



The 7 Step Wealth Program

Build Your Financial Future

With Proven Results and Actionable Items in Every Chapter

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Step 4: Breaking It Down

Setting a Month-to-Month Strategy

After you write out your checklist of what you need to do to accomplish your major goal, you must break it down so that you can work every single day towards that goal. First, you will do this by breaking down your expenses through the percentage rules. Next, you will find out the amount of net worth you will need to accomplish your monthly residual income goals. By the end of this step, you will be able to break down your wealth goal and make it attainable.

What are the Percentage Rules?

The percentage rules are designed to help break down your expenses by percentages. This will help establish where you need to be when it comes to your monthly expenses. For each percentage rule, there are three percentages. Each percentage represents a different type of expense. For example, the first percentage is for fixed and variable expenses, the second is for savings and investments, and the last one is for giving back.

The two types of percentage rules that we will go over are the following:

- The 50/40/10 Rule
- The 70/20/10 Rule

There are many ways to break down these percentages, depending on where you are in your financial journey. But we have designed both percentage rules as a set standard to get anyone started.

Do you Know your Percentages?

Now that you understand what the two types of percentage rules are, the next two questions are: how do you break them down, and what do these percentages mean exactly? Well, let me explain.

1. So, the first numbers “50” & “70” stand for fixed and variable expenses. Fixed and variable expenses are expenses you need to survive. Therefore, 50% or 70% of your income will go towards your fixed and variable expenses.

2. The middle numbers “40” and “20” stand for savings & investments. This means that either 40% or 20% of your income will go towards savings and investments.
3. The last number which is “10” stands for giving back. This means that 10% of your income will go towards giving back. This can be anything from charities to giving back to your family. The point here is to give without expecting anything back in return.

These percentages will help you understand where your money is going. Therefore, it is important to set a goal where you are decreasing the percentage on your fixed expenses and increasing the percentage on your savings and investments. The 10% for giving back will stay the same throughout your financial journey, just do not forget about this percentage because it is critical for growth. Giving is just as important if not more important than receiving. Start your giving journey early because it is easier to start a habit where you are giving 10% out of a dollar than 10% out of a million.

Break Down your Expenses Through Percentages

So far in this chapter, we have learned that the percentage rule will vary depending on where you are in your financial journey. But what does that mean exactly? How do I know where you are in the journey? Let me break it down.

The 70/20/10 Rule:

You should follow this rule if you have high bad debt and low income. This means that if you are making less than \$60,000 a year you will fall under this bracket. Sometimes you can even start with the 80/10/10 rule if your liabilities are extremely high and income very low. The point here is not to get caught up on where you are starting but instead to focus on where you are going. If you follow this rule with the goal to trim down expenses and increase income, you can very quickly end up with the 50/40/10 rule.

The 50/40/10 Rule:

You should follow this rule if you have low bad debt and high income. Just to clarify, as we mentioned earlier, when we talk about bad debt, we are talking about any loan that does not generate income. If you fall into this bracket, the goal here is to be saving as much as possible with the intention to get to a 40/50/10 rule.

In summary, the objective of these two rules is to increase your savings percentage and lower your fixed and variable percentage. If you stick with this plan, you can get to your residual income investment goals in no time.

Break Down your Net Worth: How Much Net Worth Do You Need to Reach Your Wealth Goals?

So far in this chapter, we have learned that the percentage rule will depend on your income to expense ratio. In other words, how much you spend and save in comparison to how much income you generate. Now, it is time to dive into figuring out how much net worth you will need to reach your residual income goals.

Sounds great, but how do we do this? You will do this by answering the following ten questions in order.

1. What are your total assets?
2. What are your total liabilities?
3. What is your total net worth? (Asset minus liabilities)
4. Based on your wealth goal from step 3, how much do you want to live on annually from passive investments?
5. Based on your investment knowledge, what is the average ROI (Return On Investment) that you can earn from investing?
6. What is the average inflation rate?
7. How much is the total net worth you need to reach your passive income wealth goals? *If you have a negative net worth you will need to calculate that into your total net worth needed.*
8. In how many years, would you like to retire and reach financial wealth?
9. How much will you need to save every month to reach this goal?
10. What is the shortfall? What do you need to overcome to get there? How are you going to get there?

After answering these 10 questions, you will know exactly how much money you will need to save per month to reach your retirement wealth goals.

Here is an example of the answers that you can give and how they should be broken down:

QUESTION:

RESPONSE:

What are your total assets?	\$250,000
What are your total liabilities?	\$75,000
What is your Net Worth?	Asset (\$250,000) – Liability (\$75,000) = \$175,000

What was your monthly wealth goal?	\$2,500 monthly = \$30,000 annual
What is the average investment ROI?	10%
What is the average inflation rate?	2.5%
What is the Total Net Worth needed to reach your wealth goals?	Annual Goal \$30,000 ÷ (10% ROI -2.5% Inflation = 7.5%) = \$400,000
In how many years would you like to retire?	15 years
How much will you need to save every month to reach your goals?	First, break it down into months: <u>15</u> year goal X <u>12</u> months per year = 180 months Now, calculate what you will need to save every month for 15 years: Net Worth Needed \$400,000 ÷ 180 month term = \$2,222 per month
What is the shortfall? How will you get there? What obstacles will you need to overcome?	I cannot save \$2,222 per month right now. I will work on part-time jobs and create different sources of income to get to this number ASAP. As well as, utilize the savings compounding formula.

To get to this monthly savings goal, you need to be grounded, committed to serving people, and understand your values. This is because the hierarchy of your values will dictate how you spend your money. If you do not have values set on finance, you will never reach financial independence. One of your values must be wealth building.

You must manage your money properly and you can only do that through a solid strategy. What is your strategy? Do you have one? Well, let me explain the savings compound formula strategy that can help you get there.

Let me go back to the example above to explain the savings compound technique.

Right now, to reach \$400,000 net worth, you must save \$2,222 a month. That seems impossible to do. But, with the savings compounding formula, your goal can be a lot more achievable. This is how it works. You will start by depositing \$200 every month into your savings account, for the next three months. After that, you will later you will deposit \$300 every month for the next three months. Consequently, three months after that, make it \$500, and in 3 months after that, you will make it \$750. So, for the first year, you go up every quarter gradually to give you time to increase your income in different avenues. After the first year is over, you will start to increase the \$750 amount by 10%. Then every three months, you can continue to increase the past amount by 10% until you reach your goal. Stay committed and keep growing. The goal is to increase 10% every quarter which is every three months. So, the total savings amount doubles every two years.

Keep escalating this savings technique. This will help you pace the growth, so it does not seem so overwhelming. The first step must be attainable then move from there. Little steps make big steps.

After you understand your monthly savings goal, then focus on how to serve more people, how to become more efficient at work, and how to make more income. How do you increase value in the marketplace to generate more income? That is what we will be going over in the next step of this program.

Step 4- Breaking it Down:

Action Items:

- First, learn the difference between the two percentage rules. 70/20/10 and 50/40/10.
- Second, choose which percentage rule you will need to follow depending on where you are in the financial freedom journey. How much income are you generating in comparison to your expenses?
- Third, understand how much net worth you will need to reach your financial goals.
- Fourth, break down your net worth into attainable monthly savings goals.
- Fifth, start your savings journey this month. Do not wait until next month. Financial wealth is waiting for you.

“Lack of direction, not lack of time, is the problem. We all have twenty-four-hour days”

-Zig Ziglar

