I WILL TEACH YOU TO BE RICH BY RAMIT SETHI | BOOK SUMMARY

'I Will Teach You to be Rich' helps you identify where your money is going and gets it working for you so that you can save for the things that will bring you true happiness and lead a rich life. The six-week program identifies how to create a system for optimising your bill payments, savings and investments so that your money goes to all the right places with less than an hour of maintenance a month.

WEEK ONE: OPTIMISE YOUR CREDIT CARDS

Building good credit is the first step in creating an infrastructure for being rich. Our biggest purchases are often made on credit and being credit-savvy can help you save thousands on these purchases. Credit cards are the most common source of credit which most people own and yet so many aren't using them correctly. There are two important components of credit: 1) your credit report and 2) your credit score. Your credit report gives lenders basic information about your credit history, accounts, recent transactions and more. Your credit score is a number between 300 and 850 that represents how risky of an investment you are to lenders (the higher the better). Improving your credit rating will help you save money on large purchases later. With these two things, lenders e.g. banks can decide whether to lend money to you or not. This is incredibly important if you ever want to buy a house, take out a loan or make purchases on credit (i.e. have a credit card). Credit cards can be very useful to have. If you pay off your bill in full on time, you will avoid ever having to pay interest and the credit card effectively gives you a free short-term loan. However, fail to pay off your full balance on time and the interest and fees very quickly push up the cost of a purchase. Go through the following action steps to make sure you use your credit cards most effectively and avoid some of the downfalls that can catch you out.

ACTION STEPS:

- Get your credit report and credit score (one hour). Check them to make sure there are no errors and to get familiar with your credit. There are lots of online resources you can use to find this (some are paid). Choose the one most appropriate for your country.
- Set up your credit card (two hours). If you already have one, call and make sure it's a no-fee card.
- Make sure you're handling your credit cards effectively (three hours). Set up an automatic payment so your credit card bill is paid off in full every month. (Even if

you're in debt, set up an automatic payment for the largest amount you can afford.) Get your fees waived. Apply for more credit if you're debt-free. Make sure you're getting the most out of your cards.
- If you have debt, start paying it off (one week to plan, then start paying more). Not tomorrow, not next week, today: Give yourself one week to figure out how much you owe, call the lender to negotiate down the APR "or restructure your payments (in the case of student loans), and set up your automatic payment with more money than you're paying now. Getting out of debt quickly will be the best financial decision you ever make.

WEEK TWO: BEAT THE BANKS

Your bank account forms the backbone of your financial system. Therefore it's worth spending some time setting up the right account and making sure you're not paying unnecessary fees. The most common account to have is a checking account. This is like an email inbox where your income goes into before being filtered out into your various savings and investment accounts. You want to choose a checking account that pays interest (similar to a savings account) that also has no fees. Think of savings accounts as places for short-term (one month) to midterm savings (five years). You want to use your savings account to save up for things like a vacation, Christmas gifts, or even longer-term items like a wedding or down payment on a house. The main difference between your checking and savings accounts is that you regularly withdraw from your checking account, whereas you rarely withdraw from your savings account.

ACTION STEPS:

- Open a checking account or assess the one you already have (one hour). Find an account that works for you, call the bank (or go in), and open the account. If you've already got one, make absolutely sure it is a no-fee, no-minimum account. How? Review your last bank statement or, if you don't have that, call your bank and say, "I'd like to confirm that my bank account has no fees and no minimums whatsoever. Can you confirm that?" If you discover you've been paying fees, use the negotiating tactic on page 64 to get your account switched to a no-fee, no-minimum account. Be aggressive in threatening to leave if they don't switch you. If you decide to switch, check out www.bankswitcher.com.
- Open an online high-interest savings account (three hours). You'll earn more in interest and pay less in fees. Plus, it's psychologically powerful to have your savings account separate from your checking: You're much less likely to dip into your savings if it's not immediately reachable through your normal banking. Spend a couple of hours comparing the banks I recommended on page 61.
- Optional: Open an online checking account (two hours). This isn't absolutely

necessary—but if you're ready to be more advanced and earn a higher interest rate, go ahead and do it. Remember, the main benefits of an online checking account are a high interest rate and fewer tricky fees. My favorite checking account: Schwab Investor Checking.

- Fund your online savings account (one hour). Leave one and a half months of living expenses in your checking account, or as close to it as you can manage. (This prevents overdrafts as you're getting used to transferring money between accounts. Remember, most transfers take three to five business days.) Transfer the rest to your savings account—even if it's only $20.

WEEK THREE: GET READY TO INVEST

Investing can seem intimidating. This chapter builds your confidence by helping you open an investment account that looks after itself. Post the global financial crisis (GFC) investing can seem like a terrible idea, but the reality is that now is the best time to buy as investments are effectively on sale. By opening an investment account, you give yourself access to the biggest moneymaking vehicle in the history of the world: the stock market. There are five steps you should take to start investing and each one builds on the last. Start with 1 and move on when you've mastered each step: 1) get your employer to transfer a portion of your income into a 401(k) (also known as KiwiSaver in New Zealand). Make sure you are contributing enough to get a 100% contribution match from your employer. This is free money and a with a 100% return on every dollar you invest, there is no better investment. The investment is also automatically made for you each month. 2) Pay off your credit card debt. By doing this you are increasing the amount of money you can play with. 3) Open up a Roth IRA (an 'Individual Retirement Account', also known as an 'Investment Fund' in NZ) and start contributing as much as possible. By investing post-tax income you don't usually pay tax when you withdraw your earnings. You can also access your earnings more frequently than 401(k) earnings. 4) If you have money left, contribute to your 401(k) again. 5) Now invest in a non-retirement fund account or yourself e.g. Start a company.

ACTION STEPS:

- Open your 401(k) (three hours). Get the paperwork from your HR manager and fill it out. Check to see if your employer offers a match. If it does, contribute enough to get the full match. If not, leave your 401(k) account open but contribute nothing.
- Come up with a plan to pay off your debt (three hours). Get serious about getting out of debt. Run a calculation from www.dinkytown.net to see how much you could save by paying an extra $100 or $200 per month. Also revisit page 35 in Chapter 1 and see page 220 in Chapter 9 for details on how to pay off your credit

card debt and student loans.
- Open a Roth IRA and set up automatic payment (one hour). Send as much as you can, but even $50/month is fine. We'll dive into the details a little later.

WEEK FOUR: CONSCIOUS SPENDING

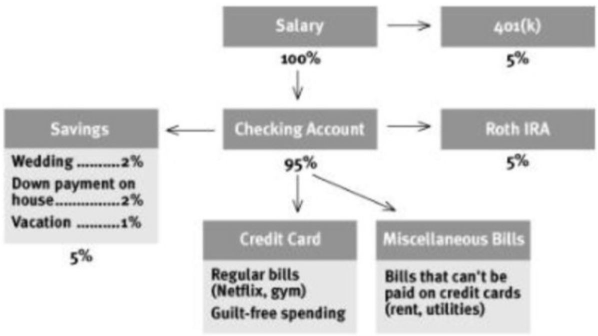
"Create a budget" is one of the common pieces of advice you'll hear from finance "experts", except there's just one problem with this piece of advice; it doesn't work and no one likes tracking every penny. Instead, focus on conscious spending. This is where you first make sure your saving and investment accounts are looked after and you then use your remaining income as guilt free spending money. The only catch is that you have to decide what you're going to spend your money on ahead of time. This means being frugal (which is different from being cheap). Being cheap is when you save money on everything, whereas frugality means saving money on most things so you can spend more on a few things. A simple example would be saving money on $2.50 cokes every day so you can go to the movies once a week. This is conscious spending in a nutshell; deciding what you value and what you can sacrifice. It's fine to spend $5,000 a year on shoes if you're contributing to a 401(k), an investment account and saving on things you don't value e.g. Having a flash apartment with high rent.

ACTION STEPS:

- Get your paycheck, determine what you've been spending, and figure out what your Conscious Spending Plan should look like (thirty minutes). Do this now and don't overthink it. Just break your take-home income into chunks of fixed costs (50–60 percent), long-term investments (10 percent), savings goals (5–10 percent), and guilt-free spending money (20–35 percent). How does it fit?
- Optimise your spending (two hours). Dig in deeper to your savings goals and monthly fixed costs. Try the À La Carte Method. How much does your insurance actually cost—can you improve on that? How much will you spend for Christmas gifts and vacation this year? Break these expenses down into monthly chunks, then recalculate your plan.
- Pick your big wins (five hours). Open an account at Mint or Quicken Online. Assuming you want to cut your spending by $200/month, what one or two big wins will you target? Start using the envelope system.
- Maintain your Conscious Spending Plan (one hour per week). Enter any cash receipts into your system each week. Tweak the percentages you send to each part of your spending plan (we'll cover this in detail in the next chapter). And most important, make sure your system is realistic enough that you'll stick with it for the long-term.

WEEK FIVE: SAVE WHILE SLEEPING

Now that you have your savings and an investment account set up and you're consciously spending it's time to automate this system so your income goes to the necessary accounts as it's needed. By spending a little time on setting up your system now you can relax later knowing that your bills will get paid and you never have to worry about going into overdraft. The system works like this: as you're paid each week/fortnight/month a portion of your income is deducted for your 401(k) before the remainder gets deposited into your checking account. From here a portion is symphonies off for investments and savings. Your credit card, which you have set up to pay your fixed costs (e.g. Utilities bills, Internet etc…) is them paid from your checking account via a direct debit each month. The remainder becomes your guilt free spending money. Here's what the system looks like graphically:



Note: For simplicity, this diagram does not include taxes.

ACTION STEPS:

- List all your accounts in one place (one hour). As you start linking accounts to one another, you'll need to log in to all of them. Make your life easier by getting all the login information in one place. You'll be tweaking your accounts over the next few months, so save all the login information somewhere that you can access from home and work.
- Link your accounts together (three to five days). To set up your Automatic Money Flow, the first step is linking accounts together. The links are free and electronic, but allow three to five days for the accounts to verify the links.
- Set up your Automatic Money Flow (five hours). Once your accounts are linked together, set up the core of your Automatic Money Flow: automatic payments. Your system will automatically send money to your investing accounts, your savings account, and your fixed costs, and leave you money for guilt-free spending. Remember, you'll want to reset your billing cycles so you can create a well-timed Automatic Money Flow.

WEEK SIX: THE MYTHS OF FINANCIAL EXPERTISE

The finance industry can seem like a very complicated place and intimidates a lot of people. That said, the vast majority of twenty somethings can earn more than the so-called "experts" by investing on their own. No financial adviser. No fund manager. Just automatic investments in low-cost funds (which will be covered in the next chapter). The truth is fund managers can't predict what the market is going to do and fail to outperform the market 75% of the time. Actively managed funds like mutual funds (basically a collection of stocks) come with huge fees that a fund manager takes. Index funds (similar to mutual funds but it's managed by a computer which matches what the markets doing) can provide better returns with much lower fees. So ignore the pundits' predictions. Ignore the last year or two of a fund's performance. A fund manager may be able to perform very well over the short term. But over the long-term he will almost never beat the market—because of expenses, fees, and the growing mathematical difficulty of picking outperforming stocks.

WEEK SIX: INVESTING ISN'T ONY FOR RICH PEOPLE

The goal of this chapter is to help you pick a simple and easy to maintain investment portfolio. We'll focus on automatic investing in low-cost funds where you spend most of your time working out how your funds are distributed and automating the contributions to your portfolio. When investing, it's important to diversify writhing an asset class (e.g. buying a few stocks) but also diversify between assets (e.g. stocks and bonds). Generally, as you get older, you weight your portfolio towards less risky, more stable assets like bonds and invest less in riskier assets like stocks. It's okay to be a little riskier when you're younger as you have the gift of time on your side and this can help mitigate the losses that you may experience with riskier assets. Index funds can be a good option as they're low-cost (making them cheaper than mutual funds) but are a little hands on as you'll need to invest in multiple funds in order to diversify your portfolio. The best option is a lifecycle fund which automatically diversifies your portfolio based on your age. Lifecycle funds are actually "funds-of-funds," or collections made up of other funds, which offer automatic diversification. For example, a lifecycle fund might include large-cap, mid-cap, small-cap, and international funds. (And those funds, in turn, will hold stocks from each of those areas.) In other words, your lifecycle fund will own many funds, which all own stocks and bonds. Lifecycle funds are different from index funds, which are also low cost but require you to own multiple funds if you want a comprehensive asset allocation. Multiple funds mean you have to rebalance your funds regularly, usually every year, which is a laborious process of redistributing your money to different investments so you get back to your target asset allocation. What a pain. Follow the steps below to pick your investment style and set up your automatic investment system.

ACTION STEPS:

- Figure out your investing style (30 minutes). Decide whether you want the simple investment options of a lifecycle fund, or more control (and the complexity) of index funds. I recommend a lifecycle fund as the 85 Percent Solution.
- Research your investments (3 hours to 1 week). If you've decided on a lifecycle fund, research the funds from Vanguard, T. Rowe Price, and Schwab (see page 87 for contact info). This should take a few hours. If you're constructing your own portfolio, it will take more time (and more money to meet the minimums of each fund). Use the Swensen model as a basic template and prioritize which funds you'll buy today and which you'll get later. Once you decide on an asset allocation, research funds using a fund screener like the one in your investing account, Morningstar X-Ray, or the great one on www.etrade.com.
- Buy your fund(s) (1 hour to 1 week). Buying a lifecycle fund is easy: First, transfer money to your investment account. (For 401(k)s, you should already be directing money from each paycheck into your 401(k) account. For Roth IRAs, this money should be waiting in your savings account from Chapter 5. If you don't have cash lying around to invest, set a savings goal and wait until you have enough to invest in your first fund.) Once the money is ready and has been transferred to your investment account, log in to your account, enter the ticker symbol, and you're finished. If you're buying individual index funds, you'll usually need to buy one at a time and set up savings accounts for the others.

EASY MAINTENANCE

The hard work has been done, now it's time to optimise your system. One of the best things you can do after setting up your new personal finance system is to feed it as much as you can. Take a look at your conscious spending plan and see where you can squeeze a little more out of your spending to put into savings or investment. With the effects of compounding growth, the more you put in now, the far greater the benefits later.

You can now sit back and relax. Don't worry about logging into your investment account every day. Instead limit yourself to checking up on your accounts once for a month. That's the benefit of this automatic system, it doesn't require daily maintenance and it will grow naturally over time. If you have an index fund, be sure to rebalance the asset allocation at least once a year.

Be careful about selling out of your investments too soon. In your twenties and thirties, there are only three reasons to sell your investments: You need the money for an emergency, you made a terrible investment and it's consistently underperforming the market, or you've achieved your specific goal for investing.