



Stage 4

Adrian & Rebecca
Pinkewich

The Debt Snowball



Freedom Stages

1. Plan your financial freedom
2. Mini emergency fund
3. Protect your income (with insurance)
4. The debt snowball
5. Emergency fund
6. Healthy housing
7. Wealth Creation
8. Generosity



We live in a debt normalised society

Debt, which would have been considered a sin by many earlier generations, has become so normalized that you can now buy jeans and pay in four weekly installments – potentially juggling four different maxed out credit cards.

Its not just the banks, many organisations which should be neutral or against debt have chosen to promote debt to their membership in order to receive commissions and revenue streams. Even some industry superfunds are offering credit cards now through their bank affiliates!

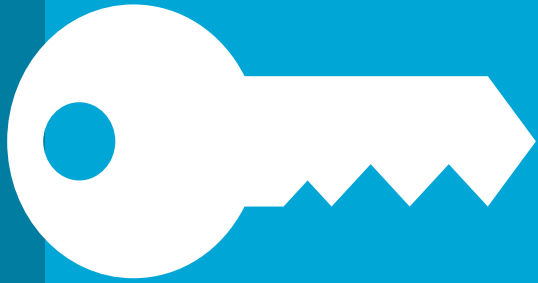




Debt has many forms:

- HECS/HELP
- Credit Cards
- Mortgages
- Line of Credit
- Car loans
- Negative Gearing
- Margin Loans
- Holiday Loans
- After Pay
- Personal Loans





Debt and Wealth Creation:

Clearing debt to free up your income allows you to channel that income into generating significant wealth.

Messages from industries built on debt are promoted extensively relative to tried and tested, old school, debt free, reality based living.

Those making a living from debt market “good debt” and “bad debt”. Those who live without debt view all debt as bad, and paying it off a good thing.

Commissions have made it more profitable to refinance someone's house, sell them an investment property and receive commissions compared to helping people control spending and consistently invest actual money.

In many cases in Australia, the investor is creating guaranteed wealth for the financial institutions and advisers, with a chance at wealth subject to significant asset growth in a perfect season without major volatility or corrections. The risk is unequally distributed.





A slight edge comparison:

Adam and Adrian generate the same income and have everything the same except...

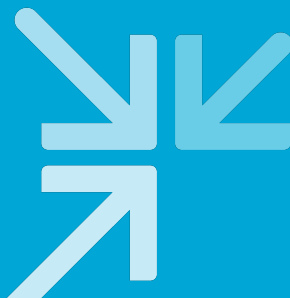
- Adrian keeps borrowing money for cars and pays out \$1,000 per month on car loans
- Adam drives an older car and invests \$1,000 per month into Superannuation

Possible differences:

10 Years later Adam has \$210k more Super

20 Years later Adam has \$797k more Super

30 Years later Adam has \$2.4m more Super





A slight edge comparison:

Adam and Adrian generate the same income and have everything the same except...

- Adrian keeps borrowing money for cars and pays out \$1,000 per month on car loans
- Adam drives an older car and invests \$1,000 per month into Superannuation

Possible differences:

10 Years later Adam has \$210k more Super

20 Years later Adam has \$797k more Super

30 Years later Adam has \$2.4m more Super

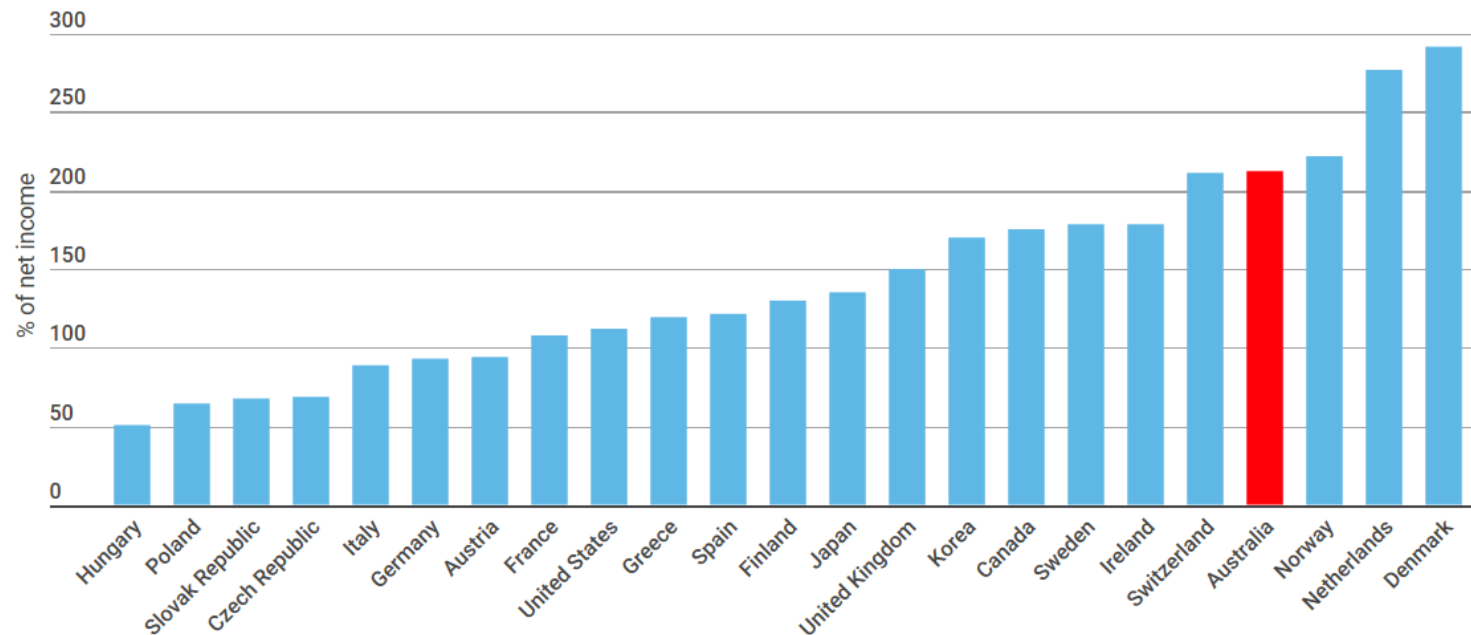


Record debt has left Australia, and Australians vulnerable

Major shocks to income or asset prices may bankrupt those in major debt.

How does Australia's household debt compare to other countries?

Global comparisons of household debt usually look at the total owed as a percentage of net income. Australians rank fourth highest in the world next to Denmark, the Netherlands and Norway.



How much money could you make investing if you drove a cheaper car and invested the savings?

omnicalculator.com/finance/Car-depreciation

omni CALCULATOR Your life in 900 calculators.

Initial car value 60000 \$

Car age yrs

Reduced car value \$

Car value after...

1 minute	54,600 \$
1 year	48,600 \$
2 years	41,400 \$
3 years	34,800 \$
4 years	29,400 \$
5 years	24,000 \$

omnicalculator.com/finance/Car-depreciation

omni CALCULATOR Your life in 900 calculators.

Initial car value 6,000 \$

Car age 10 yrs 0 mos

Reduced car value 176.40 \$

Car value after...

1 minute	5,460 \$
1 year	4,860 \$
2 years	4,140 \$
3 years	3,480 \$
4 years	2,940 \$
5 years	2,400 \$



How would car payments be structured if they were tied to the car losing value?



First payment? \$5000?

Then for 12 months? \$2000 per month?

Then for 12 months \$1000 per month?

Then for 12 months \$500 per month?

Then for 12 months \$250 per month?





The debt snowball method

Goal: Pay off all debt (except your home mortgage) using the debt snowball

Method: No more credit card spending, live on a budget. Cut up credit cards etc.





The debt snowball method

List ALL your debts, SMALLEST to LARGEST.

...don't worry about the interest rates. This proven method is not MATHS it is a BEHAVIOURAL change!

Harness Gazelle Intensity!





The debt snowball method

PAY OFF

PAY OFF your smallest debt as FAST as you can!

USE

Use “gazelle intensity”!

CONTINUE

Continue to pay the minimum balances on all other debts.





The debt snowball method

TAKE

Once the smallest debt is paid off, that its repayment amount and apply it to the next smallest debt.

PAY

Pay it off as FAST as possible!

CONTINUE

Continue the process until ALL your debt is gone!





The debt snowball method

Example: Fred and Wilma have 5 debts.

Balances owing:

Fred's credit card:	\$10,000
Wilma's credit card:	\$14,500
Fred's car:	\$15,000
Joint personal loan:	\$20,000
Wilma's car:	\$27,500
TOTAL:	\$87,000

Total repayments every month: \$1,740

That's \$20,880 per year!





The debt snowball method

Example: Fred and Wilma have 5 debts.

Balances owing:

Fred's credit card:	\$10,000
Wilma's credit card:	\$14,500
Fred's car:	\$15,000
Joint personal loan:	\$20,000
Wilma's car:	\$27,500
TOTAL:	\$87,000

Total repayments every month: \$1,740

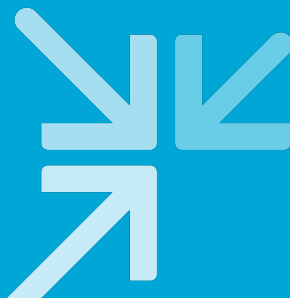
That's \$20,880 per year!





The debt snowball method

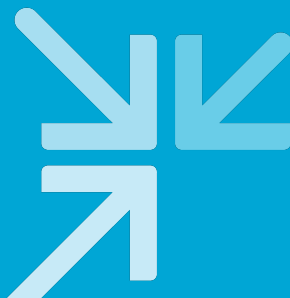
	Balance	Minimum payment	Snowball
Fred's credit card	\$10,000	\$200	
Wilma's credit card	\$14,500	\$290	
Fred's car	\$15,000	\$300	
Joint personal loan	\$20,000	\$400	
Wilma's car	\$27,500	\$550	
Total	\$87,000	\$1,740	





The debt snowball method

	Balance	Minimum payment	Snowball
Fred's credit card	\$10,000	\$200	PAID IN FULL
Wilma's credit card	\$14,500	\$290	\$490
Fred's car	\$15,000	\$300	
Joint personal loan	\$20,000	\$400	
Wilma's car	\$27,500	\$550	
Total	\$87,000	\$1,740	





The debt snowball method

	Balance	Minimum payment	Snowball
Fred's credit card	\$10,000	\$200	PAID IN FULL
Wilma's credit card	\$14,500	\$290	PAID IN FULL
Fred's car	\$15,000	\$300	\$790
Joint personal loan	\$20,000	\$400	
Wilma's car	\$27,500	\$550	
Total	\$87,000	\$1,740	





The debt snowball method

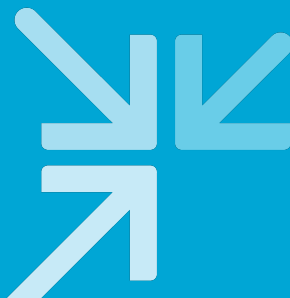
	Balance	Minimum payment	Snowball
Fred's credit card	\$10,000	\$200	PAID IN FULL
Wilma's credit card	\$14,500	\$290	PAID IN FULL
Fred's car	\$15,000	\$300	PAID IN FULL
Joint personal loan	\$20,000	\$400	\$1,190
Wilma's car	\$27,500	\$550	
Total	\$87,000	\$1,740	





The debt snowball method

	Balance	Minimum payment	Snowball
Fred's credit card	\$10,000	\$200	PAID IN FULL
Wilma's credit card	\$14,500	\$290	PAID IN FULL
Fred's car	\$15,000	\$300	PAID IN FULL
Joint personal loan	\$20,000	\$400	PAID IN FULL
Wilma's car	\$27,500	\$550	\$1,740
Total	\$87,000	\$1,740	





How badly do you want to get out of debt and into financial freedom?

To speed up the snowball process some people:

- Stop eating out
- Stop discretionary spending on services like cleaning and ironing
- Stop buying coffees
- Shop at Aldi
- Sell old Apple products
- Sell anything that will get good value that's discretionary
- Sell cars/boats/vehicles
- Sell investments
- Get a second job
- Get a third job
- Ask for extra work from your primary job – tell them your goal!





Motivation for the debt snowball

- The later stages of the program are a great motivation for being intense in clearing debt.
- Building a full emergency fund
- Getting into housing in a healthy way
- Building wealth and self funding retirement
- Creating resource to enable generosity





Common questions regarding the debt snowball

Do I pause discretionary investing while on this step?

Do I pause extra mortgage repayments while on this step?

How long should it take?

When does a person work the debt snowball and when should they get advice regarding bankruptcy?

Should I sell my house to speed up the debt snowball?

What about debt consolidation?





Freedom Stages

1. Plan your financial freedom
2. Mini emergency fund
3. Protect your income (with insurance)
4. The debt snowball
5. Emergency fund
6. Healthy housing
7. Wealth Creation
8. Generosity