How to Break the Cycle of Toxic Debt

STOP LIVING PAY TO PAY

GREG SMITH

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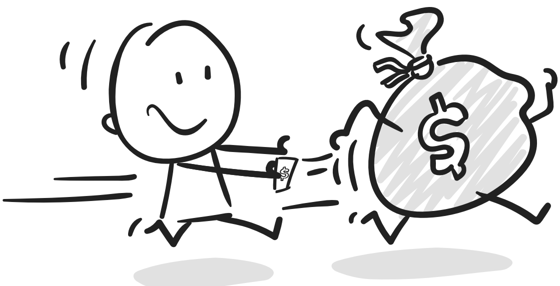

GREG SMITH

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CONTENTS

FOREWORD

This is not your normal how-to money book.

It is based on real-life experiences over the past thirty years from my personal life and my life as a financial industry professional.

I have all the undergraduate and post graduate qualifications anyone could wish for, plus more financial services qualifications than you can poke a stick at. But one qualification I was not expecting was when I joined the pay-to-pay cycle club.

I managed to get myself out of that club but I can tell you, when I was in it, everything – and I mean everything – seemed to go wrong. This book tells you how I got out of it and how you can too – more easily than you may think.

Falling into the pay-to-pay cycle is something that happens to many Australians every day. Since the COVID-19 crisis close to 5.9 million Australians have fallen into the cycle due to job losses and the general economic downturn, many for the first time in their lives. For others this is a recurring pattern. The hardest thing is to find your way out when you feel yourself spiralling (sometimes silently) out of control. That's where I will help you.

You'll discover how to build up a stack of knowledge that will give you the confidence to approach money in a way you never thought possible.

My tried-and-tested techniques will enable you to take control of your finances and connect the big picture with your day-to-day life.

INTRODUCTION

Before we jump in, I thought I'd give you some context – who I am, how I landed in the pay-to-pay cycle and how I managed to get out. It feels weird and a bit overindulgent to be writing this, but please bear with me as it will set the scene for the rest of the book.

When I reflect on my life over the past thirty years, I must say it has been one hell of a roller-coaster. There have been times when everything I touched turned to gold, and then other times when my world crumbled physically, emotionally and financially.

In that time I've worked for some amazing companies, been made redundant, got married and divorced, built up a successful management consultancy, made a lot of money, published seventeen books, launched a world-first money centre, been struck down by a mystery illness, lost the sight in one eye, lost my money (and I mean lost it all!), been left at the altar, watched my money slip away again, as a business venture came crashing down. Got hit with another set of health setbacks, found love and had two wonderful boys.

Not much really! But tell you what, all these experiences have taught me some unbelievably valuable lessons, and for that I believe I'm a better person. These things have a way of affecting every aspect of your life. I know they did with me, especially my finances. Without my health I couldn't work, without a job I had no income and without love I didn't have the support to give me the strength I needed to take risks.

I like to call these setbacks "Money Monsters", as they have a way of creeping up and scaring the living daylights out of you. Sometimes you get a real fright, and at other times you just put them back in the cupboard where they belong and get on with life.

Depending on how you approach these Money Monsters determines how well you respond to any kind of financial setback. If you let them get the better of you, it could take you many years to recover, but if you attack the problem early, then things will quickly start to turn around and you will break out of the pay-to-pay cycle sooner.

One of the major lessons I've learned from this past two decades is that you need a great support network around you when things look like they are turning to dust.

Having a supportive family is a great, if you have that, but there are a number of other people out there who can, and will, help you. There's no point in putting your head in the sand and hoping a problem will go away (it definitely won't in the financial world, you can bank on that), so always, and I say that again, always ask for help.

'How you approach these Money Monsters determines how well you respond to setbacks.'

There will be many possible solutions to your problems, and someone will know someone or something to get you through. In my case, I was lucky to be well-connected and had a great family to provide me with the support I needed to get back on track.

The real energy, however, must come from you. No matter what situation you find yourself in, be it financial, physical, or emotional, you are the one who must find the will to go on. Others can give you support and guidance, but the will has to come from within. Let me give you a snapshot of some of the things that have happened to me over the last decade to explain what I mean.

Over the years I have been made redundant on a few occasions.

At one stage I held what I thought was a very stable job at a bank. It paid well, and I had just been given a pay rise following my annual review. But with one telephone call it was all over.. One minute I had a job, the next I was unemployed. It was such a crushing blow to my confidence. I'll never forget having to take the train home in the middle of the morning. Weird.

That really rocked my world and was a crushing blow to my confidence. I even found myself looking at jobs that paid a much lower salary than my previous position. But I had bills to pay, and so I looked at everything. I must say, after each redundancy a little piece of you dies. It sounds dramatic, but I really lost my way and convinced myself that I was unemployable. Mentally it was tough. Despite multiple attempts I simply couldn't land a job. So one day I woke up and thought "bugger it", if no one will have me I'll set up a business of my own. So I set up my consultancy, well away from the safety of corporate land.

'In these uncertain COVID-19 times you need to look at every angle to either find a job or create something of your own.'

Sure, the cash flow issues of a new business were tricky, but I was lucky enough to have good financial management skills so the transition was a little easier, and I had a bit of money stashed away to cover me during the hardest months. (A valuable lesson we'll learn later in this book!) It was tough going at first, as I must have heard "no" a million times. So often I wanted to give up. But once I landed my first contract my confidence increased at an exponential rate. It is amazing how self-redeeming it feels when you get paid for something you created. Over the next few years of hard work, I built up a profitable business that generated a great living.

Unfortunately, a few years later I was hit by health problems. A good work–life balance might be one of the keys to good health, but sixteen-hour days are clearly not! One minute I thought I was fighting fit, the next I was unconscious being rushed to hospital in an ambulance. Not once but four times in the space of three months! Add to this, I had my business spread across a number of areas and had to watch helplessly as each one of them crumbled while I was in and out of hospital.

Consequently, I lost that business and it cost me most of my money. Luckily, I had income protection insurance, which helped pay my personal daily living expenses while I got back on my feet. While I was recovering I had a lot of time to reset my goals in preparation for restarting my life. This included making a number of changes to the way I lived (diet and exercise), plus a significant refocus on how many hours I work a day and what business I expended my energy on.

I decided to set up my own financial services company focusing on finance broking, money coaching and financial planning. However, first I needed to undertake a training course to regain my qualifications, which was going to take 12 months to complete. The road seemed so long!

Even though I had the income protection insurance payments, they were only just covering my expenses. So I returned to being a marketing consultant to generate the all-important cash flow. The energy to do this had to come from within, but I wanted to have a better life and not live from pay-to-pay.

Before I move on, I must emphasise that you should never take your health for granted. The saying, "You don't know what you've got until it's gone", rings all so true when you lose your health. It affects every part of your life, and most of all your capacity to earn an income. Your health is your wealth – never forget it.

When it comes to relationships, I've just about seen it all. I've had some good ones and I've had some shockers. Talk about the proverbial rollercoaster of love. In 1990, I married my high school sweetheart and we set about building a life together. However, like thousands of Australian marriages, mine ended in divorce. It took its toll emotionally and halved my total worth overnight.

Luckily, we didn't have kids otherwise the outcome could have been extremely different, but it still hurt and took a while for me to recover emotionally. A number of years later I met another lady; we lived together for about five years and then decided to get married. Unfortunately, a few months prior to the wedding, she did a runner. I couldn't believe my luck. Here I was getting back on top financially and with my health. And whammo!

You wouldn't read about it!

Again, this had a massive impact on my finances. How? I had to replace all the household items my ex decided to take with her when she left. She pretty much cleaned out the house.

To clear my head, I decided to spoil myself (we all need to do this from time to time). I booked myself a ticket to Europe for a quick holiday and spent about $15,000. It was an expensive trip, but it felt like the best $15,000 I've ever spent.

Both relationship bust-ups affected my finances and emotions quite significantly, with most of the expenditure coming out of an emotional response. While there's no problem dealing with emotions in this way, the lesson was not to let my emotions go overboard and disguise a deeper problem with retail therapy. In other words, I shouldn't have spent the $15,000 – a simple road trip up the coast would have had the same impact.

Clearly, emotions and money can be a lethal cocktail and the trick is keeping both in check. That's why in Chapter 1, I discuss what I call Money Personalities and show you how to discover and harness them, regardless of your emotional state.

'Emotions and money can be a lethal cocktail and the trick is keeping both in check.'

By now you may be wondering to yourself if my life gets any better. On the whole it does but there are always are highs and lows.

After I retrained, I established my financial services company and built that up to a solid business, which I sold late 2008 just before the global financial crisis. I then met a wonderful woman, who is now my partner, and we have two beautiful boys. On the downside, however, my return to corporate life for a few years was a real low, as the redundancy Money Monster kept following me around.

Clearly the universe wasn't whispering; it was screaming at me to do my own thing. And that I did. Now I have multiple interests in multiple companies across many industries.

Sure, the impact of COVID-19 has affected me like everyone else. I have seen a massive drop in my income and savings, but because I am now working much smarter and have set up many different sources of passive, income I'll be able to keep those Money Monsters away. But they are always out there, and you never know when they might strike!

Having been in and out of the pay-to-pay cycle over the past thirty years has really taught me the hard lessons. That's why I hope you will read this book carefully and pay attention to all of the tips and techniques. They will help you break out of the living from pay-to-pay cycle.

CHAPTER 1 UNDERSTANDING WHY YOU DO WHAT YOU DO WITH YOUR MONEY

What you are about to read will probably change the way you handle money forever.

In fact, if the following techniques have the same impact on you as they did on me, I can guarantee your money world will improve many times over.

But before we begin, I'd like you to answer a simple question? How badly do you really want to break out of the pay-to-pay cycle?

Think about this for a moment as there's a big difference between **needing** to break out of the pay-to-pay cycle and **wanting** to.

Believe it or not, the answer lies in the definition of needs and wants. For example, a **need** is something that has to be satisfied. It is generally non-emotional and short-term in nature.

A **want**, on the other hand, is much more of an emotional response that's directly connected to some sort of internal desire to make a change (be it for the short-term or long-term).

When it comes to breaking out of the pay-to-pay cycle you must start with a deep-down desire to make a change to your current world – a real want.

From here, you must make an emotional and behavioural commitment to breaking free (that means putting your heart into it). Then, when you need to, put in place actions that are going to generate results. I'll show you all the actions you need in the following chapters, but for now let's keep on drilling down on the fundamental reasons why you do what you do with your money.

When you look at it, a great deal of the way you approach and handle your money comes from your upbringing (I'll talk about this in a minute) and your conscious and subconscious mind.

When it comes to dealing with day-to-day money issues, your conscious mind usually takes over as it tries to solve as many issues as it can all at once. Whilst this may be a good momentary fix, it may not be addressing the bigger or longer-term problems.

Unfortunately, many people are stuck in their conscious mind and have big problems letting go of the day to day. They only focus on cutting costs and don't think about the steps they need to take to break the cycle.

Your subconscious is where the action is. Therefore you need to spend some quality time looking for potential reasons why you are being held back. It may be your upbringing; you grew up in a household that struggled for money and had an "I can't be rich" attitude. Alternatively, you may have the knowledge but lack the confidence to implement the necessary changes to break free. Of course, it could be you are just downright lazy.

All reasons aside, it is about wanting to make a change and making the emotional commitment to break free. Everyone in the pay-to-pay cycle needs to get out of it, however success belongs to those who are willing to make a concerted effort to do it. That's why you have to want to change. And that's why you have to understand that your subconscious is the key driver. Make the changes there and you're away.

Some of the changes you need to make will be painful (let me tell you, I know – been there, done that, I've even got the T-shirt!) and will probably take you out of your comfort zone.

To use an old cliché, it's all about "no pain, no gain", just like starting a fitness regime. Those first few times make you feel so sick you really want to give up, but if you stick at it and have a positive attitude (believe you can do it) you start feeling great and the results begin to show.

Unfortunately, neither I nor anyone else has a magic wand to make your life better overnight. It's going to take a bit of commitment from you and a few tools and techniques from me, so you can make the necessary improvements yourself. I'll share with you these tools and techniques shortly, but now let's look at the reasons why you are in the pay-to-pay cycle.

HOW DID YOU GET INTO THE LIVING FROM PAY-TO-PAY CYCLE?

There are many reasons why you can easily fall into the vicious pay-to-pay cycle in addition to your conscious and subconscious going into overdrive. In fact, some of the factors that lead us into the spiral are even more sinister, such as those I call Money Monsters. (I mentioned these in the introduction and will talk about how to avoid them in Chapter 7.) These come in different forms like losing your job, the fallout from a relationship breakup, an illness or accident, the birth of a new child, and so on. As you can imagine, each can – and often does – have a massive impact on your finances (plus your attitude to money) sending you into a real spin.

Other reasons why you might fall into the pay-to-pay cycle can in fact be self-inflicted. (Again I talk about these in Chapter 7, where I mention the Seven Deadly Money Sins!) In other words, you may have fallen victim to what I call the "got to have it now" bug. (I love giving names to things – it helps you relate to intangible concepts.)

This bug is a direct result of the buoyant economic times we have experienced over the past twenty-odd years (pre-COVID-19). As a result, we have all been spending more and more. To compound the problem, we are all living in a "got to have it now" society, which means rather than save up for things (like past generations did) we simply rack it up on the credit card or lock ourselves into "buy now, pay later" deals.

Sure, the temptations to spend are quite significant, and the pressures of keeping up with friends and family to have the latest and greatest are intensifying, but this is contributing to the racking up of significant debt. As a result, we as a nation are spending more than we earn. This is evidenced by an almost zero savings ratio (that is the percentage of savings to our income). On top of this, our expenditure ratio (the amount of money we spend as a percentage of our income) is currently close to 200 per cent and growing (most of this is going to service debt, be it mortgages or credit cards.

'Chances are you may have fallen victim to the dreaded 'got-to-have-it-now' bug.'

What this means is, for every $100 we earn we spend $200. Oh yes, you read it right! And this ratio has been growing steadily over the past five years. Unfortunately, debts have grown almost exponentially, however incomes have not maintained the same growth.

So, where are we getting the money from? I'll give you two guesses – credit cards and "buy now, pay later" schemes. According to the Reserve Bank of Australia, in March 2020 there was about $29 billion owing on the 14 million credit cards on issue.

Of that $29 billion, $7 billion is paid back in full each month. However, that leaves $19 billion left attracting interest at rates ranging from 9–19 per cent per annum. Add to this the exponential growth of buy now, pay later schemes and you get the picture. Credit card usage has fallen over recent years with the rise of the buy now, pay later companies such as Afterpay, Zip and Klarna, but with 66 percent of credit cards not paid off it is a serious concern. Credit card companies, on the other hand, love it and that's why so many people fall into the pay-to-pay cycle. To give you an example, let's say you have the average Australian credit card balance of

$3,231 and your interest rate is 11 per cent. If you only paid the minimum amount back each month it would take a whopping 14 years 6 months to pay it back and you'd end up paying back a total of $5,431! The credit card debt cycle is vicious.

BREAKING THE PAY-TO-PAY CYCLE: LEARNING FROM YOUR PAST

I've spoken about ways you may have fallen into the living from pay-to-pay cycle. Now, let me take you take a few steps back and look at some of the factors that influence the way you approach and handle money.

Before leaping into setting your goals and budgets, and all that good stuff, I'm going to get you to have a serious look at the key people in your life and the events that have influenced and shaped your current attitudes and approach to money. Why? I believe that you need to look deep into these influences to establish the reasons you do what you do with your money. Once you've got this information, I'll give you a few techniques to help you make the necessary changes to break out of the pay-to-pay cycle.

Okay, let's go.

Using the following template*, write down the key people in your life (one per row). For example, your mum, dad, uncle, aunty, brother, sister, best friend, work colleague.

Now write down what they taught you about money (list the good and bad things), when they taught you, what impact that had on you and, in the last column, whether you think that person had an overall positive or negative effect on your approach to money today.

THE KEY PEOPLE IN YOUR LIFE

WHO	WHAT	WHEN	THE IMPACT	POSITIVE or NEGATIVE OUTCOME

Rather than making notes in this book can I suggest you go to my website <www.budgetblitz.com.au> and download the template.

Once you've completed this table, have a go at the next template*, Major Events in Your Life. Here you need to think about all the major events that have happened in your life and the impact they have had on the way you approach money. Jot down these events in the first column (one per row). For example, you lost your job, got married, got divorced, got sick, got a new job, went on a holiday, and so on. Next to the event, write down when it happened and how much it cost you or how much you earned. Then write down what impact each event had on your overall financial situation at that time, and indicate whether you think that event had a positive or negative effect on your approach to money and your financial status today.

THE MAJOR EVENTS IN YOUR LIFE SO FAR

THE EVENT	WHEN	HOW MUCH	THE IMPACT	POSITIVE or NEGATIVE OUTCOME

Rather than making notes in this book can I suggest you go to my website <www.budgetblitz.com.au> and download the template.

Interesting all of this, isn't it? Can you see a pattern forming?

Now, before you go running off trying to lay blame on any particular person or event in your life for your current money situation, let me now show you how you can process and analyse this information to establish a solid foundation for moving forward.

IT'S ALL ABOUT YOUR MONEY PERSONALITY

Many psychologists will tell you that most of your imprint learning happens when you are very young, and it is from what you see and hear from your parents that determines largely who you are today.

When it comes to money, all of the above (the impact of the key people in your life and the major events you've experienced) combines to form your "money personality".

In other words, your money personality is the answer to why you do what you do with your money. Understand it, control it and change it and you will be in a great position to break out of the pay-to-pay cycle.

When it comes to money personalities you can be one of three types – Spender, Careful, or Savvy. While you certainly have elements of each in your overall make up, one element will be dominant during any period of your life.

Sure, you can change your money personality over time, and that's exactly what many people do. But you don't go from being one personality to another overnight. Just like your overall personality, you don't change into a different one each day (well hopefully not anyway!).

Changing your money personality takes time, and there are a number of elements or traits (in fact, nine) that need to change in order for you to have a different personality. Understanding these traits will shed some light on why you do what you do with your money and, of course, why you are living in the pay-to-pay cycle.

The first and most important of these traits is your **knowledge of money.** Here, the more you know about money and the money world, the more sophisticated your money personality will be and the better you will manage your money.

Unfortunately, far too many people have had a negative experience with money at some stage of their life, either caused by the key people in their life or some kind of major event.

Generally, this leads to negative memories around money being stored in their subconscious. which impacts on their trust with financial institutions and their products. When it then comes to learning more about money, this group of people can go one of two ways.

First, they can become incredibly sceptical about any money education opportunity and never venture out of their comfort zones – unfortunately, leaving them to circulate in the pay-to-pay cycle.

Second, they undertake drastic measures in order to achieve a quick fix. Because they may be under significant financial stress, they can be vulnerable to what I call the "seminar sharks", who charge an arm and a leg to get people hyped up and deluded into thinking they can make millions.

'There are nine elements that need to change in order for you to have a different personality.'

In reality, those attending probably don't have two dollars to rub together; worse still, they are not that money savvy. The outcome can be quite unpleasant, and they may end up signing for financial programs they really can't afford. Their intention to attend a seminar and learn more is admirable, however it is a little misguided due to the fact that they are not that money savvy.

When it comes to seminars or online video series, there are good ones and bad ones. My recommendation is go for the reputable companies and don't pay thousands just to attend. Try and get as much input as you can for free. And whatever you do, don't pay for a workshop on your credit card if you are struggling to repay it. Finally, never forget that just as I don't have a magic wand to fix your money problems overnight, neither do the people who run the seminars.

To make a great free start turn to places like the Australian Government's latest financial literacy initiative <www.moneysmart.gov.au> for quality independent information about money. At the end of the day, quality money knowledge is an absolute must in helping you manage your money better.

Once your money knowledge improves, you'll start to gain greater **confidence** (the second trait) and you'll have a greater chance of making things happen. To me, it's just like cooking. You start off following the recipe line by line. As you gain confidence through increased experience and knowledge, you find yourself rarely referring to the recipe.

'Once your money knowledge improves, you'll start to gain greater confidence.'

Money is the same. The more confident and comfortable you are with money, the more able you will be to make sound money decisions to help you break out of the cycle.

The third trait is your **involvement in money affairs.** Here, the greater your day-to-day active involvement, the greater the chances of you breaking out of the cycle. If you have the knowledge and confidence you will therefore be more predisposed to making things happen or tackling problems head on, rather than sticking your head in the sand and hoping they'll go away.

Being involved with your money affairs enables you to be on the front foot. For example, if you have a problem making your next repayment on a loan, you should be proactive and talk to your lender first to arrange something. I can guarantee you'll be amazed by how responsive they are to proactive people.

Risk (the fourth trait) comes in different forms. Each of us handles it in different ways. While you may be comfortable with taking certain risks with your money, others may not, and that can determine where you are at financially.

For those who understand the different types of risk associated with various financial products and activities (high risk, high return or high risk, no return!), they potentially have a greater chance of managing their money well. If you don't fully understand the different risks and get involved in high risk ventures promising very high returns, you could get caught short. Rather than being fuelled by greed at the prospect of making some real bucks to get out of the pay-to-pay existence, you need to know more. Be careful. Far too many people who had their backs to the wall have been lured into schemes that look like their salvation, only to find it turned out to be the last nail in their financial coffin!

Let me share with you a quick story of a close friend of mine who fell into this sort of hole. He was on an average income with a wife, two kids, a cat, two guinea pigs and a mortgage. He was not too up to speed with all things money, but he really wanted to break free of the pay-to-pay cycle, so he attended a property investment seminar which he thought was going to make things better for him.

‘Rather than be fuelled by greed at the prospect of making some real bucks, you need to know more.’

Before he knew it, he and his wife were on a plane to Brisbane to conduct a “free” inspection on a “guaranteed return” investment property. He was so excited that his problems would be over, he signed up on the spot.

Unfortunately, one year down the track the investment not only lost value, it began to make a significant drain on his cash flow. Every month he would have to shell out money for something or other to do with the property. He got to the point where he just couldn’t go on taking losses, so he had to sell.

By that stage he owed more than the property was worth, so he had to part with his pride and joy, a 1964 Holden he had painstakingly restored from a wreck. The learning here is that my friend got carried away with the prospect of a great return without investigating and understanding the true level of risk prior to jumping in.

When it comes to the amount of effort you put into your money affairs, the fifth trait, your **work ethic**, can play a key role in breaking out of the pay-to-pay cycle.

Your success largely depends on how disciplined you are. Hence the more energy and focus you put on working out ways to get out of the pay-to-pay cycle, the better off you will be. I mentioned earlier about needing to know how much you really **want** to break out of the cycle – well, this manifests itself in your effort. Therefore, the smarter you work and the more passion you put into it, the greater the chance you'll break out.

The sixth trait, your **spending habits**, looks at a number of factors such as your needs and wants, and your conscious and subconscious behaviour with regard to the purchase of essential and non-essential items. When it comes to essential items that you require to satisfy basic needs (food, clothing, shelter, etc) the way you spend money on them can clearly be influenced by both your conscious and subconscious mind.

For example, if your conscious mind is in control whilst you are shopping from a defined list, you generally end up with what you set out to purchase at a price you pretty much expected.

However, if your subconscious mind takes over whilst you're purchasing the same set of basic needs, you could end up with a higher bill due to the fact that your inner wants start to take over.

Here you will find yourself making impulse purchases or you'll end up buying premium brands and paying more just because you think they are higher quality.

'Essential items spending is clearly influenced by both your conscious and subconscious mind.'

If your conscious mind kicks in when you are buying a luxury item, you may find yourself in a bargaining position or find yourself doing significant research before you make the purchase. Alternatively, if the subconscious mind takes hold you will probably end up paying full price and justifying your purchase by saying that it is a reward for all your hard work.

As you can see, understanding what drives your purchasing behaviour and patterns is critical to managing your money personality, as the more you understand your motivations the better your ability to break out of the pay-to-pay cycle.

The flip side of your spending habits is the seventh trait, your

saving habits. This trait is all about your willingness to accept the concept of sacrificing the "now" for the "future". Sounds pretty hard when you are knee deep in bills with only a limited income! I know. I've been there. And the prospect of someone telling you this seems quite preposterous.

But if you really want to break out of the pay-to-pay cycle you need to get your subconscious mind to focus on wanting something specific.

In other words, focus on a particular goal and commit to it. (I'll show you how to do this in Chapter 2.) From here you need to put your conscious mind into action to make things happen. Instead of following the age-old formula of what's left over after expenses are taken away from income is savings, I suggest a new formula for you to follow.

I call it the **Money Allowable Formula**.

Put as an equation, it looks like this:

I – S – E = MA

That is:
Income *minus* ***Savings*** *minus* ***Expenses*** *equals your* ***Money Allowable****.*

The reason why I have put the savings as a deduction from income is that you must learn how to pay yourself first. This is fundamental to getting into a mindset that operates in the surplus mode and not constantly chasing your tail trying to scrape up enough money to pay for something. A great way to start with savings is with a couple of dollars each pay. Then have your pay officer at work deposit an amount in your savings account. I know this will be tough in the beginning if you're not used to it, but believe me, you'll need the discipline involved here to get you focused on paying yourself first. That's why the savings are subtracted after expenses. (In Chapter 6, I'll share many more savings strategies with you.)

The Money Allowable is essentially your secret weapon to breaking out of the pay-to-pay cycle because, if it is handled properly, it will help you build up cash reserves over and above savings, which you can invest to create an income stream all of its own, thereby giving you additional income to your salary. When you first start using the

Money Allowable Formula, you will definitely find yourself going from a zero Money Allowable status to a positive one, then to a negative one.

Don't despair as this is quite normal, because your money personality will take a little time to adjust to this new approach. Hopefully over time you will get the hang of setting yourself a savings amount and subtracting it out of your income along with expenses. Once you see the ongoing benefits of a surplus, your subconscious mind will take over. Not only will you have found a way to cover your expenses, you will have found a way to save and have money left over to invest.

Speaking of investments, this brings me nicely to the eighth trait, your **attitude to investment**. You may be thinking, how does this affect me getting out of the living from pay-to-pay cycle? A good question – the answer lies in your subconscious.

To explain, let's go back to the example of my friend who bought that investment property. In his case, he leapt into it totally unprepared. Sure, he had good intentions and his attitude to investment was good, but these were more from his conscious mind – he wanted to get a quick fix and to "negative gear".

The problem was, it wasn't a quick fix and he didn't actually understand negative gearing. As you can see, you can have the desire from your subconscious mind, but you need the right knowledge to make the right investment choice. In other words, my friend should have spent more time in his conscious mind learning about the broader range of investment opportunities – how they work, the amount of risk they carry, the appropriate investment balance and the return they will generate. In this way, the consequences of his mistake would have been significantly better.

'You can have the desire, but you need the right knowledge to make the right investment choice.'

The final trait in the discovery process of money personalities is your **tolerance to debt.** The way you view debt can affect the way you handle your finances and, of course, how you can break out of the pay-to-pay cycle. Debt can mean different things to different people, and it is good debt management that basically separates those who can manage to break out the of pay-to-pay cycle, and those who can't. For example, if you see debt as a necessary means to an end to buy a house or a car, you'd probably get a decent deal and pay the loan off diligently over time. You may be a bit sharper and look for the best deals and aim to pay off your debts faster, so it's not so much of a burden on your income. You may, on the other hand, see debt as a great way to leverage your financial position by using a lender's money. Therefore, you strategically use that money to fund an investment and reap the income and tax benefits.

Alternatively, you may see debt in a negative light and try to avoid it as much as you can. Hence, you rarely have any debt or, if you do, you pay it back as fast as you can to get it off your back.

Finally, you may be a person who is quite susceptible to debt and use it pretty regularly as a quick and easy fix to your particular situation. This is probably the worst of all of the perspectives, because here you will generally be faced with multiple debt payments and potentially high interest rates that eat up most of your income. By the way, a comfortable level of debt as a proportion of your income (or income to expense ratio) should be around 20–30 per cent. In other words, only 20–30 per cent of your total income should go to paying back debt.

The greater the debt burden on your income, the harder it is to break out of the pay-to-pay cycle. Hence you need to not only do something about your debt situation, you need to change the way you approach your debt.

WHAT'S IN A MONEY PERSONALITY?

We've had a look at the nine traits that make up your money personality. Now let's have a look at the money personalities themselves in detail. Again, remember the reason why we are delving into these money personalities is once you discover the core traits and link them to core personality, and then link them to the key people and events in your life, you will get a much better picture as to why you are doing what you are doing with your money.

From there, you be able to use the following chapters as a road map to help you break out of the pay-to-pay cycle forever.

As you read each of the short descriptions you'll definitely find yourself saying things like "yep that's like me" or "oh no, I don't do that". Just remember you are made up of parts of each personality, however you are dominant in one personality at the moment. That's why it is natural for you to relate to certain bits of each of the three personalities as you read them.

You will, however, find yourself saying "yes" more often to one of the personalities, and chances are this will be your dominant money personality.

I'll help you discover your own money personality shortly, when I get you to undergo my very own Money Personality Diagnostic!

THE SPENDER MONEY PERSONALITY

For various reasons Spenders find that money goes out faster than it comes in. Many tend to live from pay packet to pay packet and have a limited (or non-existent) method for managing their money. Sometimes they are unable to even pinpoint just where their money goes.

Whether or not they have a good work ethic, their knowledge about how to save and invest is generally low to moderate and they therefore display a lack of confidence in making money-related decisions. Some Spenders mistakenly consider themselves to be savvy due to the way they spend rather than how they invest.

In other words, they use various shopping discount cards just to purchase often un-needed items. They use the discount or money saved as justification for the purchases, which gives them the delusion of being savvy. Many Spenders shy away from seeking money advice because they are afraid of asking what they consider to be dumb questions. Because of this they are unlikely to be aware of the alternative options available.

Spenders tend not to take risks in areas that would most benefit them financially, however they can be lured into not so smart investments due to the promise of a high return. They rarely have investments other than a savings account at a bank.

THE CAREFUL MONEY PERSONALITY

Careful money personalities tend to watch their money quite closely, no matter what level of income they're on. They generally have a system of managing their money, although their system may be a bit rough and ready. They have a moderate level of money knowledge and are open to learning more about money if it comes from a trusted source.

They like to take their time when making financial decisions, because they have a fear of losing their money. They are relatively confident in handling and allocating their money, but they tend to balk at the riskier opportunities, preferring to stick with conservative choices of financial product or investment.

Careful people usually have a strong work ethic and spend the fruits of their labour in a controlled manner although, they do lash out every once in a while (usually very infrequently).

They don't like being in debt, and when borrowing stay in their comfort zone, safe in the knowledge they have the capacity to service the debt.

Most purchases by Careful types are considered and researched.

THE SAVVY MONEY PERSONALITY

Savvy money personalities have a solid level of money knowledge that has been gleaned from constant learning, either from direct education or through trial and error.

A key element of Savvy people is their propensity to listen and learn more about money and the various strategies they can follow to improve their wealth. They are more than willing to accept the input of others and they definitely seek the advice of experts.

Savvy money people generally have a very good work ethic and they expect their money to work equally as hard.

They have a moderate to high level of confidence and appreciate and understand varying levels of risk associated with their money and investments. They like to be involved in their financial affairs but are just as happy to have an expert look after it for them.

Although their spending is controlled, they will not hold back if they really need or want something. They are always on the lookout for good value.

Savvy money personalities are good at managing debt to their advantage, using credit cards and larger loans well, while constantly focusing on reducing their level of non-tax-deductible debt. They are quite analytical although they do have a natural gut instinct they rely on occasionally.

SO WHAT'S YOUR MONEY PERSONALITY? THE MONEY PERSONALITY DIAGNOSTIC

Okay, by now you should have a pretty good grasp of the nine traits and a good overview of each money personality and how they apply to the pay-to-pay world we live in.

I'm sure you even have an inkling of your own money personality, but let's work it out properly.

To reveal your money personality, all you have to do is answer the questions in the following quiz openly and honestly then tally up your responses. The score that with the highest tally indicates your dominant money personality.

One last point before you start. Please answer the questions the way you are at this very minute, not the way you think you should be. By doing this you will get an accurate result. This is an important step in getting in touch with your conscious mind.

Okay, let's go.

1 WHEN YOU'RE SHOPPING FOR GROCERIES DO YOU:

A. Walk up and down the aisles, grab the essentials and also grab a few extra treats
B. Shop regularly using a list and keeping an eye out for products available on special
C. Use your discount and member cards and shop at the places where you get the best prices and value
D. Pop up to the local convenience store and buy what you need

ABOUT ME

In the introduction section I introduced the concept of Money Monsters and laid out my life over the last thirty years. Now my publisher wants me to connect with you and give you a bit of a history lesson going back to my birth.

You are most welcome to skip this bit. But everyone has a story, and this is mine.

I grew up in Richmond in NSW on a small thirty-hectare farm. Right in the middle of the property were three houses, all within fifty metres of each other. (It was cheaper to build them that way!) I lived in the first house with Mum, Dad and my brothers. Mum's sister and her husband were in the middle house and my maternal grandparents lived in the third.

Life on the farm was often a bit like a fairy-tale. I had all my family in one spot, plus a big area to explore, which kept me more than adequately occupied. Having my family so close, I was learning from them pretty much on a daily basis. My aunty, uncle and grandparents were all post–World War II refugees from Eastern Europe, and I got to discover their views on everything from culture and politics to work ethic and money. Dad, a fifth generation Australian and the only non-European, brought an interesting flavour to the mix. I learned a great deal from him, especially his entrepreneurial skills.

My two brothers were great fun to grow up with. My younger brother, who will always be my little brother (he's now in his late forties with kids), was a constant source of entertainment, and my older brother was someone I always looked up to. Although occasionally we tried to kill each other!

School was not exactly the most enjoyable period of my life as I didn't like the dogmatic style of teaching and the capital punishment that was dished out.

At school, I had a small but tight group of friends. We would constantly talk money and finance, whether it be business, investment, property or the share market, and we'd always be debating some sort of economic or political policy. Kind of daggy, I guess. Perhaps that's why I only had a small group of friends!

At university I studied (you guessed it) economics. Despite my best efforts to resist the temptations of the university social club, I found myself at the end of the first year seriously failing (can't explain it – perhaps it was all that new-found freedom after those draconian schooling years). To hedge my bets (I always like to protect my downside risk!) I looked in the paper for a job. Long story short, I landed a job at the Australian Stock Exchange (the Sydney Stock Exchange in those days) as a Financial Analyst. Fancy title, but in reality I was a glorified proofreader. I've got to say the Stock Exchange changed my life. Not only did I meet my boss, who gave me a whole new perspective on money, it also taught me how knowledge is fundamental to successful money management and investment. Speaking of knowledge, I continued at university part-time; my grades went up and I graduated with Distinction. See what happens when you have a purpose.

After more than ten years at the Stock Exchange, I jumped ship and went into banking. I also wrote my first book called Do It Yourself Marketing. I did this for two reasons. The first was to share the knowledge I had accumulated by working at the Stock Exchange and gain more credibility. The second was, I wanted a passive income stream over and above my salary. I had a mortgage to pay and investments to build. And let's face it, a single source of income is just not enough.

'The Stock Exchange changed my life: I could see how knowledge is fundamental to success.'

My few years in banking ended pretty abruptly when I was made redundant. Then I took a job in advertising. It was a real eye-opener and I only stayed a short time; about the third month into it I had a blinding flash that I should be doing it for myself. I followed my instinct and set up my own consultancy.

When I was working for myself, a great number of opportunities seemed to magically come my way; I don't know if it was good fortune or good measure (a combination of both I suspect), but I found myself consulting to the banking industry and the investment industry, working with a number of great firms in other sectors and building a good business.

My move back into the money world came about when I wrote a book called More For Less back in the late nineties, which was a simple guide to saving money on everyday things. As a stroke of luck, this book somehow made it across the Deputy Editor's desk at Woman's Day magazine and she called me up and asked me to be the money editor. I was thrilled to have this opportunity to communicate with millions of readers each week and help them with their money situation. I did that for more than seven years.

A number of radio stations around Australia then contacted me to have a chat to them on a regular basis about money events and how they affect the average person's hip pocket. One radio station (2UE in Sydney) even gave me a one-hour money show which led to a regular half-hour on a prime-time radio program on the same network. Radio led to a regional TV spot with NBN Television for three years, then onto Channel 10. All of these media activities enabled me to use my gift for communicating about the complex world of money in simple English, which I totally love.

In the early 2000s, I found myself writing a weekly page for The Daily Telegraph's Money and You Section. From these media outlets I received a huge number of visitors to my website from this media exposure, with the most common question being "Why do I do what I do with my money?" That's why in 2002, I wrote a book called Unlock the Secrets of Your Money Personality.

Just when I thought I was indestructible, I got involved in a retail/dotcom venture called the Money Café a world's first money and finance centre. Unfortunately, for many reasons, it failed, leaving me high and dry financially – a nice way to say "screwed", I guess. After trading out of this mess (you'll see how I did it later), I picked myself up, set up my financial services company, then went back into corporate land only to get made redundant a few times.

Now I am once again working for myself, with multiple interests in multiple companies across many industries. Plus, after a little over ten years, I'm back at Woman's Day magazine and on radio helping Australians control their money.

Well, there you have it, my life in about 1,200 words – the story of a passionate, empathetic entrepreneur with a burning desire to help others learn more about their money so they don't have to live from pay-to-pay and can enjoy life to the fullest.

Dear Greg,

I understand it is up to me to:

MAKE CHANGES to my attitude
to dealing with money

BELIEVE in the money outcome I want

BEHAVE differently in the way I manage my money

I .... (insert your name here) understand that changing the way I think and believe about money is a daily process I need to focus on. Therefore I hereby promise to put the above Monthly Activity Calendar into action.

Signed ....

Dated ....

Witnessed By ....

Take a photo of this page and put it on my Instagram to share.

#budgetblitz

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Millions of Australians are struggling to make ends meet. Many are so overwhelmed by the financial impact of COVID-19 that they just don't know where to start.

In *Stop Living Pay to Pay*, money expert and bestselling author Greg Smith shows the way out.

Everything you are about to read is based on a first-hand account of Greg's life journey. Far from a rags-to-riches tale, he candidly shares his personal story of how he fell into (and then made his way out of) the pay to pay cycle.

You will learn about:

- **The seven necessary steps Greg developed to build a bridge for himself to get out of the pay to pay cycle**
- **Your money personality and why you handle money the way you do**
- **The debt buster program will show you how to pay off your debts up to ten times faster**
- **The 5 steps to stay out of the pay to pay cycle and live the life you want**

You will feel as though Greg is sitting right next to you, sharing his story. Learn from him, feel his passion, and take confidence from the fact that you are reading a book written by an author who once knew what it was like to live from pay to pay.

Greg Smith has dedicated his life to helping Australians understand money. He has written 15 books on the subject, been a regular commentator on radio and TV. Now, after a long break he is back, with this book (and three others to come) and a return to his regular column in Australia's biggest magazine – *Woman's Day* – plus a number of radio spots where he is helping Australia's heartland navigate these uncertain times.

Bestselling finance expert Greg Smith shares his incredible personal highs and lows. Real stories, practical techniques and achievable action plans for tough times.

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