

## 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, and 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 who 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, perhaps 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 mobile phone 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 very easy to harm our financial 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 had to upgrade.

Then there's the couch, which now doesn't jive 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 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, only to have it maddeningly roll back 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, which 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.

According to *The Wall Street Journal*, the average U.S. household in 2010 was strapped with \$7,490 in credit-card debt.<sup>1</sup> A *Huffington Post* business article reported in 2011 that 23 percent of Americans owed more money on their mortgages than their homes were actually worth. In Nevada, 66 percent of homeowners could sell their houses and still not have enough money to pay off their mortgages.<sup>2</sup>

Now here's where things get interesting. You might assume it's mostly low-salaried workers who overextend themselves. But consider this:

According to U.S. author and wealth researcher, Thomas Stanley, who has been surveying America's affluent since 1973, most U.S. 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.<sup>3</sup> In sharp contrast, 90 percent of those who met the defined criterion to be a millionaire—having a net worth of more than \$1 million—lived in homes valued at less than a million dollars.<sup>4</sup>

If there were such a thing as a financial Hippocratic oath, many people would be committing malpractice on themselves. 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 U.S. Census Bureau, the median U.S. household income in 2009 was \$50,221.<sup>5</sup> Based on my definition of wealth, if an American's investments can annually generate twice that amount (\$100,442 or more), then that person is rich.

Earning twice as much money as the median household in your home country—without having to work—is a financial luxury many people can only dream about.

## 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 four percent of that portfolio each year, equating to roughly \$100,000 annually, and never run out of money. If his investments are able to continue growing by six to seven 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.

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 I would suggest that John wasn't rich at all, even if his take-home pay was \$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 to have a purposeful plan, and watching what we spend so we can invest 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 the course miserably? Professional basketball players.

Most National Basketball Association (NBA) players make millions of dollars a year, but are they rich? Most of them 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 by reminding them that 60 percent of retired NBA players go broke five years after they stop collecting their enormous NBA paychecks.<sup>6</sup> 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 often 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 when 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 seemingly insatiable appetite for fine things will likely lead to a degree of suffering—especially 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 give yourselves decent odds at 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 U.S. 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 U.S. millionaires was US\$31,367.<sup>7</sup> Forget about expensive European darlings such as BMW, Mercedes-Benz, and Jaguar, as the favorite steeds of the rich. When Thomas Stanley polled U.S. millionaires, the most popular brand of car was the humdrum Toyota.<sup>8</sup>

Many of the wannabe rich try to outdo their peers in the car-spending department, easily parting with \$40,000 and upward on a luxury cruiser, compared with the \$31,367 the average U.S. millionaire pays. 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.<sup>9</sup> The average decamillionaire—a person with a net worth of more than \$10 million—paid \$41,997 for his or her latest car.<sup>10</sup> If you find yourself at an upscale mall, check out the parking lot and you'll see many vehicles worth more than

\$41,997. Some will even 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 who 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 believed in investing in assets such as houses or stocks that could appreciate over time. Anything destined to lose money, such as cars, he deemed a liability.

“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 who worked in management. “You see that guy getting into that BMW?”

I 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 talked about turning 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, citing himself as proof. I expected that from someone both financially and mechanically inclined. My biggest question at the time was whether it could work for me—a guy about as mechanically 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 recommended that I 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 would 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 went out in search of 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 invaluable source was Phil Edmonston's annually updated guide, *Lemon-Aid Used Cars*. Certain cars and models are bona fide lemons while others can be great little workhorses. I would spend a few minutes each morning looking through the classifieds in the local paper and 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, paying between \$1,500 to \$5,000 for a car and driving it for at least 12 months without putting any extra money into it. 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 their money, and 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. Using prudent purchasing strategies you can turn the savings into a small fortune by investing the money in ways that I'll explain later in this book.

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 the very best of 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. In 2002, 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 and wouldn't entertain anything that didn't fit all of 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 turnaround 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. What's more, the money you save can be effectively invested to build wealth.

## 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 aspiring rich people have to learn is that the banks aren't really their friends. They're out to make money for their shareholders. To do so, they often hire the kindest or most convincing salespeople they can to persuade you to buy lousy

investment products (which I'll discuss in Chapter 3) while sugarcoating bloated house loans to keep you paying too many years of interest.

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 seven percent in interest a year. She knew at the time, that a seven 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.

U.S. 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.<sup>10</sup>

I teach at a private school in Singapore where most of the expat students come from affluent families. I tell 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.

In Thomas Stanley's classic book, *The Millionaire Next Door*, he explains that 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.<sup>11</sup>

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. Stanley studied a broad cross section of educated professionals in their 40s and 50s, and 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 school teachers and college professors.<sup>12</sup>

## How Did I Become a Millionaire?

My dad was a mechanic, and 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 a desired object costing "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. We own a classic Mercedes-Benz and a utilitarian Mazda. We travel prolifically, having visited more than 25 different countries. We live in a luxurious condominium with a swimming pool, squash courts, tennis courts, and a weight room. We enjoy massages every week, 52 weeks a year. If our health holds out, we'll enjoy these fruits 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 to most people, 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 seeking 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. *Voilà!* 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 escaping to the Sunbelt for winter and needed someone to look after their homes for the season.

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 in cash, if I had wanted to, and I could have rented an ocean-side 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 only got 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. 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. Then I redirected the money enthusiastically 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, who 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

Responsible spending habits are often overlooked by people who want to be rich. 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 2015."

Most people prefer their hobbies to their workplace, their children to their BlackBerries, and their quiet reflective moments to their office meetings. I'm certainly among them—which is the reason I learned to control my spending and invest my money effectively.

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 neighbor does, 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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2. Derek Kravitz, "Number of Underwater Mortgages Rise as More Homeowners Fall Behind," *The Huffington Post*, March 8, 2011, accessed April 2, 2011, [http://www.huffingtonpost.com/2011/03/08/number-of-underwater-mort\\_n\\_835000.html](http://www.huffingtonpost.com/2011/03/08/number-of-underwater-mort_n_835000.html).
3. Thomas Stanley, *Stop Acting Rich* (Hoboken, New Jersey: John Wiley & Sons, 2009), 9.
4. *Ibid.*, 45.
5. "Household Income for States: 2008 and 2009," U.S. Census Bureau, accessed April 2, 2011, <http://www.census.gov/prod/2010pubs/acsbr09-2.pdf>.
6. Dave Feschuk, "NBA Players' Financial Security No Slam Dunk," *Toronto Star*, January 31, 2008, accessed April 2, 2011, <http://www.thestar.com/sports/article/299119>.
7. Stanley, *Stop Acting Rich*, 204.
8. *Ibid.*
9. "Warren Buffett Vouches for GM with Caddy Purchase," *LeftLane*, June 6, 2006, accessed October 2010, <http://www.leftlanenews.com/warren-buffett-vouches-for-gm-with-caddy-purchase.html>.
10. Stanley, *Stop Acting Rich*, 204.
11. Thomas Stanley and William Danko, *The Millionaire Next Door* (New York, New York: Simon & Schuster, 1996), 9.
12. *Ibid.*, 151.