Debt-Proof Living

How to Get Out of Debt and Stay That Way

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For Harold
and all the joys that money cannot buy

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Acknowledgments

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My dear reader: Thank you for giving me the reason to write this book and the next one too.

Introduction

Welcome to the updated, revised, and "even more all-new" edition of my book *Debt-Proof Living*. The first edition of this book rolled off the press in December 1999. It began . . .

> The median income for a U.S. four-person household has just hit an all-time high of $62,228. Unemployment continues to decline while inflation is minuscule. And Americans are deeper in debt than ever before. What is wrong with this picture?

Since then the economy has gone through major upheavals as a result of the terrorist attack of September 11, 2001, the wars in Iraq and Afghanistan, the tsunami of 2004, Hurricanes Katrina and Sandy, United States presidential elections, and on and on it goes. Gasoline prices have more than tripled, the cost of food has increased by more than 60 percent, and United States residential real estate values shot skyward then crashed.

In 2005, so many things had changed that I updated, revised, and expanded this book for an "all-new" edition and posed the question, So where are we six years later? The economy was on track, and the median income for a United States four-person household had climbed to $67,019. Unemployment was on the decline, while inflation remained low. But Americans were far more deeply in debt than ever before. Revolving unsecured, non-mortgage consumer debt totaled $735.3 billion, about 31 percent higher than it had been six years earlier.

So here we are in 2014. The economy plummeted in 2008 and has struggled ever since. Promises of a recovery have not materialized. The median income for a United States four-person household is $65,000, a *decrease* of 4.3 percent.[1] Unemployment has increased to 7.7 percent, and inflation is ticking higher. While consumer debt dropped significantly after the financial crash of 2008, it has taken a startling turn upward. As of January 2013, United States credit card debt stood at $851 billion on top of $1 trillion in student loan debt.[2]

Again I ask, What is wrong with this picture? You could be wondering why, given such a dismal report, I would even think about revising, updating, and republishing this book. One might conclude that, with the overall picture becoming decidedly worse since this book's first and second releases, this book was not successful. But that would be a very wrong conclusion.

While it is important to look at the big picture, it is too general, too depressing. What matters are individual lives. I measure effectiveness and progress by the mail I receive from people whose lives have been forever changed because they learned how to manage their money following the debt-proof living principles you will find in this book.

I measure success by the thousands of people I've heard from who have followed the steps and repaid all their unsecured debts, are well on their way to paying off their mortgages, and have learned how to fund their own emergencies—to not depend on credit cards when the unexpected happens. They have debt-proofed their lives and continue to do so one day at a time!

So why revise and update this book if it was and continues to be effective in its prior releases?

Many things have changed over the years. Take credit scores, for example. In 1999, individuals were not allowed to know their credit scores. Lenders were sworn to keep that proprietary information secret. That's no longer true. Not only does the law now allow us to know our credit scores, but we can also know to what extent our scores affect our lives (hint: it's huge). In this updated edition, you will find the latest information available on what contributes to your scores and how to improve them.

You will also find other information that did not appear in the original book. And I hope that the knowledge, insight, and maturity I've gained over the years are reflected in the following chapters as well. Readers have taught me a lot.

Take student debt. I've learned it is a far bigger concern to far more people than I realized in the past. In the first edition, I gave a strong warning about the dangers of taking out student loans. Now I have added information on how to deal with and conquer your educational loans. Of course, avoiding them in the first place is most ideal, but reality is what it is, and this is a subject I cannot ignore.

Even with all the new content, let me be quick to say that some things have not and probably will never change.

The consumer credit industry will forever want us to believe that credit cards are necessary to bridge the gap between our pitiful incomes and the lifestyles we deserve. Lines of credit have become the socially acceptable means of survival in this gotta-have-it-now world. Everywhere we turn we're told that no matter our income we deserve to be several levels higher.

We don't need more credit or more stuff. What we need is the courage to think for ourselves, the maturity to tailor our lifestyles to fit within our incomes, and the willingness to find contentment where we are and with what we have.

We need to understand that money is not just for spending. It is for managing first and then for spending. We need to see money not as power or prestige but as provision—God's provision for our physical and material needs.

Contrary to the financial pressures and stress we might feel from time to time, generally the problem is not that we don't have enough money. The problem is that we don't know how to manage what we do have. We see money as a qualifier. It is a down payment on what we want. It is the lever we use to lift ourselves to economic privileges we have not earned.

Since 1992 I have devoted my life to learning about money and personal finance. At first it was a matter of survival. It took twelve years for me to plunge my family into the pit of financial despair. It appeared there was no way out. But appearances are not always what they seem. Slowly but surely we began to fight, scratch, and work our way out.

By 1992 we'd been working on our horrendous mountain of debt for nearly ten years. About $12,000 of the debt remained. I desperately wanted to find an additional source of income so we could pay off those last remaining credit accounts. It was time to close the chapter on that part of our lives. It was time to move on.

About that time I had a wild idea. What if I created a forum? One in which I could help others help themselves, and I could help myself in the process? It seemed plausible and a way I might be able to speed the pay-back process. I had nothing to lose by trying, so I went for it.

My number one reason for starting a subscription newsletter was not a secret: I was in it for the money. I came clean in the first issue of Cheapskate Monthly (it has since undergone a name change to Debt-Proof Living and gone from a subscription newsletter to a full membership at DebtProofLiving.com). I told anyone who would listen that, for pocket change, I would provide them with information and motivation to get out of debt just as my family was doing. We would take the journey together.

Two decades later, the newsletter continues in full publication and has become a regular part of tens of thousands of people's lives.

I am smarter now than I was in 1992. I've proven that teaching teaches the teacher. Naively, I thought I knew it all—at least enough to fill the few issues of the newsletter I planned to publish. But I was wrong. I never dreamed I could become so passionate about a subject I had heretofore considered hopelessly boring. And I continue to learn.

I did raise the funds we needed to reach our goal. We used the profits from the newsletter to finish repaying our whopping unsecured debt, and in a relatively short period. According to my original plan, it was time to move on. But I'd developed such a bond with so many readers that my new passion transcended that plan. I was hooked, and pulling the plug on the newsletter was not an option. It didn't cross my mind.

I also noticed that something weird was going on. My new knowledge was intoxicating; I couldn't get enough. I was driven to learn more and more. Every week I'd receive stacks of letters from readers. Some were filled with questions; others were cries for help. Some were testimonials about how this person or that couple was understanding for the first time the principles and specific steps they needed to follow to take charge of their finances and become effective money managers.

The more I wrote, the more I developed a burning desire to know more. As I learned, I watched as my family's personal financial picture began to improve—significantly. As I taught my readers to anticipate the unexpected, we became better prepared. As I waded into the waters of beginning investing, our portfolio experienced amazing growth. I actually learned the definition of *portfolio*. I could hardly believe the confidence I felt in the knowledge I was gaining.

Often I would step back and look at myself through eyes of astonishment. "Look at you! What an unlikely development for someone who was so financially ignorant, so downtrodden by debt, and so unwilling to change." I liked what I saw. My husband liked it too.

There is no doubt in my mind that getting out of debt is the important first step in gaining control of your personal finances.

But then what? The only way to stay out of debt and keep moving toward a secure financial future is to manage your income effectively. That means adopting a new way of living. It may require giving up old ways of thinking, changing your attitudes about money, and rejecting the notion that you are entitled to more than you can afford now, even when the credit industry says you are more than qualified.

It's only fair that I warn you: I am seriously opinionated on this matter of money, credit, and consumer debt. I refuse to pull punches or take the soft approach. I lived far too many years in financial bondage to see that condition as tolerable. I paid back more than $100,000 in unsecured debt and lived to tell about it. I've been there. I know what it takes. I know the temptations and challenges that hit you every day.

I am the first to admit that the countless offers of entitlement and promises of happiness that appear online and on our television screens day after day are more than just enticing. They are downright seductive. And I know the pain and personal devastation of cashing in on those promises only to find that having it now and paying for it later is not the path to contentment and peace of mind. Rather, it leads to self-centeredness and defeat.

I have written this book to present my case, in the most powerful way I know, that it is possible to live a rich, fulfilling life without consumer debt.

One of the most gratifying aspects of what I do is having readers tell me I've changed the direction of their lives. If that has been true for even one person, I am blessed, because I know my passion has found purpose. In that, I have found unspeakable fulfillment.

Wherever you are on your financial journey, consider this my personal invitation to join me and thousands of others on the road to a debt-proof life.

1

Debt-Proof Living

What It Means, What to Expect

> Knowledge is the difference between really living and just existing. Existing is instinctual; living is the exercise of certain learned skills, attitudes, and abilities that you have acquired and honed to a sharp and focused edge.
>
> Dr. Phil McGraw,
> clinical psychologist and television host

Like graduation, becoming debt-free is not the end—it's the beginning of a new adventure. To drop out at your debt-free "graduation" and fall back into debt would be to turn your back on everything for which you have been preparing. It would be to close the door on your dreams of financial ease. In some way, it would diminish the importance of what you accomplished. Who would be so foolish as to do the difficult work and then not stick around to enjoy the rewards?

Not long ago I heard from someone who dropped out. In her letter, Bonnie described how she and her husband had gotten into quite a debt mess during the early years of their marriage. It took them three years to unload $18,000 of credit card debt, but they did it! They were debt-free. And they assumed they were finished. That is when they dropped out.

Bonnie and her husband bought a home and soon welcomed their first child. Of course, they needed all kinds of things for this new chapter in their lives. The baby needed a new crib; they needed a new sofa. It all seemed so logical and necessary.

Apparently, they needed many other things too, because by the time Bonnie wrote, they were in debt again—this time they owed more than $26,000. Bonnie described how she and her husband make good money, live fast-paced lives, have no savings, and spend thousands each year eating out. Every nickel that comes in goes out to keep the bills at bay.

I could feel Bonnie's panic as I read her closing paragraph:

> We did it once. We know we can do it again. But how do we avoid falling back into the cycle of debt the next time? There must be some way for us to cure ourselves of this disease once and for all. I'm afraid that if we become debt-free this time, the way we think about money might lead us right back into debt again . . . and again . . . and again. How can we win over debt for a lifetime? Help!

I must have stared at that letter for a full hour as a million thoughts raced through my mind. Over and over, I kept coming back to the simple truth that getting out of debt is only the first step. That is how you get to the starting point. Staying out of debt and moving forward to financial independence—that's the bigger challenge. And that's where the big rewards await.

I thought about the thousands of people I had met or communicated with over the years who had made it to the starting line. Are they progressing, I wondered, or did they, like Bonnie, mistake the starting line for the finish line? How many of them grabbed the prize and went back to their old ways of living and thinking, putting the lessons they learned in “boot camp” far away from their daily lives? Did they go through the steps to get out of debt hoping they wouldn’t have to think about money again? That somehow they’d have so much money they would not need to care for it?

Bonnie’s letter brought to mind my own situation and how I repaid a boatload of debt, how the temptation to fall back into the old ways of incurring debt becomes less intense and certainly manageable but never really goes away. What keeps me from going back? How can I encourage people not to stop but to move on to the next level and beyond? Is it possible to win over debt for a lifetime?

I startled myself when I jumped to my feet and answered Bonnie as if she were sitting across the desk. Yes, it is possible, and no, I will never go back! You have to get to the starting line, establish your long-term goal of reaching financial freedom, define that goal in terms of steps, and then change gears from debt recovery to debt prevention. You have to think specifically, not generally, about how you’re going to get there and then rejoice because each step from now on will be one of progress, not repair.

I continued pontificating, in the privacy of my office, on this matter of maintenance—a way of living I would soon call debt-proof living. It was a defining moment as I described to myself what a debt-proofed life looks like: You spend less than you earn; you give, save, and invest confidently and consistently; your financial decisions are purposeful; you turn away from impulsive behavior; you shun unsecured debt; you borrow cautiously; you anticipate the unexpected; you scrutinize your purchases; and you reach your goals by following a specific plan.

Perhaps you’ve heard of a weather condition known as El Niño. An El Niño makes meteorologists giddy because it gives them a very unusual type of weather to report.

I can’t help but think back to the El Niño of 1998. Where I lived in California, it washed sections of the beach out to sea and took a few homes along for the ride. It was amazing to watch as certain other structures were pounded relentlessly but remained intact. Was El Niño selectively cruel, targeting some homes and for no apparent reason sparing others? No, El Niño slammed the entire area with equal force and showed no mercy. What made the difference was how the homes were constructed. Those tied to bedrock weathered the storms just fine; those built on shifting sand did not.

I never could have predicted which homes would survive such an ordeal. Foundations aren't exactly out there for everyone to see. Often it was the more showy, ostentatious homes that flunked the test. They looked good, but they did not remain standing when things got rough.

In the same way that Laguna Beach homes must be tied to something immovable, the way you manage your money must be tied to unchanging truths and principles. If your financial behaviors are based on shallow thoughts and fickle feelings, the storms of life will wipe you out. And there will be storms—I guarantee it.

Bonnie and her husband were washed out to the sea of debt because they did not tie themselves to a solid foundation of unchanging truth. Once they fixed the initial problem, they tossed aside the principles that had served them so well in getting out of debt. They handled debt recovery well but failed to kick into debt-prevention mode. They got to the starting line, and then they quit.

Truth be told, you may not have a clue what you believe about money and its role in your life. Or you might firmly believe things that are not true. No matter what you've done or believed in the past about money and how to take care of it, now is the time to tie yourself to a foundation that will not change, one that will withstand the storms of life. In the same way you would insist on a sturdy, well-built foundation on which to build your dream house, you need a strong foundation on which to build your financial life. In the coming chapters, we are going to create that solid foundation using sound yet simple financial principles that will stand the test of time.

Don't be surprised if at first you find some of this information overwhelming. There's a lot to learn and a lot to do even if your finances are not in terrible shape. You won't be able to do everything at once, so relax and learn all you can. Take it one step at a time, and you will find that you can begin immediately to improve your personal financial picture.

I am confident that you will find a sense of enjoyment and personal satisfaction as you get your debts and spending under control, as you learn specific strategies, and as you let go of the hit-or-miss method of money management. Everything will not change overnight, but as you take the first steps and then commit to steady progress, you will be well on your way to achieving the financial security you desire.

What Is Debt-Proof Living?

To debt-proof means to live without reliance on consumer credit. Debt-proof living is:

A lifestyle. Debt-proof living is a way of life in which you spend less than you earn, you give and save consistently, your financial decisions are purposeful, you strive to live below your means and free of consumer debt, and you work toward your goals by following a specific plan.

A system of personal money management. Debt-proof living is a specific money-management method that makes it possible to debt-proof your life and is presented in its entirety in this book.

A newsletter. Debt-Proof Living (formerly Cheapskate Monthly) newsletter is a monthly publication that picks up where this book ends and is a monthly source of encouragement, information, and entertainment in your quest to debt-proof your life.

A website. DebtProofLiving.com was established in 1997 and has grown into a member community. The website is where members access the monthly newsletter and its archives, use DPL's calculators and money-management tools, and interact with other DPLers in lively community forums.

A book. This method is presented in its entirety in the book titled, not surprisingly, *Debt-Proof Living*—a copy of which you hold in your hands (for which I thank you very much).

Five Reasons to Debt-Proof Your Life

You will never find success in turning your money life around until you are thoroughly convinced it needs to happen. Here are five reasons you need to make that turn and debt-proof your life.

1. *To survive lean times*. If you have a load of debt, even the slightest shift in your economic picture can plunge you into financial despair. Debt represents a heavy load and makes the journey nearly unbearable. Debt offers few, if any, options. If you are debt-free, you are traveling light. When you live without debt, you have alternatives to help you survive times of challenge and struggle.

2. *To reduce your stress*. Financial stress comes in many forms: worry, sleeplessness, communication breakdown, depression, and anxiety. The medical community reminds us that stress takes a terrible toll on our health. We are less immune to disease and illness. Our bodies bear the consequences of the heavy loads our minds carry when we place our lives in financial jeopardy. Debt-proof living can turn stress into joy, peace of mind, and rest.

3. *To protect your future*. Revolving debt forces you to transfer your future wealth to your creditors' bank accounts. Debt-proof living is an insurance policy for your future income. It builds a protective shield that creditors cannot penetrate.

One woman I spoke with recently brought this truth home to me in a poignant way. Only months before our encounter, her mother had died, leaving her a sizable inheritance. How comforted she should have felt knowing she was so important to her mother that she had purposely blessed her daughter in this way. Although the mother would never know, this woman had run up such significant debt that it was going to take every penny of her inheritance to bring her current and back into favor with her creditors. Through tears, she finally understood what it means to transfer your future wealth to your creditors.

4. *To protect your marriage*. Whether you are married now or hope to be one day, you need to understand just how devastating debt can be to the relationships you hold most dear.

The number one killer of marriages in the United States is unresolved conflicts.[1] And what do couples argue about the most? An impressive study published by the Center for Marital and Family Studies at the University of Denver reported how couples rated their problem areas over an extended period of time.[2] The study tracked couples from before they married to many years after. People before marriage, people after marriage, people with a lot of money, people with little money—all rated their number one area of conflict as money.

Divorce is expensive, but more than that, it is devastating for all parties, especially the children. If strengthening your marriage were the only reason to debt-proof your life, it would be reason enough.

5. *To teach your children*. If your kids read magazines, go to school, watch television, listen to the radio, know what a fast-food restaurant is, or have ever been inside a store or supermarket, they already know something about entitlement and instant gratification. Right under your nose they are developing into world-class consumers. They may be well on their way to becoming future debtors of America.

If you do nothing to intervene, statistics indicate your kids are headed for a life that will be severely and negatively impacted by consumer debt. By debt-proofing your life, you will affect your children's lives as well because families reproduce themselves. Kids learn through observation and imitation, and when all the smoke clears, they usually turn out like their parents.

Principles for Debt-Proof Living

There are only five things you can do with money. You can give it away, save it, invest it, lend it, and spend it. I purposely put "spend it" last on the list. Spending should never be the first thing you do with your money. The proper management of money is specific and orderly. If we short-circuit the system by spending it first, we create fiscal disorder and eventually financial chaos.

These are the never-changing principles upon which you can build your financial life—whether you live on a fixed income, are self-employed, rely on commissioned sales for your livelihood, or have huge sums of money at your disposal.

Principle 1: Never keep it all. The first thing you must do when money flows into your life is give some of it away.

You have two enemies that will do all they can to make sure you do not live below your means—that you spend all the money you have now and hope to have in the future. The first enemy is greed. The antidote for greed is giving.

Greed is that voice whispering in your ear that insists you are entitled to have anything you want and everything you like. Greed keeps you from being satisfied. Giving away some of your income brings balance to your life. It is a remarkable antidote for a condition that has the potential to ruin your life.

Giving connects you to something greater than yourself; it takes your eyes off your situation. How much you give away is a personal decision; however, I suggest that 10 percent is a good amount.

Giving is the tangible expression of gratitude and proves the condition of your heart. Giving easily defeats the enemy named greed.

Principle 2: Always save some. Your second financial enemy is fear—fear of poverty, fear of running out of money, fear of losing your job, or any number of money-related fears. The antidote for fear is saving.

Diligently save 10 percent of your paycheck—over and above any contributions you are making to retirement plans. You must always save without fail before you pay your bills and before you spend your paycheck.

The money you save is money that will be there to carry you through times when your income stream is cut off. And that will happen sometime in the future. Get prepared. Always pay yourself before anyone else. Always.

Principle 3: God is the source. If you see your employer, your spouse, your investments, your trust account, your parents, or any other entity as the source of your income, you are setting yourself up for a great deal of worry. Employers go away, parents and spouses die, investments can turn sour overnight. The truth is that all of these are only the conduits in the delivery system. They are the channels through which you receive money, but they are not the ultimate source.

God, who gave you the talents, intelligence, and ability to think and work, is the source of your money. Once you see yourself as the manager or "steward" of your resources, you will also understand your responsibility to be trustworthy and reliable, to care for what you've been given to manage. Believing this truth will bring a sense of peace and calm to your life. No longer will you fear a drop in the stock market or the plunging of real estate values. No longer will you lie awake worrying about losing your job.

The way your money is delivered may change radically and frequently, but the source never changes. It is the same yesterday, today, and forever.

Principle 4: Pay with cash. ATM cards, debit cards, and credit cards are all stand-ins for money. They are not the real thing; they are just representatives, and often very poor representatives if they enable debt.

Using cash in your day-to-day living whenever prudent may require lifestyle changes and sacrifices, but it will keep you from drowning in a sea of red ink on your journey to financial freedom.

Paying cash promotes contentment because you can see the value in the things you buy. Paying cash makes spending difficult and uncomfortable. And that is exactly the way it should be.

Principle 5: No new debt. Unsecured debt is like cancer. At first it is not life-threatening because it involves only a cell or two. But it never stays small. It begins to grow, and then it takes over. It becomes the master; you become its slave. A little cancer is never okay. Neither is a little debt.

Note that "no new debt" is not the same as not using a credit card to make a purchase. As you will learn, a credit card used properly can be a very helpful tool. The way you pay that credit card bill determines whether the debt becomes unsecured debt. If you are unable to pay your credit card in full within the grace period, you will incur new debt, and each new purchase added to that amount only increases that debt.

Principle 6: You need a specific strategy. Hope is not a strategy. Hope is an emotion. Without a specific plan for getting from where you are to where you want to be, reaching your goal of financial freedom will remain a dream. A plan turns a dream into a goal.

Having a plan liberates you from depending on willpower, which is unreliable emotional fuel. Willpower can get you going at breakneck speed, but once the emotion is gone, you fizzle. You should not rely on willpower. A written plan stands firm whether you're on an emotional roller coaster or an even keel.

Principle 7: More money is not the answer. I used to believe that if I had more money, everything would be fine. Then we'd get a raise, and we'd have more money, but it wasn't enough. And that made things worse because we turned more money into more debt.

Sometime ago I heard from Lynn. Sadly, her story illustrates this point perfectly:

> I am thirty years old and have worked since I was fifteen. I married straight out of high school. I have always been good at selling any product I represented, and that is where my nightmare begins.
>
> While working at my first "real" job in a bank, a customer recruited me to become a copier salesperson. I was hesitant until he showed me his commission check for that month. I got really

> excited about my potential to make good money too. So I resigned my position and started selling office products.
>
> My first commission check was $1,500; the next one was even better. After a couple of months I began to see just how much I could make, so I leased a new BMW for myself and a fully loaded Nissan Pathfinder for my husband. I needed many other things as well to demonstrate to people just how successful I was. I began incurring debt, all the while thinking I'll just pay it off with my next commission check.
>
> As the months went by, meeting my quota became more difficult. I worried about where I would find my next customer. The stress became unbearable, so I quit that job after three years. But that did not stop the car payments and the unsecured debts that were breathing down our necks.

Lynn's letter went on for many more pages to describe how the situation worsened. She closed by announcing their plans to file for bankruptcy.

Lynn's train began to derail the day she impressed herself with her newfound wealth, failing to see that first $1,500 commission check as $1,500 cash. She wrongly viewed it as a harbinger of things to come. To her, it represented a life of luxury, where she could have anything she wanted and where money was no object. She assumed the checks would continue to roll in and, of course, in ever-greater amounts.

Lynn's situation is a perfect example of why, for most people who carry revolving consumer debt, more money will never be enough. Unmanaged money has a way of creating more debt. Then the unrelenting nature of more debt requires more money, and a vicious cycle begins—one in which more money is never enough.

Principle 8: Money is not just for spending. Money must be managed first, spent later. In a coming chapter, you are going to learn exactly how to manage money according to a plan that will profoundly change your life.

Attempting to hold on to money that you have not managed specifically is like trying to hold a handful of water: No matter how hard you try or how tight your grip, the water leaks out. Money that is not managed will disappear. That's just a fact of life that most of us have proven many times over, much to our humiliation. Knowing how to manage money allows you to respond intelligently, not just emotionally. When you spend first, emotions take over and the results are, at best, unpredictable.

In your lifetime, you will have the opportunity to manage a lot of money. Let's say you and your mate are twenty-five, and your combined income is the United States median, last reported to be about $49,103.[3] If you both work until you're sixty-five, even if you never get a raise, you're going to bring home over $1.8 million. If your salary goes up just 3 percent a year, you'll earn over $3 million. If you land a promotion, you'll rake in even more. As unlikely as this scenario may be (and not that you will earn less but that you will earn even more over your lifetime), my point remains: Having enough money is not the challenge.

Principle 9: It is not how much money you earn but what you do with it that matters. Had Lynn and her husband made a pledge to live by simple, sound, financial principles, they likely would have enjoyed a nice lifestyle. They were making decent money. They just didn't know—or didn't care—how to take care of it.

Imagine two identical families. Same income, same expenses—everything exactly the same. The only difference is that the Smiths are into instant gratification while the Joneses prefer delayed gratification.

The Smiths act on their desires as they come up. They buy now and agree to pay later. They carry revolving consumer debt equal to that of the average American family, which means they pay around $1,200 a year in interest on their unsecured debt.

The Joneses have no unsecured debt. If they don't have the money to pay for the things they want, they wait until they do. They do not send $1,200 a year ($100 each month) to the consumer credit industry to cover interest the way the Smiths do but instead funnel it into an investment account that earns an average 10 percent a year (historically, over time this is what we can expect to earn).

At the end of ten years, the Smiths have possessions—and $0 invested. The Joneses, on the other hand, have the same items and a tidy nest egg of $20,926.

No matter how many times I consider these facts, I am no less amazed. The fictional Smiths and Joneses live the same. They buy the exact same things; they make the exact same amount of money. They are mirror images. The only difference is the timing of their spending. The Smiths spend first and pay interest later. The Joneses manage their money first and spend later.

Three Personal Money-Management Styles

When it comes to the way people manage money, there are three basic styles.

First are those people I call revolvers. They carry credit card balances from one month to the next. They owe far more than they can pay; they spend more than they earn. They are forever juggling finances, trying to keep their heads above water.

Revolvers enjoy the idea of a cashless society. They are every consumer credit marketing department's dream customer because they fit a predictable profile and contribute to the huge profit margins of the credit card companies.

The next group is composed of those who live paycheck to paycheck and spend every dime they make. They are the daredevils. They flirt with credit cards, debit cards, and ATM cards, finding it more convenient to swipe than carry cash. These folks usually pay their credit card balances in full every month, but just barely—and often with nothing left over. Now and then it might take them two or three months to get an account back to paid status (the holidays are always a struggle), but for the most part they stay even.

The third group includes those people I lovingly refer to as DPLers. They embrace the debt-proof lifestyle. They do not live on credit, nor do they flirt with credit cards. They live according to a specific plan. What they do with their money is by design. They give, they save, they invest, they live below their means. They expect the unexpected, they are prepared, they live with confidence because they can smile at the future.

I love word pictures—visual images created with words alone. For me, a word picture is an incredibly powerful tool that turns an abstract thought into a clear concept, complete with shape and dimension.

Let me paint three word pictures to illustrate these three money-management styles.

Debt-Ridden Dexter

You probably tried walking up the down escalator when you were a kid. It can be fun—for a while. Then it becomes a challenge. That's exactly what Dexter is doing. He's a full-grown man attempting to reach the next floor but doing it completely the wrong way.

When he first started this crazy way of getting ahead, he could keep in sync with the speed of the escalator. It would move one step down; Dexter would take one step up. Down, up. Down, up.

But now he's trying to do this up-the-down-escalator action while carrying baggage—heavy debt and lots of it. He has two gigantic suitcases, one in each hand, a bulging briefcase jammed under one arm, and another very large box under the other arm. He has a heavy bag slung over one shoulder that is making things even more difficult. He can't see his feet for all the gear, most of which he keeps dropping. In his attempts to recover, he finds himself back at the bottom, hat askew, shirt torn, and shoes flying. Finally, he gets everything back under control and begins the challenging climb all over again.

It is frustrating to watch him. Can't this guy see what he's doing wrong? It is obvious to the spectators what changes he needs to make to get where he needs to go, but he's so wrapped up in his predicament that he hasn't the time or the inclination to listen. He is determined to do this his way.

Perspiration pours from him when he attempts to take the moving stairs three at a time. Lenders, disguised as concerned onlookers, offer a helping hand. He always reaches out to accept their "help," and it does relieve his burden—but only temporarily. They look as if they are helping to carry his heavy load, but the truth is that they are putting more weight in poor Dexter's bags, literally behind his back.

He can forget about making any progress. Actually, he's forever losing momentum. Remaining upright becomes his impossible dream. He's an exhausted, beat-up, pitiful sight. Even the slightest misstep sends him crashing to the bottom.

Dexter is debt-ridden, and he is not enjoying life as he might if he didn't have all this heavy baggage. Sadly, he will soon find himself defeated, flat on his back in the basement.

Paycheck-to-Paycheck Penelope

Penny is walking too, but instead of going the wrong way on an incline, she is on a treadmill. Things are different for her. Unlike Dexter, she has no heavy baggage, just her purse and a small bag. She stands upright, maintains a perfectly timed stride, and appears to be doing a really great job at walking. It looks as if she is going somewhere, but of course she is not making progress. She is expending all kinds of energy but is getting nowhere. Because it takes so much effort for her to stay in exactly the same place, one wonders how long she'll be able to keep it up.

Penny spends what she earns. Month after month she keeps up. She faithfully pays her credit card balances, makes the rent on time, even drives an above-average leased automobile. So what if she doesn't save and has nothing in reserve, she reasons. At least she has no debt.

From time to time, Penny slips up for any number of reasons. It usually takes her three months to pay the holiday bills. When something unexpected hits, like car repairs or a new roof, of course she has no choice but to spread the payments over time. That's when she loses her rhythm and nearly falls off the edge. But she has those handrails, and she hangs on. Her situation isn't critical. She recovers quickly and then does double time to get back to that old position—back in sync, knowing she can't take a rest. She can't slow down or change a thing.

Penny gets a raise now and then, and that allows her to increase her speed slightly. Sometimes she even runs awhile. But then, because of higher prices, an added expense, or something unexpected, she settles back into her rut. She lives paycheck to paycheck, spending all she earns. Nothing is left over. She's always walking but never progressing.

Debt-Proof Peter

Look at Peter. He's walking at a brisk pace, sport jacket flung over one shoulder, head held high, smiling at everyone he sees. Not far ahead is a beautiful thing: a moving sidewalk—one of those people-sized conveyor belts.

He steps onto the moving sidewalk. Without changing his brisk pace and normal stride, he's almost flying. The air is rushing through his hair. He even feels taller.

Peter's regular steps on the moving sidewalk become the equivalent of three or more of his unaided strides. How cool is that? Without increased effort on his part, he is propelled to his destination—and in record time.

If he chooses to slow down, or even stop for a rest, that's okay. He just moves to the right so others can pass on the left. He doesn't lose momentum. He doesn't slip back or lose ground. Even though he stops walking, he continues to enjoy a pleasant ride. He has a choice: to walk briskly or to slow down and enjoy the journey. Either way, he still makes progress toward his destination.

Peter is a perfect picture of someone living a debt-proof life. He finds meaning in the journey, not the destination. Because he carries no debt—instead putting the money he isn't sending to creditors to work for his future—his money works for him and produces offspring (earned interest and appreciation) that also work for him. His momentum is turbocharged, without increased effort on his part or the need for additional energy. He doesn't stumble and fall, and he's not obsessed with money. He's enjoying life.

What's Your Style?

How you travel through life is completely your decision. You can choose to go the wrong way on a one-way escalator, carrying such a heavy load that you cannot even see where you are going; you can get stuck on a treadmill, living paycheck to paycheck; or you can choose to travel on a moving sidewalk that will take you where you want to go.

I'm pleading with you to decide right now to build a strong financial foundation into which you can drill deeply and drop the pilings for your life. Learn the principles so well that you can repeat them in your sleep. Hang on to them for dear life when your emotions go wild, when temptations overwhelm. Depend on them when you want to quit and go to that place that exists only in your imagination—where money is no object and you can spend with reckless abandon.

I can promise that the foundation built on debt-proof living principles will stand up under all kinds of circumstances. When financial challenges come—and they will—your foundation will hold and you will make it through.

Debt-proof living is not a righteous call to deprivation. It is not defined by austerity, poverty, guilt, and fear. It is not about extremes, bizarre behavior, misery, hoarding, or finding a way to recycle dryer lint.

Debt-proof living is a lifestyle in which you spend less than you earn; you give, save, and invest confidently and consistently; your financial decisions are purposeful; you turn away from compulsive behavior; you shun unsecured debt; you borrow cautiously; you anticipate the unexpected; you scrutinize your purchases; and you reach for your goals by following a specific plan.

Debt-proof living is about generosity, gratitude, and obedience. It is about sound choices and effective decisions. To debt-proof your life means to know exactly what to do with your money and to have the freedom to earn and spend it when and how you choose. Debt-proof living is a way of life—a financially disciplined lifestyle that produces peace and joy.

Debt-proof living is your invitation to a rich and abundant life.