CHAPTER 1

Prepare to Win—Now and Forever

Problems are a part of life. I want puzzles to solve. I need problems to solve. I want to take on problems I can't fix; if they have solutions they are already solved. Problems make me think, push me, and make me try harder. Recently I signed up UFC for six fights. I did it to challenge myself. People flourish under pressure.

Plus I love the sport too much to ever leave it.

—Renzo Gracie

I'm no Renzo Gracie.

But I don't feel bad. No one else is, either.

Who is Renzo Gracie? He's a member of the legendary Gracie family, the "first family" of mixed martial arts. While the Ultimate Fighting Championship (UFC) has certainly popularized mixed martial arts, the Gracie family embraced and then reinvented traditional martial arts and along the way revolutionized the art of fighting. It can be argued that without the Gracie family there would be no Mixed Martial Arts (MMA) and there would be no UFC.

Renzo is a Black Belt in Brazilian Jiu-Jitsu and helps run the world-renowned Gracie Academies, a series of schools around the world that teach Brazilian Jiu-Jitsu. He has competed for years, recently returning to the UFC, even though he's more than 40 years old, simply because, "I want problems to solve. Challenges make me better."

Renzo brings a variety of skills to every fight. In addition to Brazilian Jiu-Jitsu he has developed a broad range of strikes, kicks, and wrestling skills. Go to YouTube and check out highlights from his fights; he's a master at taking opponents to the ground, controlling them, and forcing submissions.

Renzo bases his entire fight plan on his ability to protect himself, when necessary, by falling back on his Brazilian Jiu-Jitsu skills—and using those skills to regain the offensive and regain control of a fight. His confidence and his ability to handle almost any situation are based on a fundamental set of fighting skills and principles.

In short, he's prepared—for anything.

And because he's prepared, he's able to react under pressure. In Brazilian Jiu-Jitsu and in personal finance, the most important skill you can develop is the ability to react under pressure. Watch an MMA fight or go to a gym and watch a Brazilian Jiu-Jitsu Black Belt in action. The best MMA fighters—and Black Belts—are always calm. They can find themselves in horrible positions, but they have trained themselves to remain calm, stay relaxed, and stick to their game plan. They don't panic because they're prepared, and that preparation gives them incredible confidence.

Preparation also helps them relax.

And stay objective.

Think about the financial meltdown our country recently faced; many investors panicked—and as a result froze. They had no "sell discipline" (you'll learn what sell discipline is later) and made horrible decisions based on fear instead of rational, objective decisions.

In Brazilian Jiu-Jitsu, our biggest enemies are our emotions and our state of mind.

In investing and personal finance, our biggest enemies are—that's right—our emotions and our state of mind. It's not the market, it's not the economy, it's us.

Your biggest enemy is *you.*

But it doesn't have to be.

The same approach Renzo Gracie and top Brazilian Jiu-Jitsu practitioners use—applied to personal finance and investing—will work for you, too. No matter what your current financial situation, no matter what obstacles you may encounter, no matter what changes in the market or financial crises you face . . . if you take care of the basics, stay calm, and don't panic . . . you *will* achieve financial success and you *will* reach your financial goals.

What is financial success? And how *do* you achieve it? You may think that achieving financial success (whatever "financial success" means to you, because it means different things to different people) is based on mastering complicated investment techniques.

It's not. Most people become wealthy because they do the little things right—time after time. They don't panic, and they don't give in to emotion. Instead they stay calm and focused, and they stick to their plans.

Financial Jiu-Jitsu is based on taking care of the basics first, using straightforward, easy-to-understand principles and strategies as a platform and springboard to future success. Of course, your financial plan will adapt and evolve as economic conditions change and you move through your life, but the guiding principles will never change. Renzo Gracie uses Brazilian Jiu-Jitsu as the foundation of his fight plan. Although he is certainly confident—justifiably so—in his punching and kicking abilities, his real confidence comes from knowing if those punches and kicks aren't effective he can fall back on his Jiu-Jitsu skills and regain control over the fight on the mat, no matter what his opponents throw at him.

Think of the following guiding principles as the foundation of *your* financial fight plan and the keys toward reaching *your* financial dreams—no matter what punches the market or the economy fires at *you*. If you follow these principles you should always react well in the face of adversity. Then, if you later decide to try more advanced investment strategies and techniques, go for it! You can add complexity, try new things, even take a few risks . . . secure in the knowledge that you constantly and consistently take care of the basics and are prepared to win any financial fight.

So what are your guiding financial principles? Here we go.

Give Back

I understand it might seem odd that the first principle of financial success is to give back. After all, isn't building wealth based on accumulating assets instead of giving assets away? (Of course, building "wealth" depends on your personal definition of "wealth," which you'll determine in Chapter 2, but for now you can assume "wealth" refers to financial and material assets.)

How do you succeed if you give away what you hope to accumulate?

I look at it differently. I think it's impossible to *get* what you are not willing to *give*.

Some people see giving back as a form of tithing. Spirituality is an important part of my life, and I tithe regularly. You may also. But even if you don't see giving back in religious or spiritual terms, you should plan to give back in a way that is personally meaningful to you.

For example, at the Clinch Academy where I train, we focus heavily on teaching and helping others gain Brazilian Jiu-Jitsu skills. We're all there to develop our skills by learning from instructors—*and from each other*. Stop by and you can see Brown Belts rolling with Purple Belts, Purple Belts rolling with Blue Belts, even Black Belts rolling with White Belts. Can a Black Belt, a person who has probably spent a minimum of 10 years perfecting his or her skills, learn from a White Belt who has spent less than a month practicing the sport?

Most of the time, the answer is yes.

Many people learn the most when they're teaching instead of being taught. Think of times you've trained another person to do a job or perform a task. I'll bet you ended up learning new things in the process.

In short, by giving back you also gain.

And you make the world a little better place. And feel good about it.

Plan to give back. Maybe what you can give is money. Maybe what you can give is knowledge. Maybe what you can give is time. Whatever you can give, I guarantee you will get back more in return—if not materially then certainly in terms of knowledge and self-satisfaction—than you ever gave.

Pay Yourself First

If you're living paycheck to paycheck, I'm sure you'll disagree with the next sentence.

Everyone makes enough money to be able to save.

That's right. *Everyone* makes enough money to be able to save—even if it's just a few dollars a week.

How can I say that with confidence? One, I've worked with hundreds of clients over the years, from young people just getting started to millionaires enjoying the fruits of their hard work and success. Their financial situations vary widely, but a common denominator is that all of them are able—even if it requires making a few changes to how they approach their financial life—to start saving money.

And here's the good news: Saving money doesn't require setting up and living by a budget.

Think of it this way. Say you move into a new apartment or a new house. It's bigger than your old place, and you don't have enough furniture to fill all the rooms. The first few weeks it feels a little strange as you walk around seeing all the empty space . . . yet before you know it each room is cluttered, your closets are full, and you wish you had a larger place.

What happened? *You filled the space.* The rooms were empty so you filled them.

In fact, you filled them almost without noticing.

The same thing happens in our financial lives. No matter how much money you make, over time you'll find a way to spend it. Think about the last time you got a big raise—for a couple weeks you felt "rich," but over time you grew accustomed to your new level of income, adjusted your lifestyle to fit your new level of income . . . and filled your financial house with furniture. The problem is that at some point you look around and realize the furniture you have isn't really the furniture you want.

In case you're wondering, the same thing happens in Brazilian Jiu-Jitsu. Every student learns new techniques and gains new skills. That's great, but most then spend more time learning more skills and learning more advanced techniques than on working hard to refine and perfect the skills they already have. At some point most take a step back and realize they collected a wide variety of techniques . . . but they aren't nearly as good at performing those techniques as they would like to be or need to be.

So how do you get out of this rut? How do you start saving when you currently live paycheck to paycheck? Do you—gasp!—create and live on a budget?

You certainly can, but you don't have to.

Instead of budgeting, get started by taking control. Start saving the simple way.

Pay yourself first.

Instead of paying your mortgage, paying your rent, paying your car payment . . . pay yourself. Pick a number. Maybe it's a set dollar amount. Maybe it's a percentage of your pay. I don't care what amount you choose, but always pay yourself before you pay anyone else. (In my opinion, you should always pay yourself 10 percent, but feel free to choose the amount that's right for you.) Fill your savings "house" with furniture first and *then* worry about filling all the other rooms with financial "furniture." You'll quickly adapt to your new "living conditions" and will adjust your spending accordingly—and your net worth will grow.

Worried you won't have the self-discipline to pay yourself first? No problem. It's easy to pay yourself first when you . . .

Automate!

The easiest things to do are the ones you don't have to think about doing. The easiest choices to make are—you guessed it—the ones you don't have to think about making. Paying yourself first is easy if you only make that choice once.

Automate the process of saving—that's easy. Make the choice every week or month? That's much harder. I know—it's hard for me, and it's hard for my clients. A small percentage of my clients have the discipline to write a check every month and deposit funds into their investment accounts; everyone else—including some of my wealthier clients—has set up an automated process that automatically transfers funds. Paying yourself first is hard to do consistently.

That's why the key is to set up a system that makes paying yourself first automatic.

The most common example of an automated process is to have money deducted from your paycheck for deposit into your 401(k) plan. If you've done so (and if not, why not?), think back to when you first set that process up. Say you decided to put 3 percent of your pay aside for retirement. The first time you saw your paycheck, you were probably a little disappointed that your take-home pay was slightly lower than it had been before the deduction. But after a couple paychecks you stopped thinking about the reduction and adapted accordingly. No pain—and over time a lot of financial gain.

All because you paid yourself first—and made the process automatic.

I discuss a variety of savings and investment strategies later; for now, just embrace the concept of paying yourself first and setting up automated systems to make it easy. Electronic banking and Web-based financial services make it simpler than ever.

The easy way is always better . . . when the easy way is also the most effective way.

Maintain a Cash Safety Net

Most financial experts feel you should maintain an emergency fund to cover true emergencies: Losing a job, unexpected medical expenses . . . things outside your control you must—absolutely *must*—have cash in order to cover. (A 70-percent-off sale does not constitute an emergency.)

I agree. Not just because an emergency fund makes good financial sense, but also because a cash safety net can give you peace of mind. Think back to Renzo Gracie; he doesn't worry about whether his striking skills can carry him through a fight. He prepares for other outcomes by knowing he can rely on his Brazilian Jiu-Jitsu skills.

Instead of *worrying* about things that might go wrong, *prepare* for the possibility things might go wrong.

And sleep better at night.

So what is your goal for your financial safety net? The most common advice is to have three months' worth of expenses in a savings account. Think about what you spend on a monthly basis, multiply by three—and there you go.

I think three months' worth of expenses is a great goal, but it's also somewhat simplistic and a little unrealistic for most people, especially people just getting started taking control of their financial lives. If you spend $3,000 a month and currently have no money in savings, the thought of setting aside $9,000 probably sounds impossible.

A better approach is to decide what you *have* to spend. If you lose your job, for example, some of your expenses will be lower, like gas and food. If you lose your job, you might decide that some of today's "necessities" are no longer quite so necessary.

So take a step back, think about your situation, and come up with a number that's right for you. Maybe it's $5,000. Maybe it's $500. Whatever it is, start putting aside money—automatically—and fund your cash safety net.

Then don't use your cash safety net unless you absolutely have to; and if you ever do, replenish it as soon as possible.

Manage Credit Wisely

Ah, credit. We all have it. We all use it.

We all secretly hate it.

Credit is not a necessary evil. Credit is actually an incredibly useful financial tool if managed wisely.

But most people don't manage credit wisely. The average U.S. household with at least one credit card maintains a balance of more than $10,000.

Ouch.

The problem is that most of those people will be paying that debt off for years—even decades. Credit card issuers *want* you to maintain a balance; they make most of their money on interest payments. The longer you maintain a balance, the more interest you pay, and the more money the card issuer makes . . . and the more money comes out of your pocket. Say you're better off than the average U.S. household and you only owe $8,000 in credit card debt; if your interest rate is 18 percent and you make the minimum payment every month you'll end up paying almost $20,000. In effect, whatever you originally purchase eventually costs you two-and-a-half times what you paid!

That's managing credit unwisely . . . and paying for a mistake for a *long* time.

And that's like trying an advanced Brazilian Jiu-Jitsu technique when you haven't even established a good base; in a real fight you would pay for a mistake like *that* for a *long* time.

On the other hand, most of you borrow money when you buy a house. If you buy a house you can afford, get a loan at competitive terms, make your payments on time, and—depending on interest rates—even work to pay off your loan early, that's managing credit wisely.

The key is to ensure that the credit you use fits within your overall financial plan and helps you build wealth. Credit should not be something you fall back on because you *want* to; credit should be a financial tool employed as the result of an informed and intelligent financial decision.

Few people manage credit wisely.

You will.

Get Time on *Your* Side

Time is arguably the most powerful component of any investing plan—and often the most overlooked.

Think I'm wrong? Here's a quick example.

Say you have $10,000 to invest. Assume you earn 5 percent per year on that $10,000 investment. Five percent is a conservative amount; I chose a conservative amount to prove my point. You won't add additional funds; over the life of the investment your only contribution will be the initial $10,000.

Then let's say you invest that 5 percent in a tax-deferred IRA; any earnings will not be taxed until you withdraw them. Now factor in time; here's what your original $10,000 will be worth. After:

10 years	You'll have: $16,289
20 years	You'll have: $26,533
30 years	You'll have: $43,219
40 years	You'll have: $70,400

(Keep in mind this illustration is not representative of any specific investment.)

Notice the effect of time and compounding. As time passes, your account grows, and the interest you earn increases because it is factored against a larger base dollar amount. For example, after 20 years you earn interest on more than $26,000 instead of on your original $10,000. The relatively low interest rate didn't change; your investment value did.

That's the power of time—and compounding. Even at low rates, you can build incredible wealth.

The same principle applies in most areas of life. It starts in school; you learn basic math and then leverage your knowledge to learn algebra, geometry, calculus, and so on. It takes time, and over time your knowledge grows and compounds. As you grow in your career, you gain experience and skills you leverage; but gaining that experience takes time.

In fact, earning higher-level Brazilian Jiu-Jitsu belts is in large part based on time—not necessarily elapsed time, but based on hours spent actively mastering the sport. Students learn new techniques over time. They apply those techniques to skills and strategies they have already mastered . . . and compound their knowledge and abilities.

All by taking advantage of the incredible power of time.

If you feel like time is against you, think again. It's never too late to start. Take control and make time work *for* you. Every wealth-building- and investment strategy that makes up the Way2Wealth is based on harnessing the power of time and compounding. Think of time as an opportunity, not as a regret, and you'll succeed. Any goal you wish to reach can be accomplished much more easily when you get time on *your* side.

Never Procrastinate

Waiting is the worst approach you can take in terms of building wealth.

Let me repeat that. Waiting is the worst approach you can take—especially when you know what to do . . . but just don't do it.

Procrastinating is the polar opposite of getting time on your side.

Why? Time is only on your side when you take action and let time work its magic; for example, like when you invest in a 401(k). Once you make the investment, time starts working for you. Until you do . . . time is against you. Say you wait 10 years to invest $10,000 in a retirement account, as in the example above. After 40 years you've lost almost $30,000 in earnings—simply because you procrastinated.

Here's the bottom line: If something is worth doing it's worth doing *today*. Not tomorrow. Not next week. Not next year.

Today.

Don't agree? Think about procrastination in personal terms. Think about some of the things in your life you regret most. Do you regret the things you've done? If you're like most people, you regret a few of the things you've done, but that's not where most of your regrets lie; I firmly believe that if my heart is in the right place things will work out for the best, even if in the short term I think I have made a mistake.

Instead, most people regret the things they *didn't* do—or waited too long to do. I wrestled from the age of 5 up to high school and was successful. I really enjoyed the sport and have never regretted being a wrestler. But as I look back I wish I had gotten started in Brazilian Jiu-Jitsu earlier; it quickly became a passion and a sport I will practice for the rest of my life. (After all, think how good I would be now if I had started a few years sooner!)

Many of you look back and wish you had done certain things . . . sooner.

Most of you look back and wish you had done certain things . . . *period.*

Don't let that be you, especially where your financial life is concerned. You don't have to be wealthy to enjoy the fruits of a positive, balanced financial lifestyle. Building wealth and taking control of your financial life will help you, your family, your community . . . even if you don't become rich, you will certainly be able to live a richer, fuller life.

Stop procrastinating *today*. And in the future, never procrastinate when you know the right thing to do. Take steps. Make changes. Do what needs to be done to reach your goals and live your dreams. Although taking certain steps may be slightly "painful" in the short term—for instance, if you put money aside to build your Cash Safety Net instead of buying clothes—you'll be that much farther along to living the life you really want to live.

Think of it this way. There are two types of pain: The pain of discipline and the pain of regret. Discipline weighs ounces; regret weighs a *ton*. Take the time now to identify your goals; at the end of that process you may decide you need to set aside $200 per month in order to meet those goals. That's a little painful . . . but if you don't, and 20 years from now realize that to meet your goals you need to set aside $5,000 a month, that's incredibly painful. Setting aside $200 a month weighs ounces; setting aside $5,000 a month weighs a ton.

Which is worse? The pain of discipline or the pain of regret?

I'll take discipline any day.

Never look back and say, "I wish." Look forward and say, "*I will. Starting today!*"

Make Reality Your Perception

I know. You think I have that backward. Most people say, "Perception is reality." In many cases that phrasing is true; for example, if people perceive you as a good person their assumption and perception is their reality.

In financial terms, perception often is not reality. Think about all the sources of financial information available to you. On a daily basis you can quickly get overwhelmed by all the "experts" spouting their advice on TV, in newspapers, magazines, on the Web. . . .

Most are loud. Most are certain. Most claim to have all the answers.

Most are wrong.

If they weren't wrong, they would all be rich—and the rest of us would be, too.

A number of people train regularly at the Clinch Academy. New people come in all the time. I roll with many of them, and in the process we share ideas, concepts, techniques, and strategies. Sometimes I learn new things; much of the time I listen while applying a huge grain of salt.

Why? I'm always open to new ideas and definitely feel I can learn from everyone, but I mainly rely on the instruction and advice I receive from Luke Rinehart, the head instructor and owner of the studio. He has the credentials, he has the expertise, he has the knowledge—and just as important he has the ability to make the complicated simple and the difficult easy.

I can turn to Luke for the right answers.

In short, I have learned I can trust him.

Sifting perception from reality in the financial world can be much harder, especially if you listen to too many voices. The key is to find sources of information and advice you can trust. To build wealth, you won't have to pour over reams of financial data every day. Later I'll show you how to build a team of financial professionals you can trust.

The key is to know reality when you see it and to make decisions based on accurate information and accurate advice. That's what smart investors do—and over time smart investors tend to become wealthy investors.

Follow a Simple and Comprehensive Strategy

Ever read a contract? I'm sure you have.

I'm also sure you noticed all the complicated and esoteric legal jargon that probably only makes sense to lawyers. In actuality all those complicated phrases and clauses have a real purpose, but it's easy to assume words like "herewith" and "heretofore" are used just to make what should be easy seem really hard.

Sadly, many people in my profession do the same thing. They make building wealth and achieving financial freedom seem incredibly difficult, when in fact it really isn't. Don't get me wrong: Effectively managing money for a high net-worth investor can include diversifying assets, taking advantage of tax shelters, creating a blend of equity and speculative instruments, investing in commodities and precious metals . . . all the pieces and parts can be complicated.

But it's not hard—as long as you know what you're doing.

The same applies to anyone, regardless of his or her current net worth. The key is to follow a simple strategy that takes into account all aspects of your personal and financial life. No matter how much money you have, the basic principles are the same:

Use strategies that seek to minimize risk, maximize return, and build a smart plan that helps you pursue your individual goals.

That's it. Simple. Comprehensive. Easy to follow.

My goal is to help you unclutter your financial life, build a solid base, react and respond based on knowledge and plans, and enjoy life knowing you will reach your goals—and will never need to panic.

Let's build a plan for you!

Prepare to Win—Now and Forever

If you do nothing else, follow these guiding principles to help build a better financial life. Follow these principles in other aspects of your life and you'll succeed in those areas, too. Work hard enough and someday you might challenge Renzo Gracie; if that happens let me know because I'd love to be there. If you ever find yourself unsure of what direction to take, check out this list. I feel sure the answer is here.

- Give back.
  Help others, and you will always receive more than you give.
- Pay yourself first.
  Build for tomorrow by taking action today.

- Automate!
  Don't think, don't decide—automate!
- Maintain a cash safety net.
  Even if a rainy day never comes, you'll be ready.
- Manage credit wisely.
  Make credit a useful tool instead of a necessary (and expensive) evil.
- Get time on your side.
  Time is the greatest tool at your disposal; it works for you even when you're sleeping.
- Never procrastinate.
  The pain of discipline weighs ounces; the pain of regret weighs a ton.
- Make reality your perception.
  You don't have to know everything; you just need to know—and trust—the right people.
- Follow a simple and comprehensive strategy.
  Building wealth isn't hard, but it will mean sticking to a smart plan.

Ready? Let's start building your individual strategy!