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Know your 'why'

Glen

Why do you want to invest?

Our reasons for doing anything are often unknown even to ourselves. However, I want you to be consciously aware of why you're reading this book and why investing is something you're interested in.

Finding your 'why'

I regularly see soon-to-be investors seeking something quite specific. If you hadn't already thought of a 'why', this chapter could be a good prompt for you to start thinking and planning. One of the following reasons may resonate with you.

Get rich. Fast.

We have all heard the stories of people investing, becoming millionaires and having freedom in life without needing to work—well, so it seems. The chase for riches is usually the chase for freedom from your current life situation. Or, simply put, you don't like working and are sick of living week-to-week and not having opportunities to see the world, to enjoy the finer things in life and — for some — to have the status and clout of being 'rich'. You find yourself scrolling through Instagram, looking at nice clothes, watches, bags, cars and homes. You love the fantasy of being able to do whatever you want, whenever, without financial boundaries. You believe if only you had lots of money, most of your problems would go away.

Change your family's financial path

You may have grown up in a family or financial situation that offered limited opportunities for wealth. Or you may have been raised by a single parent trying to make the best of what was coming in. Perhaps your life growing up was fine but your family couldn't experience the extra little things that you saw other families enjoy, such as overseas holidays. Or maybe where you grew up was not a pleasant environment. You may be a first-generation Australian who immigrated as a young child and you now want to support your family. Regardless, you want your own kids and family not to have to go through what you went through. You want to change your family's financial path, starting with you.

Quit working asap

You hate your job. You live for Fridays and you hate Mondays. If you had more money and didn't rely on the income from your 9 to 5 life you would be so much happier. You could just sleep in every day, not have to worry about work and get some joy back in your life. Life has slipped past you and you feel like you're on a treadmill that you can't get off. Your financial commitments are too great and a career change is not on the cards because you'd have to go backwards before moving forwards. Making money from investing will enable you to quit that job sooner!

Increase your choices

You want to live 'life on your own terms' — or LOOT, as I like to call it. You don't want to live a 9 to 5 life. You want the option of working when you want, focusing on your side hustle or hobby, and being the true master of your own destiny. You want the choice to do things like taking an extended weekend away or spending time with your family and friends. Being untethered to social norms is a huge priority for you and investing will help you get there faster. You might be thinking, 'Isn't this everyone's goal?' Well, no. Some people enjoy the structure of a 9 to 5 role and life. They can leave work at work and enjoy non-work times. LOOT could be for solopreneurs or the free spirited!

Stop trading time for money

Passive income — that is, money appearing in your life without you having to trade an hour of your time working for it — is the eighth wonder of the world. You want to lean into investing because you understand that investing in shares is just about the only true form of passive income and you're all about that life. This is particularly relevant to you as you spend so much time at work wondering if you could ever earn more money on the side without having to trade the most limited thing on earth — time — for average money. You want more out of your life and money.

Provide for your kids

You have a family (or you're keen to start one) and want to give your kids the start to life that you didn't get. This could be a long-term investment account for a future home deposit, car or education.

This account could also be added to by family members rather than giving them wasteful toys or superficial presents for birthdays and Christmas. Investing for your kids will give you the tools to eventually hand them their investment account and start to educate them about investing, too. Or it might now be about providing your kids with their own investment account. You could be wanting to build wealth in your own name to give the kids the upbringing or opportunities you didn't have, such as extracurricular activities.

Plan for a dignified retirement

You may be later in your life stage and age and want to start looking at your retirement from the workforce, even if it's 10, 15 or 20 years away. Hundreds of dollars today can end up being thousands in the future. You may be at the stage where you own your house (or almost own it), you're financially established, you like your career, you don't want for much and you have spare money in your budget that needs to go to work. You want to invest for 'future you' to ensure you have a retirement not limited by money or opportunities.

What could be your 'why'?

Has what you just read helped you identify a reason for investing that stands out for you? There may be more than one. To be honest, the only one that may cause you issues is the 'get rich fast' goal because it's built off something that is superficial and fake. If you build your life on something that is based on consumption or consumerism, you'll run out of money and you'll end up being disappointed. In fact, if you were to invest just to become rich, you'd likely end up selling down your investments to spend on things that go down in value. Your 'why' is akin to finding the financial bedrock in your life, which I will explore later in this chapter.

What is money to you?

Is money good, bad, a blessing, a curse or something worthless made up by the government to control the world?

For at least 5000 years, money has been used in societies to represent an agreed value. It's a more practical and standardised way to exchange goods and services than a bartering system, where you would, for example, swap some sheep skin for a loaf of bread.

While the intrinsic value (total actual value of the material used) of a $100 note is probably not worth more than $1, our society has agreed that it represents an amount of $100 and is considered legal tender. It can be used to settle debts with the government and in exchange for goods and services. It is known as 'fiat currency', which means it's issued by a central or sovereign government and not backed by a commodity such as gold (though it used to be). The tin foil hats sometimes come out when people mention fiat currency and government control because the government can print more money (more than the supply of gold, which you can't make).

This is where inflation comes into play. If you had a finite amount of gold, its value would remain the same because there's no more available. But what if more gold was magically produced? Well, gold would then be worth less because there is more of it. Put simply, the same goes for your $100 note. If the government makes 10 more $100 notes and puts them into circulation, the value of that money reduces. This is where the great appeal of Bitcoin came from. It's limited and can't be reproduced. It's like digital gold. At the time of writing, Bitcoin can't settle any government debt … so does it have real value? Not sure. Normal supply, demand and societal acceptance means we, the people, think it has value.

A quick note on inflation as this forms an important concept that you need to understand when investing.

If inflation isn't controlled well, or if there is corruption at play, there can be issues. Zimbabwe had to issue a 1 million Zimbabwe dollar note due to hyperinflation. *Yikes!*

When it comes to investing and money, inflation is the silent killer of value over time. When we invest, we take a risk to get a return on our money that is higher than the risk-free cash rate (think the no-risk interest earned from your bank account). Too often we don't think about inflation. But we definitely should. If inflation is 3 per cent and you receive 5 per cent from your bank account, the real return on your money each year is 2 per cent.

Now that you've learned about the simple history of money (even compared to a barter system), does this change what it means to you? What has your experience been in your life? In the first century, an influential man, Paul of Tarsus, suggested that the love of money is the root of all evil. Do you believe this? Have you seen this with your own eyes? Have you experienced oppression from those who have abused their power and wealth? Is money inherently evil or are people scumbags?

For me, and in my experience of life, money is neutral and it can be used for good or evil. Money doesn't have a mind, brain or personality. It is a tool. I have, however, noticed that money is a magnifier. If someone is a jerk and doesn't have much, they will be an even bigger jerk if they get a heap of money. This can be seen when Westerners visit developing nations on holidays. I'm disgusted by the way some people treat others when they have relatively more. But I have resolved it's the person, not the money itself, as some of the wealthiest people in the world have been able to use their money for good (think Bill and Melinda Gates Foundation).

A builder can use a hammer to build a beautiful house. But the same hammer can be used to destroy it by breaking windows. The hammer is the same. The problem is who is hanging onto it.

So money is a tool to me. What is it to you? I don't think there is a right or wrong answer here. I just want you to think about it and be aware.

Rich vs wealthy: acting rich will make you broke

I recently completed a TAFE course — a Certificate II in Maritime Operations. I did this because I enjoy boating and boaty things. I did it mainly out of personal interest and I had set my life and business up to be able to have two days off per week to do this course. You see, on the money and personal finance scene in Australia, I have a well-known name and podcast. I didn't want anyone in the class to know what I did because I just wanted to be another student. When someone in the class asked me what I did for work, I said I had an online media business and I was doing this course out of personal interest. I suddenly stood out like a sore thumb because many of the other students were there to progress their career in, or enter, the maritime industry. It was odd to have someone my age taking a course just out of interest.

It took about 10 seconds for a 23 year old in the small class of seven to google my name. He said in front of everyone, 'Hey Glen, are you rich?' To that I replied, 'No, I prefer wealthy'. Laughs ensued and my cover was up.

I share this story because I really think we need to position ourselves and our lives to become wealthy by working smart and slowly building wealth. Most people out there see being rich as a goal because, supposedly, it can make all your problems go away. There are countless stories in the history of humankind of wealth destroying people and families.

An organisation in the United States called the National Endowment for Financial Education tells us that 70 per cent of lottery winners go bankrupt within five years of winning. How wild is that! Not only do they lose their money, they go bankrupt. This means they have liabilities or bills they can no longer meet or pay.

A *Business Insider* article wrote about some lottery winners and what was one of the first things they did with their money. Let's have a laugh … I mean look.

- *John & Linda Kutley (US$28.9m)* spent $200 000 to create a spray water park. These are like the open spaces in public parks where kids can run around and have a bit of fun with water.

- *Bob Erb (US$25m)* donated $1 million to an annual event to champion the cause of legalising marijuana. I'm not sure if Erb was his surname at birth (hehe).

- *Jonathan Varges (US$35m)* created Wrestlicious, a women's wrestling promotion (it's unknown how much it cost him). *Wrestlicious TakeDown* lasted one season.

- *Vivian Nicholson (~US$4m)* went shopping! Vivian won lotto in the UK in the 1960s and dedicated her life to buying nice clothes and an endless shopping spree. It did end, though, because by 2016 she had no money left.

While we don't know if all of these people ran out of money, we know one thing: the odds are not in your favour. The reason is when you don't earn money, you don't respect it. If you win the lottery tomorrow and spend the money on something that wasn't in your plans today, it can be a slippery slope. You see, if you did win US$35 million and spent $1 million on marijuana awareness, fun water parks or Wrestlicious, there is a high chance that these were not one-off splurges or planned investments (even though the public water park, for example, may have been a noble endeavour). Sure, $200 000 for a water fountain is a rounding error when it comes to US$28.9 million, but I wonder if the Kutleys had always wanted to build one.

Most people who win the lottery do one thing: they act rich. The type of rich we see in movies and on Instagram. This, my friends, is not reality. I wanted to take some time to talk about being 'rich' because it really shouldn't be the goal of anyone who is serious about building a life not limited by money. That sounds counterintuitive, but when you look at it, those lottery winners are limited by money: the money they won, the money they didn't earn. They are limited by a lack of systems and structure in their lives. They are limited by a lack of planning and vision for their lives. They are limited by a desire to spend and not to build and maintain wealth.

When we are strategic about building wealth and, more importantly, our life, we are measured and considered. This means that if money did come into our life, it would flow straight into our plan. If future wealth did all of a sudden appear in our lives from an inheritance or some other random occurrence, it shouldn't actually change the direction of our lives too much. If anything, you'd really want to at least do nothing for 6 to 12 months with any large windfall — with the exception of paying down debt.

I write this not only after reading stories of lottery winners, overnight celebrities or trust-fund kids blowing money overnight, but from my own learning and experience. I recently came into some money — we'll call it an inheritance-type sum — and you know what I did with it? Nothing. I'm clear on my purpose for investing in my own business, career, property and equities to the point that I don't want for anything and an amount of money that lands in my bank account doesn't lead me to run out and buy a new car or spend it on all the feel goods.

I say this not to brag but to show you that I have built a financially strong life, and I think you can too. I want you to build a life that you do not need money to escape from. Have money in your life to serve you. Build wealth to fund your planned life. Don't walk along aimlessly looking for wealth and money to create your life.

Let's have a look at some of the differences between being rich and being wealthy.

If you are rich — or act rich — you may have some or all of the following attributes:

- You have a high income.
- You spend money on depreciating assets.
- You care about appearances.
- You want instant gratification.
- You work for money.

Now, some of these can be true if you're not 'rich'. For example, you may have high self-confidence, which may be one of the 20 signs that you're a narcissist when you're not. But picture the previous list if you were earning more than $180 000 per year and didn't have much to your name.

If you're wealthy, you may have some or all of the following attributes:

- You have a high net worth (total of all assets less all liabilities).
- You spend money on appreciating assets.
- You don't care about appearances.
- You have strong discipline and you can delay gratification.
- You make your money work for you.

The good news is that as investors, we manage our money well because it grows slowly and is generally earned, not won. You'll always appreciate what you have earned and built more than what has been given to you.

How do you think you're acting right now? Regardless of your income or assets, you can act rich or wealthy. I've come across hundreds of people who are on average Australian salaries and are living well beyond their means, essentially acting rich or not acting their income. Around 75 per cent of the *this is money* podcast community, when surveyed, do not have consumer debt. This is a great start and a sign that you're not acting rich. If in doubt, ask your friends and family.

Think about ways you may be acting rich and how you can stop this.

A 3-point plan for managing money

Another piece to your investing preparation is understanding how you should manage your money. My belief, for my own life, is pretty simple. I only do three things with this tool that I have:

1. I live on less than I earn.
2. I give generously.
3. I invest the rest.

This is my 3-point plan. Because I have these principles locked in, my own 'why I invest' is supported and allows me to invest after I have been financially generous.

If you don't have a 3-point 'why' statement, you can adopt mine using the things you value. Let's look at what each of the points means.

Live on less than you earn

I have resolved, after several years in my early 20s of not making good financial progress, that I will not consume more than I earn. This means I have no consumer debt. I even save up and pay cash for cars. I only borrow money for buying residential real estate. I have a solid spending plan in place and an emergency fund as a back-up and both these things slow me down with regard to making unnecessary purchases.

Be a generous giver

You can't give anything away because it always comes back. I've resolved that financial generosity is also a core part of my life. We live in such a privileged country that has, on balance, great schools, healthcare and a relatively high standard of living. I reckon because

I'm in a good position I can give to those less fortunate and this also does slow me down (on purpose) with splurging on luxuries and building wealth. I'm okay with having a smaller investment account or less 'stuff' because I've been generous along the way (and I'll still be fine).

Invest the rest

Part of my investing strategy is to park money for the future — I'll touch on this in chapter 2. But basically, I invest whatever is left over. This could be in real estate or equities. I don't believe this needs to be too prescriptive as things could change. I might not buy a property for a few years but invest heavily in ETFs.

Make your own 3-point plan

Can you make your own 3-point plan for your money that you can really live and breathe, repeat to others without thinking and turn into a living mantra for your financial life? Remember: this will need to be broad and futureproof. I haven't changed mine in more than 10 years. That's not to say things can't change, but once you really understand what money is and work through your 'why' you'll be able to develop this. If you have a spouse or partner I'd recommend you both have a 3-point plan for your household. Remember to include investing in your three points wherever it suits you best.

Here are some other examples that might get you thinking:

- Invest in experiences over things.
- Save for the future, but don't forget to enjoy today.
- Diversify investments to minimise risk.

- Always be learning and growing.
- Avoid consumer debt at all costs.
- Have at least two income streams at all times.
- Invest in health as a priority.
- Practise mindful spending, not impulsive buying.
- Always have at least three months of emergency savings.
- Live in the now but always plan for the future.
- Focus on long-term gains rather than short-term pleasures.
- Maintain a healthy work–life balance that is family centric.
- Invest in relationships as much as in shares.
- Embrace minimalism when investing

… or another point that resonates with you and your goals.

Investing in action

1. What could your starter 3-point plan be?
2. What three points do you want guiding how you manage your money? Think about big and broad themes you want to focus on.

My sound financial house

Okay, I'm sorry but I can't speak about investing without talking about my sound financial house! While I explained this in detail in my previous books, it would be remiss of me not to mention it in relation to investing. You see, when it comes to investing in shares, it's even more important to do things in the right order because shares are liquid and can be easily sold down.

If you purchased an investment property and then a couple of years later you were a bit short on money to pay your expenses or you needed an extra $1000 for an emergency, you wouldn't sell the property to cover this. That's not practical. Instead, you might stop going out, not go to that concert next month or really tighten things up to get through the bump. But if you had a portfolio of $10 000 worth of investments in a couple of ETFs, it would be really easy to just log in and sell down $1000 to cover your unexpected expense. But should you? Figure 1.1 illustrates the downside of doing this.

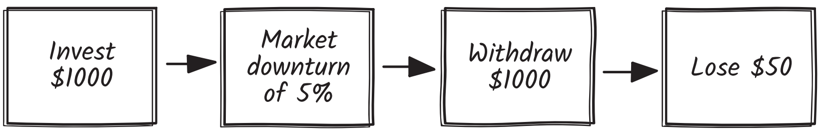

Figure 1.1: how to lose money when investing in shares or ETFs

If your foundations are not in place, the 'once-off' sell-down of shares can become a habit and then, if you sold down when the market wasn't strong, you'd actually lose money. A couple of things can happen here. Your poor financial habits won't get resolved and your financial situation can compound negatively.

If you had an emergency fund and a solid spending plan before you started investing, this would not be an issue because you'd have built your financial house on strong foundations. That's what a sound financial house does for you. To see what my sound financial house looks like, check out figure 1.2.

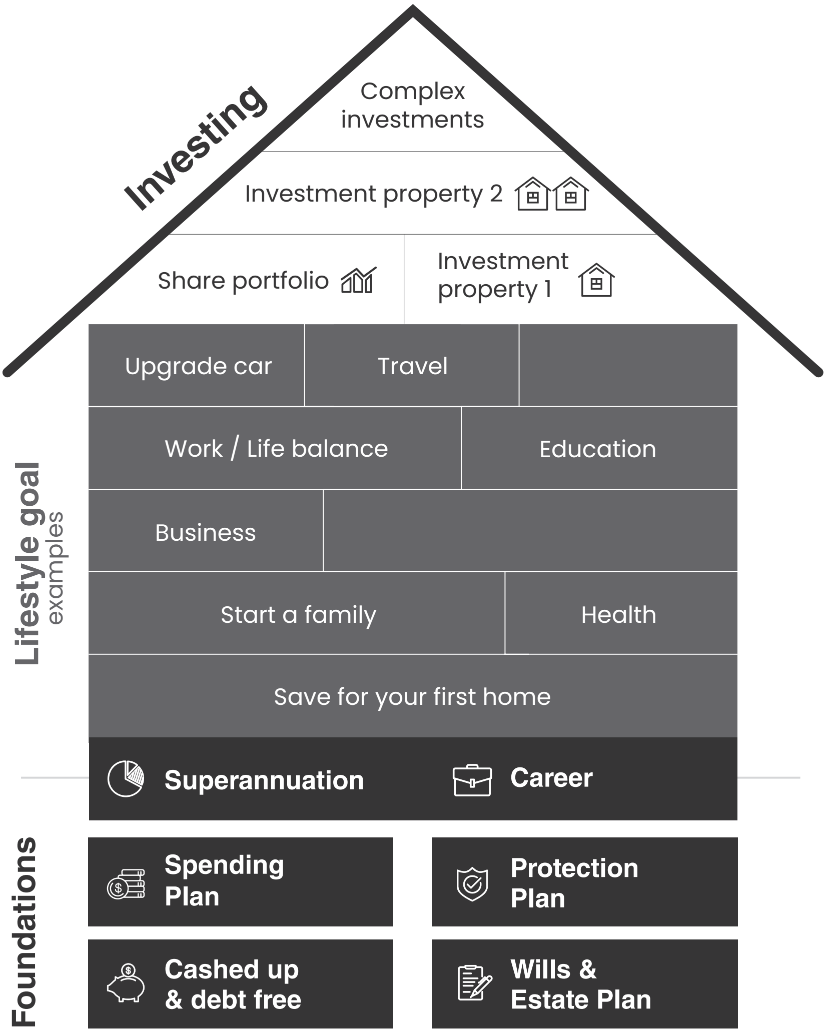

Figure 1.2: a sound financial house

Common money-management pitfalls

I became a contrarian after seeing too many people getting money stuff wrong! Like gloating over having a brand new car financed like mad with insane interest rates and seven years to pay it off. Or borrowing money to travel overseas and returning with a double-digit credit card debt. Or choking up the weekly cash flow just because they were feeling spendy (something I battle with myself).

There are so many aspects to how we choose to spend, manage and invest our money. Much of it is simply due to good marketing. Some could be the result of someone we know saying, 'Hey, this thing over here has worked for me — you should do it too!' Far too often I've seen my clients, or listeners of my podcast, get tangled in the weeds of money management instead of building a strong foundation like my sound financial house. I guess it happens when most of us aren't brought up having real conversations about money with our family or friends.

I'd encourage you to really nail what you think about money management because life is fluid and things change. It's important that you want your money to stay invested once it's invested and not withdrawn to be used for day-to-day life.

Being a contrarian in the personal finance space can be helpful when you're talking to the media to get that headline for some exposure on a personal level. But it can be hard because you are going against the grain, which can make you feel like the crazy one in the room.

There are some common pitfalls I see people getting stuck in when managing their personal finances. A few of these follow, along with my contrarian view and rationale for each one. See what you think. Do you agree or disagree with me? It's totally fine if you disagree.

Debt consolidation

A popular term in money land is debt consolidation. What is it? Well, the theory is that if you have multiple debts (cars, personal loans, credit cards) with various interest rates and monthly payments, you consolidate them into one debt and just pay that one debt down.

My contrarian view: you're not fixing the problem — you're just moving the debt. The problem is that you overspend. Get a spending plan and pay the debt off.

Zero-based budgeting

This is akin to a traditional budget where you allocate very specific amounts from your pay to exact categories (down to the cent!). For example, each time you are paid, each dollar is given a specific job and anything left over is targeted at saving or investing. This approach requires a very close eye and a lot of time reviewing expenses. Imagine trying to achieve a specific target of $0.00 in your account after you've allocated money to your expenses!

My contrarian view: money needs to breathe and flow with your life. Expenses go up and down, and trying to be specific to the dollar can make it exhausting to manage. This is why I like to have a spending plan that allocates money each pay into accounts for specific purposes using rounded-up figures. Give it a few pay cycles and you'll see these accounts build up. It takes a whole lot of pressure off non-engineer type people, who need to ensure they have money ready when they need it. If an expense increases, you can increase the amount you are putting away for that expense. There might be $100 left over after all of your expenses are paid, or $10. The focus is more on having enough money there for your needs when they arise. We want our engineers to design things to the millimetre, and they're welcome to run their money like this too, but the rest of us can't. 😊

Credit cards

Many 'money people' say that a credit card is a great tool because it allows you to use other people's (the bank's) money without paying interest for the month while your own money can sit in an account receiving interest.

My contrarian view: many people suck at managing money and have no self-control, so paying the debt off within the interest-free period often doesn't happen. If this does work on paper, there is a high chance that people will overspend on credit, negating the whole strategy. There is less pain when you spend on credit as opposed to your own money. Credit cards only exist because, on balance, they make money from people overspending. I choose not to use credit cards for day-to-day expenses. I like to keep my money life simple. 'Doing it for the points' is also a strategy that seldom works for many as the potential for overspending and being sloppy means you actually buy the points with the overspent money. The risk with this overspending is you end up with debt that you struggle to pay off … and the cycle starts again and continues.

Paying down debt

If you receive a bonus or come into some money, even $1000, and you have debt, many 'money people' will say that you should pay this straight onto your buy-now-pay-later account, personal loan or credit card. You didn't expect the money anyway and you need to get out of debt! Debt is your biggest financial problem at the moment.

My contrarian view: don't pay down the debt. Put this money into a starter emergency fund, out of sight and out of mind. You need to ensure that you have some money behind you in case you find yourself in a financial pickle. Debt is not your biggest problem — your spending behaviour is. This is the start of a behavioural change for those who are stuck in the debt cycle. If something bad happens, you don't want more debt so that $1000 will come in very handy.

Investing in shares as soon as you can

The sooner you start, the more money you will have down the track. Compounding interest (and compounding dividend reinvestment) is the true magic of money. These statements can't be more true. I do agree with these; however …

My contrarian view: I'd rather you devote time and energy to building your career before you worry about putting all your money away for the future, even if this means you stay cash heavy until you've finished your education, training or get established into your career. Your ability to earn money from your job will outpace any dividends you receive or investment capital you allocate. (I'll talk about this in chapter 2.) I believe your career is the first investment you should make. I understand it can be helpful to put smaller amounts into investing apps while you build your career to stay focused and engaged with investing, but your career still needs to come first. If you're not happy with your current job or career, I'd suggest working on that asap.

Investing in quality companies only

It's common to hear that it's important to invest in quality companies that have a strong track record, future earnings growth and a moat around them. Spend time researching these companies before you invest in them.

My contrarian view: well, this is an investing book, so I needed a view on this. I don't buy single stocks with more than 10 per cent of my portfolio. Who has time to read and understand financial data and then form a view? Not me. With the availability of ETFs nowadays there is no reason to not diversify. They say 'don't put money in the bank — buy the bank'. Don't buy the bank — buy all of them and another few hundred companies in one go. This will stop FOMO when you see other single companies that you don't own doing better than the ones you own. Good investing is more about solid behaviour than what you invest in, on balance (when it comes to individual companies vs broad-based ETFs).

These contrarian views have served me well over my life. I want you to think about any views you have about money and where they may have come from. 😊

While these examples speak to personal finance management, the underlying framework is based on my sitting down face-to-face with hundreds of people over the years helping them with their money — this, coupled with hearing thousands of podcast listeners say that they turned their financial lives around by following my approaches.

The thing that has shaped my contrarian views — which leads partly into knowing my 'why' when it comes to investing — is behaviour.

Do you have a view? Is it different from mine?

What is your financial bedrock?

By implementing what I've shared in this chapter, you've essentially built your financial bedrock. Your 'why', your belief about what money is and the 3-point plan will guide how you think money should be managed and invested. They come together to form a pyramid like the one in figure 1.3 (overleaf). Each element is connected and builds on the others.

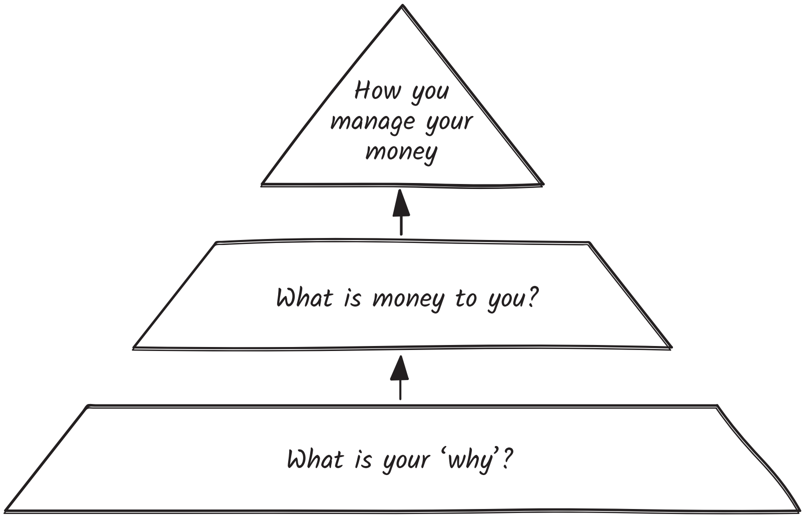

Figure 1.3: your financial bedrock

So how does yours look?

Something worth noting is that you're likely an investor already! If you are an employee, on top of your earnings your employer will be paying retirement savings into your superannuation. This money is invested into the share market and various other assets on your behalf. It's a tax-effective environment (which is something we will get to in chapter 3). This is your money, even though it may not feel like it, because you didn't physically transfer it from your bank account over to the investment account. It can provide some solace if you are itching to get invested but you are not 100 per cent ready because you need to work on your 'why' a bit more before you start allocating your own after-tax dollars to investing.

Superannuation is in place because governments want to ensure that there is some type of compulsory retirement savings for citizens so when they retire from the workforce there is less of a reliance on social security. The thing is, on balance, most humans consume what they have and live without thinking long term. Working through your 'why' and the following chapter on behaviours will help you control your own money, and in turn, your financial future.

You are an investor already, but I hope I've enabled you to understand your 'why', or as Oprah said, to find 'your truth'! This will be different for everyone — and that's how it should be.

Start with this …

There's plenty to consider for your own situation. Have a think about:

- Your 'why': Why are you investing? What's driving you?
- What money is to you. If you have 'enough' money, what does your life look like?
- How you think money should be managed. What are the three principles that guide your money and investing?
- Whether you've fallen into any financial management traps. What behaviours need to stop, and what changes need to be made?
- For a more in-depth explanation of my sound financial house, follow the QR code on page 204 to see an explainer video.