

1

Avoid the Blame Game— Take Responsibility for Your Financial Affairs

We must become the change that we want to see in the world.

—Mahatma Gandhi

We live in an age of delusion. It seems to be the inherent nature of mankind.

Our biggest delusion is a sense of entitlement. It permeates our country. People delude themselves into believing everything is fine while engaging in behavior that's definitely *not* fine. Then, when something goes wrong, they stand there blankly and do nothing about it, expecting somebody else to pick up after them! Everywhere you turn, people are blaming everybody else for their problems.

Look around. It's everywhere—in our neighborhoods, schools, big business. There's the chain smoker who sues the tobacco company. Or the overweight, overfed cheeseburger eater who sues the hamburger chain, claiming that their food made him fat. Or the guy who drank too much, left the bar and then crashed his car, who blames the bartender for serving him too much alcohol.

Are you kidding? The next thing you know, the government will be bailing out all the homeowners who double- and triple-dipped into their home equity and are upside down, plus the brokerage houses that bought lousy loans and the banks that accepted those loans. Oh, wait—that's happening too!

Worst of all are our politicians. They believe they can print money and manufacture prosperity.

I'm not making this up, it's true. What in the heck is happening? And why is it happening? The answer is simple: it's much easier to blame others than to take responsibility for yourself.

The Delusional Trap

We delude ourselves when we're uncomfortable with accepting things the way they are as opposed to the way we want them to be. When we act on the way we want things to be instead of how they actually are, we make bad financial decisions and create painful problems that often end up hurting many others.

People become ensnared in the delusional trap when they create financial trappings in their lives without noticing or acknowledging or, even worse, deliberately ignoring reality. They're afraid to face their financial lives head—on with brutal honesty. They'll do anything to avoid the consequences, often at the expense of other people or businesses, and when it's too late, they take down a lot of innocent people with them.

Every time someone claims bankruptcy, overspends on credit cards and repeatedly refinances their home, they are lying to themselves and being negligent and disrespectful of their fellow humans.

As my dear friend Willy M. Nieman put it, delusional thinking is defined as:

1. Telling yourself a lie
2. Believing in that lie
3. Acting on that lie

The Sub-Prime Debacle

For a vivid example of how our entire society is ensnared in a delusional trap, look at the sub-prime debacle. As I write this, we are seeing millions of foreclosures nationwide, and it's probably going to get a lot worse before it gets better. How did this happen? Let me give you my version:

In response to considerable housing discrimination against minorities and the poor, Congress over the years has been trying to make amends. It passed the Equal Credit Opportunity Act (ECOA) of 1974 which made it unlawful for any creditor to discriminate against any

credit applicant on the basis of race, color, religion, national origin, gender, marital status or age. The Community Reinvestment Act (CRA) of 1977 further mandated that no lending institution could discriminate within various low-income and minority neighborhoods nationwide. Failure to comply subjects a financial institution to civil liability for actual and punitive damages.

Talk about the road to you-know-where being paved with good intentions. Banks were accepting loan applications that in ordinary times they would have thrown in the trash. The reason was that as soon as the banks issued the loans, they could package them up and sell them to brokerage houses, which in turn packaged the loans and sold them as mortgage-backed securities.

The banks and securities firms were making so much money that they fell into a delusional trap themselves, believing the less-than-stellar securities they were manufacturing actually were sound. Nevertheless, the euphoric mood allowed many people to buy a house for the first time despite less-than-ideal (or sub-prime) credit.

To buy what most times were properties they could not afford by any conventional yardstick, many first-time homebuyers of primary residences and rental properties used adjustable rate loans, which had low fixed rates for the first two or three years of the mortgage. After that, their monthly payments increased significantly.

What happened next shook the world—although anyone not deluding himself could have predicted the mess: those sub-prime adjustable loans started adjusting. For example, people paying \$2,700 a month for their mortgage were receiving new mortgage payments at \$3,400 to \$3,600. And the monthly payments kept rising.

Borrowers began to default. Eventually, so many of these loans went into default that the capital structure of many brokerage firms, banks and hedge funds worldwide became questionable. The financial soundness of the world's banking system and the ability to create the credit needed for the world's daily economic functioning was being called into question.

Governments around the world had to bail out troubled financial institutions, leading to credit cutbacks and the recession we're in now.

Everyone was deluded: the government, banks, loan brokers, securities firms and the sub-prime borrowers themselves. The problem

spiraled out of control because there was so much money to be made in believing that a fantasy—taking on more debt than anyone could afford—somehow would work out.

A Solution

When you lose, don't lose the lesson.

—THE DALAI LAMA

The mortgage mess can teach us valuable lessons.

First, we must take responsibility for ourselves. Once you get the hang of it, it's liberating. Yet taking complete responsibility for yourself is tough, which is why most people would rather blame others or deflect responsibility.

If you get anything from this book, it's that taking responsibility for your own actions is the key to success and financial and emotional well-being.

You will become empowered by taking full responsibility for your actions and for your role in all situations. If you blame and judge others without looking at your own actions, you will lose the essence of authentic accountability. It takes courage and practice to look at yourself first and foremost in *all* of your affairs, but it builds character in you and goodwill for your family, your friends, and your community. That's what I call making a positive impact in your life!

Once you start taking responsibility, you'll start noticing positive changes. You will feel empowered. You won't waste time and energy on what someone else should have done. You will stay consistently focused on your role in *all* of your affairs.

By taking responsibility, you may be surprised to discover that you weren't as much of a victim or as innocent as you initially believed. That realization is both humbling and enlightening, and it's where your inner awareness takes place. Can you imagine how much better the world would be if all of us were accountable and took responsibility for our actions?

Let's start wiping out the cobwebs of delusional thinking by asking a few questions. Do you overspend? Do you have a savings account that will last for three to six months in the event of an emergency? Do you know what your monthly expenses are? Do you know what you are invested in and why?

You probably don't, and we'll be giving you the tools to answer those questions over the course of this book. The fact is we all suffer from delusional fantasies, just some more than others. Notice how I use the word "suffer." Suffering is usually the result of delusional thinking in any financial aspect of our lives. Some psychologists might say that this behavior is a necessary mechanism to cope with certain situations. They might be right. But when it comes to your financial affairs, nothing could be further from the truth. If you don't meet your financial affairs head-on, you will eventually suffer. The more honest we are with ourselves in all of our affairs, not only the financial ones, the better off we will be, because we will always know who we are, what we are, and what we stand for.

It takes courage and bravery. But the rewards are worth it. If you don't take care of your financial affairs, who will?

A Few Questions First

A life unexamined is not worth living.

—SOCRATES

This book is for everyone, but it's first and foremost for those of you who can't get out of a financial rut. There's always financial struggle in life, but you can't seem to get out of it no matter how hard you try. But there's hope. All you need is some structure—a road map or game plan that will start you off from the beginning and lead you all the way to your financial goals.

Let me start by asking and answering a few questions that may be on your mind.

What is a game plan? It's an ongoing journey, not a destination. It's a step-by-step process, one building block at a time. A big reason you're struggling with money is that your relationship with money was established when you were very young, and you'll need to do some serious soul-searching before you can begin correcting your problem. We'll discuss this in more detail later.

What if you're not in a financial rut? You're making do with your paycheck every month. You're investing in your 401(k). Because you're investing in it, you think there's no need to worry about your retirement. But maybe you haven't looked at any of the funds since you invested in

them years ago. Maybe the fund manager and the fund philosophy left soon after you began investing. Unfortunately, millions of Americans with retirement funds don't check on their investments periodically, as they need to. Or they're still not sure where all of their dollars are going every month, because they're not tracking their expenses or cash flow regularly.

Does this sound like you? How about a cash-flow analysis? When was the last time you analyzed all of your monthly, quarterly, and yearly expenses versus your income to see how you could monitor and possibly get rid of some or all of your debt? How about your taxes? When was the last time you looked at your 1040 thoroughly and talked to your accountant to find out whether you're taking full advantage of all available write-offs? Better yet, what tax strategies could you take advantage of this year so that you'll pay lower taxes next year? Does this sound like you? If so, this book is for you.

What if you're a high-net-worth individual, living very comfortably without a worry in the world? You either work with a financial advisor or planner or you're a do-it-yourself investor. If you do use a financial advisor, how often do you meet him or her? Do you meet regularly? Or do you trust whatever they tell you to do, so there's no reason to meet or question? Do you track your portfolio to confirm that all your returns are beating all their respective benchmarks, net of all fees? Do you track all your expenses and your income on a monthly basis? Do you question your accountant after your taxes are complete?

If you're a do-it-yourself investor, what benchmarks and criteria do you use to measure the risk and returns in relation to your current portfolio, net of all fees? If you use a financial advisor, have you ever received a second opinion as to the work and investments proposed and recommended to you? Or do you ever get a second opinion from another CPA to double-check the work that your current CPA is doing? If not, this book is for you.

Lastly, are you the "know it all" investor? You know—the one who doesn't need anybody's help, or better yet, when given a recommendation by a financial advisor, planner or CPA, you know better than they do? Yet you never check your expenses versus your income, you don't get your trust updated regularly, you do your own taxes and investing,