

Chapter 1

Gathering the Building Blocks

In This Chapter

- ▶ Knowing the truth about money: wanting it, getting it, and having it
 - ▶ Assessing your attitude toward money
 - ▶ Identifying your destination and mapping your route
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There's an old axiom in finance: If you suddenly made rich people poor and poor people rich, and then fast-forwarded ten years, those who originally were poor would be poor again, and those who originally were rich would be rich again. Why? Because poor people spend their money, and rich people keep theirs.

That's the "secret" to building wealth. Simple, isn't it? But if it's so simple, why isn't everybody rich?

Ah, that's where it gets more complex. For many people, money — and the handling of it — is tied to a cornucopia of conflicting emotions and desires. In the most basic terms, we want to have our cake and eat it, too.

Rich people have figured out how to do that. They have homes, cars, their particular "toys," all the things they want to buy with their money. But they also have money, because they make conscious decisions about how much cake they want to eat and how much they want to have. So their homes and cars may not be what you'd expect a millionaire to buy, and their toys may seem modest in comparison to their net worth. This is because they've developed the attitude and discipline that allow them to pick and choose what they spend their money on, instead of throwing their money at the newest, biggest, or most expensive thing they see.

This book is *not* about how to spend your money. It's about how to keep it so you can build your own financial security, and how to develop the attitude and discipline you need to do it. It doesn't matter whether you're dead broke right now or whether you've got a healthy savings account or investment portfolio. No matter where you are in your financial journey, there are steps you can take to improve your situation and be on your way to making millions.

Shattering Money Myths

"The conventional view," the famous economist John Kenneth Galbraith wrote, "serves to protect us from the painful job of thinking." When it comes to money, following conventional wisdom also can serve to keep you trapped in a feast-or-famine financial cycle. To break that cycle, first you have to break your faith in several conventional myths about building wealth:

- ✔ **You don't have to accept your "lot in life."** The way things are is not necessarily the way things must be. The first step to changing your life in any area — not just financially — is formulating the desire for something different. Only when you have the desire can you figure out how to make it happen.
- ✔ **Wanting money doesn't make you selfish, materialistic, or evil.** Money gives you the means to lead the kind of life you want: fulfilling, interesting, secure, and independent. Being financially rich gives you choices so you can live a more rewarding life.
- ✔ **Having wealth doesn't mean someone else has to be poor.** Economics, whether personal or global, isn't like a math problem where something added to one side has to be subtracted from the other. You don't have to take anything away from anybody else to build your wealth. (Of course, this also means that rich people haven't taken anything away from *you* to build *their* wealth, so there's no reason to resent people who have more money than you do.)
- ✔ **Becoming rich doesn't require dishonesty.** Certainly, there are some people who have made their fortunes through fraud or other dishonest means (Enron, anyone?), but those people usually are more interested in shortcuts to wealth than in truly understanding and managing their money. You can live your values and still create your own financial security.
- ✔ **You don't have to have a lot of money to make more money.** Small sums can add up to big dividends if you properly use the money you do have. The poverty mentality thinks, "There's such a tiny bit of cake; I might as well eat it." The rich mentality thinks, "I would rather have this tiny bit of cake than eat it and have none."

- ✔ **You don't have to be lucky to create your own financial security.** Some things in this life are outside your control, and you'll doubtless encounter unexpected setbacks on your road to wealth — a car or home repair or a medical emergency that delays your savings or investing goal, for example. But you can overcome even bad luck by using your desire and self-discipline to direct the things you can control.
- ✔ **Making money is not a race.** Competition certainly fuels some people's desire to build wealth, and sometimes these competitors are tempted to do things they shouldn't for the sake of a bigger payoff. But if you stay focused on your own goals and ignore what the other guy is doing (except to the extent that you can learn from it), competition is no longer a factor.
- ✔ **You don't have to give up anything to become wealthy.** Financial security is a choice, not a sacrifice. There will be trade-offs, of course; you may not buy or do something today so you can buy or do something else later. But that, too, is a choice. You're deciding what's most important to you, so whatever you don't buy or do today isn't really a sacrifice — it's just something that isn't as important to you.



Wealth doesn't come quickly or without effort. It requires a combination of thinking about what you want and doing the things that will get you there. Thinking without acting is just another way of dreaming. Thinking plus acting equals achieving.

Understanding Your Relationship with Money

Everyone has her own way of relating to money. To some people, money represents power — not just in the political sense, but in terms of independence or security. To others, money is a tool that lets you improve your life — by paying for education or training, for example. Still others think of money primarily as a scorecard — a way to measure their success and self-worth.

Nearly everyone has some negative reactions to money-related topics and situations. Those who go on to make millions minimize those negative reactions. How? By understanding the root cause of such negativity and retraining themselves to think and act positively.

There are two key steps to understanding where your own negative thoughts come from and training yourself to minimize their impact. First is to ask yourself how you think about money. Second is to focus on positive thoughts and seek out ways to change negative ones.

Asking yourself how you think about money

How do you feel when you hear that someone has become a millionaire? When you read of someone winning a huge jackpot in the lottery, for example, or look at the enormous bonuses some Wall Street brokers get? If you say to yourself, “Good for him,” and then go about your business, you’ve probably got a pretty healthy relationship with money.

But if you seethe with envy or resentment, assume the money was obtained through unfair advantages, or think having all that money isn’t good for a person, your own thoughts and feelings may be getting in the way of achieving your financial goals.

This isn’t some wishy-washy, think-it-and-it-will-come-true mumbo jumbo. Research has shown that people who are generally positive in their mental outlook live longer and are healthier than people whose outlook is generally negative. Likewise, people who have positive attitudes about money *and their ability to achieve financial security* tend to be wealthier than those who see themselves as victims of bad luck, the machinations of other people, or the universe at large.

Of course, your beliefs and attitudes about money are more complex than just these issues. You have a whole money personality — a set of traits, beliefs, and common behaviors that constitutes your “default” mode for handling money. We discuss money personalities in Chapter 2. For now, the important thing is to start examining how you relate to money. Here are some other questions to help you begin:

- ✔ Do you think of yourself as unlucky when it comes to your finances?
- ✔ Do you think there’s a limited amount of wealth in the world?
- ✔ Do you think you’re morally superior to the ultra-wealthy?
- ✔ Do you feel guilty when you think about wanting money?
- ✔ Do you think you’ll never be rich?

A “yes” to any of these questions shows that you’re ceding your own wealth-building power to outside forces. If you rely on luck for your financial security, chances are, you’ll spend the rest of your life chasing pipe dreams, like winning the lottery or staking your little all on your favorite number at the roulette wheel. If you view wealth as a finite pie, you’re automatically competing with everyone else for your slice of it. If you think there’s something inherently bad or immoral about having money, you’ll find yourself fighting between wanting wealth and wanting to be a good person. If you feel guilty about wanting money, your guilt will prevent you from getting it. And if you believe you’ll never be rich, guess what? You’ll never be rich.

Changing your thinking

It takes some practice to convert negative thoughts into positive ones, partly because many negative thoughts seem so natural that you barely recognize them as negative. “I can’t afford it” is a good example of a veiled negative. On the surface, this sounds like a financially responsible attitude; you shouldn’t spend money on stuff you can’t afford, right?

But *can’t* is really a denial: You want something, and the answer from your wallet is, “No.” And then you feel deprived, and maybe even a little depressed. And if you watch someone else buying the thing your wallet said you can’t have, you feel envious and resentful. If these feelings are powerful enough, you may even end up buying the thing anyway, regardless of what it means for your current financial situation or your wealth-building plans.

Millionaires don’t think that they can’t afford something. Instead, millionaires figure out *how* they can afford something they want. This is part of the continual goal-setting that wealthy people do (see Chapter 3 for more on goals).



If you think millionaires have nothing to be envious about, remember that wealth is relative. If you’ve got a couple million but you’re hanging out with people who have tens of millions, they’re probably going to spend money on things that are out of your reach — at least for the time being.

Here are some other common negative thoughts and their positive counterparts:

Negative

I don’t make enough money.
 I want x .
 Others have more than I do.
 I want what they have.
 Times are tough.
 I need someone to help me.
 I’m dependent on my job.
 I can’t catch a break.
 Making money is too risky.
 I can’t do what I want to do.

Positive

How can I make more money?
 How much is x worth to me?
 If others can do it, so can I.
 What do I want for myself?
 What opportunities are there?
 I want to learn to do this myself.
 How can I rely less on my paycheck?
 What can I do to help myself?
 How can I minimize the risk?
 How can I do what I want to do?

Notice that most of the positive items are questions. There’s a good reason for that: Questions take you out of the powerless pity-me mode and get you thinking about things from a different angle.



Whenever you catch yourself thinking or saying negative things, rephrase the thought as a question. You may be surprised at how quickly your mood lifts, and how much more empowered you feel, especially as you get more adept at this technique.

Making a Plan

Even if you're living paycheck to paycheck, you can figure out a plan to change your situation. It won't necessarily be easy, and you won't see progress overnight. But just writing down a plan can open your mind to possibilities and choices that are harder to see when you're focused on getting by until the next payday.

There are three main elements to any financial plan (see Chapter 3 for more information):

- ✔ **Visualizing your future:** Imagining what your life can be five or ten years from now provides powerful inspiration to look for ways you can make your vision a reality. And keeping that vision in mind motivates you to do today the things that will get you closer to your goal.
- ✔ **Managing debt:** Some debt is good; it builds value for you. Other debt is onerous; it makes you overpay for the things you have. (See Chapter 6 for more on good debt and bad debt.) Managing debt means getting rid of the onerous kind and taking steps to ensure you don't have to rely on it in the future.
- ✔ **Starting a savings plan:** Even if all you can manage is \$5 a week to start with, the important thing is to start. Without savings, you're more likely to fall back on harmful debt when something unexpected comes up. And, without savings, you can't take advantage of other opportunities to grow your money, like investing in the stock market, starting your own business, or buying real estate.

Why did we put visualizing at the top of the list? Because, without that, managing your debt and starting on your savings don't take on their proper importance. Only when you decide where you want to be in the future can you take full charge of the financial decisions you make today.



Lots of things that are beyond your control can affect your finances. A useful and successful plan focuses on the things you can do to improve your situation, regardless of what's happening on Wall Street or Main Street.

Choosing Your Path to Wealth

Your financial plan gives you your destination. Now you just have to figure out how to get there.

There are nearly as many ways to create wealth as there are people thinking about how to do it. You can invest in the stock market or in real estate. You can invent a new way to play music, read the written word, or send television signals through the air. You can peddle your expertise in a specialized area, provide a service that no one else provides, or build the next international fast-food franchise. You can win money, marry money, or inherit money (although these things fall outside the “millionaire mindset” of taking control of your own financial future, because they all rely to at least some extent on outside forces to come true).

Whichever path you choose, keep these things in mind to improve your likelihood of success:

- ✔ **Will it make you enough money?** You can't put your financial plan into operation if you don't make enough money to cover your basic expenses *and* have some left over for your long-term goals.
- ✔ **Is it something you enjoy?** You're more likely to stick with something you like doing, and therefore you're more likely to stick with your financial plan. Engineers can make a lot of money, but if you hate math, it's probably not the right path for you. Besides, the world already has enough people who hate their jobs, self-employed or otherwise.
- ✔ **Is it something you have a talent for?** You might dream of making it big as a musician when you're playing “Guitar Hero” in your living room, but if you don't know an A chord from an anthill, that's probably just a fantasy. Figure out what you're good at and then look for opportunities where you can put your natural talent to work.
- ✔ **Is it something you have the skills for?** If you don't know anything about accounting except that the figures are supposed to balance, you probably don't want to set up your own accounting business. You can always learn, of course, but your learning curve will affect the timetable for your financial plan.



Pursuing money for its own sake is neither enriching nor rewarding. The happiest millionaires are those who combine work they truly enjoy with the financial goals they've set for themselves. They have a powerful desire for a fuller, better, more abundant life, and money is only part of the riches they seek.

Staying There When You Get There

What image do you have of being rich? Does it mean being able to buy whatever you want, whenever you want it? Does it mean acquiring a certain sum and then not thinking about money any more?

Both these ideas of wealth are common for poor people. Rich people may have the financial wherewithal to buy whatever they want whenever they want it, but they seldom do. For one thing, when you get in the habit of assigning your own value and priorities to the trappings of wealth, you never really get out of it. For another, rich people don't get that way by spending their money on every fleeting desire.

And we're going to let you in on a little secret about money: No one *ever* reaches a point where he doesn't have to think about it. If you don't have enough to meet your basic needs, you have to think about how to make more or how to trim your needs to match the money you have. When you have enough to cover your basic needs, you have to think about what you want to do with whatever is left over — whether you want the instant gratification that comes from spending it right away, or whether you want to save it or invest it for the future. When you have money to save or invest, you have to think about how you want to save or invest it. And when you have millions, you have to think about the best use of that money, now and for your future goals.

Wealth is like a perpetual-motion machine: It's always moving. Sometimes it goes forward, sometimes back, but it never stands still. How many times do you hear that the stock market was “flat” during a day's trading? Not often; it gains some or loses some nearly every day. Your money is the same. The only difference is how much or how little it moves every day.

Okay, you say, that makes sense if you're investing in the stock market. But what if I just took my money and stuffed it under my mattress? It would stand still then. No, it wouldn't. It would lose value, thanks to that insidious economic ogre called inflation. Even when the economy is good, inflation devalues your cash — not as deeply as it does during sluggish economic periods, but it still lowers your purchasing power.

Even a low inflation rate devalues your dollar. A 2 percent annual inflation rate means that what your dollar could buy a year ago will cost you \$1.02 today. Money in your mattress won't buy as much a year from now as it will today, so its value actually is going backward.



Inflation and the overall economy dictate how much harder your money has to work to grow in real value, and that means you continually have to think about the best choices you can make with your money, no matter how big your net worth is.

Things Wealthy People Know

You may think that rich people have some secret store of knowledge that enables them to accumulate wealth and that, without this secret knowledge, there's no way you can realize your financial dreams. The truth is, there are things wealthy people know — but there's no secret about it. Most of it is common sense, and a lot of it lies in your way of thinking.



Here are some of the things wealthy people know — things you need to know so you can start making your millions:

- ✔ **Your financial security is in your hands.** Wealthy people take charge of their finances; they don't entrust it to anyone else, because they know that their financial security isn't as important to anyone else. They listen to advice and ideas from others, but they never give anyone else the power to make decisions for them.
- ✔ **Knowledge is power.** Wealthy people educate themselves about their investment options. They learn how money works and how to make more money. They study, ask questions, and investigate. And if they don't understand something, they wait to act on it until they do understand it.
- ✔ **Your money should work for you.** Wealthy people think of money as a resource to be cultivated — that is, if you plant your money in the right place under the right conditions, it will yield more money. Certainly some of it is to be spent, but some of it serves as “seed” for future gains.
- ✔ **Being broke is temporary.** This is why you read of people who've made fortunes, lost them, and made new ones. Wealthy people know they have the desire and the skills to overcome financial challenges, so they don't fall into the bad habit of thinking things will never get better.
- ✔ **Risk can be managed.** To make your money work for you, you have to take some risk. But wealthy people aren't put off by risk; instead, they learn what needs to be done to keep risk as low as possible. When you have knowledge in your corner, you have the power to accurately assess risk and decide whether you want to take it.

- ✔ **Money should be talked about.** Taboos against discussing money only add to the false veil of secrecy drawn over building wealth. You can't learn how money works, or how to make it work for you, if you aren't even willing to talk about it.
- ✔ **Positive thinking leads to positive actions, yielding positive results.** Your attitude influences what you do, and what you do influences what you get. Wealthy people know that a positive attitude opens their eyes to possibilities they wouldn't consider if they had a negative attitude. Possibilities lead wealthy people to investigate, to learn as much as they can, and then to take action. And their actions lead them to their goals.



Take whatever steps you can take today on your wealth-building road, even if they're small ones. The old Chinese proverb applies to reaching your financial goals as well as to any other challenge: "A journey of a thousand miles begins with a single step."