The Richest Man In Babylon Summary

In 1926, George Clason published a series of pamphlets written in parables that took place in the ancient city of Babylon. These stories eventually turned into a financial classic known as **The Richest Man in Babylon**. Even though it was written almost a century ago, the book is still well known because of its timeless principles on wealth creation.

Background

Babylon was once the richest city in the world, known for its lavish houses and palaces all protected behind massive walls. It was founded around 2300 B.C. and located along the Euphrates River in present-day Iraq..

It created fertile farmland where once there had been a desert through the use of irrigation. All forms of lending and borrowing within the city were highly developed thus making it extremely prosperous. Most people living there, including slaves, were allowed to freely make money.

The success of Babylon inspired George Clason to write several stories including what's become known as **The Richest Man In Babylon**. Many of his stories discussed principles of finance and wealth-building and were distributed by banks, insurance companies and other employers to teach the benefits of saving and hard work.

The story is about two friends, Bansir, a chariot builder and Kobbi, a musician. They both were good at their trade but had no money. (Sound like anyone you know?) One day Kobbi had an idea to visit their childhood friend, Arkad, who was the richest man in Babylon.

The two set out on a journey and eventually met with Arkad. During their time together, they asked him why he thought they had no money to show for all of the hard labor they've performed all of their lives.

The lessons that Arkad provided, which he calls the ***seven cures to a lean purse***, are wealth building habits that anyone can follow to build a solid financial foundation.

7 Wealth Building Lessons From The Richest Man In Babylon

1) Pay Yourself First ("*Start thy purse to fattening."*)

The greatest lesson in the book is this first lesson. Arkad was faced with a similar situation as Bansir and Kobbi. He told them a story of how he once was a scribe with no money and sought out advice from a wealthy man. This man gave him the secret to wealth in exchange for his work on a clay inscription.

His secret was that he found the road to wealth when he decided that a part of all he earned was his to keep. And that anyone can do that by simply paying themselves first before spending any money.

The IRS REALLY gets this concept as they pay themselves first with our money during each pay period. Are you doing everything you can to lower your taxes?

Paying yourself first is also one of the key lessons David Bach teaches in his books, The Automatic Millionaire and The Latte Factor.

Clason recommends that we pay ourselves at least 10% of all that we earn. I suggest 20% or more. If you're not diligent enough to do this yourself, have someone else set it up for you so that it's automated each month.

The difference between wealthy and poor people is knowing this first rule. **Wealthy people pay themselves first while poor people don't**.

2) Live below your means *("Control thy expenditures")*

This is one of the concepts that young docs and high-income professionals that I coach can't seem to grasp; live on less than you earn. When I recommend this, the excuses start flying such as, "*It's hard because I have so many expenses*" or "*My spouse pays the bills and I'm not sure what's happening with the money each month.*"

It's hard to reach financial freedom if both spouses aren't on the same page. If I can get to someone coming out of residency to encourage them to live on their resident's salary 3-5 years, then they'd see success much sooner in life. It would also help them to ingrain this habit – live on less than they make.

According to Becker's Hospital Review, the overall physician salary is **$300,000**. If you follow Rule #1 and save at least 10% ($30,000), then you'd have $270,000 to live on. If you can't live on $270K a year, you have bigger problems that need addressing.

Most millionaires state that finance is 80% behavior and 20% knowledge. Meaning, you don't have to be a doctor to become rich, simply adopt and apply good money habits.

3) Make your money work for you. *("Make thy gold multiply")*

This lesson reminds me of two verses about investing in the Bible:

Proverbs 21:20 – "*The wise store up choice food and olive oil, but fools gulp theirs down.*"

1 Corinthians 16:2 – "*On the first day of every week, each one of you should set aside a sum of money in keeping with your income, saving it up, so that when I come no collections will have to be made.*"

Put your money to work by making smart investments and taking advantage of time and compounding interest.

4) Insure to protect our wealth. ("Guard thy treasures from loss.")

In the book, Arkad encourages the protection of one's wealth from loss. This is fantastic advice that, unfortunately, many younger docs don't consider when starting out. I remember in the early days of practicing when all I could do was make ends meet and pay off loads of student loan debt.

Getting all of the adequate insurance policies needed wasn't on my radar.

Learn from my mistake and make sure that you have all of the insurance coverage in place as soon as you start practicing. Insurance helps safeguard our wealth by absorbing potential loss and mitigating our financial situation.

There are many types of polices that you should consider. Make sure you research those that you need or find an agent that can guide you.

Another thing you should do is re-evaluate your policies on an annual basis. For instance, we noticed two years ago that our health insurance premiums were going to triple. I began researching online and with others and ended up dropping it and going with a much more affordable option, MediShare.

You can read about it in more detail here.

5) Our home is our biggest expense. ("Make of thy dwelling a profitable investment")

Of all of the lessons mentioned in the book, this one could be the most debatable. I understand the principle behind it; rather than pay a landlord rent each month, it's better to pay a mortgage to eventually own a home.

Our homes are potentially the biggest expense we have to tackle and there's nothing wrong with following this lesson as long as we approach it correctly.

If you follow Dave Ramsey's real estate principle, then you know:

> *When you buy a home, put at least 20% down on a 15 year, fixed mortgage. The monthly payment should be **no more than** 25% of your take home monthly income.*

Many people got burned in 2008 when they decided to take on huge mortgages. Once the real estate market tanked, they were left with homes that lost their value and many went into foreclosure.

If you follow Lesson #2 and live below your means, you'll be in much better financial shape when it comes to making larger purchases in the future.

6) Have a retirement plan. ("Insure a future income.")

A 25 year old earning an annual salary of $40,000 with an annual raise of say 3% will have earned an estimated $3 million if they retire by age 65. That's about 40 years of working and earning.

We should have a retirement plan if we want to retire comfortably. We can do that by setting aside money to be invested for our retirement. There are many retirement investment plans out there such as 401K, Traditional IRA, Roth, etc.

The younger we can start putting money away for our retirement the better. By doing this, we take advantage of a magical thing called 'compounding interest'.

Our net-worth does not equal our self-worth. We need to keep them separated.
Compounding interest is known as the eight wonder of the world. Benjamin Franklin knew of this knowledge as well.

Did you know that he left 1,000 pounds (about $5,000 in today's money) when he died to a trust? He bequeathed that trust and left it to his favorite cities Philadelphia and Boston with the provision that the money was to remain untouched for as long as 200 years.

What was left in the trust after it grew was the amount of $2 million given to Philadelphia and $5 million for Boston. The lesson we can learn from this is to **make time work for us** when we plan for retirement by starting early. Time can be our retirement's greatest friend.

> *"*Remember that money is of a prolific generating nature. Money can beget money, and its offspring can beget more*." – Benjamin Franklin*

7) Invest in ourselves. ("Increase thy ability to earn.")

One of the best ways we can continue to increase what we earn is by investing in ourselves. This is something that Grant Cardone continues to tell his audience each week when they call into his show.

So many of them are eager to start investing in real estate and other investments but he cautions them to slow down, invest in themselves, and get good at doing what they know how to do BEFORE doing anything else.

There's literally no excuse regarding lack of information. Why? We have access to literally any information we need via the internet. What used to take old folks like me hours to reach at libraries or encyclopedias now takes second.

Summary

Here's a quick recap of the 7 wealth lessons:

1. Pay yourself first
2. Live below your means
3. Make your money work for you
4. Insure against loss
5. Our home is our biggest expense
6. Have retirement plan
7. Invest in yourself