

# LITTLE WAYS YOU MIGHT IMPROVE YOUR FINANCIAL LIFE

*Some things to think about this year - and every year.*

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**This is the year!** Yes, you can make 2010 the year you alter your financial life for a better financial future. Let's look at some steps you might think of taking with the goal of financial freedom in mind.

No, we're not talking about those ridiculously obvious steps the usual articles recommend, like "write your goals down" and "set a budget". Let's go past the clichés and get into the real issues.

**Look at your income source, your expenses and your debt.** How do you earn income? If you earn it from one source, is there effectively a ceiling on it, or is there real potential for your income to rise in the next few years? Now look at your core living expenses, the ones you can't avoid (such as a mortgage payment, car payment, etc.). Can any core expenses be reduced? Investing aside, you position yourself to gain ground financially when income rises, debt diminishes and expenses stay (relatively) the same.

**Maybe you should pay your debt first, maybe not.** If you are a business owner or a professional, for example, you'll likely always have some debt. Your ultimate goal should be to build wealth - and you can plan to build wealth and minimize debt at the same time.

Some debt is "good" debt. A debt is "good" if it brings you income. If you buy a rental property, you're paying a mortgage, but that's considered a "good" debt because you're getting passive income from the rent payments. Credit cards are "bad" debts.

If you'll be carrying a debt for a while, put it to a test. Weigh the interest rate on that specific debt against your potential income growth rate and your potential investment returns over the term of the debt. If the interest rate on that debt looks like it will outpace your income growth and investment returns, then you should really think about paying that debt down fast, because you can't afford that interest rate.

Of course, paying off your debts, paying down balances and restricting new debts all works toward improving your FICO score, another tool you can use in pursuit of financial freedom (we're talking "good" debts).

**Implement or refine an investment strategy.** You can't refrain from investing, even when the bears are out. You're not going to retire on the relatively small elective deferrals from your paycheck; you're going to retire on the interest that those

accumulated assets earn over time, plus the power of compounding. Investing can also potentially bring you passive income. Consistent investing, this year and in years to come, has the potential to help you improve your financial life.

**Manage the money you make on your way to financial freedom.** It's amusing: all these Internet gurus tell you they have a method to make you "financially free" or "debt free", but few tell you how to manage the money you make. Their not-so-subtle message seems to be "succeed and live lavishly" - if you make it financially, you've earned the freedom to blow it all on cars, boats and luxuries.

This is a classic *nouveau riche* mistake. If you simply accumulate unmanaged assets, you have money just sitting there open to risk - inflation risk, market risk, even legal risks. Don't forget taxes - while not technically a "risk", they are a threat to your money. The greater your wealth, the more long-range potential you have to accomplish some profound things - provided your wealth is directed.

If you want to build more wealth this year or in the near future, don't neglect the risk management strategy that could be instrumental in helping you retain it. Your after-tax return matters even more than your investment return, so risk management should be part of your overall financial picture.

**Request professional guidance for the wealth you are growing.** A good financial advisor will really help to educate you about the principles of wealth building. You can draw on that professional knowledge and guidance this year - and for years to come.

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