

Jesse Mecham

00:00 FT: Jesse Mecham, welcome to "So Money," it's an honor to have you on the show.

00:04 Jesse Mecham: Thanks for having me, I appreciate it.

00:05 FT: I have been a fan of yours for many years now, and I had the privilege of being in your audience actually at FinCon 14, back in September where you gave a really riveting conversation, talked to the audience about how to hire successfully. You have an amazing team at YNAB, younneedabudget.com. You've been a successful business owner for many, many years now. But I wanted to start a little bit further back to when you initially thought of this business idea. Now, there are a lot of competitors in this space, big names. There is QuickBooks, mint.com, Intuit, who has a host of companies that are in your space. When you initially had this frustration with not having a budgeting tool that fit your needs, how did that ultimately become a business idea and a fearless take on the market? Because I think what you did is extremely brave and confident to say, "I'm gonna do this. And I'm gonna even do it better than some of the big players out there." Can you take me back to that moment where you were kind of just going over this idea in your head and realizing, "You know what? I'm gonna go with it"?

01:15 JM: Yeah, I wish I had this grand vision, but maybe it was a little bit of just naivete or arrogance, I think it was more just inexperience, but I had created the budget only for me and my wife, Julie, and we were newly married. So, we ran with it for about a year, and we had stuck to these basic principles, just kind of tweaking it as we went along. And after about a year of that making very little money, I realized that it had worked really well, despite our very, very meager circumstances. So, then we realized we were having a baby and he's gonna be arriving pretty soon, that was the whole... The thought process for me was, "How can I make some money, still stay in school, finish up my Master's of accountancy, finish that all up, stay in school and still keep my part-time job?" And then still earn enough to make rent, which was my grand vision at the time, was to make rent.

02:15 FT: [chuckle] Right.

02:16 JM: And so, that was the big start, I didn't do any competitive analysis. I just kind of said, "Okay, this has worked for me, I have a year under my belt, it's done well." And that gave me the confidence to assume that it would work for other people as well.

02:31 FT: Share with us how it differentiates in the marketplace? I understand there's a four-rule approach to budgeting that YNAB teaches its users and can you maybe tell us how it differentiates itself in terms of the target audience? How do you compete?

02:45 JM: Absolutely. Yeah, so we're more like an education company that happens to sell software. And we give away the education, we teach these four rules. They're basic, but they're also very deep and impactful. So, we teach those, we teach them for free and run lots of people through our webinars, through our email course and things like that. And then if they like what they hear, and they like how the method is sounding, if they think it jives with how they think about money, or how they perhaps should think about money, then the software is kind of a natural sale. So, our

competition, I mean, really we compete with a unique methodology that is taught just laser... We're just laser focused on changing the way people think about it. And when you do that for somebody, where you give them a couple light-bulb moments, they end up being quite a fan. And so, we enjoy a lot of word-of-mouth, and enjoy a lot of true behavior change from our users. And that of course drives their success, and then drives our success as well.

03:52 FT: You brought up light-bulb moments. I wanna get to some of your light-bulb moments shortly. And now let's transition to some of my So Money questions I ask of all of my guests. I especially look forward to hearing your answers, Jesse, because I think you come from a background that is solid in financial planning. You majored in accounting, you have degrees in this. What would you say is your all-encompassing financial philosophy that guides your money making decisions and money managing decisions, and also perhaps your business choices?

04:24 JM: It really can be boiled down to the four rules. I can just give them in a summary, but the first rule we want you to do is prioritize your money. And only money you actually have on hand, because then you are dealing with scarcity, which is a good thing. We want you to look ahead and plan for larger, less frequent expenses like the holidays where you spend more, or a vacation, or property taxes. The third rule is that you change whatever you need to do to stay on budget. So you move money around as you get new information, you change your priorities, all of that's fine, it's like half-time adjustments for a coach, so that's totally appropriate. And then the fourth rule, we want you to get to a point... We call it "aging your money". We want you to get to a point where you're spending money that you earned about 30 days or more ago. So, just say, "When did this money land in my life?" And about 30 days later is when I can spend that money, and it's this nice way to distance yourself from financial stress.

05:26 JM: So, that's the gist of it, but if I were to roll it into one big kind of one philosophy, it would just be to make sure that you are really clear on what your money priorities are, and then make sure your money is doing those things. And you don't answer to anyone for that, it's just, they are your priorities.

05:45 FT: What do you think is the... From your feedback that you're getting from users, what's their most favorite aspect of the four approaches? The aging your money aspect pretty nuanced, I would say. A lot of people immediately... Before we even get that paycheck, we wanna spend it.

06:03 JM: Absolutely.

06:03 FT: How does the tool encourage you to delay gratification?

06:07 JM: We actually have a place where you'd say, "This money is available for the next month", so it's in the software, it's built right in. And it's a weird kind of switch for people where a lot of people say, "Oh, I'm not living paycheck to paycheck". But if they were to look at their spending on a credit card and then their paycheck come in, they're actually a lotta times living a month behind. They're paying off the last 30 days spending with their last 30 days of work and they're right on the line. So it's a mindset shift where you can get to this point where you say, "Gosh, I could go an entire month, pay all my bills, fund everything I need to fund, and still not earn any money". And that spot... People, they underestimate how much they're stressing about their money when they're living paycheck to paycheck.

06:55 FT: Let's share a money memory now, Jesse. I'd love for you to go down memory lane a little bit and pick perhaps one of the most... Just one of the most impactful periods in your time or it was a moment where you either learned a lot about money or you had an a-ha moment about your finances, it could have been good or bad. But I really love guests when they paint that picture for us 'cause I think so much of our adult take on finances stems from our experiences growing up, especially as kids, and you're a parent of five so...

07:30 JM: And I don't know what I'm doing yet with those too, but we'll see, so.

07:34 FT: They're learning, I'm sure they're learning a lot.

07:36 JM: Well, I'm sure they're learning. I just hope they're learning the right stuff, so. A memory... So, painting a picture, I would wear a tie and I would wear a white shirt and black slacks and black shoes, and I had an apron full of balloons. And this was when I think I was a junior in high school. I was fairly... I was never shy, but I wasn't exactly this salesman. But I would go to restaurants and through a booking company, and I would tie balloons for people that were eating dinner. And I only worked from tips. And I realized early on that I could just grind it out. I could just stay longer and I would make more money. So it was a slam dunk. If I stayed longer until 9:00, 9:30 when things started slowing down, if I would stay 'til then, I would make good money. If I would leave at 7:30 because I wanted to get to the weekend or something, I wouldn't make as much. So that was one lesson.

08:33 JM: But then, to trump that lesson, I realized that there were things I could do to not just be a... Not just grind things out to earn more, but more optimizations where my results became disproportionately large in comparison to the effort expended. And a couple examples, swords are super easy to make. I don't tie balloons anymore, although I could still definitely do a sword. [chuckle] But I would go to... Swords would take me five to ten seconds to make and people would give me a tip, \$2.00, \$5.00. I was always happy if it was \$5.00. And so, you're looking at about ten seconds of work. And I wanted people to choose the sword because it was so fast. So I would just go up to people usually with small boys and I would just say, "Hi, do you want a balloon sword?" Instead of saying, "Hey, can I tie you a balloon?" I just would put in their mind, "You probably want a sword". And I would get 'em to say, "Yeah, I want a sword so much", at the time. And then, they see other swords around, that makes 'em think they want a sword, it saved me tons of time.

09:35 JM: That was one optimization. The other was big business dinners where there are lots of adults. You would normally think, "Oh, I can't go there 'cause they're all adults". And I would go and instead of saying, "Does anyone want a balloon animal?" which is a silly question to a bunch of adults, I would say, "Which one of you deserves the balloon hat?" And so, it was like this thinking...

09:54 FT: Oh my God, so smart.

09:55 JM: So your frame, "Oh wait, there's a balloon hat that needs to be worn by someone at the table", and they would immediately point fingers at anyone but themselves. And I one time made over \$100. I had made hats for everybody and then connected them all. They were slightly intoxicated, so it added...

10:13 FT: That helps.

10:14 JM: Yeah. And the thing was shaking all over the place and they were laughing hysterically. And they just started throwing money on the table and then I made... It probably took me 25 minutes but I made I think \$130, \$140 in tips. And this is a 16, 17-year-old kid, so it was phenomenal. It's kind of a long story but the gist of it was, you can grind it out but there are also things you can do to really, if you just sit back and kinda analyze a little bit, take a moment, there are things you can do to really get those bigger results for less input. So that was a pretty good lesson for me back in high school.

10:48 FT: I love that story, 'cause another really huge takeaway, especially for those of us who are in marketing or have businesses, is really understanding your markets, not only the demand but also the behavioral twists and turns, the behavioral psychology behind it all. You knew that perhaps giving a small child a million choices is gonna end up in perhaps nothing. When I was a kid, I'd go into a candy store and I would start crying. As soon as my mother said, "You can either have the Kit Kat or the Snickers," I felt empowered. And I was like, "Okay, I definitely don't want the Snickers, I want the Kit Kat". So that's kind of what you did, you went in... And it's been proven that fewer choices we have, the more likely we'll make...

11:28 JM: Absolutely.

11:29 FT: Some choice. And then, of course, intoxication always helps. [laughter]

11:32 JM: Always helps.

11:36 FT: That's a great story, I love that story. Well, share with us now your biggest financial failure. I like talking about failure, not because I'm a sad person but because I like to, from those failures, extract really the lessons learned and how that might have led you to more success down the road. So what would you say is your biggest financial failure, what happened?

12:00 JM: It was the middle of 2000, maybe a little toward the end of 2008, and for the entire year prior I had been working on a new version of the software that was going to be compatible with the Mac, this was way back. And I had lost my main guy that had built me the original software, he was totally swamped in other stuff. And so, I had gone with his other firm to build the software for me. And long story short, I ended up taking an entire year, conversations back and forth, emails back and forth, and invested about \$65,000 in this new version. And then, I hired the guy that had originally been with me. I kind of won him over from the video game industry. He came on board. He took a look at the software and just says, "Jessie, we can't launch this software, it's just really bad, and it would tarnish our brand." And we were still very, very young back then, very small, and that size of investment was very painful to lose.

13:07 JM: So I went home. I remember going home and we had this new house that we had bought, and it was totally empty because we didn't have any money for a ton of furniture so it just kind of echoed. I remember walking into the house and it has a nice wood floor and it's echoing, and I told Julie, "Hey, we're gonna scrap the software." She says, "Is that the software you've been spending... " Julie's my wife, so, "Is that the software you've been spending all of your time on and poured all the money into?" I said, "Yeah, it's about 65 grand." And bless her heart, she just said, "Well, I'm sure it's the right call." And it was harder for me and she said, "Well, we could have furnished our entire house with that money." I said, "Yeah, that's true. We could have."

13:47 JM: But we didn't, and it was tough. Some costs were hard to... Hard to psychologically get around. The money was already spent, and a lot of times we feel like we need to recuperate it, that there's something we can do to somehow make it come back, make it better. And a lotta times the best thing to do is just to cut your losses and move forward, which is so much easier said than done. But in that case, it was the right move. It was painful, super painful.

14:16 FT: How did you move forward?

14:19 JM: We started again from scratch. So Taylor, who's my CTO now, who I brought on, he started building it again and we were way late. Our intended ship date ended up being pushed out about a year, even a little more than a year. Customers were starting to get really, really antsy to get the software from Mac. We'd been talking about it forever. So it was a long time, painful. There was a lot of just... There's a lot of pain but we survived. You just kind of grin and bear it and make the best of what you have. At one point... Money's one thing to lose, but what I didn't wanna lose was the reputation and kind of our... Not integrity and like an honesty or not, but putting out quality, a quality product. I feel like there's integrity there, and I think we would a lost a lot of points there.

15:12 FT: And so, the lesson besides, of course, to only move forward when you feel confident and that you're putting something forth that's of quality, but the software error I guess, that was never replicated again. How do you troubleshoot things before you execute them and you present them to your audience?

15:32 JM: We do natural testing and all that. Frankly, my experience with software at that point was still fairly minimal. I'd been working full time on YNAB, I'd started in '07. So the original product was a spreadsheet that I'd built, it wasn't even bona fide software. And my experience with user experience, with software design, development was very limited so I'd jumped the gun on who I hired. I should have vetted them much better. I should have been more patient in the planning, not the planning but in the selection process and I probably would have had a great result. But instead I just kept thinking, "Oh, we need the software, so I'll just... I'll take this bid. This looks okay."

16:16 JM: And going back to my FinCon talk about hiring, you just don't cut corners when it comes to having people on your team. And any time a contractor or employee, any time you're having someone else do work for you, you don't cut corners on their work and I did cut corners there. Partly it was not being educated, not having enough experience in the field, but if I could go back and coach myself, boy, I would have a lot to say as far as how the selection process went.

16:46 FT: Now, let's fast forward and talk success. So you had that \$65,000 hit early on the life of YNAB. And so now looking back what would you say is a So Money moment, a time when you really felt at the apex of your financial success, you made a really good choice, a decision, and it paid off?

17:08 FT: When I was 23 I wrote on a note card that I would pay off my mortgage, I would own my home free and clear before I was 30 years old. And at that time I was, gosh, 23, and I was married. I didn't own a home though, we were definitely renting. We ended up buying our home that we're in now, still in '08, and that gave me two and a half years to get it paid off. And it seemed... It would seem kind of impossible but I loved the goal. I just wouldn't... I didn't let the goal be an option, so the goal was the goal and I just let my mind go to work on how I was going to achieve it. And we ended up... I ended up going and earning money on the side, developing other,

not products, but other websites and things, just trying to find other ways to earn money quickly. And I mean, quickly. It took me to two years.

18:10 JM: But it was just a matter of just not letting goal slide, and letting my creativity kind of come about. And we were able to pay off the mortgage, not with tons of time left, but with about half a year left, we were able to pay it off and own it free and clear. So I hit the goal. And since then, that doesn't seem like the biggest achievement, but at the time, it was good for me because I had set the goal so long ago and finally hit it. There was just a lot of satisfaction to it.

18:40 FT: A lot of people don't like the idea of having a mortgage. Was it a psychological motivator for you, or was it more financial?

18:48 FT: Yeah, I think my opinion on whether or not to have a mortgage, as I've grown older has softened. When I was at the age of 23, I thought, "Oh no, you want to pay off that mortgage as fast as you can." I don't totally agree with my 23-year-old self in that respect. But I will say, once it's paid off, and that cash flow is freed up, even if it's a super cheap rate, and we're in just absolutely unbelievably low rates still, so even with all of that in mind, the idea that you have this cash flow freed up, that the home is owned free and clear, there is something very powerful to it. And until you've felt it, it's kind of hard to put words to it, but it's empowering. Your options suddenly are just amplified, and even if people think the math doesn't make sense, and of course, you can run scenarios on the map all day long and show that it doesn't, but there is something that I've really enjoyed, when it comes to just being able to relax a little more, a little less stress.

19:55 FT: And this is the home where you talked earlier about walking in, and the hard wood floors and empty rooms echoing. And now, I suppose the rooms are fully filled with furniture?

20:03 JM: Yeah, just about. We're still pretty slow on deciding what things should go where. But it did stay empty for a long, long time to try and hit that mortgage goal. That's true. We had this big, great room connected to the kitchen, and we had this tiny couch, and it looked hilarious. So, people probably wondered, like, "Why did you buy this house?" And then we showed them our five kids, and they were like, "Oh, that's why." So, we were slow. We sacrificed a lot of purchases, and trips, and things like that to get it done. But it's been worth it. That was a big win for us.

20:40 FT: Congratulations.

20:41 JM: Thanks.

20:42 FT: Okay, let's talk habits. I'm a big habit proponent, and hopefully will incorporate YNAB is part of one their financial habits. For you, what's a habit, or behavior, or ritual that helps you stay on top of your money?

20:55 JM: So, there are two things. One is the monthly meeting, if you share finances with a partner, then the monthly meeting should involve the partner. But the monthly meeting, where you just ask yourself, "What should our money, that we have on hand right now, what should that do before we're paid again?" That... It's just a frequent alignment of money with your true priorities. And you find a lot of peace there. Not more money necessarily, but just satisfaction knowing that your money is doing things that you actually care about. So there's that one that is critical. It is absolutely critical. And then the other one is... And you can use the YNAB software, or you can use

a lot of software. So, this applies universally, but when I spend money, I pull out the app, in this case it's YNAB, and I check my budget, and I also record the transaction. It takes about 10 seconds. We do really fancy stuff with geolocation, payees, and learning about what the smart defaults are for the transaction.

21:52 JM: So, it's very quick, but it helps you to just maintain a little bit of that connection, where you say, "Okay, I'm spending this at the grocery, or I'm buying this thing for the garden," or whatever it is. Just a little bit of awareness goes a long way in that respect. So, those two habits: Monthly meeting and then recording the transaction at the point of sale, will take you a long, long ways.

22:14 FT: I have a sort of a tangential question for you, 'cause you mentioned, and I agree, having that connection with your money, that visual connection is really important. And nowadays, we live in an world where there are... It seems like there's an abundance of technology that can help you stay, on the one hand, I think connected with your money on the go, but also, if you really abuse it, it's almost like you don't have to ever think about your money. We can automatically pay for things. Everything's automated. We can pay with our iPhones. How do you reconcile that at YNAB? 'Cause I think what you're doing is great, 'cause you're kind of incorporating a lot of these tangible important relationships that we have to have with money, where you're checking your budget, you're actually looking at how your money is going from place to place, going from point A to point B. But then at the same time, it's a piece of technology. It's software. So, where do you draw the line?

23:14 JM: So, we want there to be less post-mortem analysis. There's like, I don't know how many CSI shows there are, like, 50 different spin-offs. And CSI, they always have a body at the beginning of the show, and then the rest of the time they're figuring how the person die. And that's a lot of times how we approach money. It's like, "Okay, there's a corpse, and we gotta figure out what happened." And the person is dead. There's no resurrection of the person. They're dead. So, that's a lot of times, we look back at our money, and say, "What did I spend? Oh man, okay." And then you move on. There's nothing to be done. We try and turn you around, and get you to prevent the death like that old Tom cruise movie with, not that old, but "Minority Report" with those weird things that would see the future and they would stop the crime before it happened. That's a long analogy, but kind of like that.

24:09 JM: We want people to be planning and being proactive, instead of reactive. And that's really the gist of it. So on the technology side, if we can do things to remove tedium and improve awareness, we will do that every time. So you go to add a transaction, we'll say, "Oh, you're standing in Walmart. Last time you were here you had a transaction, we recorded the location." So it's saying, "Oh the payee's Walmart. Oh, and last time you did that payee, it was groceries. And the last time it was on this credit card, and here's the date today." So you're really... We're trying to remove the tedium, we don't want you to have to spend more time than necessary to enter the transaction. We do want you to spend, to have the behavior or take the time necessary to be aware. And if we can remove tedium and maintain awareness, then that's a win every time.

24:57 JM: So automatic bill pay, I'm a huge fan of that. You don't need to question whether Netflix is a good choice every single time you pay for Netflix. Maybe once a year you sit and say, "Do we really want Netflix? Yeah, we do. Okay, we're good." But we don't want you to be sitting there, questioning whether you should pay your rent every month, it should be on auto-pilot. Maybe once

a year you say, "Should I move? Should I make a big change?" Questioning more core assumptions. But I feel like there's... There's a very fine line between demanding that you do tedious things, which there's no value there, and demanding that you do things that keep you aware of your money where there's massive value.

25:36 FT: And the tedious things can certainly eat up a lot of your time, and that's a great answer. Tedium... Removing tedium, improving awareness. Let's transition now. We're almost wrapped here, Jesse. You've been a fantastic guest. I'd like to sorta end on a fun note where I start a sentence and you finish it, first thing that comes to your mind. Don't over think it. Okay?

25:58 JM: Okay. Oh, dear. Here we go.

25:59 FT: "If I won the lottery tomorrow, unlimited amounts of money, let's just call it 100 million, half a billion. The first thing I would do is... "

26:08 JM: Go to work.

26:11 FT: Right on, a man who loves his job, "The one thing that I spend on that makes my life easier or better, is... "

26:19 JM: Lawn maintenance.

26:22 FT: Lawn maintenance. [laughter] I should tell listeners, you're in Utah. You're in Utah, so I imagine you have a lot of land. I live in Brooklyn so it's just the opposite.

26:30 JM: [laughter] That's concrete maintenance.

26:36 FT: Okay, super, "My biggest guilty pleasure." Maybe it's not guilty, but point is here it's something that you spend on that takes up a lot of your budget. But you totally love it, and you wouldn't wanna live without it.

26:50 JM: Takes up a lot of our budget is travel. But if we were going for guilty pleasure, even though I don't feel guilty about it, I would say nice dress shirts. It doesn't take up a lot of the budget but they are exceptionally nice when I buy one.

27:02 FT: Where do you go? Where's your main store?

27:06 JM: The store is Utah Woolen Mills in Salt Lake City. And the shirts, if there are any guys out there, they're Eton. E-T-O-N, and they are phenomenal.

27:16 FT: All right.

27:17 JM: There's a plus.

27:17 FT: Check that out, "One thing I wish I had known about money growing up is... "

27:24 JM: There's only one thing that I honestly wish. I wish I would've spent more money... 'Cause I'm naturally a saver, I wish I would've spent more money on a wedding photographer. We

were trying to save a dime. And there are times when that is not important. And that was one of those times.

27:42 FT: Good. Yeah, that's really...

27:44 JM: It is sad. See, you sighed. Why?

27:47 FT: I know, I know. It just reminds you... I had a great photographer. It reminds me of my friend who got married 10 years before I did. And this is before everything was digital. They give you a chip. And then you've got all your cameras. It was, actually had to be developed. And the guy didn't develop them right. And she said, all of the pictures went to waste, except for one. Memories gone. Memories there, but you just can't show your kids...

28:15 JM: I have this secret hope that there's... In the afterlife, you can just see anything you wanna see. That's my hope, that's all I'm hanging on to. We had photos, but they should have been great. So... So there are times, that's the key lesson. Maybe that was my big financial mistake. But there are times where it's worth it. It's just money.

28:37 FT: It's just money, I like it. I'm gonna make t-shirts that say, "It's just money, Okay?"

28:41 JM: Yeah, do that. It's just money, chill out a little bit, so.

28:43 FT: "When I donate money, I like to give to blank because... "

28:47 JM: I like to give to my church because it's 100%. There's no admin take.

28:55 FT: Oh, great.

28:55 JM: A hundred percent goes to the cause, which I like.

28:57 FT: Wonderful. And last but not least, "I'm Jesse Mecham and I'm So Money because... "

29:03 JM: I'm So Money because I've built a business helping others be So Money.

29:11 FT: Yes. And everyone, check out this business. It's called "youneedabudget.com," YNAB for short. Jesse, thank you so much for all the great work that you're doing and for gracing this podcast. Really appreciate your time.

29:23 FT: Absolutely. Thanks for having me, Farnoosh, it was great.