Note that neither your apartment lease nor your car lease is listed. That's because both are effectively rentals. If you don't own either your apartment or your car, neither one is your asset. And although you must continue making payments, each installment is an obligation of the lease, not a debt payment.

If you take out a traditional loan to *purchase* your home or car, then a portion of each payment reduces the balance owed before you own the asset outright. This is clearly not how a lease works—at the end of your lease payments, you don't own anything.

Use the following simple formula to calculate your wealth at any given point in time:

Net Worth (Wealth) = Assets – Liabilities

I am a huge believer in the simplification of what many people incorrectly assume must be complex. There are no difficult formulas in any Total Candor[SM] books or workshops. Multiplication and addition are all the tools you will ever need to learn personal financial planning.

However rich or poor you feel, the formula is the same.

You: What does this mean for me?

Assuming your goal is to become wealthier…

You: It is. Although, I prefer the word "rich."

…then you are in control. You can become rich simply by creating more assets than debt over time.

You: That sounds easy. It can't be.

Yes it can.

SAVING IS SIMPLE

Creating wealth is easy, but requires effort. The only way to create more assets than debts is to save, and saving requires sacrifice. Sacrifice has always been hard, but in the 2000s seems nearly impossible. Few people today are familiar with **delayed gratification.**

You: I've heard of delayed gratification, but what does it mean?

The concept means making the choice to *not* buy everything you want today. Buying things gives you pleasure…

You: …making me no different than anyone else.

True, and there's absolutely nothing wrong with enjoying your income. But if you use *all* your income now, you pay a price later. By delaying gratification, you are able to save a portion of your income now. This sacrifice enables you to have additional enjoyable experiences later that would otherwise not be possible.

Making the choice to save means making a lifestyle decision that is admittedly not popular today. However, it is an essential decision to be able to save for the future you want.

You: But how am I supposed to save on my income?

Saving is another extremely simple concept to understand once you see how easy the formula is that defines it:

Your Income – Your Spending = Your Savings

That's it. Think about it for a minute because it is truly powerful. You can pull only two levers to impact your savings level: your income and your spending. With that in mind, do you have control over your income?

You: Heck no. Does anyone?

Very few people control their income, especially in the short term. So we'll say you can't increase your income over the next several months. That leaves only one way to impact the level of your savings: changing your *spending habits*.

Remember we're discussing spending because you want to create wealth (become richer). Here is how your spending decisions have an impact on your net worth:

- If you spend more than your income, you lower your net worth.
- If you spend less than your income, you increase your net worth.

You: Why?

Imagine yourself in the first category—that you spend more than you make.

You: I don't have to imagine that. Hello? I bought your book.

Fair enough. When you spend more than your income, you must either take money from your existing savings or increase the amount you borrow from others. Here are the implications of each of these actions:

Figure 2-2

The Impact on Net Worth of Spending *More* Than Your Income

Source of Money for Spending	Example	Impact on Asset or Debt	Impact on Your Net Worth
Depleting your existing savings	Withdraw money from your savings account	Decreases the value of your existing assets	**Decreases**
Borrowing from others	Charge on your credit card	Increases debt level	**Decreases**

Whether you spend $50 more than your income or $5,000 more, you decrease your net worth—although much faster in the latter case.

Let's say you are able to alter your spending habits and now spend slightly *less* than your income. With the resulting extra money, you either add to your savings or reduce your existing debt. Here is how your behavior makes a positive impact on your net worth:

Figure 2-3

The Impact on Net Worth of Spending Less Than Your Income

Use of Extra Money	Example	Impact on Asset or Debt	Impact on Your Net Worth
Adding to your savings	Deposit money into your savings account	Increases the value of your existing assets	**Increases**
Reducing your existing borrowing	Pay down balance on your credit card	Decreases debt level	**Increases**

Whatever choice you make for your savings (money earned but not spent), you increase your net worth. You move a step closer to financial success, because you are *creating wealth*. On the other hand, you can *destroy wealth* by spending more than your income. Figure 2-2 demonstrated that. Which road would you rather go down?

You: Seems like creating wealth is an obvious choice. Honestly, none of this is complicated.

That's correct, it isn't difficult. None of this is.

You: Okay—then why aren't most people wealthy?

There are several reasons. One is the lack of knowledge about how easy wealth creation is.

You: And now I have that knowledge.

Indeed you do. But there is also another challenge: you must go against the flow.

You: What?

To develop a successful spending profile and thereby create wealth, you must spend less than you make. As you know, most people do not even consider that today. So, with your new insight into the simplicity of creating wealth, the burden is now on you. You make the choice. You control your financial destiny. That's a fair amount of pressure.

You: I think I can handle the pressure, but I don't want to be cheap.

It's not about being "cheap." *It's about being fiscally responsible. It's about choosing responsibility over insanity.* I purchased my first car, a new Plymouth Neon, in 1994 for $12,800. Selecting an inexpensive car certainly helped me to save, but there were no babes pulling up next to me saying, "Hey, nice bank account."

The external rewards for saving are practically non-existent compared to the high you receive when showing off new expensive shoes, season tickets, or your luxury apartment in the sky. However, it is short-term sacrifice that leads to long-term wealth creation. And there is no better time to take advantage of the miracle of compounding interest than today.

You: So how do I save without becoming cheap?

TEN SIMPLE SAVING STRATEGIES

Here are ten easy strategies to increase your savings level without becoming cheap.

Strategy 1: Don’t become emotionally separated from your money.

Remember when a grandparent or special aunt gave you a dollar bill? As a child, you enjoyed simply having the money, looking at it, and even counting it. You knew exactly how much you had and you planned exactly how you were going to use it.

How things have changed! Now your paycheck is direct-deposited and you charge most every expense. You don’t have a clue how much money you have in your wallet until you find yourself at a place that doesn’t accept credit cards.

This emotional separation from your money makes it much easier for you to spend more. Try using cash instead of credit cards for a while. Keep track for a couple of months and see if your expenses decrease. Handing over six hard-earned twenties is far more difficult than charging $119.40 on a credit card.

Strategy 2: Understand and be honest about expense classifications.

Think of **discretionary expenses** as “wants” and **nondiscretionary expenses** as “needs.”

Look at the examples of nondiscretionary expenses on the next page. See how there is little you can do—in the short term—to reduce those expenses? As a result, you need to focus your energy on monitoring your discretionary expenses. But be careful. Frequently, people categorize wants as needs. Incorrectly labeling your expenses limits your ability to take advantage of additional savings opportunities.

Think about decisions you make every day. Are the bulk of your purchases legitimately needs, or do you just view them that way? Eating is a need. Eating out is a want.