STEP 1

RECOGNIZING REALITY

In this chapter, we're going to look at your personal financial situation—where you're at right now. We'll figure out what wealth means to you, look at some hard facts about the economy, and come to a realistic conclusion about what you need to do to put yourself on a path that will allow you to live well and retire comfortably.

But first, let me tell you how I got started on my own road to wealth . . .

THE DAY I DECIDED TO GET RICH

It doesn't take a genius to get rich. Nor are special talents required. You don't need to be lucky. And you certainly don't need to be privileged. You do, however, have to make getting rich a priority in your life—and be willing to focus the majority of your time and energy on doing what it takes to build real wealth.

I discovered this early on in my career.

It was 1982. 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, though, I ended up in the Carnegie basic success course instead.

The How to Win Friends and Influence People program is a 14-week course 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 grudgingly went along with the program—and I'm very glad I did.

The assignment for week 4 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 so 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. I had come from a family of teachers who didn't care much about money or the things it can buy. But I focused on that one goal and made it my priority. And it worked. Big time.

My income started to climb. I had been making $36,000 at the time, and it doubled in 12 months . . . and then tripled the year after . . . and then kept on multiplying. I developed an interest not only in how money is made, but also in how it is lost and what it can do for you.

I began reading about it, talking about it, asking about it—trying to unlock its secrets. At the same time, the publishing company I was working for was changing its focus from providing information about business and travel to financial planning and investing. And I was fortunate enough to get to know some very smart people who seemed to truly understand how money works and some very successful businesspeople who had demonstrated how wealth is actually made.

This experience completely changed my ideas about wealth. Before my conversion, I felt that money was, at best, a necessary evil. But after I took the time to learn about it, I decided that wealth is actually a pretty good thing—not the most important thing in life, but a good thing that can make it easier to find time for the other, more important things.

THE REAL MEANING OF WEALTH

I remember when my income first broke through the $150,000 mark. Louis, my accountant at the time, was amused by my innocent astonishment at making so much money.

"Welcome to the world of the rich," he told me.

"Come on, Louis," I said. "I'm making barely more than one and a half grand."

"Think of it this way," he told me. "When you have a family income of less than $50,000, it's a struggle. When you make between $50,000 and $150,000, you have everything you need and some of what you want. But when you make more than $150,000, life is good. You can live in a beautiful house in a safe neighborhood, drive nice cars, go out to dinner once or twice a week, and do some traveling."

"But what about the mansions, yachts, and private jets?" I asked. "I still can't afford those."

"Those are just toys," he said. "$150,000 per year is all you really need to live a full, rich life. And here's the interesting thing: This doesn't change in any meaningful way when your income passes $200,000, $300,000, or $400,000. In fact, it doesn't really change until you are making more than a million dollars."

Back then, I only half understood what Louis was trying to tell me. Now, I think I get it completely.

There are four basic income levels:

1. If you have a family income of less than $50,000, it's tough to make ends meet.
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 living well and want for nothing (unless you have 10 children).
4. When your family income exceeds $1 million, you can spend money without much thinking. You don't need a budget. You can be extravagant.

But making a million dollars does not increase the quality of your life—and it does not, in itself, guarantee that you will have financial security till the end of your days. What it does do is make saving infinitely easier. Because unless you are completely out of control, you will be able to save most if not all of your after-tax income that exceeds the million. And saving is key to jump-starting the Automatic Wealth program.

So if you can get your income above a million, you can get rich, relatively quickly, merely by saving. And that may happen simply by following the advice I'll be giving you in Step 3.

But if your primary income doesn't grow so dramatically, don't despair. You can still achieve financial independence in a relatively short period of time (less than 15 years, certainly; probably less than 7) by developing additional streams of income. I'll tell you how to do that, too.

BEING RICH IS NOT JUST ABOUT HAVING MONEY IN THE BANK

One of the most active discussions that ever appeared on the online forum for *ETR,* my daily e-zine, was in response to the simple question "What is wealth?" This question prompted a deluge of interesting answers, from the mundane to the pragmatic to the philosophically problematic. Answers like these:

ARE YOU A SAVER OR A SPENDER?

As I see it, the wealth-seeking world is divided into two camps. In one, you have the wealth accumulators: men and women who are cautious about spending but eager to save and invest. The other camp is populated with spenders: men and women who are obsessed with things. They spend all their spare money, and often much more than that, buying things that say "rich" but actually impoverish them.

To become wealthy, first you need to build a small nest egg by spending less than you earn. Simple, huh? But not if you don't have the self-discipline to do it.

We'll be talking more about this in Step 3. Meanwhile, keep in mind that even though the material things you hunger for are indisputably of value, unless you have the financial capacity to keep them, to maintain them, and to replace them, you don't have wealth. You simply have its obligations.

- A million dollars in the bank
- Having everything you want
- The power to command results
- Being loved by your family and friends
- Having tangible assets sufficient to meet the physical needs of yourself and your loved ones
- Having a balanced life
- Inner peace and spiritual enlightenment
- Excellent health and immunity from disease

This is just a small sampling of what our readers had to say, but it gives you an idea about how varied and sometimes vague our thinking about wealth can be. And although I recognize the sense in many of these definitions, I find it impossible to talk to people about wealth unless I can get them to agree on some basic terms. So let's do that now.

I suggest that we start with this definition: *Wealth is a store of something valuable.*

I like that definition because it is simple and because, no matter what it is that you value, it emphasizes something essential about wealth: the idea of storage. Having the things you desire—say, a big house and fancy cars—does not make you materially wealthy if you don't have the wherewithal to keep those goods over a protracted period of time. Nor are you wealthy in friendship if the many friends you have now would abandon you if your fortune changed.

The point I'm making here may be too obvious to mention: that wealth is only sometimes about money. Understanding wealth in a broader sense, with implications that go beyond dollars and cents, is essential.

Yes, the main purpose of this book is to help you become financially independent. But you want financial independence for specific reasons:

- You want more freedom in your life. You want more choice about where you live, how you live, how much you work, and so on.
- You 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 want more tranquility in your life. You would like an end to the stress that the lack of money sometimes causes. You want to be able to sleep easily at night and enjoy your days without worry.

These goals are wrapped up very tightly in your desire for wealth—and as a result, they are a fundamental part of every step in my Automatic Wealth program.

Let's push a little further along this path and delve a little deeper into the way you think about your life and the things you value.

INTERESTING FACT: Only about one-half of 1 percent of U.S. households have a net worth of $5 million or more, excluding primary residences, according to the Spectrem Group, a consulting firm specializing in affluent and retirement markets. And only 0.2 percent of U.S. households have a net worth of $15 million or more, including their homes, according to the Federal Reserve.

PLAN TO BE WEALTHY IN EVERY IMPORTANT WAY

I'm hoping that money is not the most important thing in your life.

Nevertheless, material wealth *does* matter. It gives you the ability to help your friends, provide for your family, pursue intellectual and artistic interests, and become an inspirational role model for members of your community.

Plus, if you don't have an income sufficient to meet your needs, you'll spend a good deal of time fretting about it—and when you spend time fretting about money, you can't enjoy the things you truly care about.

This is a truth that more and more baby boomers (including a few of my friends and family members) have recently discovered. Stumbling into middle age with lifetimes of educational, social, and recreational experiences, yesterday's hippies are hitting their 50s with the depressing realization that they are working harder than ever to maintain a lifestyle that is not much better than the one they had in college.

I've had the good fortune to be able to help dozens of such people work themselves out of this sort of bog, regain solid ground, and go on to achieve financial independence. It took some time and it wasn't always easy, but it always began with a revelation—a revelation that was especially bracing for some of the smartest of them—that becoming financially independent is a good thing, something all good people should aspire to.

Having enough money can liberate you from a thankless job, free you to follow dreams, and allow you to take care of your loved ones.

That's the reason you're reading this book.

But never forget that the desire for money can also corrupt you. If, in pursuing wealth, you begin to believe that the accumulation of money is an end in itself—well, that's a bad thing.

This book will help you make money. And if you follow my suggestions faithfully for a reasonable period of time, you'll some day—probably sooner than any of your friends or colleagues—discover that you are wealthy.

But when that day comes, I'm hoping the greed bug will not have infected you. I hope you won't have become addicted to the idea of making the money pile grow. I hope you won't have forgotten what you know now—that there are many things more important than money. (We'll talk much more about this in Step 3.)

FOLLOW POPULAR FINANCIAL GURUS AND STAY POOR

You won't find anything in this book that will give you instant wealth. I have no advice about making a fortune through buying hot stocks, day trading, or playing the lottery. But you don't want that kind of money anyway. Studies show that people who get rich rapidly blow it all quickly on things that have no lasting value.

My six-step wealth-building program is fast—realistically fast. Depending on your age, skills, and current income, I'll get you from where you are today to wealthy in 7 to 15 years. That's not tomorrow, but it's a lot better than you'll do by following most of the financial advice that's out there. Open a magazine or turn on the TV and you'll see that the majority of it falls into the category of financial planning, that is, ways to scrimp and save. Advisers who promote this concept assume you need to crawl toward retirement, clutching pennies until your fingers turn green.

But what about the quality of your life in the meantime? And when you're living paycheck to paycheck, how do you wring a nickel out of your budget for retirement, much less the $5 or $10 *per day* that these financial gurus recommend?

Getting wealthy is not a matter of scrimping and cutting corners. To make a lot of money, you must spend most of your working time doing the things I'm going to tell you about in this book—things that generate extra cash now that you can use to generate *automatic* streams of income in the near future. Yes, it is important to be careful about the way you spend your money—but if that's the main part of your wealth-building program, you probably won't get rich. And even if you do, you won't feel rich.

The problem is, most of those doing the preaching—those who would convince you that they understand wealth and can teach you how to get it—have never actually made significant money by following their own recommendations. Their great moneymaking skill is in selling people on buying their ideas.

During my years as an insider in the world of investment publishing, I saw

- Financial planning experts who were broke
- Stock gurus who never followed their own advice

- Brokers who talked about their clients with contempt
- Marketers who never checked their facts
- Business consultants whose businesses hardly worked
- Get-wealthy authors who made their money by talking about making money, not by actually earning it in business

Though it's true that some of my wealth has come from teaching others how to attain it, the vast majority is the result of my actual experience working in the trenches, learning from my mistakes, and capitalizing on my successes.

WHY THE POPULAR GET-RICH-SLOWLY-BY-SAVING IDEA (PROBABLY) WON'T WORK FOR YOU

There is good reason to be skeptical of the get-rich-slowly-by-saving doctrine—mainly that it is useful only for those with a lot of working years ahead of them. In *The Millionaire Next Door* (Longstreet, 1996), for example, most of the millionaires Thomas Stanley studied were ordinary working people who diligently saved for 35 or 40 years—a full lifetime of working.

Likewise, in *The Automatic Millionaire* (Broadway, 2003), David Bach often uses 35 and 40 years to calculate the power of compounded interest:

> *Let's say that tomorrow you started having 10 percent of your gross income, before taxes, automatically taken out of your paycheck and put in a pretax retirement account. As a result of that simple, automatic process, you would eventually accumulate more wealth than 90 percent of the population. . . . Let's use the example of someone who makes $50,000 a year. If that's your annual salary and you took 10 percent out of each paycheck before the government got its bite, by the end of the year you'd have put aside $5,000. Now . . . [if you put that] in a retirement account that earned an annual return of 10 percent, what would you have? The answer is that you would have more than 1 million dollars. Actually, a lot more. The exact figure is $1,678,293.*

There is nothing inaccurate about Bach's calculation. In fact, the amazing power of compounding is even more startling when it is applied to

(*continues*)

people with more years ahead of them. I'm speaking about children here. In his Seeds of Wealth program, Justin Ford makes this point very powerfully:

> *If your children average just over $1 a day in savings through the pre-teen years and a little more than $2 a day through the age of 21, they can end up with anywhere from $335,854 (at 13.2% returns) to $855,279 (at 18.8% returns) a generation from now.*
>
> *What's more, as they continue practicing those lifelong good money habits, it's very possible they can achieve a fortune in the millions of dollars during their 30s or 40s—even if they never make a great deal of money in their chosen careers. And while your child is quietly and methodically securing his or her financial future, he or she will be mastering life-long money skills that will enable them to further grow that nest egg into over a million by age 38 . . . and between $9 million and $10 million by the time they're ready to retire at 55!*

When you have so much time to save, you can easily acquire great wealth by being frugal. Stanley's millionaires live in 40-year-old homes, have their shoes resoled, get their furniture reupholstered, use a shopping list when they buy groceries, and buy household supplies at bulk warehouses.

This sort of lifestyle—this commitment to saving—is exactly how David Bach believes wealth can and should be accumulated. He calls it the *latte factor:*

> *One day . . . in an investment course I was teaching, a young woman . . . raised her hand and said, "Your ideas are good in theory . . . but in reality it's impossible . . . to save. . . . I'm living paycheck to paycheck. . . . How can I possibly save five to 10 dollars a day?" With just about everyone else in the class nodding in agreement, I threw out my lesson plan and decided to devote the rest of the time we had left to answering [her] question.*

Bach questioned the young lady on her daily spending habits and discovered that she spent $3.50 a day for a nonfat latte, another $1.50 for a nonfat muffin, $4.45 for an afternoon protein drink, and $1.75 for a power bar. That gave her a total daily snack budget of $11.20.

> *Let's say . . . that today . . . you started to save five dollars a day . . . in a retirement account . . . that equals $150 a month, or almost $2,000 a year.*

> *Figuring, say, a 10 percent annual return, which is what the stock market has averaged over the last 50 years, how much do you think you could save by the time you're 65?*

The answer was, again, over a million dollars. But the young lady with the question was 23 years old. That's 42 years of savings.

Again, there is nothing inaccurate about this argument. But, chances are, you're not 23 years old. My guess is that very few 23-year-olds will be reading this book. If you are one of them, and if you take my advice seriously, congratulate yourself. You'll be richer than Midas well before you are 65. But if, as is more likely, you can't (or don't want to) work full-time another 30 or 40 years, my Automatic Wealth program is a much more realistic approach for you to take.

HOW MUCH WEALTH DO YOU NEED?

Most books on the subject of wealth answer this important question in terms of a concept called *retirement*. And in today's world, you need a lot of money to retire well. Even people who had their retirement money safely tucked away in the stock market and thought they could look forward to a secure future are now in trouble.

Take Martha Parry, for example. The New York woman sold her insurance company and thought she had it made. According to a *Time* magazine cover story, she had $1 million in the stock market and was looking forward to a retirement of golf, travel, and good times.

Then the stock market crashed. And now, at 65, she has only $600,000 in her retirement account. And instead of playing golf and traveling, she's still at the office earning her living. And she's one of the *lucky* ones.

Another woman that I read about had to be put on medication for severe depression because a year after being downsized from her job, she learned her nest egg had plummeted from $1 million to $250,000.

And many victims of the stock market crash have been left in even worse shape.

Tim and Kay Plumlee saw their retirement fund plunge to a mere $60,000 after a broker recommended they put their life savings into a variable annuity—an investment that *seemed* like a profitable, risk-free opportunity at the time.

In a few year's time, people saw their life savings slashed by a quarter to a half—some lost much more. And despite the recent market rally, the fall of the dollar, the exportation of jobs to India and China, and the cost of the war on terrorism are likely to keep the 79 million Americans who call themselves baby boomers in jeopardy.

FINANCIAL SECURITY IS A BABY BOOMER PROBLEM . . . AND IT'S GOING TO GET WORSE FOR MOST

Like Martha Parry and the Plumlees, aging baby boomers all over America are realizing that there is very little chance that they will be able to retire at 55 or 65. A recent *USA Today* survey revealed that 35 percent of American workers over 55 admit that they are not financially prepared to do so.

How poorly prepared are they? Another study showed that 40 percent have an investable net worth of less than \$50,000, 60 percent have less than \$100,000, and 80 percent have less than \$250,000.

If you figure on making 10 percent on your money, this means fewer than one out of five Americans who are nearing retirement age have the wherewithal to enjoy a passive retirement income of more than \$25,000.

How well could you live on \$25,000 a year?

Let's see. First we must deduct taxes (national, state, and local). Then we have to consider the erosive effect of inflation. What you end up with is a take-home income of less than \$1,500 a month—barely enough to keep you in a cheap, two-bedroom apartment.

Most baby boomers are going to get poorer as they get older. Not only will their earning power decrease, taxes will likely go up. Add to that the probability of rising inflation, a significant stock market deflation, a flattening of real estate prices, and increased medical costs . . .

WHAT ABOUT SOCIAL SECURITY?

If you are thinking that Uncle Sam will step in to take care of you in your golden years, you're going to be bitterly disappointed. Uncle

Sam is trillions of dollars in debt, and Social Security and Medicare are going broke. Here's why . . .

Until now, the amount of money drawn into the Treasury from Social Security taxes (withheld from your pay as FICA and Medicare) has exceeded the outgoing payments made by the Social Security Administration (SSA) for these programs. But by 2017, the SSA will be paying out more in benefits than it collects.

In their 2003 Trustees Report, the SSA itself said, "If Social Security is not changed, payroll taxes will have to be increased or massive transfers from general revenues will be required."

Neither of these things is likely to happen. Young people won't allow their payroll taxes to be increased for the benefit of baby boomers who squandered the funds while they were running the government. Additionally, there are so many boomers retiring (as compared with the number of people who are working) that any tax increase would have to be enormous to have any real effect. And there are certainly no surpluses to be found in general revenues these days.

Something has to give.

The first cuts will be subtle. Cost of living adjustments (COLAs) will disappear. Then benefits will have to be cut. If not, the debt will become so large that the government will need to inflate our currency—which will result in a devalued dollar and diminished purchasing power. Either way, you'll end up with less.

And the outlook is even worse for Medicare. The *Annals of Internal Medicine* recently reported that older Americans with health problems are getting the care they need just 52 percent of the time. Can you imagine what will happen when Medicare starts paring back because of dwindling resources? In addition, we're living an average of 10 years longer than in the 1940s, and the costs of health care continue to increase with no real end in sight.

The future of Uncle Sam's retirement program looks grim. Very grim.

But your future doesn't have to be. You can separate yourself from the crowd of baby boomers who are following their Pied Piper financial leaders into the river of personal debt and misery. With my Automatic Wealth program, you can create your own retirement plan—a personal, financial reparation project that will take you from wherever you are now to relative wealth and comfort in 7 to 15 years.

You can live out the second half of your life in ease and comfort . . . but not if you are counting on the government. Take charge of your future now by following the recommendations in this book, and you'll never have to rely on anyone else, now or in the future, to take care of your needs.

WHERE DO YOU STAND RIGHT NOW?

Before I can help you lay out your wealth-building course of action—before we can come up with a plan to get you where you want to go—we need to know how much you are worth right now.

So let's figure it out.

Get a pad of paper and a pen and make a list of all your assets. By that I mean stocks, bonds, precious metals, money in individual retirement accounts (IRAs), certificates of deposit (CDs), savings accounts, and so on. You can also include the value (the true, current, salable value—don't fool yourself) of any valuable possessions you own, such as jewelry, art or antiques.

Now I'm going to give you an instruction that will contradict what you'll hear from just about every financial planner: In tallying your assets, do *not* include the value of your home, your car, or any possessions you know you'll never part with.

Although these are, indeed, valuable assets, they are assets you will almost certainly want to keep during your retirement years. This is especially true if you are able to achieve financial independence while you still have children at home. If you will be retiring after your children are grown and out on their own, you might very well choose to sell your house and get a less expensive one—but maybe you won't want to. And I believe in keeping what you have for as long as you wish. (If you follow my six steps to automatic wealth, you'll be able to do that.)

Okay, let's finish figuring out your net worth . . .

Now that you have a list of your assets, make another list of your liabilities, including credit card debt, personal loans, business debts, and so on.

Subtract your liabilities from your assets and you'll have your net worth.

If your personal net worth is less than $300,000, you probably don't have enough money to retire on. Pure and simple. Unless you intend to work till the day you die (which is something you might choose to do even if you don't have to—an idea that we'll explore later), you are going to need more than $300,000 tucked away in income-producing investments to live a decent lifestyle in retirement.

DO YOU HAVE ENOUGH TO RETIRE COMFORTABLY?

Your primary goal in terms of becoming financially independent is to accumulate enough capital to generate a passive income sufficient to pay for your basic bills—housing, food, utilities, education, and entertainment.

Passive income means income that you don't have to spend 40 hours a week generating. And you may already have some in the form of revenue generated by your investments in stocks, bonds, and so on. But in this book, you're going to learn how to generate far more passive income—enough to live on.

How much more do you need?

To get that answer, you have to know how many pretax dollars you will need to live comfortably—how much you'll need, per year, to cover housing, food, and utilities. So calculate that now (and be sure to add in the money you'll want to spend on travel, education, and leisure activities).

Once you've done that, the next step is pretty easy.

Simply multiply the pretax income that you're going to need by 10 (the average percentage of interest that you can reasonably expect to earn on your investments—the average that the stock market has historically returned is 10.4 percent, according to Ibbotson Associates) and then subtract that number from your current net worth. That will give you a quick estimate of how much more money you will need to add to your net worth before you can possibly retire.

"Social Security payments will probably exist in some form during retirement and you should include the benefits as a modest proportion of your retirement income. These are entitlements that will be available but the actual value is likely to diminish over time. Pension payments and Social Security are a realistic part of your income when you

VARIATIONS ON THE TAXABLE NATURE OF EARNED INCOME

The tax code provides for so many variations on the taxable nature of income, especially earned income, that we can only make an estimate of how much might be lost to the tax collector. Rules will change over the next 20 years. But remember, income from municipal bonds and distributions from Roth IRAs are tax free. Qualified stock dividends are now in a lower bracket.

A rough but easy way to estimate the required pretax income to support your lifestyle is to assume that your tax obligation will be approximately 20 percent to 25 percent of your income. That should still be true even if you are in a high-income-tax state. (If you think your taxable retirement income will be more than $200,000, then you could use an estimate of 25 percent to 28 percent.) To determine your expected gross income (pretax), take the estimate that you just made of what your lifestyle will cost and divide it by (100 – tax rate). For example, if you estimated your after-tax income needs to be $50,000, then $50,000 divided by .80 (100 – .20) would give you a ballpark estimate of a pretax income of $62,500.

qualify, but they cannot be the leverage which gives you financial freedom. If you have an average life span or longer, the actual purchasing power will be less than you will expect."

For example, let's say you've figured out that the lifestyle you envision for yourself in retirement will cost you $65,000 in post-tax dollars. That means you will need a pretax income of $90,000. And let's assume that your current net worth is $400,000. Ten times $90,000 is $900,000, and $900,000 less $400,000 leaves half a million dollars—which is the amount you'll need to sock away in investments generating 10 percent interest between now and the time you want to retire.

In this example, I'm assuming that you will spend, in retirement, only your interest income. If you manage to do this—and many wealthy people do—you'll end up with a significant estate to leave to a charity or your loved ones. You could figure out a way to spend part of your capital as well as the interest as you age. This is a more complicated calculation, but it does allow you to go into retirement mode with less money in the bank.

PROFILE OF THE TYPICAL AMERICAN MILLIONAIRE

Although there is considerable variation among the 4 million Americans who can call themselves millionaires, they are typically white, male, middle-aged, and . . .

- Made their money, rather than inherited it
- Have between $1 million and $5 million in net worth (with median net worth at $1.6 million)
- Made their money by running their own businesses
- Live frugally by clipping coupons, driving older cars, and so on
- Managed to save on surprisingly moderate, median-level incomes averaging $131,000 per year

Having a personal net worth of 10 times the amount you need to live on is, by almost any definition, comfortable. It means that if you live frugally and no emergencies come up, you can consider yourself to be pretty much financially independent. But that 10-times figure is based on the assumption that you put all your money in the stock market and that the stock market, as overvalued as it seems to be, continues to produce its historic ROI of about 10 percent.

If you are more conservative when it comes to personal economics and would like to see about half your money in bonds, you will need a net worth of at least 12 times the amount you need to live on. Again, that's assuming the stock market will produce an average return of 10 percent in the future and that bonds will give you their historic yields of 4 percent after taxes or 6 percent before.

If you are conservative and feel a bit gloomy about the future of the stock market, you'll have to raise that factor even more. If you think, for example, that you'll live another 30 years and believe that the market will average a mere 8 percent ROI, you'll need a multiple of 13 to consider yourself comfortably well off.

Let's look at another example.

Let's say you need only $40,000 to live a happy life in retirement. You've figured out that you would be comfortable with a posttax income of $35,000 and you know, from your Social Security files, that you can expect $1,500 a month from the government, which comes to $18,000 a year. Subtracted from $35,000, this gives you a requirement of just $22,000. At a multiple of 10, you would be financially independent when your net savings hit $220,000.

WHAT IS RICH?

From Jeanne Sahadi, *CNN/Money* Senior Writer:

1. To Blanche Lark Christerson, director of the Wealth Planning Group at Deutsche Bank, rich 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, Christensen 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.)
2. To certified financial planner Jon Duncan, it's $7.5 million. Duncan is making the same assumptions as Christerson in terms of kids and lifespan, but he thinks it takes only about $200,000 a year to live rich. And because the stock market has historically yielded about 10 percent, he expects you'll get a much better return on your savings.

If you know you'll want your retirement funds in both stocks and bonds and accept my projection that such a portfolio would earn an average of 8 percent ROI, then the multiple you'd be using would be 12 and the amount you'd have to put into savings would be 12 times 22, or $264,000.

Again, this example assumes that you wouldn't spend any of the principal amount of your savings. If you did spend it—say, by spending $5,000 a year of your principal once you hit age 70—the amount you'd need to put aside would be significantly less.

HOW DO YOU PICTURE YOUR LIFE IN RETIREMENT?

Retirement, you may be surprised to learn, is a relatively recent idea. It was invented after World War II to keep the Silent Generation busily working away in the factories. The promise was: Work hard now, save your pennies, and retire in Florida.

It worked for some, but for most, retirement proved to be a cruel joke—enduring a meager life, living in a rented room, wearing old clothes, eating crummy food, and watching endless television.

Not only sordid, but boring.

Yes, you need money to retire comfortably—which is why the main point of *Automatic Wealth* is to help you formulate a plan to allow you to become financially independent and have the option to retire in luxury. But you need more than that. Even in retirement, you still need to fill your days with meaningful activity. And that's why, throughout this book, I'm going to argue that you should change the way you think about retirement. That instead of endless days of golf and tennis and hanging out, you may want to think of retirement as a time when you can achieve happiness by working at something you value.

Why You May Not Want to Stop Working . . . Even If You Can

I used to have very conventional views/feelings/ideas about work and retirement. I used to think of work as something dull and difficult that I needed to do to earn a living. I dreamed about the day I could stop.

And for at least the first 10 or 12 years of my working life, I worked like a dog and hated every minute of it. Then, one day, it occurred to me that my life was speeding up and would be gone before I knew it. The good parts of my life—time I had been spending with friends and family—were few and far between. The bad part of my life—working—was crowding everything out. I wanted to slow down and stop, but when I ran the numbers, I realized I couldn't. I needed to pay for the ongoing bills of a growing family and wanted, too, to save enough for the future.

I was stuck between a rock and a hard place.

But then the thought occurred to me: What if I learned to love my work? What if I actually enjoyed the 10 or 12 hours I was spending every day earning money? Wouldn't that be nice?

(*continues*)

I knew I had the capacity to enjoy work. I had passed so many hours as a kid working on all my hobbies—building things, planning events, inventing things. What if I could somehow change my job into something I liked?

It didn't happen overnight, but it did happen.

I'm going to be talking about that process—learning to love your job or finding a job you love—in this book. I'm also going to suggest that the sooner you do that, the sooner you'll realize that your ideal retirement will include not only plenty of leisure, but some very enjoyable work, too.

But for now, please consider this proposition: Happiness comes when you are busy doing something you care about. When you are doing something you care about, happiness surprises you.

If that statement seems reasonable to you, perhaps you'll agree that the secret to a great retirement is to figure out how to get paid for doing work you would gladly do for free and to be able to do that work when and where you want to.

Not because you *have to* work but because you *want to* work.

Name Your Dream . . . Pick Your Price

Somewhere in your past is a buried profession—something you long ago gave up on. What if you could reprise that dream?

- I know a man whose dream was to be a professional pilot. After working 30 years in a wallpaper business, he took my advice and got himself a job flying part-time for a small airline. A few years later, he became a part owner.
- My dad gave up a promising career in show business to become a teacher. Fifty years later, he went back into the acting business and became a professional actor.
- I met a guy who trades cigarette lighters online. This happens to be something he always planned to do once he stopped working. By taking advantage of eBay, he is already making more than $30,000 a year doing it just on weekends.
- You can become an Internet copywriter, an Internet editor, an Internet travel agent, or an Internet teacher, for example. You can make money giving marriage or dating advice on the Internet.

In Step 4 and Step 5 of this book, we'll look at many ways that you can convert your passions/hobbies/interests into solid, *automatic* streams of income.

For the moment, however, think about this. There is an old axiom in the success business that says that the secret to a good life is coming up with the right answers to the following three questions:

1. What do you want to do?
2. Where do you want to do it?
3. Whom do you want to do it with?

So ask yourself these questions about your retirement:

1. What work would I really enjoy doing for the rest of my life?
2. Where is my ideal retirement paradise? How can I live there and do what I want to do, too?
3. Do I want to work alone or with a partner? If with a partner, who?

If you follow the six steps recommended in this book, you will soon have several sources of *automatic* income. You will no longer be dependent on the job you have now. And you will see yourself becoming wealthier—and closer to financial independence—with each passing month.

As that process occurs, you'll be able to tune up your working life, running your own businesses, delegating all the tasks that you don't like and replacing them with work you enjoy. At some point in time—and it may happen very soon, but will certainly happen in 7 to 15 years—you'll realize that you pretty much can do whatever you want to do. Your days will be good days, filled with work that makes you feel good.

At that point, your new life of retirement will be a reality. But my guess is that though you'll have sufficient passive income to live on, you'll be reluctant to give up work entirely because it will be a major source of pleasure for you.

That will be a happy time. Your major challenge will be to decide how many hours of fun you want to get from working and how many hours of fun you want to get from your other activities. You may be surprised to find that you'll want to work more hours than you think you want to work right now.

But that will be a good thing, won't it?

NOW IS THE RIGHT TIME TO ACT

At the beginning of this chapter, I told you about the day I decided to get rich. Now it's your turn to do the same thing—and start to make it happen.

If you are not financially independent yet, I can put you on the right path—if you can commit yourself to the plan laid out in the pages that follow. Can you do that? Good.

Then I have one question for you: When are you going to start? Next month? Next week? When you get through reading this book?

The correct answer is "none of the above."

There is only one time to begin an important journey. And that is immediately. You don't have to invest in a stock today or buy a piece of property tomorrow, but you do have to do something that will get you going. And in Step 2, I'll tell you exactly what that is.

But before I do, let's talk about why it's so important to act immediately.

Because now is the best time ever to build wealth.

Why? Because now is always the best time.

Now is always the best time to start anything. Results take time, and time is a limited resource. The sooner you begin, the faster you'll get where you want to go.

This is universally true, but it's especially true when the goal is to build wealth. You can't control the economy. You can't predict the markets. You can't ultimately protect yourself from disaster. But you can make yourself richer tomorrow than you are today.

There's always something you can do. Work an extra hour in the morning. Work another extra hour before you go home at night. Sell an extra widget. Start a partnership. Cook up a moneymaking idea.

Remember, every dollar you earn today is more valuable than a dollar you earn tomorrow—because of the value of compound interest. And every financially valuable secret you learn today is more valuable than it would be if you learned it tomorrow—because of the value of compound knowledge.

Be cognizant of the times we live in—the slowing economy, the burgeoning debt—but be equally aware of the passing of time. Every day that passes is 24 hours of opportunity you won't have again. Why not put a bit of that time to work for you right now?

READY . . . FIRE . . . AIM

Ready . . . Fire . . . Aim. That's the way I've operated in my career.

Why not "ready, aim, fire"? Because if you're ready to make something happen and you spend too much time trying to get things right (aiming) before you take action (fire), you'll lose the momentum that is driving you. You can always go back and do some fine-tuning later.

In business, implementing a second-best idea now is often a better strategy than waiting a week or a month or a year to come up with the perfect idea. Because the right decision made too late is sometimes worse than no decision at all.

Almost all of the successful entrepreneurs I know have an instinct for moving quickly—and that includes the way they make decisions. Although they often understand the importance of consultation, study, and contemplation, their natural tendency is to make the decision quickly and move on it.

That is a good instinct to have.

Success comes from experience. You make some mistakes. You have some triumphs. You learn from all of them. The secret to advancing quickly—whether your goal is to implement a new business idea or build your personal wealth—is to accelerate the learning process. And that means Ready, Fire, Aim.

How Larry, Eddie, and I Became Entrepreneurs

I'll tell you a story that illustrates the Ready, Fire, Aim approach.

Before my freshman year of college, I got a job with a company in Brooklyn that installed aboveground pools. I worked 12 hours a day and was paid about $6 an hour for my labor, which was at the time a princely sum.

After that summer of hard work and big earnings, I began classes, working evenings and weekends at a minimum-wage job to pay my expenses. I was living on my own, paying my own way, and proud of it. When the next summer approached, I toyed with the idea of going back to work for the pool company, but I had this idea of starting my own business.

"If we could install pools on our own," I told my friends Larry and Eddie, "we could probably make ten bucks an hour apiece. We'd be rich in no time," I assured them.

I had this conversation with them about a half dozen times that spring. Practically every time we were together and beer was available to fuel the speculative mind, the subject occurred to me.

Had I been talking to almost any of my other friends, nothing would have come of it. I would have gone back to work for the pool company at $6 an hour, and Larry and Eddie would have continued flipping hamburgers down at Harry's on Park Avenue. But Larry and Eddie had a spark between them. The fairy tale I had conjured up for them lit a fire in their minds. They decided that they were tired of burgers and minimum wage.

"Who would we have to talk to about setting up our own company?" they asked me. I didn't have a clue.

"Maybe you should talk to your dad," I told Eddie. "He teaches business administration, doesn't he?"

And so Eddie talked to his dad. And his dad told him that we would need to form a corporation and have a partnership agreement and set up an office and all of that. "But the most important thing you need to do," he wisely counseled, "is get your first customer."

There is no smarter advice when it comes to starting a business. And so that is exactly what Larry and Eddie did. They looked up pool sales companies in the phone book and began calling them and asking them if they needed any new service companies to build their pools for them.

"We don't build our own pools," they were told by three of the companies they called. "We don't want to get involved in all the complaints and hassles. If you say you can build pools and you can prove that to us, we'll recommend you to our customers."

And those three responses were enough to get the process moving.

When Larry called to tell me we had an appointment with one of these companies to install a sample pool in the display lot, I was both impressed and frightened. Impressed that Larry and Eddie had the get-up-and-go to make the phone calls and persuade these guys to give us a chance. And frightened because I suddenly realized that although I had worked on a pool-building crew for three months, from dawn till dusk, I had never been the foreman.

"But I'm not sure I know everything there is to know about building pools," I sheepishly admitted to Larry one afternoon between racks at Bill's Cue Club.

"But I thought you said . . ."

"But I didn't say I was an expert. And this may be a different kind of pool. And I was working with experienced guys. You guys don't know squat."

"So what?" Larry said. "So we aren't exactly perfect. Let's give it a try and see what happens. What's the worst thing that could happen? The pool will cave in, they'll tell us to take a hike, and we'll be right back where we started."

Larry's simple logic was rock solid and irrefutable. I could do nothing but agree.

I remember our trial job like it happened yesterday. It was an 18-foot-round, a baby pool that we would eventually be able to throw up in less than an hour. We arrived at the pool company with our toolboxes and smiles on our faces at 7 A.M. on a Saturday. By 6 P.M. we were still working.

Yes, the worst had happened. The pool collapsed not once but three times. Each time, we gathered around it like Kubrick's apes around the monolith in *2001: A Space Odyssey* and stared at it. What did we do wrong? What could we do differently next time? Luckily for us, the falling down didn't ruin the pool. Lucky, too, the owner of the company was gone most of the day at meetings.

By the time he finally returned, the sun had set and we were cleaning up the worksite. A perfectly constructed 18-foot-round pool was up and shining—and it had taken us only 12 times longer than it should have.

There was some fast talking to be done to keep him from ripping up our freshly printed business cards. He eyed us suspiciously, but told us he'd try us out on one customer to see if we could do a good job "in a real combat situation."

That's the phrase he used: "real combat situation."

Well, he was as good as his word, and we put up that second pool in a mere six hours . . . and the next one in three . . .

IT'S NEVER TOO LATE TO CHANGE YOUR LIFE

Henry Flagler was 70 when he fell in love with Florida. In the 15-year period of his retirement there, he built a railroad from Jacksonville to Key West, created three major cities, founded universities, and built world-class hotels.

and so it went. Eventually, we had a crew of 10 guys working for us, and we were each making not the $10 an hour I had predicted but $30 an hour, working nonstop for weeks at a time and raking in so much money we didn't know what to do with it.

I left the pool business the next year, but Eddie and Larry went forward with it. It became a lifetime business for Larry and his wife, giving them a very good living and providing their community with a very high quality of service for many years.

In the year I was a part of it, it paid for three years' worth of college tuition, a paint job for my parent's house, and a new pool cue and sneakers. Maybe there were other things. But those are the ones I remember.

Ready Yourself to Take Action Now . . . and Then Fire—
There Will Be Plenty of Time to Aim Later

Are you ready to fire away at a new life of wealth building and financial independence? Are you willing to start today?

Turn the page, and I'll tell you what to do next.