

## CHAPTER 1

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# WEALTH MATTERS: YOU DECIDE HOW MUCH

Making money is not the most important thing in life. And Getting rich shouldn't be your number one goal.

But as a recent college graduate (or young person embarking on a career), wealth building should be on your agenda. Because—like it or not—your financial situation will affect your ability to enjoy every other aspect in your life.

They say the three most important questions a young person must answer are:

1. What shall I do with my life?
2. Where shall I do it?
3. And with whom?

In answering those questions, it makes sense to consider your finances because they will determine the choices you have in

developing a career, selecting a place to live, and taking care of yourself and your family.

This book is based on the wealth-building principles outlined in my best-selling book, *Automatic Wealth*. But the ideas presented here are tailored specifically to you. As a recent graduate (and young person starting out), you have an advantage that I don't have. It is an amazingly powerful advantage that makes it absolutely *easy* to get rich.

When you have 60 years of life ahead of you, becoming wealthy is not just easy, it can be automatic. And that's the purpose of this book: to give you a blueprint for automatic wealth.

Automatic Wealth. What does that mean?

You understand the meaning of *automatic*: having the ability to develop independently, that is, without conscious effort. The wealth-building skills that you will learn in this book are easy. If you start practicing them now (I'll show you how), then before you know it you will be doing them without conscious effort. At that stage you will be an automatic wealth maker.

That's what I mean by *automatic*. Now let's deal with the tougher word: *wealth*. What does it mean to be wealthy?

Your idea of what it means is probably different from mine. This point, though obvious, was underlined for me recently when we asked the 450,000 readers of my daily e-zine *Early to Rise* (EarlytoRise.com), to define wealth. Here are a few of the hundreds of answers we received:

- Having everything you want
- Having more than you need
- A million dollars in the bank
- Ten million dollars in savings
- Making a million bucks a year

- Making a hundred thousand dollars a year
- Living the life of a rock star

Even experts disagree on what it takes to be wealthy.

To Blanche Lark Christerson, director of the Wealth Planning Group at Deutsche Bank, wealthy is a net worth of \$15 million. Christerson figures that for married couples with two young kids, today's "pricey lifestyle" costs about \$375,000 a year. If you are single with no dependents, Christerson says \$10 million will do. (She's assuming that you'd have 45 years ahead of you and that you'd want to preserve capital and leave it to your heirs or charities. She's calculating a conservative 3.5 percent return on investments.)

To certified financial planner Jon Duncan, it's a net worth of \$7.5 million. Duncan is making the same assumptions as Christerson in terms of kids and life span, but he thinks it only takes about \$200,000 a year to live rich. And because the stock market has historically yielded about 10 percent, he's figuring on your getting a much better return on your savings. (From Jeanne Sahadi, "How Rich Is Rich?", July 24, 2003, accessed at <http://www.cnn.com>, September, 2005.)

Yes, wealth is a relative concept. But in order to talk about it productively, we must agree on a single definition. For the purposes of this book, then, I'm going to ask you to accept this one:

**Wealth is a store of something valuable, something you can use or enjoy later. Financial wealth, therefore, is the net savings you have put aside for spending in the future.**

Note the phrase “net savings.” That means the money you have saved that doesn’t need to be used for any current needs or any current debts. That is to say, your financial wealth is the amount of money you have put aside that is free and clear for future use.

Some financial experts (such as Christerson and Duncan) classify wealth as your net worth. Net worth is the total of all your financial assets minus all your debts. My definition—net savings—is a little more stringent. I’m not letting you count the financial value of your house, your car, or any other key possessions that you wouldn’t be willing to get rid of someday.

The reason for this stricter definition is simple: You are always going to need a house and a car, so you can’t really count them as part of your wealth. (This is an oversimplification. If you figure your wealth this way, you will be erring on the side of conservativeness. That’s a good thing. It means you will always be richer than your numbers say you are.)

If you accept this definition—or even if you would rather count your wealth using the standard net worth formula—you must still recognize one important fact: You need more than a high income to be wealthy. It’s amazing how many young people (and lots of older people) don’t understand this. Too many folks equate making “mucho dinero” with being rich.

A good example: the cable TV show *Entourage*. In *Entourage*, the main character is a fictionalized version of Mark Wahlberg after he became famous as a Hollywood actor. Mark’s character and his friends spend all their time and money buying toys and chasing girls, while their accountant sits in his office and screams at them. The entourage is hell-bent on spending every cent of the multimillion-dollar income their buddy is earning. And that makes them feel rich. The truth is, however, that they are just as broke as they were when they were living in Brooklyn. The only difference is that they are spending more.

To be rich, you need lots of money in the bank. A big

### **THE SAD STORY OF MIKE TYSON: A SPENDING FOOL**

During the 20-year span of his career, Mike Tyson's income exceeded \$400 million. Yet in 2004, before his thirty-ninth birthday, this amazing moneymaker was \$38 million in debt. He had some assets—equity in some mansions, some cars, and some jewelry—but insiders speculate that their total value was less than \$3 million. For the sake of wishing him well, let's assume it was twice that much. That would put his personal net worth at minus \$32 million.

Think about that. Minus \$32 million!

With a negative net worth that large, Mike Tyson is 160,000 times poorer than the average wage earner from Sierra Leone, the poorest country in the world, with an average annual income of \$200 per person.

"How can a man with a \$4 million estate in New Jersey be poor?" a colleague asked me.

"He can still make millions every time he fights," she said.

"Anyone who can make millions isn't poor."

Yet by every recognized standard of accounting, he is poor. Extremely poor.

But he doesn't think so. And that's part of the reason he got so poor in the first place. The faster money came in, the faster it went out. Stories about his profligacy are already legendary. Tyson employed as many as 200 people, including bodyguards, chauffeurs, chefs, and gardeners.

He spent:

- Nearly \$4.5 million on cars and motorcycles
- \$3.4 million on clothes and jewelry
- \$7.8 million on "personal expenses"

*(continues)*

- \$140,000 on two white Bengal tigers and \$125,000 a year for their trainer
- \$2 million on a bathtub for his first wife, actress Robin Givens
- \$410,000 on a birthday party
- \$230,000 on cell phones and pagers during a three-year period from 1995 to 1997

The purpose of this is not to shake a finger at Mike Tyson but to alert you to the dangerous temptation to spend more when you make more. As someone who grew up drinking powdered milk and wearing hand-me-downs, I understand the strength of that temptation.

income can give you a great lifestyle—but if you are spending it as fast as you are making it, when you stop working, or when a financial emergency arises, you'll very quickly find out how *un-rich* you really are.

Mike Tyson made more than \$300 million during his boxing career. But today, he's in debt. Big debt. If Don King, his manager and promoter, had helped Mike learn to save his money (instead of spending it on \$3 million rings), Mike would be wealthy. Instead, he's probably one of the poorest men on earth.

If you want to become wealthy—in terms of having lots of money put away for a rainy day . . . or money to spend after you stop working for it—then you are going to have to learn how to save and invest a significant portion of your income.

But here's the good news. You are young, so this is a *really good time* for you to start saving money. If you get yourself

into the habit of doing so now, you'll be rich before you know it.

In Chapter 2, I'll tell you exactly why being young gives you such a great advantage when it comes to building wealth. I'll explain why every dollar you save is worth \$5 or \$10 more than every dollar your parents saved. You'll discover the true power of compound interest and find out how to make it work for you.

But let's get back to this idea of stored value, which—in financial terms—translates into savings.

The purpose of saving money is so that if and when you stop working, you can draw on your savings to pay for your living expenses. For many people, the ideal situation is to have enough money saved that they can live off the interest. If, for example, your lifestyle (including paying your debts) costs you \$70,000 a year and you have a million dollars in savings generating 7 percent interest (or \$70,000 in income), you are financially independent.

Another, rather crude, way of saying this is that you have “G.L.” (Get Lost) money.

G.L. money. Isn't that a good objective? Wouldn't you like to have the ability to *not* work and yet pay for all your living expenses? Wouldn't it be great to spend your time focusing on the activities that give you the greatest satisfaction in life, without worrying about money?

That's exactly what I'm going to show you how to do: Create a plan to get you from where you are today to a state of financial independence—having G.L. money. (I'm assuming you are broke and saddled with student loans. If you are better off than that, my plan will work that much faster.)

Okay. So how do we figure out how much in savings is enough?

We have to start with how much income you think you

will need to live the life you want to live. To help you think about this, I'll tell you a little story about my early years—when I was just a few years older than you and knew even less about wealth and money than you probably do now.

## IT'S NOT JUST ABOUT SAVINGS— YOUR INCOME MATTERS

As a young man, I never had any ambitions about making money. I knew nothing about business and didn't care to learn. My goal in life was to write a great novel, marry a beautiful woman (who liked my novel), and travel.

Apart from finishing that novel, I got what I wanted. And along the way, I also got rich. Here's what happened.

It was 1983. I had just been hired as editorial director for a fledgling newsletter-publishing company in South Florida. Because I had to give the occasional speech, I enrolled myself in a Dale Carnegie course on public speaking. Somehow, I ended up in the Carnegie basic success course instead.

How to Win Friends and Influence People is a 14-week program in which you are asked to focus on a certain character-changing task each week and then report on your progress the following week.

I was the worst student in the class. Cynical and suspicious, I despised what I took to be the silly, do-goodish prattle of the teachers. But I'd paid good money to be there, so I begrudgingly went along with the program—and I'm very glad I did.

The assignment for week four was to come up with a single goal that you would pursue for the remaining 10 weeks of the program. The idea was that by concentrating on only one goal, you could make much more progress than you would with a wider scope of objectives.



Sure enough, I had a hell of a time with that lesson. For me, it was by far the most difficult of the 14.

When I first started listing my goals, I could think of only two or three. But as I put more thought into it, the list began to expand . . . first to half a dozen . . . then to 10 . . . and then 20 . . . and on and on. Narrowing down the list was torture. Among other things, I wanted to be a great writer, a wise teacher, an admirable dad and husband, a linguist, a wine connoisseur, an athlete, and more. I was paralyzed. I simply couldn't tolerate the idea of giving up any one of those goals.

Finally, driving to the class at which I was to publicly announce my one main goal, I had a breakthrough. I realized that all my hard work and ambition had amounted to nothing, because I had been spreading myself too thin.

Then I had an idea: "Why not make 'making money' my number one goal?" I thought. "If I achieve that goal, I'll have all the money I need to pursue my other interests."

At the time, I knew nothing about making money. But I focused on that one goal and made it my priority. And it worked. Big-time.

Before that experience, I was making \$35,000 a year. A year later, my yearly income was \$150,000 a year. (Later on in this book, I'll tell you how you can boost your income that dramatically.) Needless to say, this was more money than I had ever imagined I'd make. So I wasn't quite sure how to feel about it.

"You should feel very good," Ron (my accountant at the time) told me. He was amused by my innocent excitement. Ron was used to working with high-income earners—most in the million-dollar-plus category. "Welcome to the world of the rich," he said.

"Come on," I said. "A hundred and fifty grand is nothing compared to what most of your clients make."

"It's time you learned something about money," he replied.

I perked up and listened. To this day, I've never forgotten what he said. "First of all, you have to recognize that as far as earning income is concerned, you are already in the top 5 percent. Second, you need to know that \$150,000 is enough to live like a billionaire."

"How can you say that?" I asked.

"Think of it this way," he said. "When you have a family income of less than \$50,000, it's a struggle."

"Tell me about it," I replied. "I have been struggling ever since I graduated from college."

"Then, when you boost your income to between \$50,000 and \$150,000, you have everything you need but you have only some of what you want."

Since my transition from below \$50,000 to \$150,000 had been so quick, I had never had the time to experience living at that level of income. So I asked him what he meant.

"I mean this. You can afford a nice, modern, modest home. And you can pay your bills. You can even go out to dinner at a good restaurant once a week and spend a few weeks a year vacationing. But you can't do any of those things too elaborately, and you can't afford to buy yourself toys."

"Toys? Such as?"

"Such as sports cars, boats, expensive watches, and so on."

"My \$35 Casio watch is fine for me," I said. "And I get seasick. But I wouldn't mind a little red sports car."

"Well, guess what?" he said. "Now you can afford that, too."

"Do you really think so?"

"Sure. Buy yourself a little five-year-old convertible for \$3,500." (Remember, this was 1983.) "Keep it in your garage. Take it out on weekends."

"I'd love that."

"Now that you are in the \$150,000 club, you can have

everything you need and everything you want. You just have to be sure that you don't overspend on what you want."

"Like limiting the money I spend on my sports car to \$3,500."

"Exactly. The only difference between your lifestyle and the way my wealthiest clients live—and I'm talking about guys who rake in eight-figure incomes every year—is the price of your toys. Other than that, you are living the same."

"That's a great thought," I told Ron. "Very comforting."

"And here's something else you need to know," he said, as he packed up his papers and started to walk out of the room. "You'll get just as much fun out of your \$3,500 sports car as any of my other clients get from their Lamborghinis or Maseratis."

Do you know what? Ron was right. I bought a Triumph, a TR-6, for \$3,200—it was the best sports car I ever owned.

That conversation with Ron left a deep impression on me. It was definitely a turning point in my financial life. Were it not for the advice he gave me, I might well have gone on to do what most high-income earners in America do: spend my money as fast as (or even faster than) I made it.

Overspending is a major problem for high-income earners for several reasons:

- They want to show off their income by purchasing status symbols.
- They want to reward themselves by buying expensive toys.
- They feel that as long as they can pay for what they buy, there isn't any problem. If they spend every dollar of what they make this year, there'll be plenty more dollars next year.

The trouble with this sort of thinking is obvious: It makes it very difficult for one to save. And if you don't save money, you

can't get richer. Wealth is not about how much you make. It's about how much you have to spend in the future. Put in financial terms: Wealth is not your income, but your net savings.

Ron's conversation was immensely helpful to me, because he made me understand, at the beginning of my high-income-earning years, that spending extra money on ever-more-expensive toys wasn't going to give me any more gratification. All it was going to do was put me on the same treadmill with everyone else in my category (the rest of the 5 percent in the \$150,000 club), most of whom would never end up wealthy.

So that's an important thing for you to recognize now, too: As you follow the steps laid out in this book and begin to earn a higher and higher income, don't fritter it all away by being lured into buying more expensive toys.

The first couch I bought cost \$400. I remember thinking, "It doesn't get any better than this." And it never did. The couches I buy today give me no more pleasure, comfort, or space. Yet they cost much more.

What happened? Did I miss out on some inflationary spiral? The truth is that my own success victimized me. In earning more, I allowed myself to spend more on things like couches. If I had gotten more out of those things, that would have been fine. But I didn't.

Master wealth builders understand a secret that it took me years to learn: You have to keep your spending down while your income increases.

Let's take another look at the three levels of income that Ron identified—and how they can affect your lifestyle.

### THE THREE LEVELS OF INCOME

1. If you have a family income of less than \$50,000, it's tough to make ends meet.

### **WHY STRIVE FOR FINANCIAL FREEDOM?**

The main purpose of this book is to help you become an automatic wealth builder so that—maybe before you know it—you will achieve financial independence.

Think about the term *financial independence*. What does that mean? And why should you want it? Here are some possibilities:

- You may want more freedom in your life—more choice about where you live, how you live, how much you work, and so on.
- You may want more leisure in your life. You don't want to feel compelled to work 8 or 10 hours every day, or five and six days every week.
- You may want more tranquility in your life—an end to the stress that lack of money sometimes causes. You want to be able to sleep easily at night and enjoy your days without worry.

Those goals are all reasonable, laudable, and possible. And they are all attainable if you'll follow the advice in this book.

2. If you earn between \$50,000 and \$150,000, you are getting by. Your bills are paid and you can afford some small luxuries, but you have to be careful.
3. When your family income exceeds \$150,000, you are affluent. That means you can live as well as the richest man on earth. The only difference will be the price of your toys.

If you can get your income above \$150,000 a year and curb your enthusiasm for expensive toys, the chances that you'll be wealthy one day are about 99.9 percent.

## HOW MUCH WEALTH DO YOU NEED?

Having a personal net worth of 10 times the amount you need to live on is, in my opinion, an adequate amount of wealth.

What it means is that if you earn an average of 10 percent on your savings, you'll be able to spend what you need for your lifestyle (barring financial emergencies) and never have to dip into your financial nest egg (your savings).

That's a good goal: to squirrel away an amount of money big enough to let you live off the interest. But how much money? At what rate of interest?

Historically, the stock market has returned an average of about 10 percent per year. If you are a middle-of-the-road investor (and by that I'm referring to your temperament, level of optimism, and tolerance of risk), you may feel good about putting all your money into a middle-of-the-road index fund—which is a way to get average stock market returns over a longer period of time.

If, however, you are more adventurous, you may find yourself investing in individual stocks, shooting for a higher return—possibly in the 15 percent to 18 percent range.

If you are very conservative, as I am, you may put most of your money in some sort of safe bond portfolio that will give you only a 4 percent to 6 percent return on your investment (ROI) over time.

Later in this book, I'm going to try to convince you to boost your ROIs by doing two things:

1. Investing in real estate (even now you can do it safely), which could easily give you a safe 25 percent ROI.

2. Investing in your own businesses, which can provide you with a 35 percent to 50 percent ROI in each case.

By combining real estate and small businesses into your investment mix, you could, I believe, easily achieve an overall ROI of between 12 percent and 25 percent.

We'll explore this more in Chapter 2. Right now, let's figure out how much income you will need to maintain your ideal lifestyle. And then let's determine what kind of ROI you feel comfortable expecting from your savings.

#### LIFESTYLE LEVELS FOR INCOMES ABOVE \$150,000

Since you don't have a lot of life experience yet, here's a shortcut to help you figure out what would be the ideal income level for you:

- *\$150,000 to \$350,000:* You have all you need and all you want. Your toys are modest. Your vacations are great.
- *\$350,000 to \$1 million:* You have everything you need and want. Your toys are elaborate, and your vacations are insane.
- *\$1 million or more:* You have too much income.

In picking your income goal, keep in mind that you may have to work harder—and you will almost certainly encounter more stress—as you move up the income ladder. So aim for a number that is on the modest side of what you are willing to accept. Personally, I don't think anyone needs a lifestyle that's richer than what he or she could enjoy on an income of between \$150,000 and \$350,000.

### **ECOLOGY MEETS PROFIT**

When 21-year-old Thomas Szaky and fellow classmate Jon Beyer—also 21—developed a business plan for the 2002 Princeton Business Plan competition, they had no idea it would turn into a million-dollar venture. Wanting to do something good for the environment, they developed an organic plant fertilizer—TerraCycle—that is made entirely out of worm waste and is even packaged in recycled soda bottles. (Szaky and Beyer collected the bottles from students and bottling plants all over North America.)

Although they placed fourth in 2002, the TerraCycle team went on to win the 2003 competition, a cash award of \$5,000. They then entered and won the Carrot Capital Business Plan Challenge, and a chance to collect \$1 million in venture capital.

Szaky and Beyer did plenty of hard—and dirty—work to make their product succeed. Part of their project included gathering tons of rotting trash from a university cafeteria. They then turned the trash into compost through a process known as vericomposting—where it is finely chopped, placed in a heated container to kill pathogens, and digested and excreted by worms.

The eco-friendly plant fertilizer can already be found in some U.S. stores, including Whole Foods, Shop Rite, and Wegmans. In addition, TerraCycle has landed an account with Wal-Mart Canada Corporation, with projected sales of \$3 million.



While working with plant fertilizer was a “total fluke,” Szaky says he is happy where it has landed him. And he encourages other hopeful entrepreneurs to diverge from the traditional path. “It’s worth doing something unexpected,” Szaky said. “Surprise yourself.”

*Source: Marina Strauss, “Young Entrepreneur Wiggled His Way into Wal-Mart,”  
GlobeandMail.com, February 4, 2005.*

But you decide. Write that number down on a piece of paper. Now take that number and multiply it by your projected ROI:

1. If you are conservative and pessimistic, project 8 percent.
2. If you are aggressive and optimistic, project 18 percent.
3. If you’re somewhere in between, project a figure between 9 percent and 17 percent.

When you multiply the first number (the amount of income you figure you’ll need to enjoy your ideal life) by the second number (the ROI that feels right to you), you’ll come up with the amount of money you will need to have in savings in order to achieve financial independence.

This is a somewhat oversimplified formula, but it will do for now. At this point, your main goal should be to establish your major financial goals and get to work on achieving them. There will be plenty of time later to tweak our formula to account for inflation, taxes, and so on.

But by completing this initial calculation, you have already accomplished more—in terms of wealth building—than most people ever accomplish. Congratulations!

Now, let's move on to the really fun stuff—discovering the secrets of making wealth automatic!