financial concepts. Without realizing it, this concept affects every working American who is trying to purchase ANYTHING of major value by the month. Here's what it means: Your NET WORTH is the amount of money you are worth if you add up everything that you own (LIQUID and FIXED assets) and then subtract the "balance due amounts" of everything that you owe. *Balance Due* is the amount that you would pay if you paid the loan off today. These amounts usually appear in the "Total Payoff" or "Total Balance Due" boxes of your statements or payment coupons.

Example:

Rick recently got his first job. He purchased a very inexpensive small home; a good compact used car and a new computer. Because he had no credit history he had to pay a higher percentage rate for everything he purchased. A year later, he decides to build on to the house and purchase a new home theater (\$10,000). He's been making payments OK and would just like to have something really fantastic so he could watch movies with his friends and play video games. So he goes to his bank and they hand him a financial statement, which ask him to list everything he owes and owns. What Rick doesn't realize is that during the past year the car and computer have DEPRECIATED. This means that because they're older now, they're worth less. Rick hasn't saved a lot of money in the past year he's been busy making payments. Rick's house, however, has APPRECIATED. This means that it has gone up in value over the past year. Now, Rick has no knowledge about any of this, but the bank sure does. Here's what happens. The bank APPRECIATES his house's worth by 1% for the past year but DEPRECIATES his car and computer by 30%! Here's a look at what that meant.

RICK'S ASSETS		WHAT RICK OWES		THE DIFFERENCE
House	30300	House	30,000	+300
Car	4000	Car	6000	-2000
Computer	1000	Computer	1500	-500
Cash in Bank	600	Credit Card	1200	-600
RICK'S TOTAL NET WORTH				\$ -2,2 00

TABLE 2.3

Rick probably won't get his loan. He owes more than he owns. In other words in Finance-speech Rick has NEGATIVE NET WORTH. Now if he had owned more than he owed he probably would have gotten the loan; the bank would have seen that he had a POSITIVE NET WORTH.

This example shows how powerfully NET WORTH affects our lives. What if Rick needed the money for something really serious, like medical care—he wouldn't have been able to get a loan to pay for it!

This example also brought up three of the most important concepts in ASSET ALLOCATION and NET WORTH. These are APPRECIATION, DEPRECIATION and EQUITY.

APPRECIATION:

Certain Fixed Assets appreciate; that is, they go up in value over time.

These Fixed Assets include:

- Site Built Houses
- Land
- To a lesser degree: Antique Autos (this changes with demand)

The difference between what you paid for an APPRECIATING Fixed Asset and what it's worth now is called EQUITY.

DEPRECIATION:

Certain Fixed Assets depreciate; that is, they decrease in value over time.

These Fixed Assets include:

- Mobile and sometimes Modular Homes
- Automobiles
- Rental Property
- Equipment
- Tools

As a general rule maximum care should be exercised when purchasing depreciating Fixed Assets. They should be bought at the lowest possible price. The only exception to this would be assets, which can be used to produce income.

Segment 4: Risk Management

Quite simply, Risk Management, is the process of lowering your the risk of loosing something which you could not afford to repurchase, replace or easily function without. This is done by either removing the factors, which would increase the risk, or by paying someone to cover the risk for you, or both. In other words insuring yourself against loss or fixing it so that you won't have the loss.

Example:

Sally is afraid that one day her house might catch on fire. So, she installs smoke alarms, a sprinkler system and has a direct emergency line to the fire station. She buys fire extinguishers and puts them in every room. After doing all this she feels safe...for a while. Then she starts to worry again. She reads statistics about similarly equipped houses and finds that with the precautions that she has taken, she is now in the safest category for surviving a fire. She has a 1 in 1 million chance of having a devastating

fire, which would destroy her life and property. Because of the sprinkler system, she discovers that the average maximum damage, which, she would probably sustain, would be \$60,000. Although she has done everything possible to reduce her risk of fire damage, she realizes that she does not have the \$60,000 to cover the damages in the event of this improbable fire. So, she pays her local property and casualty insurance company to share the risk; because of her precautions she gets the lowest rate. Then she makes the decision that because of the average maximum damage that she will only insure the \$60,000 amount rather than the total price of replacing the house—she saves even more money. Then she opts for a higher deductible, which saves her more money. Sally has just engaged in RISK MANAGEMENT at its finest!

So, RISK MANAGEMENT is the process of:

- Identifying your risks
- Doing all you can to lower the risk on you own
- Identifying the statistical probability of the risk occurring
- Evaluating what degree of the risk you are willing to take
- Considering the financial/emotional/lifestyle impact of the risk occurring
- Contracting out the balance of the risk (buying insurance)

Insurance

Insurance is divided into two categories OWNED and RENTAL coverage. There are several categories of insurance these are:

- Life –policies which start paying upon terminal illness or death
- Annuities- policies which pay a fixed amount for a determined period while still living
- Health- policies which pay based upon hospitalization or use of physician services or both
- Disability- policies which pay based upon one’s lack of ability to conduct their profession
- Property Casualty- policies which pay to replace property lost by accidents
- Liability- policies which pay for lawsuits occurring from the conducting of one’s business

Under these categories there are many, many products and types of insurance coverage. So, far however, only two categories of insurance can be truly OWNED. By “OWNED,” I mean that you have all the rights that you have when you own anything. You don’t pay for it anymore—it’s yours. This is an important distinction. Many people call them selves OWNING their own home, but “they” don’t own it; the “bank” does. Until the mortgage is paid off the bank has vested rights to “their” house. They are actually “RENTING” it from the bank until it’s paid off. Granted, paying a mortgage is better than paying rent because you’re building EQUITY.

The same is true of insurance. If you’re still paying for it then you don’t own it! We rent most of the insurance that we buy. Auto, Health, Disability, Term Life, Boat, Homeowners, Liability, Workman’s Compensation, Unemployment and many others are merely RENTED.

If some of you are insurance agents, you may be wondering what in the world I’m talking about by using the terms OWNED and RENTED in describing insurance. So for you I’ll take time to explain.

Renewable Insurance is RENTED insurance. You pay for the insurance coverage for a certain period of time, usually one year (yearly renewable term) and then you have to re-qualify for the coverage at the beginning of the new term at the new price at that time. This is just what you do when you rent an

apartment on a one-year lease contract. RENTING insurance means you have to keep paying but it's the cheapest way in most cases—don't be scammed, though, by "Buy Term and Invest the Difference," sales pitches, because term isn't always the best choice for your situation. Some of the types of insurance in this RENTED category are: Auto, Homeowners, Health, Disability, Boat, and Liability

Cash Value Insurance is OWNED insurance. You pay for the insurance coverage for a certain period of time and never have to pay for it anymore. This is just what you do when you pay the bank the mortgage payments for your house—one day it's yours! The downfall of this type of insurance is that to start out, it is much more expensive—but it doesn't stay that way. In fact over time it often cost less—if you're with a good company.

Types of insurance in this category: Life, Annuities and to some degree Long-Term Care

How to Choose an Insurance Company:

There are generally three types of insurance companies in the market. These are:

Mutual Companies- The policy owners own the company, legally, and the policy owners share in the profits.

Features:

- Usually very large organization
- Usually good prices
- Usually good return on money invested in products (IF OWNED)
- Policy owner has voting rights

Stock Companies- Stockholders own the company, policy owners have limited rights to share profits, if any at all.

Features:

- Medium to large size organizations
- Sometimes higher than Mutual Companies on pricing
- Usually lower return on money invested in products (IF OWNED)
- Policy owner has no voting rights

Fraternal Companies- Usually a small company; policy owners are members of company and share profits. Besides size, they're features are comparable to Mutual Co.

Rating An Insurance Company

Company Strength is very important when choosing an insurance company. You have to consider their cash in reserve, policies in-force, agents in field, quality of investments, and claim paying ability—WOW! Thankfully someone has done this for you! The industry standard rating services are Moody's, A.M.Best Guide to Insurance Companies and Standard and Poor's Guide to Corporations. All of these use slightly different rating markers but for Insurance Companies, A.M. Best scores are most often quoted. Anything less than an "A" rating from A.M. Best should tell you to be cautious. Ask the company their rating, they're supposed to tell you and show you in writing, but you should check it yourself as well. You can do this at the Library. Also, while you're at the Library,

check the Fortune 500 list that comes out every year. Look for the most well respected insurance companies in this list. That's one of the best places to start.

Segment 5: Debt Management

Debt Management is the process of arranging, choosing and withholding the use of debt to the ultimate benefit of the person or organization acquiring the debt. This can get very complicated and involved, but I'll try my best to keep it simple. There are two different views of debt (just like there are democrats and republicans):

The CONSERVATIVE View: All debt is to be avoided. Anything that you owe for is debt.

The LIBERAL View: Debt is a method, by which we stimulate our economy and enrich our lives, It is perfectly acceptable as a practice for a civilized society. Besides, only those loans which are UNSECURED are truly debt.

As usual, most of the rest of us are in the middle of the two extremes.

While I agree with the Conservative view, I still recognize that there are a few very select times when debt is entirely appropriate in our economy. But, the indiscriminate use of debt, especially UNSECURED debt is very dangerous. This danger is not just individual in focus but socially dangerous as well.

Learning to Discriminate Between "Good" and "Bad" Debt

I've been deep in debt; I know the anxiety—fear—associated with dreading the next phone call. Wondering if it is a bill collector trying to harass me into sending in a payment, which I didn't have. By the Grace of God, I learned the principles, which lead me out of that hole without declaring bankruptcy. So, I understand Debt!

If there is such a thing as "Good" debt it is SECURED debt. SECURED debt is debt that has been acquired by putting up COLLATERAL for the loan. COLLATERAL is something of value, of which the bank takes the rights of ownership interest, until the loan is paid in full. The collateral is usually that item for which the loan is acquired (i.e. a car, house, boat, etc.). This collateral makes the loan "Secure," hence the term SECURED DEBT. In other words if you don't pay the loan off the bank can confiscate your property and sell it and get their money back. Banks usually don't like to do this. Interest rates on SECURED DEBT are usually half the rate of UNSECURED DEBT.

UNSECURED DEBT is debt that has nothing backing (or securing) it but your signature. There is no question about it—this is definitely "Bad" debt. This debt is "easy;" it seems to cost nothing and give you such economic freedom and purchasing power, but it is the reason for many bankruptcies in the United States. Interest rates on UNSECURED DEBT can go as high as 33%. Usually they're at 18% to 21%. That means that if you don't pay the debt, it will double every 5 years!

Major Factors Affecting Debt Management

Grace Period-

The number of days from the date that the monthly payment is due to the time that you are charged either a finance charge (interest charge) or a late payment fee.

Interest Rate-

The percentage rate multiplied by the loan balance and then added to the loan balance each compounding period. Usually abbreviated as APR (Annual Percentage Rate)

Compounding Period-

The frequencies of adding/charging interest to the loan balance, usually every day or every month.

Periodic Rate-

The rate of interest charged at each compounding period. This rate is calculated as follows:

Periodic rate for daily compounding period: APR divided by 365

Periodic rate for monthly compounding period: APR divided by 12

Simple Interest Loan –

You can make extra payments and save interest charges by lowering the loan balance.

Installment Loan-

You cannot use extra payments to lower loan balance; you will be charged all interest charges that the installment agreement calls for.

Debt-to-Income Ratio-

The percentage rate found by dividing your total monthly payments for Secured and Unsecured debt by the total income you make each month, before taxes are taken out.

Credit Rating-

The score, which you are assigned, according to how well you paid your debt. This score is assigned by compiling information received from individuals, businesses and agencies, which are members of the local credit bureau. Your local bureau has your score. Banks use this in determining credit worthiness of potential borrowers.

There are many more factors which affect Debt Management but these are the Major ones, which can cause you the real trouble if you don't understand them. The best way to understand all of this mess is to see how it actually works. Let's look at an example:

Our buddy Rick has gotten a raise now. He's the supervisor at work. He's married now and has a baby girl on the way. His little house is just too cramped for a family so he and Sally, his wife, begin talking about buying or building a larger house. Rick goes to the bank and talks to the loan officer. He fills out another one of those financial statements. It will be approximately a week before Rick will know how large of a loan he will be qualified for.

A bunch has changed. He has paid off near one third of the original home loan. His cars are paid for and He and Sally have been able to save nearly \$20,000 in the last 5 years. Together they both have a GROSS INCOME before taxes of \$30,000. Rick and Sally have paid off all their credit cards and when they use them they pay them off before the GRACE PERIOD is up. Why, Rick hasn't paid interest on a credit card bill but once since he and Sally married—give him a break it was while he was on the honeymoon and he forgot about the DUE DATE being the end of the grace period. He watches it really close all the time. Sally has heard him mumble while he's paying the bills, "I ain't gonna pay them one dime I don't have to!" All he has left is the \$200 house payment. Rick has turned into a tough Debt Manager!

Anyway, back to the bank. Rick chose the bank in the first place because it was a Community SAVINGS and LOAN. He and Sally travel very little and use their credit cards when they do, so he never saw the value of a large NATIONAL BANK, which had multiple branches. Everybody knew him by name, knew what he was like and what his values about money were. They really meant it when they asked how he and Sally were doing and kept asking when the baby was due. Rick felt comfortable at this bank and they felt comfortable with Rick. Upon filling out the financial statement here were the results that the S&L Loan Officer was looking at.

Assets		Debt		Monthly Payments	Monthly Income	Debt to Income Ratio %
House	70000	House	42000	200	2500	8%
Cars	5000	Hosp.	2000			
Savings	20000					
Ckng.	1000					
	_____		_____			
Total	96000	Total	44000			
Rick and Sally's Net Worth						\$ 52,000

TABLE 2.4

Ray Holister, the Loan Officer called Rick about a week later. Rick went by after work and this was the deal: "Rick," Ray asked, "I know you're expecting a new baby and wanting to get a bigger house. Now just how much house are you wanting to buy?"

"Well," Rick began, "I'd like to have a house big enough so that we wouldn't ever have to move again. Sally and me are plannin' to have at least one more baby so we need at least a three bedroom house and we'd like to have two baths."

"Well, Rick," Ray continued, " Four bedrooms and three baths might be better...hum...let me see here, construction cost are running about \$60 dollars a square foot and you'd need at least 2000 square feet for 4 bedrooms that'd come to \$120,000 without the land."

"Man!" Rick exclaimed. "I didn't know it'd be that much! I don't know if I could afford that payment!"

"Rick, I think you can," Ray said. " Here's why. I've watched you and Sally, you two are really careful with how you spend money. Look at this." Ray points to the "Debt to Income Ratio" column and then continues, "You see, Rick, most people have a ratio of 40% or higher here. You and Sally

only have 8%. We require that the total monthly debt payments be no more than 40% of total monthly gross income. Since you have virtually no other debt, that means that you two should be able to make a payment of up to \$900 but because of your NET WORTH, I can get you approved for up to \$1000 per month. That will give you up to \$137,000 for you house and land. What do you think, Rick?"

"Well it sounds good, Ray" Rick replied, "but how much DOWNPAYMENT am I going to have to come up with?"

"\$6,850," Ray spit out. "Most people--I'd need to require \$27,000 down, but you've proved that you two can do a whole lot with a very modest income—Your credit report bears that out too! Don't forget, Rick, you can rent your present house for at least \$600 per month so after paying the mortgage and insurance on it you can still clear \$300 per month which you can put toward your new payment each month."

"Why would I want to do that?" Rick asked. "I could just take that as cash."

"Here's why," Ray explained pointing to a table of numbers and figures. "We COMPOUND interest on a loan daily. Now, that may not mean much to you, but let me tell you what it means. This loan will be a SIMPLE INTEREST loan. Any extra amount that you pay does two things: (1.) it shortens the number of payments significantly and (2.) it lowers the amount that we charge interest on every day. You see, Rick, we take the interest rate of 8 percent divide it by 365 days per year and charge that amount of interest on the outstanding balance each day. We call that our DAILY PERIODIC RATE. So the lower the balance is on a given day the faster you pay off your loan. I figured your loan on a 30 year term. Just that extra 300 dollars per month could save you \$150,000 in interest that you could pay us—Now I'll be glad to take the interest, Rick, but I figure you'd rather have the hundred and fifty grand yourself!"

"You're right about that!" Rick yelled. "Shoot, that'd pay for the kids education! If I'm careful."

"I have no doubt in my mind that you'll be careful, Rick." Ray smiled and said. "Now go and get you a contractor!"

This story was fabricated, of course, but the information given gives a very accurate picture of how **Debt Management** can effect every aspect of you life and your future.

Personally, I believe in ZERO Debt. You're free that way. No body owns you. That is the admonition of the old Hebrew Proverb:

The rich rule over the poor and the borrower is servant to the lender. Proverbs 22:7

**Do not be a man who strikes hands in pledge, or puts up security for debts.
If you lack the means to pay, your very bed will be snatched from under you.
Proverbs 22:26-27**

But...

If you're going to go use debt as a means of managing your financial world consider these suggestions from someone who has made the mistakes and come out on the other side.

1. Only borrow for either:

- Appreciating Assets
 - Income-Producing Assets
2. Only let yourself have a credit card with a credit limit equal to you monthly Expenses and:
 - Get the card from your bank and specify your own limit!
 - Pay off all unsecured debt each month
 3. Find a bank that you like and get to know the people personally; don't use the drive-through window!!!

ONE FINAL PIECE OF INFORMATION

This question comes up from time to time:

Should I take money out of savings to buy something, if I can borrow for it at an affordable rate?

Well, there's no real quick answer to that question, but here is a general guideline:

1. Establish the APR on you savings account
2. Establish the APR on the proposed loan you're considering
3. Multiply the Loan APR by .65
4. If the result of step 3 is equal to the APR of your savings account, then you're better off borrowing for the item.

Segment 6: Tax Management

TAX MANAGEMENT is the process of arranging assets, purchases, income, legal structure and investments in such a manner that will minimize the right of government agencies to levy tax against your personal wealth. RELAX! This is not going to be a course on tax law! The purpose of this segment is to do three things for you:

- Make you aware of how much of your income actually goes toward taxes.
- Understand how to legally lower your taxes to the minimum possible level.
- Understand how Taxes are calculated—Basically—and how this affects you.

The Basic Taxes:

There are all varieties of taxes. It seems sometimes, that someone is just sitting up "there" thinking up ways to get money out of you. For instance I just found out through our vet that my county has now instituted a "pet tax." They're going to tax my dog! Yep, \$35 extra dollars for the county coffer per dog, per year! But I'm not going to give an exhaustive listing all the minor and specialized taxes; I'm going to focus on the most common ones that usually affect us all.

Sales Tax:

Sales tax is probably the most fair tax—everybody pays it at the same rate in their given locale. If you buy more you pay more. This tax averages around 5% across the nation and accounts for a minimum of around \$775 per year, per family.

How to Reduce Sales Taxes:

- Buy only those items which you absolutely need locally
- Find out if your state monitors merchandise shipped from another state for Sales Taxes
- If they don't monitor, try to make large shippable purchases out of state

WARNING: Shipping could be higher than sales taxes!

Property Tax and Personal Property Tax:

Property tax is usually figured on a percentage called "MILAGE." You might have heard someone use the term "our property tax has increased to 10 mils." Here how this works. In every county and/or state, which has this form of taxation, they employ a "Tax Appraiser" or "Tax Assessor" (or they could use some other title), but the general function of this person or office is to figure out (1) how much your property is worth and (2) how much tax you should pay on this property.

Once they figure out how much your property is worth they then usually apply some percentage of that amount to be taxed. This percentage varies from state-to-state and county-to-county. Where I'm located, the market value (the appraised value) is multiplied by 80%(.8).

Next they calculate your tax by the MILAGE rate. MILS are the number of dollars that are charged per thousand dollars of appraised value. So the MILAGE RATE is the number of dollars per thousand.

Personal Property Tax:

While Property Tax usually refers to Land and Improved Land (has a building on it), Personal Property refers to all other tangible property: this includes cars, boats, equipment. etc.

How to Reduce these Taxes:

There's not much you can do on Personal Property Taxes to reduce them, but on Property taxes you can usually claim the following:

- A Homestead Exemption for your place of residence
- A lower rating structure for barren land—ask about an agricultural classification

State Income Taxes:

Some states (Florida and Washington for instance) do not have state income taxes. If you're really interested in lowering your state income taxes try MOVING! Otherwise here is some information that might help. State Income Taxes are calculated from your Federal 1040 tax form. So to understand State Taxes and how to lower them we must first look at Federal Incomes Taxes. Below is a little used strategy on how to decrease your State and Federal Income tax and give yourself a "raise." All information below is based on a 15% tax bracket. This covers a vast number of households. And as always:

**CONSULT A CERTIFIED PUBLIC ACCOUNTANT OR BONIFIED TAX EXPERT
BEFORE MAKING ANY OF THESE CHANGES TO YOUR
PERSONAL SITUATION**

Basic Info...

UNDERSTANDING YOUR PAY-STUB

Your pay-stub each pay period contains important information, which can assist you in your path to financial independence, but you must understand how to read between its lines. Below are some categories, which you might have on your stub and their meanings.

Gross Pay

Gross Pay is also referred to as Gross Income. It includes ALL income for a certain period.

Taxable Amount

The Taxable Amount of your pay is generally the portion, which the IRS refers to as Adjusted Gross Income (AGI). It is the amount, which is taxable after all allowable deductible withholdings are subtracted, such as profit sharing contributions.

Net Pay

Net Pay is the same as Net Income. It is the amount that you “take home.” Some call it “take-home pay.” It is the Gross Income less deductible withholdings less taxes and other non-deductible items (such as insurance).

GOVERNMENTAL TAXES

Federal Withholding TAXES

Federal withholding taxes (Income taxes) are a percentage of AGI (Taxable Amount), usually. The percentages range from 15% to 39.6% depending on your level of income. For most working class families the percentage equals 15%. The amount your employer withholds is determined by the number of exemptions that you claim on your W-4 form, which is filed with your personnel office or Human Resource Department.

Federal Social Security TAXES

In addition to Federal Income taxes you pay an additional 7.5% of your Gross Pay as Social Security Tax. Your Employer pays the other +/-7.5% for a total of approximately 15%. (Self-employed individuals pay the whole 15%!). This withholding tax is a flat rate tax and cannot be adjusted.

State Income Taxes

As a general rule State Income taxes are 10%-50% of the Federal Income Taxes. In States where there are no State Income taxes, there may be Municipal Taxes instead. Usually, if the person has claimed enough exemptions on their W-4 form and they owe no Federal Taxes then they will owe no State Income Taxes.

Now...

Consider The Following Option with your Personal Tax Consultant
(See Table 2.5)

TABLE 2.5

Give Yourself a Raise Your Employer will be glad you did!

You may be paying too much in Federal and State Withholding
Taxes

Your Personnel Department can assist you in changing your number of exemptions
so that you, Rather than the IRS can make money on your hard work!

Tax Bracket: 15%

Category 1: **Married Filing Separately**

		Adjusted Gross Income	Weekly Max. Withholding
Family Size	1	25000	\$ 53.80
Exemption Rate	2750	22000	\$ 45.14
Total Exemption	2750	19000	\$ 36.49
Standard Deduction	3600	15000	\$ 24.95
Total AGI Reduction	6350	12000	\$ 16.30
Max. AGI Income	27875	9000	\$ 7.64
Max. Necessary Withholding	4181.25		
Per week	\$ 80.41		
Per Month	\$ 348.44		

Category 2: **Single**

		Adjusted Gross Income	Weekly Max. Withholding
Family Size	1	30000	\$ 66.20
Exemption Rate	2750	27000	\$ 57.55
Total Exemption	2750	24000	\$ 48.89
Standard Deduction	4300	21000	\$ 40.24
Total AGI Reduction	7050	18000	\$ 31.59
Max. AGI Income	32800	15000	\$ 22.93
Max. Necessary Withholding	4920	12000	\$ 14.28
Per week	\$ 94.62	9000	\$ 5.63
Per Month	\$ 410.00	8000	\$ 2.74

Category 3: **Head of Household**

		Adjusted Gross Income	Weekly Max. Withholding
Family Size	3	45000	\$ 87.69
Exemption Rate	2750	41000	\$ 76.15
Total Exemption	8250	37000	\$ 64.62
Standard Deduction	6350	33000	\$ 53.08
Total AGI Reduction	14600	29000	\$ 41.54
Max. AGI Income	49150	25000	\$ 30.00
Max. Necessary Withholding	7372.5	21000	\$ 18.46
Per week	\$ 141.78	17000	\$ 6.92

Per Month \$ 614.38

Category 4: Married Filing Jointly or Widow/er		Adjusted	Weekly
		Gross Income	Max. Withholding
Family Size	3	53000	\$ 108.32
Exemption Rate	2750	48000	\$ 93.89
Total Exemption	8250	43000	\$ 79.47
Standard Deduction	7200	38000	\$ 65.05
Total AGI Reduction	15450	33000	\$ 50.63
Max. AGI Income	58500	28000	\$ 36.20
Max. Necessary Withholding	8775	25000	\$ 27.55
Per week	\$ 168.75	20000	\$ 13.13
Per Month	\$ 731.25		

TABLE 2.5

Here's what this means: If you are married and have one child look at "Category 4." Look at the "Adjusted Gross Income" column. Let's say you and your spouse together make \$43,000 AGI after allowable deductions; at that income level both of you together do not have to have more than \$79.42 withheld by your employer from your paycheck. Any amount over that could be your "raise" that you can give yourself.

This adjustment is controlled by the number of exemptions that you claim on the W-4 form filed at your Personnel Department at your place of employment. The trick is to adjust the number of exemptions to more closely match your calculated maximum withholding amount. For this you may need professional assistance, like a CPA or tax consultant. Otherwise the IRS gets to keep your money without paying you interest for a year or more!

Want to Understand More?

First get a copy of a IRS 1040 form. Study it carefully. Just becoming familiar with what they ask for will give you great information. Be sure and get a copy of the filing instructions as well. Here are the key areas that you want to pay attention to on the form:

- Exemptions-make sure you list all that you're entitled to. You can usually claim an average of \$2,700 per exemption. At the 15% bracket this saves you \$405 in taxes per year for each exemption you claim.
- Gross Income-Include all income. Gifts are usually not considered income but lottery Or sweepstakes winnings are.
- Adjusted Gross Income - Pay special attention to what lowers your taxable income. Remember each \$1,000 you lower your income will save Save you at least \$150 dollars in taxes.
- Tax and Credits- Watch this section carefully. If your deductible expenses are more Than the standard deduction then by all means itemize. Pay close Close attention of how deductions and exemptions lower taxable Income.

With A little help you can become a very good Tax Manager. Remember, the idea is not to cheat the government, after all the maintenance of roads, schools and a military to protect us from agressors is very important—but there's no use paying more than you have to. Jesus Christ said this best 2000 years ago:

**Give to Caesar what is Caesar's, and to God what is God's
Matthew 22:21**

Section III

How To Start Your Financial Journey

The first place to begin this journey is the same place where you begin any journey. AT THE BEGINNING. Where are you right now, what is your NET WORTH? How much do I spend each month? How much should I spend each month? How much can I spend each month? How much do I earn each month? Fill out these simple charts to find out where you are. If you're not sure about amounts estimate as closely as possible.

TABLE 3.1

WHAT I OWN	ITS WORTH
House	
Cars/Boats	
Vacant Land	
Investments/Bank Accounts/Stocks/Bonds/Retirement Accounts	
Other	
Other	
Other	
TOTAL THAT ALL IS WORTH	\$

TABLE 3.2

WHAT I OWE	Payment/Month	Pay Off Balance
House		
Cars/Boats		
Vacant Land		
Credit Cards		
Second Mortgages/Personal Loans		
Other:		
Other:		
Other:		
Other:		
MY TOTAL MONTHLY PAYMENTS		
TOTAL AMOUNT THAT I OWE		

List "TOTAL THAT ALL IS WORTH" \$ _____

Subtract "TOTAL AMOUNT THAT I OWE" \$ _____

This is your Financial NET WORTH \$ _____

Before you fill out this sheet, make two extra copies. Fill out this original sheet using your checkbook and memory. Keep the second sheet for later. For one month, get a receipt for everything. If you can't get a receipt for something you buy then write it down! Try hard not to miss anything! Then after the first month fill out the second sheet and compare the first to the second. Continue to keep receipts for at least another 2 months (recommended for 5 more months for a total of 6). Then take an average of each category. Then fill out the final sheet. This is your new budget.

HOW MUCH DO I SPEND EACH MONTH?

TABLE 3.3

EXPENSE	AMOUNT
Groceries	
Gas	
Auto Repairs	
Homeowners Insurance	
Health Insurance	
Life Insurance	
Disability Insurance	
Long-term Care Insurance	
Car Insurance	
Cable	
Entertainment	
Eating Out	
Clothing	
Gifts	
Telephone	
Cell Phone	
Long Distance/Internet Service	
Power Bill	
Water Bill	
School Supplies	
Personal Hygiene Products	
Other	
Other	
Other	
Other	
TOTAL MONTHLY EXPENSES	\$

MY TOTAL MONTHLY PAYMENTS On TOTAL AMOUNT THAT I OWE	\$
GRAND TOTAL OF OUT-GO EACH MONTH	\$

HOW MUCH DO I REALLY MAKE?

GROSS INCOME	AMOUNT
Income No. 1	
Income No. 2	
Income No. 3	
TOTAL GROSS INCOME	\$
* Tithe = 10% of GROSS INCOME	-
Tax Deductible Savings (401k, IRA, etc.) + Federal Income Tax, State Income Tax and Social Security	-
NET USABLE INCOME	= \$
GRAND TOTAL OF OUT-GO EACH MONTH	\$
If the GRAND TOTAL OF OUT-GO EACH MONTH is greater than NET USABLE INCOME STOP NOW! And Consider How to Rearrange Budget	

TABLE 3.4

* Tithing

People sometimes ask me why I ask them to remove this percentage of their income out on the front end before anything else. I'll here highlight the overriding biblical reasons and I encourage you to spend your own time in bible study using the bible references included at the end of this book. I have talked a lot about the financial system or economy in which we operate on a daily basis. Until now, however, I have said little about God's Economy. In God's Economy there are no limits. His financial world is only limited by our faith in Him as our provider. But, we have act on our faith to make it real.

For example: if we come to BELIEVE, after much careful investigation, that a particular business is needed in our town, and we then BY FAITH act on that BELIEF and stay committed to our business VISION then we will succeed in birthing a prosperous business. That faith is no different than what we engage in when we check out the reliability of the Bible, examine if Christ really was God and receive Him by faith—the essential act is the same.

Likewise, when the Bible shows us principles for why we should give back to God we should, by FAITH, engage in that giving. By doing so we are placing ourselves into God's Economy which Supercedes the economy of this world system and it's associated limits.

BASIC PRINCIPLES

- I. Everything we have originates from God; we are only Managers of what we have.
- II. God wants us, above all else, to know Him as our source—Our Provider
- III. When we know that God is our source, no man has control over us—we are free
- IV. Tithing first is an act of faith that God will supply—God is moved by our faith in Him
- V. Giving to the poor is like lending to God—God pays us back very well!

STEP 2: Where Do I Want To Go?

- What will I do when I retire?
- Will I have enough money to take care of me?
- Will I be able to send my kids to college?

Start with Your Retirement

A. Determine years to retirement:

Retirement Age		Your Age		Years of Accumulation	Preferred Age of Retirement
50	-		=		
55	-		=		
65	-		=		
70	-		=		

TABLE 3.5

B. Determine your investment type by Risk Factor:

- .12 ___ Risk taker – “I’m willing to lose for the chance at a big gain”
- .08 ___ Moderate – “I don’t want to lose too many times”
- .05 ___ Safety First – “I don’t ever want to lose”

THEN DETERMINE YOUR NEEDED INCOME AT RETIREMENT

Turn the page and go to step “C”

C. Determine your needed income, here's how to do it:

LINE No.	ACTION				RESULT
1	List Your NET USABLE INCOME				
2	List Your MONTHLY PAYMENTS for WHAT YOU OWE				
3	Subtract line 2 result from line 1 result				
4	Multiply result of line 3 X 12				
5	Divide number of years until retirement by 36				
6	Add 1 to the result of line 5				
7	Multiply the result of line 4 X the result of line 6				
8	Divide the result of line 7 by Risk Factor That You Choose (at right)....> This Should Be Your Retirement Goal in \$'s	.05	.08	.12	
9	Multiply Line 1 by 12 then Divide result by your Investment Risk Factor either....	.05	.08	.12	
10	Amount of Life Insurance in effect on at least The Income Producer of Family				
11	Amount of Additional Life Insurance Needed Subtract result of line 10 from result of line 9				
12	Multiply result of line 1 by .9 - This is the very Minimum amount of Disability Insurance needed				

TABLE 3.6

STEP 3

How Do I Get There From Here?

A. Divide the results of Line 8, (previous page) by 1000 = _____
 then

B. Multiply the result of A. by the intersection of your Risk Factor and The Nearest Number of Years until Your Preferred Age of Retirement. (see table below) X _____
Enter Value from table here

C. This figure is your required monthly investment In order for you to meet your Retirement Needs = _____
Multiply results from A. by value on B. above, enter here

TABLE 3.7

Risk Factor Rating	Monthly Investment Amounts Needed To produce each \$1,000 into the Future (multiply by number of needed thousands calculated above)						
	YEARS OF ACCUMULATION Until Your Preferred Age of Retirement						
	10	15	20	25	30	35	40
.05	6.45	3.74	2.43	1.67	1.20	.88	.65
.08	5.47	2.89	1.70	1.05	.67	.44	.29
.12	4.34	2.00	1.01	.53	.29	.16	.09

I Can't Save That Much!

If you can't afford to save the amount listed on Line C. above, then consider
 The Period Certain Approach to Retirement.

The **Period Certain Approach** means that you will estimate the maximum number of years that you will need the income listed on **line 7** of the previous page. Then you will recalculate how much you will need to save by your goal age of retirement.

Use the Following Table on The Next Page to Start...

Table 3.8

Risk Factor Rating	Maximum Number Years of Income					
	5 years	10 years	15 years	20 years	25 years	30 years
.05	19.10	10.85	8.17	6.88	6.14	5.68
.08	20.28	12.13	9.56	8.36	7.72	7.34
.12	22.24	14.35	12	11.01	10.53	10.29

Line 1.	From Page 38, Multiply <u>Line 3</u> results by <u>Line 6</u> results and enter here >	
Line 2.	Enter the value at the intersection of the Maximum No. of Years of Income and your Risk Rating at right	
Line 3.	Divide Line value of line 1 above by value of line 2 above, Enter value at right	
Line 4.	Multiply value of Line 3 above times 1000 and enter at right, this is you Savings Goal Amount for Period Certain Approach	

Now go back to page 39, put the results from **Line 3** above on **step A.** and then follow **Steps B and C** to get your new **required monthly investment** amount.

HOW TO USE THIS TABLE FOR CALCULATING SAVINGS FOR ANY FUTURE EXPENSE

1. Determine years to event and divide that number of years by 36*
2. Add one to the results of No. 1
3. Multiply the results of No.2 times the cost of the expense today.
4. Use the A., B., C. Process above to establish monthly needed investment.

* For those who are interested: The “Rule of 72” says that if you divide 72 by the whole number percentage rate of increase it will tell you how often the original amount will double in value. Therefore, I’ve divided 2% inflation into 72 and used 36 as my multiple. You are welcome to use any percentage rate of inflation that you like. At present 2% is actually high.

Still Not Sure about meeting your goal.

Call one of our financial counselors at 877-238-6664 for confidential private financial phone consultation. Or E-mail us at info@yeshuaandhill.com

MONEY

Following you will find a breakdown of categories of subjects dealing with MONEY. These are intended to assist you with your study of the book of Proverbs and your journey to understanding God's views of money. You will see that there are six Broad Categories and varying numbers of sub-categories. I hope this assists you in studying your favorite subjects.

MAKING				SAVING		SPENDING		LENDING		BORROWING	TITHING
Right Ways=1 Wrong Ways=2 Laziness=3 Poverty=4				Storing=1 Priorities=2 Hoarding=3		Good Purchase=1 Poor Purchase=2		Warnings=1			
Proverbs		17: 23	2	Proverbs		Proverbs		Proverbs		Proverbs	Proverbs
1:10-19	2	18: 1	2	8: 10	2	13: 11a	2	11: 15	1	6: 1-5	3: 9-10
2: 12-16	2	18: 9	3	8: 11	2	14: 4	1	22: 7		17: 18	11: 25
3: 1-2	1	19: 1	4	10: 15	1	17: 15	2	22: 26-		20: 16	11: 24
6: 6-8	1	19: 7	4	11: 4	2	21: 17	2	27		22: 7	14: 21
6: 9-11	2	19: 8	1	11: 26a	1	21: 20	2	27: 13		22: 26-27	18: 16
6: 12-15	2	19: 15	3,4	11: 28a	2					27: 13	19: 17
8: 10	1	19: 24	3	11: 24	3						21: 26
8: 17-19	1	20: 4	3	12: 27b	1						22: 9
8: 20-21	1	20: 10	2	13: 8	2						28: 27
10: 2	1	20: 13	2	13: 11b	1						
10: 4	1	20: 21	2	13: 22a	1						
10: 4	3	20: 23	2	13: 22b	3						
10: 5	1	21: 5	1	14: 24	1						
10: 5	3	21: 6	2	15: 16-17	2						
10: 16	1	21: 17	3	16: 8	3						
10: 16	1	21: 20	1	17: 1	2						
10: 26	3	21: 25-26	3	18: 11	2						
11: 10a	1	22: 4	1	19: 1	2						
11: 18a	2	22: 13	3	19: 4	2						
11: 18b	1	22: 16	2,4	20: 15	2						
11: 26a	2	22: 29	1	21: 17	2						
11: 26b	1	23: 20-21	3	21: 20	1						
11: 28b	1	24: 4	1	22: 1	2						
11: 29	2	24:13	1	22: 7	1						
12: 11a	1	24: 30-34	4	23: 4-5	2						
12: 11b	2	26: 13-16	3	24: 27	2						
12: 14	1	27: 18	1	28: 6	2						
12: 24a	1	27: 23-27	1	28: 11	2						
12: 24b	3	28: 3	4	28: 25	2						
12: 27a	3	28: 8	2	30: 8-9	2						
13: 2a	1	28: 13	1,2								
13: 4a	3	28: 19-20	1,2								
13: 4b	1	28: 22	1,2								
13: 7	1,2	30: 15	3								
13:11	2										
13: 18a	2										
13: 21a	2										
13: 21b	1										
14: 4	1										
14: 20	4										
14: 23	1										
14: 24	4										
14: 28	1										
15: 6	1										
15: 20	1,3										
15: 27	2										
16: 11	1										
16: 19	2										
16: 26	1										
17: 8	2										

OTHER

19:4
19:6
20:14
28:10

