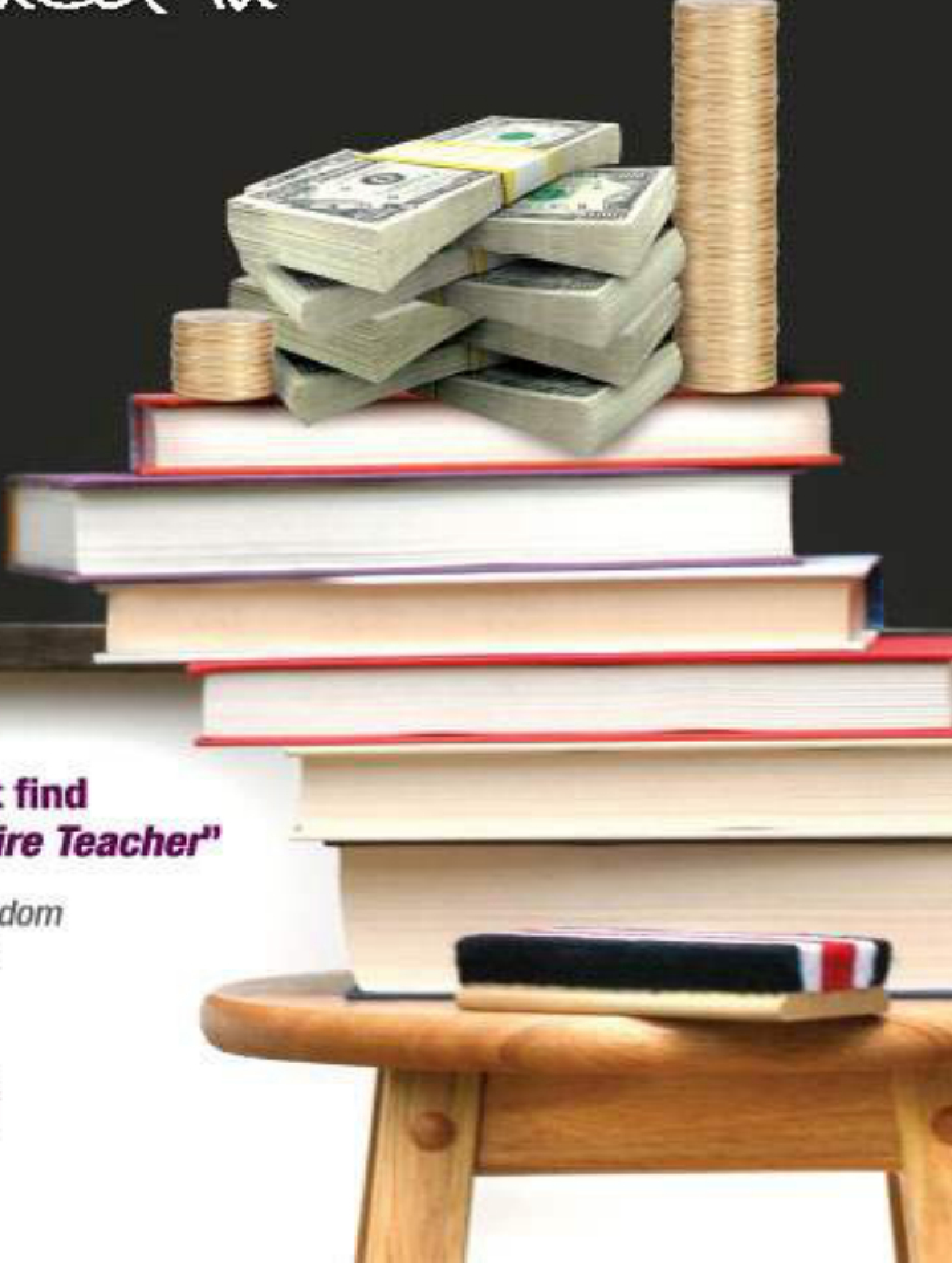
Millionaire Teacher

The Nine Rules of Wealth You Should Have Learned in School



"**The newbie investor will not find a better guide than *Millionaire Teacher***"

Burton G. Malkiel, Author of *A Random Walk Down Wall Street 10th edition*

Andrew Hallam

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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.[5] 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.[6] 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.