I Will Teach You To Be Rich

Ramit Sethi

Chapter 1: Optimize Your Credit Cards

The Excact Credit Cards I Use

If you're booking for travel or eating out, use a travel card to maximize rewards. For everything else, use a cash back card.

The card I use for travel and eating out is the Chase Sapphire Reserve. For everything else, I use an Alliant cash back card. And for business, I use a Capital One cash back business card. For extra benefits, I have an Amex Platinum card.

Margin Note: + Credit Report

Chapter 2: Beat The Banks

The Best Accounts (Including the Ones I Use)

Schwab Bank Investor Checking with Schwab One Brokerage Account (schwab.com/banking): This is the checking account I use. In my opinion, this is the single best checking account available. Schwab offers a stunningly good account with no fees, no minimums, no-fee overdraft protection, free bill pay, free checks, an ATM card, automatic transfers, and - best of all - unlimited reimbursement of any ATM usage.

Capital One 360 Savings (capitalone.com/bank): This is the savings account I use. It lets you create virtual sub-savings accounts, in which you can specify savings goals like an emergency fund, wedding, or down payment for a house.

Chapter 3: Get Ready to Invest

The Ladder of Personal Finance

Rung 5: HSA: If you have access to a Health Savings Account (HSA), it can also double as an investment account with incredible tax features that few people know about. For more on HSAs, see page 120. If you've completed Rung 4 and you still have money left over, take advantage of this account.

HSAs: Your Secret Investing Weapon

The truth is that an HSA can be an incredibly powerful investment account because you can contribute tax-free money, take a tax deduction, and then grow it tax-free - it's a triple whammy. If you use this account correctly, you will earn hundreds of thousands of dollars.

Here are the things to be aware of: If you withdraw funds for non-qualified medical expenses before you're 65, you'll be charged a penalty. If you use your HSA funds for non-qualified medical expenses after age 65, it's taxable. Finally, some people see HSAs as such a good deal that they pay for as many medical expenses as possible out of pocket, since they prefer to let their HSA investments grow.

Do you see how powerful any one of these approaches can be? And do you see why an HSA can supercharge your investments? It's incredibly smart to "layer" these investing options on top of each other. Contributing to an HSA tax-free and investing the money you don't use eliminates the "drag" of taxes on your growth, which compounds faster than in almost any other investment account.

If you have the ability and the funds, you should absolutely use an HSA for investments. Just be sure the HSA you open offers solid funds. A good rule of thumb is they should offer low-cost funds, ideally a target date fund or a "total stock market" fund. More on this in Chapter 7.

Chapter 4: Conscious Spending

Forget budgeting. Instead, let's create a Conscious Spending Plan. What if you could make sure you were saving and investing enough money each month, and then use the rest of your money guilt-free for whatever you want? Well, you can - with some work. The only catch is that you have to plan where you want your money to go *ahead of time* (even if it's on the back of a napkin). Would it be worth taking a couple of hours to get set up so you can spend on the things you love? It will automate your savings and investing and make your spending decisions crystal clear.

Spend on What You Love

Conscious spending isn't about cutting your spending on everything. That approach wouldn't last two days. It is, quite simply, about choosing the things you love enough to spend extravagantly on - and then cutting costs mercilessly on the things you don't love.

Over the last three years, I've become less guilty about buying lattes and buying lunch a few times a week because I am now conscious of where my money goes. I allocate up to $300 for eating out and coffee each month, and when I exhaust this, I turn to drinking instant coffee and packing my lunch. --James Cavallo, 27

Use Psychology Against Yourself to Save

One of my readers makes $50,000/year and, after working through some of my suggestions, realized 30 percent of her after-tax income goes to subscriptions. Subscriptions can be anything from Netflix to cell phone plans to your cable bill. They are a business's best friend: They let companies make a predictable income off you - automatically.

What They're Doing Right

Each of them pays themselves first, whether it's $500/month or $2,000/month. They've built an infrastructure to do this automatically so that by the time the money ends up in their checking account, they know they can spend it guilt-free.

Here's the idea: A Conscious Spending Plan involves four major buckets where your money will go: fixed costs, investments, savings, and guilt-free spending money.

Categories of Spending

Fixed Costs: Rent, utilities, debt, etc.	50-60% of take-home pay
Investments: 401(k), Roth IRA, etc.	10%
Savings Goals: Vacation, gifts, house down payment, emergency fund, etc.	5-10%
Guilt-Free Spending Money: Dining out, drinking, movies, clothes, shoes, etc.	20-35%

The 60 Percent Solution

Richard Jenkins, the former editor-in-chief of MSN Money, wrote an article called "The 60 Percent Solution," which suggested that you split your money into simpoole buckets, with the largest, basic expenses (food, bills, taxes), making up 60 percent of your gross income. The remaining 40 percent would be split four ways:

1. Retirement savings (10 percent)
2. Long-term savings (10 percent)
3. Short-term savings for irregular expenses (10 percent)
4. Fun money (10 percent)

Optimizing Your Conscious Spending Plan

Go For Big Wins

Optimizing your spending can seem overwhelming, but it doesn't have to be. You can do an 80/20 analysis, which often reveals that 80 percent of what you overspend is used toward 20 percent of your expenditures. That's why I prefer to focus on one or two big problem areas and solve those instead of trying to cut 5 percent out of a bunch of smaller areas.

Here's how I do this with my own spending. Over time, I've found that most of my expenses are predictable. I spend the same amount on rent every month, roughly the same on my subway pass, and even basically the same monthly amount on gifts (averaged out over a year).

Since I know the annual average, I don't need to waste time agonizing over a $12 movie ticket I buy here or there.

But I *do* want to zoom in on those two or three spending areas that vary wildly - and that I want to control.

My Tools of the Trade

Some people use Personal Capital (personalcapital.com) but I just use my Vanguard account. Every major brokerage account lets you add outside investments for a unified view.

I used to use Mint, but now I don't and neither should you. My next step was to use YNAB, which is much better.

I also used to track my cash spending by hand. Because I rarely spend cash anymore - it's pretty much only for tips - I don't do that.

For investing, specifically, for my asset allocation - I use Vanguard. As my net worth has increased, I enlisted the help of a "Personal CFO" who can report my key numbers once a month. (More on this in my course, Advanced Personal Finances, on my website.)

I use myfico.com to get my credit score and report each year. Yes, I could get it for free, but this is more convenient for me.

To cut back on mail. I've opted out of credit card offers at optoutprescreen.com, and I use a service called Catalog Choice (catalogchoice.org) to keep from getting unwanted catalogs in the mail.

So that's where I focus.

To run an 80/20 analysis yourself, do a Google search for "conducting a Pareto analysis."

Let's take an example: Brian takes home $48,000 per year after taxes, or $4,000/month. According to his Conscious Spending Plan, here's how his spending should look:

- Monthly fixed costs (60 percent) $2,400
- Long-term investments (10 percent): $400/month
- Savings goals (10 percent): $400/month
- Guilt-free spending money (20 percent): $800/month

Brian's problem is that $800 isn't enough for his spending money. When he looks at what he spent for the last couple of months, he finds that he actually needs $1,050 every month for spending money. What should he do?

Cool Trick: Quickly Discover How Much You Make

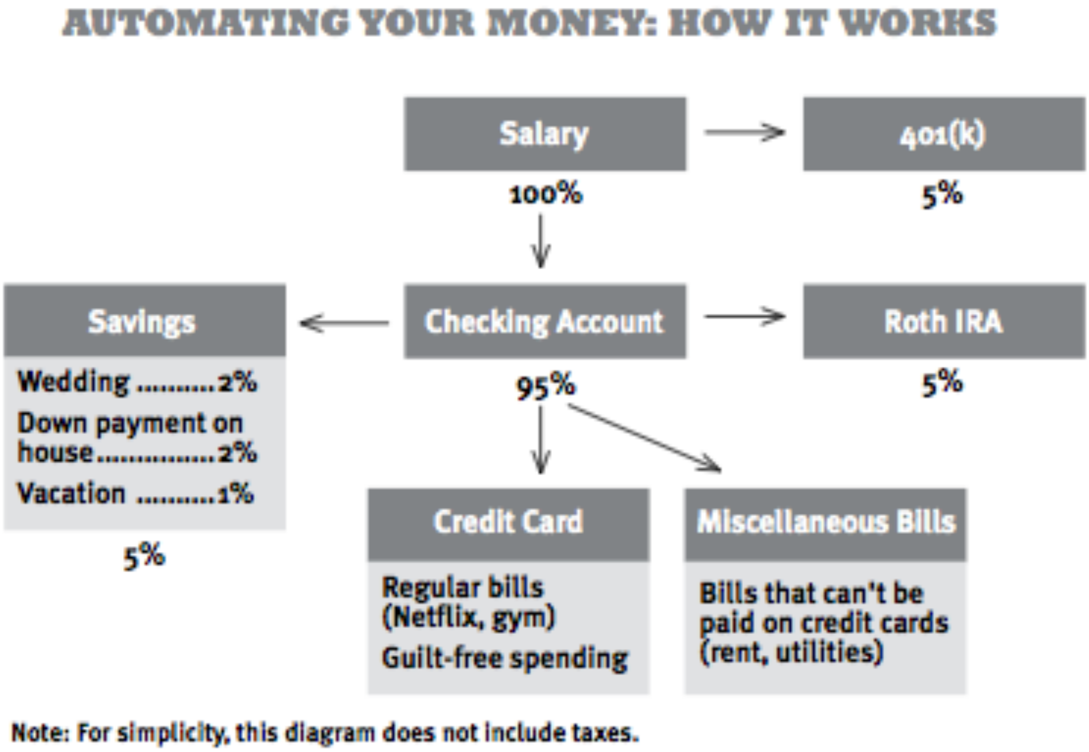
To find your annual salary, just take your hourly rate, double it, and add three zeros to the end. If you make $20/hour, you make approximately $40,000/year. If you make $30/hour, you make approximately $60,000/year.

This also works in reverse. To find your hourly rate, divide your salary by two and drop the three zeros. So $50,000/year becomes approximately $25/hour.

The Beauty of a Conscious Spending Plan

3: Pick your Big Wins (five hours). Open an account at You Need a Budget or Personal Capital. Assuming you want to cut your spending by $200/month, what one or two Big Wins will you target? Start using the envelope system.

Chapter 5: Save While Sleeping



Chapter 6: The Myth of Financial Expertise

If you're currently working with a financial adviser, I encourage you to ask them if they are a fiduciary (i.e., if they're required to put your financial interests first. Joe's advisor was not a fiduciary; he was a salesman. That was instantly obvious by his recommendation that Joe (a single man in his twenties) "invest" in life insurance. The only reason for someone like Joe to have life insurance is if he has a dependent - not to fatten his adviser's wallet.

If you're determined to get professional help, begin your search at the National Association of Personal Financial Advisors (napfa.org). These advisers are fee-based (they usually have an hourly rate), not commission-based, which means that they want to help you, not profit off their recommendations.

Active vs. Passive Management

Please know that even with all of this doom and gloom about professional investor performance, I'm not in any way saying that investing is a waste of money. You just have to know where to invest.

Mutual funds - which are simply collections of different investments like stocks or bonds - are often considered the simplest and best way for most people to invest. But, as we've seen, fund managers fail to beat the market 75 percent of the time, and it can be hard to tell which funds will actually perform well over the long term. And no matter how good a mutual fund is, the returns are hampered by the large fees they charge. (Sure, there are some low-cost mutual funds, but because of the way they compensate their own portfolio managers and other employees, it's virtually impossible for them to compete with the low costs of passively managed index funds, which I'll more about in a minute.)

When it comes to investing, as discussed, fees are a huge drag on your returns. This is a little counterintuitive, since we're used to paying for service, like our gym membership or admission to Disneyland. If we're getting something out of it, we should pay a fair price, right? The key is "fair," and many of the financial "experts" we turn to for guidance make an effort to squeeze every last cent out of us.

Most index funds stay close to the market (or to the segment of the market they represent). Just as the stock market may fall 10 percent one year and gain 18 percent the next year, index funds will rise and fall with the indexes they track. The big difference is in fees: Index funds have lower fees than mutual funds, because there's no expensive staff to pay. Vanguard's S&P 500 index fund, for example, has an expense ratio of 0.14 percent.

On the surface, 2 percent in fees doesn't seem like much. It's natural to guess that your returns might differ by 2 percent or even 5 percent. But the math of compounding will shock you.

"Assuming a fifty-year horizon, the second portfolio would have lost 63 percent of its potential returns to fees," Mr. Bogle said.

Think about that. A simple 2 percent in fees can cost you over *half* of your investment returns.

Or that 1 percent fee. One percent can't be that much, right? For the same fifty-year period, that fee will cost you 39 percent of your returns. I know, I know. Maybe fifty years is too long to think about. Let's try a thirty five-year outlook. What would a 1 percent fee cost you? Try a 28 percent reduction in your retirement returns, according to the Department of Labor.

This is what I'm so fanatical about reducing fees. In investing, fees are your enemy.

If your decision was determined by fees alone, index funds would be the clear choice. But let's also consider another important factor: returns.

Chapter 7: Investing Isn't Only for Rich People

Investing Is Not About Picking Stocks

It turns out that the way you allocate your portfolio - whether it's 100 percent stocks or 90 percent stocks and 10 percent bonds - makes a profound difference on your returns.

> Since you cannot successfully time the market or select individual stocks, asset allocation should be the major focus of your investment strategy, because it is the only factor affecting your investment risk and return that you can control. - William Bernstein, *The Four Pillars of Investing: Lessons for Building a Winning Portfolio*

Bonds

Rich people, on the other hand, tend to become more conservative because they have so much money. Put it this way: When you have $10,000, you want to invest aggressively to grow it because you want to make more money. But when you have $10 million, your goals switch from aggressive growth to preservation of capital. Chuck Jaffe once wrote a CBS Marketwatch column where he shared this old story about Groucho Marx, the famous comedian and avid investor.

One trader asked, “Hey Groucho, where do you invest your money?”

“I keep my money in treasury bonds,” he replied.

“They don’t make you much money,” a trader shouted back.

“They do,” Groucho said drolly, “if you have enough of them.”

If you have a lot of money, you’ll accept lower investment returns in exchange for security and safety. So a guaranteed bond at 3 percent or 4 percent is attractive to a wealthy person - after all, 3 percent of $10 million is still a lot.

Index Funds: The Attractive Cousin in an Otherwise Unattractive Family

Disadvantages: When you’re investing in index funds, you typically have to invest in multiple funds to create a comprehensive asset allocation (although owning just one is better than doing nothing). If you do purchase multiple index funds, you’ll have to rebalance (or adjust your investments to maintain your target asset allocation) regularly, usually every twelve to eighteen months. Each fund typically requires a minimum investment, although this is often waived with automatic monthly investments.

Target Date Funds: Investing the Easy Way

Target date funds aren’t all created equal - some of them are more expensive than others - but as a general rule, they’re low cost and tax efficient. Best of all, they take no work beyond automatically contributing money once a month, quarter, or year.

This Small Investing Mistake Cost Her $9,000

A Roth IRA is just an account. Once your money is in there, you have to start investing in different funds to see your money grow.

Keep It Manageable

The first thing you want to do when picking index funds is to minimize fees. Look for the management fees (“expense ratios”) to be low, around 0.2 perrcent, and you’ll be fine.

Stocks (“Equities”)

30 percent - Total Market Index/equities (VTSMX)
20 percent - Total International Stock Index/equities (VGTSX)
20 Percent - REIT index/equities (VGSIX)

Bonds

5 percent - Short-Term Treasury Index Fund (VSBSX)
5 percent - Intermediate-Term Treasury Fund (VSIGX)
` 5 percent - Vanguard Short-Term Treasury Index (VSBSX)
15 percent - Short-Term Inflation-Protected Securities Index Fund (VTAPX)

What About Other Kinds of Investments?

Art

The *Wall Street Journal* wrote about John Maynard Keynes's massive art collection: in 2018 dollars, he spent $840,000 to amass an art collection that is now worth $99 million. That return works out to 10.9 percent per year - an excellent return, except for one thing: Two pieces of art account for half the value of the collection. Think about that: One of the world's best art collectors carefully bought 135 pieces, and just two generated half the value of the entire collection. Could you predict which two would be worth that much? For most people, the answer is no.

Chapter 8: How to Maintain and Grow Your System

Stop Worrying About Taxes

Tax Truth #3: People actually think that it's better to NOT make more money for tax reasons. They are wrong. Reality: Please, for the love of God, spend three minutes learning about something called "marginal tax brackets." If you start earning more an move up tax brackets, the "marginal" amount - or the money in the higher tax bracket - is taxed at a higher rate, *not the entire amount you earn*.

Financial Options for Super-Achievers: Make the Ten-Year Plan That Few Others Do

1: Create an Emergency Fund. Eventually, your emergency fund should contain six to twelve months of spending money (which includes everything: your mortgage, payments on other loans, food, transportation, taxes, gifts, and anything else you would conceivably spend on).

Chapter 9: A Rich Life

Negotiating Your Salary, *I Will Teach You to Be Rich* Style

4. Have a toolbox of negotiating tricks up your sleeve. Just as in a job interview, you'll want to have a list of things in your head that you can use to strengthen your negotiation. Think about your strong points and figure out ways you might be able to bring them to the hiring manager's attention. For example, I often ask, "What qualities make some do an extraordinary job in this position?" If they say, "The person should be very focused on metrics," I say, "That's great that you said that - we're really on the same page. In fact, when I was at my last company, I launched a product that used an analytical package to…"

Negotiating tactic: Have a repertoire of your accomplishments and aptitudes at your fingertips that you can include in your responses to commonly asked questions. These should include the following:

- Stories about successes you've had a previous jobs that illustrate your key strengths
- Questions to ask the negotiator if the conversation gets off track ("What do you like most about this job?... Oh, really? That's interesting, because when I was at my last job, I found…")

Negotiating Tactic:? The phrase to use here is "We're pretty close… Now let's see how we can make this work."

How My Friend Got a 28 Percent Raise by Doing Her Homework

1. I broke down their job posting line by line and wrote down my skills and projects I'd worked on that directly related to their description.
2. I researched their website extensively, read articles about the company, and looked up the management teams' backgrounds so that I could speak knowledgeably about the company and why I was a good fit.
3. I prepared a spiel about my somewhat eclectic resume, which can look unfocused if not set in the proper context.
4. I called an expert on startups, finance, bargaining, and a half dozen other things to get some outside counsel. Ramit gave me some key advice, including "Tell them you want to get your hands dirty" and "Suggest three things you would do to improve/enhance their marketing efforts." Yes, he does talk just like he writes on his blog.
5. I actually took Ramit's advice, which is where a lot of my work came in. I dreamed up three proposals for generating greater interest at trade shows, better responses to direct marketing efforts, and increased name recognition in the general population.

How to Save Thousands on Big-Ticket Items

Conquering Car Salespeople by Outnegotiating Them

I also highly recommend using Fighting Chance (fightingchance.com), an information service for acr buyers, to arm yourself before you negotiate. For the price, the service is completely worth it. You can order a customized report of the exact car you're looking for, which will tell you exactly how much car dealers are paying for your car - including details about little-known "dealer withholding." For instance, I spent a month on the site researching and planning and then bought my car for $2,000 under invoice. The service also provided specific tips for how to negotiate from the comfort of your sofa. You don't even have to set foot in a dealership until the very end.