

RULE 1

Spend Like You Want to Grow Rich

I wasn't rich as a 30-year-old. Yet if I wanted to, I could have leased a Porsche, borrowed loads of money for an expensive, flashy home, and taken five-star holidays around the world. I would have looked rich, but instead, I would have been living on an umbilical cord of bank loans and credit cards. Things aren't always what they appear to be.

In 2004, I was tutoring an American boy in Singapore. His mom dropped him off at my house every Saturday. She drove the latest Jaguar, which in Singapore would have cost well over \$250,000 (cars in Singapore are very expensive). They lived in a huge house, and she wore an elegant Rolex watch. I thought they were rich.

After a series of tutoring sessions the woman gave me a check. Smiling, she gushed about her family's latest overseas holiday and expressed how happy she was that I was helping her son.

The check she wrote was for \$150. Climbing on my bicycle after she left, I pedaled down the street and deposited the check in the bank.

But here's the thing: the check bounced—she didn't have enough money in her account. This could, of course, happen to anyone. With this family, however, it happened with as much regularity as a Kathmandu power outage. Dreading the phone calls where she would implore me to wait a week before cashing the latest check finally took its toll. I eventually told her that I wouldn't be able to tutor her son anymore.

Was this supposed to be happening? After all, this woman had to be rich. She drove a Jaguar. She lived in a massive house. She wore a Rolex. Her husband was an investment banker. He should have been doing the backstroke in the pools of money he made.

It dawned on me that she might not have been rich at all. Just because someone collects a large paycheck and lives like Persian royalty doesn't necessarily mean he or she is rich.

The Hippocratic Rule of Wealth

If we're interested in building wealth, we should all make a pledge to ourselves much like a doctor's Hippocratic oath: above all, DO NO HARM. We're living in an era of instant gratification. If we want to communicate with someone half a world away, we can do that immediately with a text message or a phone call. If we want to purchase something and have it delivered to our door, it's possible to do that with a smartphone and a credit-card number—even if we don't have the money to pay for it.

Just like that seemingly wealthy American family in Singapore, it's easy to sabotage our future by blowing money we don't even have. The story of living beyond one's means can be heard around the world.

To stay out of harm's way financially, we need to build assets, not debts. One of the surest ways to build wealth over a lifetime is to spend far less than you make and intelligently invest the difference. But too many people hurt their financial health by failing to differentiate between their "wants" and their "needs."

Many of us know people who landed great jobs right out of college and started down a path of hyperconsumption. It usually began innocently. Perhaps, with their handy credit cards they bought a new dining room table. But then their plates and cutlery didn't match so they felt the pull to upgrade.

Then there's the couch, which now doesn't jibe with the fine dining room table. Thank God for Visa—time for a sofa upgrade. It doesn't take long, however, before our friends notice that the carpet doesn't match the new couch, so they

scour advertisements for a deal on a Persian beauty. Next, they're dreaming about a new entertainment system, then a home renovation, followed by the well-deserved trip to Hawaii.

Rather than living the American Dream, they're stuck in a mythological Greek nightmare. Zeus punished Sisyphus by forcing him to continually roll a boulder up a mountain. It then rolled back down every time it neared the summit. Many consumers face the same relentless treadmill with their consumption habits. When they get close to paying off their debts, they reward themselves by adding weight to their Sisyphean stone. It knocks them back to the base of their own daunting mountain.

Buying something after saving for it (instead of buying it with a credit card) is so 1950s—at least, that's how many consumers see it. As a result, the twenty-first century has brought mountains of personal debt that often gets pushed under the rug.

Before we learn to invest to build wealth, we have to learn how to save. If we want to grow rich on a middle-class salary, we can't be average. We have to sidestep the consumption habits to which so many others have fallen victim.

The US Federal Reserve compiles annual credit card debt levels. Cardhub.com publishes those results. In 2015, the average US household owed \$7,879 in outstanding credit card debt.¹ In 2015, *MarketWatch* news editor Quentin Fottrell reported that 15.4 percent of US homeowners have mortgage debt that is higher than their homes are actually worth.² That's surprising, considering that the United States may be the fourth cheapest place to buy a home in the world.

Numbeo.com compares global home costs relative to income. In 2016, it compared 102 countries. US homes were among the four cheapest. Only those in South Africa, Oman, and Saudi Arabia cost less, relative to income.³

Now here's where things get interesting. You might assume it's mostly low-salaried workers who overextend themselves. But that isn't true.

The late US author and wealth researcher, Thomas Stanley, had been surveying America's affluent since 1973. He found that most US homes valued at a million dollars or more (as of 2009) were not owned by millionaires. Instead, the majority of million-dollar homes were owned by nonmillionaires with

large mortgages and very expensive tastes.⁴ In sharp contrast, 90 percent of millionaires lived in homes valued at less than a million dollars.⁵

If there were such a thing as a financial Hippocratic oath, self-induced malpractice would be rampant. It's fine to spend extravagantly if you're truly wealthy. But regardless of how high people's salaries are, if they can't live well without their job, then they aren't truly rich.

How Would I Define Wealth?

It's important to make the distinction between real wealth and a wealthy pretense so that you don't get sucked into a lifestyle led by the wealthy pretenders of the world. Wealth itself is always relative. But for people to be considered wealthy, they should meet the following two criteria:

1. They should have enough money to never have to work again, if that's their choice.
2. They should have investments, a pension, or a trust fund that can provide them with twice the level of their country's median household income over a lifetime.

According to the US Census Bureau, the median US household income in 2014 was \$53,657.⁶ Based on my definition of wealth, if an American's investments can annually generate twice that amount (\$107,314 or more), then that person is rich.

Earning double the median household in your home country—without having to work—is a dream worth attaining.

How Do Investments Generate Enough Cash?

Because this book will focus on building investments using the stock and bond markets, let's use a relative example. If John builds an investment portfolio of \$2.5 million, then he could feasibly sell 4 percent of that portfolio each year, equating to roughly \$100,000 annually, and never run out of money. (See,

“Retiring Early Using The 4 Percent Rule.”) If his investments are able to continue growing by 6 to 7 percent a year, he could likely afford, over time, to sell slightly more of his investment portfolio each year to cover the rising costs of living.

Retiring Early Using The 4 Percent Rule

Billy and Akaisha Kaderli retired when they were just 38 years old. They have been retired for more than 25 years. They live off their investments. In fact, they have pulled more money out of their investment portfolio than their portfolio was worth when they first retired.

Does that mean they're almost broke? Not even close. Compound interest worked its magic. When they retired in 1991, they had \$500,000. Today, they have a lot more money. How did they do it? They live frugally, in low-cost locations. They also followed the 4 percent rule.

In 2010, Philip L. Cooley, Carl M. Hubbard and Daniel T. Walz published a research paper in the *Journal of Financial Planning*.⁷ They back-tested a variety of portfolio allocations between January 1926 and December 2009. They found that if investors withdrew an inflation-adjusted 4 percent per year, their money stood an excellent chance of lasting more than 30 years.

I wanted to see how it would have worked for Billy and Akaisha. They own an S&P 500 index. That means they invest the way that I describe in this book. They withdraw less than 4 percent from their investments in a year. But let's see what would have happened if they had taken out exactly 4 percent annually.

Over the past 25 years, their money would have kept growing. So if they took out 4 percent of their portfolio every year, they would have taken a total of \$1,325,394 from their initial \$500,000 portfolio. Yes, you read that right. They would also have plenty left. By April 30, 2016, despite those annual withdrawals, their portfolio would be valued at \$1,855,686.

Frugal living, compound interest, and the 4 percent rule are powerful combinations.⁸

If John were in this position, I would consider him wealthy. If he also owned a Ferrari and a million-dollar home, then I'd consider him extremely wealthy.

But if John had an investment portfolio of \$400,000, owned a million-dollar home with the help of a large mortgage, and

leased a Ferrari, then John wouldn't be rich—even if his take-home pay exceeded \$600,000 a year.

I'm not suggesting that we live like misers and save every penny we earn. I've tried that already (as I'll share with you) and it's not much fun. But if we want to grow rich we need a purposeful plan. Watching what we spend, so we can invest our money, is an important first step. If wealth building were a course that everyone took and if we were graded on it every year (even after high school), do you know who would fail? Professional basketball players.

Most National Basketball Association (NBA) players make millions of dollars a year. But are they rich? Most seem to be. But it's not how much money you make that counts: it's what you do with what you make. According to a 2008 *Toronto Star* article, a NBA Players' Association representative visiting the Toronto Raptors team once warned the players to temper their spending. He reminded them that 60 percent of retired NBA players go broke five years after they stop collecting their enormous NBA paychecks.⁹ How can that happen? Sadly, the average NBA basketball player has very little (if any) financial common sense. Why would he? High schools don't prepare us for the financial world.

By following the concepts of wealth in this book, you can work your way toward financial independence. With a strong commitment to the rules, you could even grow wealthy—truly wealthy. This starts by following the first of my nine wealth rules: spend like you want to be rich. By minimizing the purchases that you don't really need, you can maximize your money for investment purposes.

Of course, that's easier said than done when you see so many others purchasing things that you would like to have as well. Instead of looking where you think the grass is greener, admire your own yard, and compare it, if you must, to my father's old car. Doing so can build a foundation of wealth. Let me explain how it worked for me.

Can You See the Road When You're Driving?

Riding shotgun as a 15-year-old in my dad's 1975 Datsun, I thought we were traveling a bit fast. I leaned over to look

at the speedometer and noticed that it didn't work. "Dad," I asked, "how do you know how fast you're going if your speedometer doesn't work?"

My dad asked me to lift up the floor mat beneath my feet. "Fold it back," he grinned. There was a fist-sized hole in the floor beneath my feet, and I could see the rushing road below. "Who needs a speedometer when you can get a better feel for speed by looking at the road," he told me.

The following year, I turned 16. I bought my own car with cash that I had saved from working at a supermarket. It was a six-year-old 1980 Honda Civic. The speedometer worked, and best of all, there wasn't a draft at my feet. Because it was the nicest car in the family, I always felt like I was riding in style, which leads me to one of the greatest secrets of wealth building: your perceptions dictate your spending habits.

The surest way to grow rich over time is to start by spending a lot less than you make. If you can alter your perspective to be satisfied with what you have, then you won't be as tempted to blow your earnings. You'll be able to invest money over long periods of time, and thanks to the compounding miracles of the stock market, even middle-class wage earners eventually can amass sizable investment accounts. Thanks to my dad's car (which also leaked), I felt rich because I had a road-worthy steed that didn't leak from the roof and windows when it rained. Instead of comparing my car with those that were newer, faster, and cooler, I viewed my dad's car (which you could start with a screwdriver in the ignition slot) as the comparative benchmark.

Buddhists believe that "wanting" leads to suffering. In the case of the boy I tutored in Singapore, the family's insatiable appetite for fine things will only lead to pain. Their suffering will accelerate if the head of the family loses his job or wants to retire. It reminds me of a bumper sticker I once saw, parodying the infamous line of Snow White's dwarves: "I owe, I owe, it's off to work I go."

Why the Aspiring Rich Should Drive Rich People's Cars

If you want to improve your odds of growing rich, you don't have to drive a piece of junk. Where's the fun in that? How about driving the sort of car driven by the average US

millionaire? At first it might sound counterproductive to dole out many tens of thousands of dollars for a BMW, Mercedes-Benz, or Ferrari while expecting to grow rich. But most millionaires might surprise you with their taste in cars. In 2009, the median price paid for a car by US millionaires was US\$31,367.¹⁰ In 2016, they would have paid a bit more as a result of inflation. But one thing is clear. If you want to grow rich, forget about expensive European darlings such as BMW, Mercedes-Benz, and Jaguar. When Thomas Stanley polled US millionaires, the most popular brand of car was the humdrum Toyota.¹¹

Many of the wanna-be rich try to outdo their peers in the car-spending department, easily parting with \$40,000 and upward on a luxury vehicle. But how can you build wealth and reduce financial stress when you're paying far more for a car than an average millionaire? It's like trying to keep up with a pack of Olympic sprinters but giving them a 50-meter head start.

Image is nothing if you lose your job, can't make your car payments, or if you're stuck having to work until you're 80 years old.

If you want to keep pace with the millionaires, begin on the start line or give yourself the biggest lead you can. It doesn't make sense to spend more than most rich people do on a set of wheels.

Paying More for a Car than a Decamillionaire

In 2006, Warren Buffett, one of the three richest men in the world, bought the most expensive car he has ever owned: a \$55,000 Cadillac.¹² The average decamillionaire—a person with a net worth of more than \$10 million—paid \$41,997 for his or her latest car.¹³ If you find yourself at an upscale mall, check out the parking lot and you'll see many vehicles worth a lot more than \$41,997.

Many will be worth more than Warren Buffett's car. But how many of the car owners do you think have \$10 million or more? If your answer is "probably none," then you're catching on fast. Many have jeopardized their own pursuit of wealth or financial independence for the allusion of looking wealthy instead of being wealthy.

Whatever money you save on a car (not to mention the savings from interest payments if you can't buy the car outright) can go toward wealth-building investments.

Cars aren't investments. Unlike long-term assets such as real estate, stocks, and bonds, cars depreciate in value with each passing year.

One of the Savviest Guys I Ever Met—And His View on Buying Cars

When I was 20 years old, I took a summer job washing buses at a bus depot to pay for my college tuition. What I learned there from an insightful mechanic was more valuable than anything I learned at college. Russ Perry was a millionaire mechanic raising two kids as a single dad. His financial acumen was revered by the other mechanics. They told me, "Hey, if Russ ever wants to talk to you about money, make sure you listen."

We worked the night shift together, which wasn't particularly busy—especially on weekends—so we had plenty of time to talk.

My job was pretty simple. I washed buses, fueled them, and recorded their mileage at the end of the day. During my free moments at work I alternated between cringing and laughing out loud when Russ sermonized about money and people. Not everything Russ had to say was politically correct, but his crassness always had an element of truth to it.

Russ claimed he could tell how smart someone was by looking at what they drove. He couldn't figure out why anyone would pay a lot of money for something—such as a luxury car—that depreciated in value over time. And if they leased it, or borrowed money to buy it, he was really left scratching his head. Russ recommended investing in assets such as houses or stocks. They appreciate over time. But cars lose money every year.

"Andrew," he said, "If you can go through life without losing money on cars, you're going to have a huge advantage." He pointed to the guy across the parking lot. He worked in management. "You see that guy getting into that BMW?"

I had admired the car when I arrived at work that night. It was a beauty. “He bought that car two years ago, brand new,” Russ said. “But he has already lost \$17,000 on it from depreciation and loan-interest costs. And in about three years, he’s probably going to buy another one.” I wondered what the car would be worth in three years if it had already depreciated so much in just two.

“If you’re truly wealthy,” Russ explained, “then there’s nothing wrong with blowing money you can afford to lose on the odd luxury item. But if you’re trying to become wealthy,” Russ said in a serious tone, “and you make those kinds of purchases, you’ll never get there. Never.”

Russ turned conventional wisdom on its head. Most people expect to lose money on cars. But expecting it becomes a self-fulfilling prophecy. He told me that people don’t have to lose money on cars if they’re careful.

I expected that from someone both financially and mechanically inclined. My biggest question at the time was whether it could work for me. Mechanically, I’m as gifted as a blind Neanderthal with two left hands.

“When you buy a car,” Russ said, “think about the resale value.” The bulk of the depreciation on a new vehicle occurs in the first year. Russ recommended I never buy new cars, and only buy a car if someone else had covered the bulk of the depreciation.

The best resale value, he figured, came from Japanese cars. He said I should look for low-mileage models that had been fastidiously maintained with original paint, great tires, and a great interior.

If I paid the right price for a car and the bulk of the depreciation was covered by someone else, he preached, I might be able to sell the car a year or two later for the same price I paid, if not a bit more.

A Future Millionaire’s Car-Buying Strategies

Putting Russ’s theory to the test, I searched for cars that wouldn’t put holes in the bottom of my financial bucket.

It didn’t take me long to get a feel for the market. I read a few consumer reports on reliable automobiles. One useful

resource was Phil Edmonston's annually updated guide, *Lemon-Aid Used Cars*. Certain cars and models are bona fide lemons. Others can be great little workhorses. I would spend a few minutes each morning looking through the classifieds in the local paper. When I saw something interesting at a good price, I would check it out. Over the next few years, I bought several low-mileage, reliable Japanese models. I paid between \$1,500 to \$5,000 for each car. In most cases, I drove them for at least 12 months without putting any extra money into them. My cars were cheap, so my profits didn't amount to much, usually \$800 to \$1,000 a car.

Unfortunately there are too many people who aren't good with money. It's often easy to find desperate people who have overextended themselves financially. Buy from them. Generally, they want money quickly, either to upgrade their cars or to pay off oppressively looming debts. I've bought used vehicles from both types of sellers, put as many as 60,000 miles on the cars, and then sold them two or three years later for the same price I paid.

On one occasion, I bought a low-mileage, 12-year-old Toyota van for \$3,000. I drove it 4,000 miles from British Columbia, Canada, down the Mexican Baja peninsula, then on to Guadalajara, before driving back to Canada. After covering more than 8,000 miles in a single trip, I sold it for \$3,500.

Here's one surprisingly simple strategy for buying used vehicles that can save you loads of time and money.

Imagine wandering onto a car lot. You're not generally given free rein to browse on your own or with a friend. A sharply dressed salesperson will soon be courting you through a variety of makes and models. They could have good intentions. But if you're anything like me, your pulse will race a bit faster as you're shadowed, and the pressure of being shadowed by a slick talker might throw you off. After all, you're on their turf.

A minnow like me needs an effective strategy against big, hungry, experienced fish—and this is mine: first, I identify exactly what I'm looking for. A few years ago, I wanted a Japanese car with a stick shift and original paint. I didn't want a new paint job because I'm not skilled enough to determine whether something had been covered up, such as rust or

damage from an accident. I also wanted to ensure that the car had fewer than 80,000 miles on it, and I wanted to pay less than \$3,000. It really didn't matter how old the car was as long as it had been properly maintained and hadn't been around the block too many times.

Like a secret agent wrapped up in the bravery of anonymity, I pulled out my hit list from the yellow pages to call every car lot within a 20-mile radius. Sticking to my guns, I told them exactly what I was looking for. I wouldn't entertain anything that didn't fit my criteria.

I did have to hold my ground with aggressive sales staff. But it was a lot easier to do over the telephone than it would have been in person. Most of the dealers told me that they had something I would be interested in, but they couldn't go as low as \$3,000. Some tried tempting me into their lairs with alternatives; others referred to my price ceiling as delusional. But I wasn't bothered. My strategy was a knight's sword and the phone, my trusty shield. I also practiced chivalry—knowing that I might end up calling on them again.

Because my first round of phone calls didn't pan out, I called the dealers back when it got closer to the end of the month. I hoped the salespeople would be hungrier by then to meet their monthly quotas. As fortune would have it, at one dealership an elderly couple had traded in an older Toyota Tercel with 30,000 miles on it. The car hadn't been cleaned or inspected, but the dealership was willing to do a quick turn-around sale for \$3,000.

This strategy doesn't have to be limited to a \$3,000 purchase. The process makes sense for any make or model and it saves time. Over the past five years, I've become far less extreme. I no longer pinch pennies. But I still buy used cars. Typically, I now sell them for a little less than what I paid. But if I add up all the money that I've "lost" on cars over the past five years, it doesn't amount to much. The typical new car buyer will lose more money in five months than I've lost in five years.

If you save more money on cars, you can invest more money in wealth-building assets.

Leasing Cars Instead Of Buying Used Could Be A \$1 Million Decision

My friend Nathan is a millionaire. But like most millionaires, he won't ever lease a car. "Leasing a car, instead of buying used," he says, "is a million-dollar decision."¹⁴

According to *The Millionaire Next Door* author Thomas Stanley, 80 percent of millionaires have never leased a car. Finance author Dave Ramsey isn't a fan of leasing either. He says, "Broke people think 'how much down and how much a month.' Rich people think 'how much.' If you can't pay cash for a car, then ride a bicycle. But don't lease a car."

But How Could Leasing Cars Cost \$1 Million?

Nathan has never paid more than \$6,000 for a car. Like me, he looks for cars with low mileage. The average American drives 12,000 miles a year. That means the typical 10-year-old car will have about 120,000 miles on it. Such cars may nickel-and-dime their owners as the cost of maintenance creeps up.

Nathan's most recent car typifies what he likes. It's a 2006 Honda Accord. He paid \$5,500. When he bought it, the car had just 60,000 miles on it. That means it has as much wear and tear as the average five-year-old car. "A well-maintained car with 60,000 miles on it still has plenty of life left," says Nathan.

He typically drives his cars for three to five years. Then he sells them for a price that's not much lower than what he paid. "I should be able to get at least \$3,500 for this Honda," he says, "if I sell it in three to five years."

Many people prefer to lease new cars. It allows them to get behind the wheel of a brand new car without saving a penny. They drive those cars for a few years. They make monthly payments. But they don't get money back when they return those cars. In many cases, they even pay extra. Many dealers have mileage restrictions of 12,000 miles a year. Those who drive further pay the financial piper when they bring the car back.

According to Edmunds.com, the average midsized leased car costs \$294 a month, or \$3,528 a year.¹⁵ But most households

have two cars. That means leasing two cars costs the typical household about \$7,056 per year.

Nathan, like most wealthy people, tracks what he spends. He and his wife's two cars cost them about \$2,200 a year after calculating purchase price, maintenance costs, and resale value. The difference between buying low-cost, low-mileage used models versus leasing is about \$4,856 a year for a two-car household.

The US stock market averaged a compound annual return of 9.2 percent from January 1990 through July 2016. If a couple invested \$4,856 a year, and if they earned such a return, they would make a lot of money.

As seen in Table 1.1, over 15 years this investment would earn them \$158,162. Over 35 years, they would have more than \$1 million. That's why Nathan says that leasing cars is a \$1-million decision.

Negative Nellies could find all kinds of reasons this wouldn't work. Perhaps your investments wouldn't gain 9.2 percent. Perhaps you couldn't find well-maintained, low-mileage used

Table 1.1 Benefits of Buying Used over Leasing (Based on 2 Cars per Household)

Time Duration	Used Cars Savings*	Leased Cars Savings*
15 years	\$158,162	\$0
20 years	\$277,455	\$0
25 years	\$462,692	\$0
30 years	\$750,326	\$0
35 years	\$1,196,962	\$0
40 years	\$1,890,496	\$0
Max purchase price per car	\$6,000	\$0
5-year maintenance costs per car	\$3,000	\$17,640 (lease payments at \$294 per month over 5 years)
Total spent per car	\$9,000	\$17,640
Resale value per car (5 years later)	\$3,500	\$0 (sometimes it costs money to turn in a leased car if there's high wear and tear or if it exceeds mileage limitations)
Cost per car after resale	\$5,500	\$17,640
x 2 Cars	\$11,000	\$35,280
Savings per year	\$4,856	\$0

*Assuming \$4,856 invested annually at 9.2 percent per year

cars. Perhaps your used vehicle maintenance costs would exceed an average of \$3,000 every five years.

You might pay more than what Nathan pays for a good used car. But a lifetime of buying used cars over leasing cars will win—to the tune of (at least) a few hundred thousand dollars.

Careful Home Purchases

Most people realize that expensive automobile purchases can hinder wealth. But the global financial crisis of 2008–2009 taught us important lessons about homes as well.

One of the lessons that aspiring rich people have to learn is that the banks aren't their friends. They're out to make money for their shareholders. To do so, they often hire kind or convincing salespeople. Their jobs are to persuade you to buy lousy investment products (which I'll discuss in Chapter 3). They also sugarcoat bloated house loans, so you continue paying interest for years.

What caused the financial crisis of 2008–2009? The greed of the banks not looking after the best interests of their customers, coupled with the ignorance of those who bought homes they couldn't afford.

Caught up in the housing boom, buyers purchased homes they couldn't really pay for, and when the dangerously enticing, low interest rates finally rose, they couldn't make their mortgage payments. Unsurprisingly, many were forced to sell their homes, creating a surplus in the housing market. When there's a surplus of anything, people aren't willing to pay as much for those items—so they fall in price. Houses were no exception.

The banks had sold these mortgage loans to other institutions around the world. But when the original holders of the mortgages (the home purchasers) couldn't afford their mortgage payments, the financial institutions repossessed their houses—but at a significant loss, because housing prices were falling like a skydiver without a chute.

The banks had also bundled the loans up and sold them to other global institutions, which were then on the hook when the homeowners couldn't pay their mortgages, putting many of

the world's most respected financial institutions in peril. With dwindling financial resources, the banks didn't loan as readily to other businesses, which in turn didn't have the funds to cover their day-to-day operations. The snowball effect resulted in a global slowdown and mass layoffs. Don't believe those who sugarcoat housing loans. The effects can be devastating.

It reminds me of a lesson my mom taught me when I took out my first mortgage on a piece of oceanfront land. She asked me: "If the interest rate doubled, could you still afford to make the payment?" According to the terms of the mortgage, I was being charged 7 percent in interest a year. She knew at the time that a 7 percent mortgage was historically cheap, especially compared with mortgage rates in the late 1970s and 1980s. As far as she was concerned, if I couldn't afford to pay double, or 14 percent interest, then rising interest rates could expose me. I would be one of those unfortunate guys caught swimming naked when the tide goes out.

Her advice is a good rule of thumb if you don't want to be stripped of your real estate. If you're considering purchasing a home, double the interest rate and figure out if you could still afford the payments. If you can, then you can afford the home.

Millionaire Handouts

There's a Chinese proverb suggesting that wealth doesn't last more than three generations. There's a generation that builds wealth, a generation that maintains it, and a generation that squanders it.

US studies suggest that—contrary to what we might think—most millionaires didn't inherit their wealth. More than 80 percent of those surveyed are first-generation rich.

I taught at a private school in Singapore where most of the expat students come from affluent families. I told my students (only half-jokingly) that they're on the financial endangered species list. It's natural for parents to want to help their children. But the Chinese have known for thousands of years what happens to money that's given to youngsters who had no hand in building that wealth. It gets squandered.

Adults who receive “helpful” financial gifts from their parents (stocks, cash, real estate) typically end up with lower levels of wealth than people in the same income bracket who don’t receive financial assistance.¹⁶

It’s a tough concept for many parents to grasp. They feel they can give their kids a strong financial head start by giving them money. Statistically speaking, easy money is wasted money. Thomas Stanley studied a broad cross section of educated professionals in their 40s and 50s. He categorized them by vocation. Then he split them up into two groups: those who had received financial assistance from their parents and those who hadn’t. That assistance included cash gifts, help in paying off loans, help in buying a car, or help with a down payment on a home. He found that those who received help were more likely to have less wealth during their peak earning years than those who had not received financial help from their parents. Receiving financial handouts hinders a person’s ability to create wealth.

For example, the average accountant who received financial help from his or her parents was 43 percent less wealthy than an average accountant who didn’t receive handouts. In sharp contrast, the only two professional groups studied that became wealthier after receiving financial assistance were teachers and college professors.¹⁷

How Did I Become a Millionaire?

My dad was a mechanic. I was one of four kids being raised on his salary, so we didn’t have a lot of money to throw around when I was growing up. From the age of 15, I bought my own clothes. At 16, I bought my own car with earnings from a part-time job at a supermarket. I had to work for what I wanted. But I didn’t enjoy working. Like most kids, I would have preferred hanging out on a beach.

So for me, money was equated with work. I would see something I wanted that cost “just” \$10. But then I would ask myself if I wanted to mop the supermarket floor and stack 50-pound sacks of potatoes to pay for it. If the answer was no, then I wouldn’t buy it. Never receiving “free” money allowed me to adopt responsible spending habits.

Confessions of a Former Cheapskate

Today, my wife and I can afford to live well. In 2014, we retired from our teaching jobs. I was 44 years old. I still enjoy writing about investing, and one day I may choose to teach again. But we no longer have to work.

We travel prolifically, having visited more than 55 different countries. While working, we lived in a luxurious condominium with a swimming pool, squash courts, tennis courts, and a weight room. We also enjoyed massages every week, 52 weeks a year.

During the first year of our “retirement” we lived in Mexico, Thailand, Bali, Malaysia, and Vietnam. If our health holds out, we’ll enjoy these fruits and travels for the next 40 years.

But an early aversion to debt put us in this position. I hate debt. It’s going to sound extreme, but for me, owing money is like making a deal with the devil. Always thinking of the worst-case scenario, I would worry what would happen if I lost my job and couldn’t meet my debt-obligation payments.

I’m not recommending that a young person who seeks early retirement should live the way I did in my early 20s. But thinking of debt as a life-threatening, contagious disease served me pretty well. Whether you find it inspirational or delusional, I think you’ll get a kick out of my story.

I began teaching seventh grade a few months after graduating from university. Paying low rent and low food costs, I figured, were like roadmaps to student-loan obliteration. Sure, it sounds like a reasonable idea, but there are big-city panhandlers who might cringe at my form of minimalism.

Potatoes, pasta, and clams were the cheapest forms of sustenance I could find. Clams simply represented free protein. With a bucket in hand, I would wander to the beach with a retired fellow named Oscar, and we would load up on clams. While Oscar turned his catch into delicacies, my efforts were spartan: microwave some spuds or boil pasta, and toss in the clams with a bit of olive oil. Voila! Dinner for less than a dollar. It doesn’t matter how well you can initially tolerate a bland meal. Keeping that diet up day after day is about as enticing as eating dog food. But my debt burden lessened as I lived on

just 30 percent of my teacher's salary—allowing me to allocate 70 percent of my salary toward debt reduction.

Sharing accommodation with roommates also cut costs. I preferred, however, not paying rent at all, so I looked for people who needed someone to look after their homes because they were escaping to the Sunbelt for winter.

No matter how cold the rent-free homes got during the winter, I never turned on the heat. Wanting to keep costs down, I would walk around the house wearing layers of shirts and sweaters while the winter's snow piled up outside. If there was a fireplace, I used it. At night, I would make a roaring fire and then drag blankets in front of it to sleep. Waking up during winter mornings, I often saw my breath.

One December week, my father was in town on business, so I invited him to stay with me. Typically boisterous, he was uncharacteristically quiet when I told him: "No Dad, I'm not going to turn on the heat." I figured that snuggling up together at night next to a fireplace in a frosty living room would be a great father-son bonding moment. I guess he didn't think so. The next time he was in town, he stayed at a hotel.

Eventually, I craved the freedom of my own place, so I moved into a basement suite where the landlord charged \$350 a month. But low rents can come with inconveniences. In this case, I was a long way from the school where I taught—35 miles door to door.

If I had been smart enough to drive a car to work, it wouldn't have been so bad. I owned a rusting, 20-year-old Volkswagen that I bought for \$1,200 (which I sold two years later for \$1,800), but I wasn't prepared to pay fuel prices for the 70-mile round-trip commute. So . . . I rode my bike.

Riding an old mountain bike 70 miles a day through rain and sleet on my way to work and back gave me a frontrunner's edge for the bonehead award. At the time, I had an investment portfolio that would have allowed me to buy a brand-new sports car with cash. I could have also rented an oceanside apartment. But the people I worked with probably thought I was broke.

One of my fellow teachers saw me at a gas station on my way home from work. We were both picking up fuel—but mine was of the edible kind. Rushing up to me as I straddled

my bike and stuffed a PowerBar into my mouth she said: “We should really start a collection for you at the school, Andrew.” If I thought she was kidding, I would have laughed.

After a while, even I decided my lifestyle was a little extreme. To make things easier, I moved closer to work after placing an advertisement in the local paper: Teacher looking for accommodation for no more than \$450 a month. It was far below the going rate, but I reasoned an advertisement selling myself as employed and responsible—while leaving out a few other adjectives—might attract someone looking for a dependable tenant.

I got only a couple of calls. But one of the places was perfect, so I took it.

Because I had been investing money since I was 19, I already had a growing nest egg. But I wasn’t willing to sell any of my investments to pay down my loans. Instead, I threw every extra income dollar I could toward reducing my student loans. One year after working full-time and living like a monk, I paid off my debts. That’s when I redirected much of my income straight into my investments.

Six years after paying off my student loans, I bought a piece of oceanfront property and calculated how to aggressively pay down the mortgage. I even took a higher interest rate to increase my flexibility of mortgage payments.

Once I paid it off, I shoveled money, once again, into my investments.

Admittedly, few people despise debt as much as I do. But once you’re debt free, there’s no feeling like it.

Don’t get me wrong. This part of my financial history isn’t a “how to” manual for a young person to follow. It was a fun challenge at the time, but it wouldn’t appeal to me today. And my wife, whom I married much later, admits it wouldn’t have appealed to her—ever. That said, if you want to be wealthy, you dramatically increase your odds if you’re frugal, especially when you’re young.

Looking to the Future

Those who want to be rich often overlook responsible spending habits. It’s one of the reasons many people nearing retirement age have to work when they would rather be traveling

the world or spending time with their grandchildren. Naturally, not everyone has the same philosophy about work. But how many people on their deathbeds ever lament: “Gosh, I wish I had spent more time at the office,” or “Geez, I really wish they had given me that promotion back in 2025.”

Most people prefer their hobbies to their workplace, their children to their iPhones, and their quiet reflective moments to their office meetings. I’m certainly among them. That’s why I learned to control my spending and invest my money.

If you’re a young person starting out and you see someone with the latest expensive toys, think about how they might have acquired them. Too many of those items were probably bought on credit—with sleepless nights as a complementary accessory. Many of those people will never truly be rich. Instead, they will be stressed.

By learning how to spend like a rich person, you can eventually build wealth (and material possessions) without the added anxiety. You don’t have to live like a pauper to do it either. Apply the investment rules that I’m willing to share, and you could feasibly invest half of what your neighbors do, take lower risks, and still end up with twice as much money as they do. Read on to find out how.

Notes

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