NET WORTH PRINCIPLE

build wealth without budgeting

Copyright © 2007 Paul Ebisch
All rights reserved.

ISBN-10: 1-4196-5908-1
ISBN-13: 978-1-4196-5908-9

For more information or to schedule interviews or appearances please e-mail:
paul@networthprinciple.com
or visit:
www.networthprinciple.com

Cover designed by:
Boundless Creative
www.boundless.net

Photography by:
Aaron Funk

To order additional copies, please contact us.
BookSurge, LLC
www.booksurge.com
1-866-308-6235
orders@booksurge.com

Interior book formatting and cover layout by
Rend Graphics
www.rendgraphics.com

Table of Contents

Introduction:
Let the Revolution Begin 1

Chapter 1:
The Net Worth Principle —
Build Wealth Without Budgeting 5

Chapter 2:
Smoke and Mirrors 13

Chapter 3:
When We Are Fat 23

Chapter 4:
Determining Your Net Worth 31

Chapter 5:
Big Ticket Items 41

Chapter 6:
Buying a Car 53

Chapter 7:
Building Equity in Your House 67

Chapter 8:
The Big Three Net Worth Builders 79

Table of Contents

Chapter 9:
There's a Way 87

Chapter 10:
Making a Million Easy 95

Chapter 11:
Investing 105

Chapter 12:
Speculating 115

Chapter 13:
Your Greatest Investment: You 121

Chapter 14:
Eleven Bombs to Your Net Worth 131

Chapter 15:
The Charitable Factor 145

Chapter 16:
The Power of Rewards 151

Chapter 17:
Opportunity Comes Knocking 161

Dedication

This book is dedicated to the memory of my grandfather Millard Emanuel, “Gramps”, and to the future of my sons Blaise, Colman and Aslan.

I believe in the significance of investing in other people’s lives. I am grateful to those who invested in mine. I will always cherish the time and effort my mother and father have invested in me. Thanks to them, I will never forget that every life has a purpose and that I should never give up pursuing mine. Without my dad’s influence, I doubt I would have the courage and tenacity to take the risks in life that have made me successful. Gramps was also an inspiration and role model for me as he taught me about money, finance and life.

I thank my wife, Lisa, for being a source of encouragement and support throughout the entire process of writing this book. It is amazingly rewarding to team with the love of your life to achieve life goals.

When I started the concept of writing this book I had no idea what it would entail or to what it would lead. I want to thank Kirk Noonan, who truly made it a pleasure and exciting adventure as he coached and helped me turn these concepts into a book that would be both fun to read as well as enlightening.

I want to especially thank my friends and comrades Jim and Sandy Schmidly, Ed Hirsch, Kyle Dana, Jay Welton and Bill Taylor for allowing me to inundate them with questions and ideas as I was developing this unique concept of achieving wealth without budgeting.

I hope this book will change the way you view your personal finances and increase your net worth.

Introduction:

Let the Revolution Begin

Do you feel like your life is so hectic that to take the time to build a budget and then to maintain and track every expense is overwhelming? Yet at the same time you know you need to and you truly want to have your finances in order. You're not alone. In fact, many of your friends or family if they were honest would admit to a similar frustration.

But you don't need to be frustrated or in despair about your finances. A few simple adjustments to your money management habits can revolutionize your life. Are you ready for a change? It's time for a revolution. It's time to learn some concepts on personal finance you never learned in school.

Like diets, most people do not stick with budgets. The reason people do not stick with budgets is because, like diets, they do not work for everyone. Think of all the time and effort it takes to build, manage and maintain a budget — noting every purchase, tracking every expense, analyzing spending habits and looking for ways to curb spending. It is overwhelming just thinking about it. Even worse, it can be a self-defeating task.

I make a living building and maintaining multimillion-dollar budgets for organizations, yet I do not maintain a personal budget. That may sound crazy. But I keep things simple by charging monthly bills such as my utilities, phone, etc., to a credit card so that I have one bill to pay each month. Believe it or not, I always pay off the credit card in its entirety each month. Nowadays, you can do the same thing using a debit or check card.

My wife, Lisa, and I believe in controlling our money rather than letting it control us. We run a tight ship when it comes to our finances by avoiding consumer debt and paying off our bills immediately.

If you want to be in control of your money and build your net worth while doing so, this book is for you.

In *Net Worth Principle* you will learn how to have peace of mind when it comes to your finances. But you will also see your wealth grow. Even more exciting is that you can do both things without adding a lot of paperwork or stress to your life.

Did you know the rich get richer because they can leverage their net worth to take advantage of the opportunities that come along in life? This book will unleash you to be capable to do the same.

I cannot guarantee you happiness. But I can guarantee that if you apply the principles found in *Net Worth Principle* to your life you will forever change your financial picture.

But be warned. The *Net Worth Principle* is not for everyone. It is only for people who want to take control of their finances without becoming a slave to tradition and paperwork. Read on and learn how you can take control of your money.

Chapter 1:

The Net Worth Principle – Build Wealth Without Budgeting

The *Net Worth Principle* will turn your finances upside down. It will take your bottom line and make it your top financial priority. Be prepared. You are about to embark on a financial journey that is going to revolutionize the way you think about and handle your money. As you read this book some of your long-held traditions regarding money are going to be challenged.

For too long people have tried to live up to standards set decades ago by old men in the back of banks. Our world has changed and continues to change rapidly. With change come new ways of doing things. This is true in everything we do from communicating to managing our personal finances.

This is exactly why I am imploring people — especially young people — to change the way they think about their money. It's time for a revolution when it comes to personal finances. No longer should you be burdened with doing things the way your dad or even granddad did things. There are better ways to do things and when it comes to personal finances one of the best things you can do is know everything there is to know about net worth.

That's what this book is for — to teach you everything you need to know about net worth and how it can transform your present circumstances and secure your future.

If you embrace the philosophies contained in this book and put them to the test you'll be putting your money to work for you and taking control of your money while doing so.

A change of mind

You may be worth a lot more than you think. Then again, you may be worth a lot less than you think. The only way to know the truth is to know your net worth.

Most people know net worth is the balance an individual has left over after debts and liabilities have been subtracted from assets. That's a textbook definition of net worth, but net worth is so much more than that. In fact, some people would argue that a person's net worth is their number one financial tool.

Why?

Simple. Knowing your net worth can help you make wise financial decisions. Should you buy that new car with the Bose stereo system? Check your net worth. Do you have $25,000 to drop into a friend's burgeoning Internet business? Check your net worth. Do you want to help send your parents on a dream vacation? Check your net worth.

It's not difficult to find the correct answer to all these financial questions and many more by checking your net worth. You see, your net worth is like a gauge. It tells you how much you are worth at a given time in your life.

Doesn't sound too difficult to know what your worth is, does it? The fact is, many people have no clue what they are really worth. Think of some people you know. I have several friends who live in huge houses and drive luxury cars and have little net worth. I also know a few people who have driven late model cars and live in modest homes who are worth hundreds of thousands up to millions of dollars.

Whether you know it or not, we live in an odd world. People judge their own worth and the worth of others by what they have, such as cars, houses, club memberships, clothing, types of vacations taken and so forth. From the outside looking in many people look very, very rich. But if truth be told, many people who look rich are really just deeply in debt.

The importance of your net worth

Your net worth should be your bottom line when it comes to any financial decision you make. It's sounds simple and most people think everyone truly knows how much they're worth, but the sad fact is that most people haven't a clue what they're worth.

That's why I wrote this book. I believe it is imperative everyone become net worth minded — and the sooner the better.

To become net worth minded all you need to do is know how to calculate your net worth, then grow it, protect it, and utilize it to make more money.

That sounds easy enough, doesn't it?

Let's get started on the journey to becoming net worth minded by learning a few basic concepts that will probably shock you, but will ultimately provide the foundation you need to become net worth minded.

Freedom reigns

Everyone wants financial freedom. But for years people have been going about gaining that freedom the wrong way. They've relied too heavily on budgeting and embraced get-rich-quick schemes in an attempt to become financially free or even millionaires. Let's look at both of these financial philosophies for a minute.

Budgeting addresses some symptoms of unhealthy finances and is the nasty medicine that can bring your finances back in order. But the truth is, many people do not like budgeting and don't have the time to invest in it. I'd argue that the cure for unhealthy finances is not in budgeting but in becoming net worth minded.

Advocates of budgeting will tell you that budgeting keeps track of your money and sets spending limits as you gauge how much you are bringing in and spending each month. That's all well and good, but what if I told you there was an easier way to do all that? Would you be willing to leave the budgeting to the accountants and spend more time doing the things you like to do?

It's possible to live financially secure without budgeting, and I am going to tell you how to do so in this book.

Now, about those nasty get-rich-quick schemes. I'm sure your father has warned you about such schemes at some point in your life. If he told you to avoid them at all costs he is a wise man.

Getting rich quick is almost impossible. If it wasn't, everyone would be doing it. No matter how appealing an offer may sound, walk away. Save yourself the heartache, time and money. That's really all you need to know about get-rich-quick schemes.

The *Net Worth Principle* does not promote any kind of get-rich-quick schemes. Instead, it will introduce you to a new way of thinking about your money. But I am the first person to admit that some of my ideas run contrary to any financial perspectives you've heard before.

Like I mentioned earlier, I want to start a revolution — a revolution that will put you in control of your money and secure your future. To do that, we have to take some unorthodox steps.

So let's get started.

Chapter 2:

Smoke and Mirrors

Your net worth should be the compass that directs all your financial decisions. It is the gauge that tells you what you can and cannot afford. It is the “yes” or “no” to all your financial questions.

If you have ever wondered if you should buy a new car or invest in a start-up company or move to a new neighborhood or go on a European vacation, you need simply to look at how such an expenditure is going to impact your net worth.

Sounds simple, huh?

The problem is, most people have no idea what their net worth is and they would never consider it when making a purchase. Instead, the first thing such people do is figure out if they can afford the monthly payments that the object of their desires will demand. In other words, they go into debt to get what they want and never consider what their purchases are doing to their net worth. The real costs are never even considered.

Most people think net worth is only something to be considered by the likes of Donald Trump. The reason people think this way is because savvy marketers and advertisers have been extremely successful in undermining the value and importance of net worth to consumers.

Billions of dollars are spent each year on coaxing people into believing they can have it all: the new house, new car, new clothes, endless vacations and on and on. Unashamedly, marketers and advertisers seem to be saying, "You can have it all, so don't worry about your mounting debt and depreciating net worth."

If the marketers and advertisers are correct, having it all means appearing to be wealthier than you actually are while hiding debt behind fancy cardigan sweaters and family vacations to tropical resorts. Seventy-six percent of Americans have some form of debt. The typical American college student will leave school with anywhere from $15,000 to $25,000 in educational debt after four years of college study. Almost half of all American families carry a credit card balance. Only 56 percent of families say they are saving on a regular basis.

So why are so many people living under the burden of debt?

Because they pay little attention to their net worth and have bought into the lie they can have it all with little or no consequence.

Depreciating assets

Most of the things people buy do little to increase their net worth. In fact, much of what the average consumer buys actually hurts his or her net worth because most purchasable items begin depreciating the moment they're bought.

Take a new car for example. If you buy a $20,000 car, within five years the car will be worth around $7,000. That could be on the high side too. In other words, you have just kissed more than $13,000 goodbye. Who has that kind of money to lose?

It is a fact that businesses — especially auto makers and credit card companies — have made it so easy to borrow money that many people buy things they cannot afford. Sure, many consumers can make the monthly payment, but being able to make a monthly payment does not mean you can truly afford something.

If you are over 30 years old, perhaps you remember the layaway window at your parent's favorite department store. Thirty years ago if you wanted something from a department store and could not afford it, you put the item on layaway. Each time you had some extra money to put toward the item you would make a payment on it. When you paid it off, the store gave you the item and you owned it free and clear.

Go into most department stores today and try finding the layaway window. Better yet, try finding a consumer who is willing to pay on something a little at a time before they can bring it home. The layaway system has been dying a slow death for decades. I suspect department stores are anxious to finally see it die as they have discovered there is more money to be made by letting consumers use credit rather than cash. The reason? Interest and late fees can significantly increase a company's net worth while chipping away at yours.

No matter how friendly retailers may appear to be, realize their goal is to make a profit off you — and when they do, you can bet your net worth is going to take a hit.

The way we do business

Three decades ago if your net worth was low, getting a loan from a bank was an arduous task. Not anymore. In the "old days" the amount of money lent to a consumer depended largely on how much he or she had to put up for collateral. In most cases collateral such as a house or car or stocks would suffice. If the consumer defaulted on his or her loan their collateral was immediately at risk.

Back then a person's net worth was safer than it is today with respect to borrowing money from banks because most banks would not loan an amount exceeding a person's collateral value.

The reality of the day was that people knew that if they borrowed money something they owned would be at risk, and if they didn't pay back the money they owed they would certainly lose something of value. Many times the collateral was worth much more than the loan so people made sure they made good on their debts.

Though most lending institutions still do business this way when it comes to loans for houses and cars, a new way of business reared its head in the 1980's. This new way of lending stemmed from the fact that banks had all kinds of repossessed collateral that was not making any interest to be paid out to their customers with deposits. It was then that bankers began loaning money to businesses based on the businesses' ability to make a monthly payment.

This new way of loaning money was partly inspired by the exaggeration of asset values. In many cases lenders lost much money after seizing collaterals whose values had been exaggerated.

To be more profitable and wiser, lenders started looking for other ways to protect their interests. Suddenly a business's monthly cash flow became, in many cases, the determining factor in whether or not it got a loan.

Instead of a banker asking only, "What is the collateral?" he or she started asking, "Can this company make the monthly payment?"

Less than a decade later, banks and lending institutions realized they could extend this offer to consumers. It was as if they suddenly realized their consumers would rather have it all right now than save for the future. Overnight, it seemed, once-tight-fisted bankers were suddenly dispersing cash to hungry consumers who were wide-eyed like children in a chocolate factory.

"No collateral, no problem," creditors seemed to say collectively. "Can you make the payment? If so, we've got money to loan."

Go into any car dealership and tell the salesperson you do not have a down payment and cannot afford the $35,000 car you desire, but you can afford the $400 monthly payments — in the "old days" you'd be ushered to the door. Today, the keys to the car will be gladly given to you.

The 1990's saw this type of lending come into its glory. Of course the 1990's were the longest economic expansion without a recession in American history. This new philosophy provided the impetus to expand the types of loans available to consumers and the velocity with which they were given. A credit scoring system began to evolve that could quickly determine the "likelihood" of someone actually paying back a loan.

The change in lending has been good and bad for consumers. On one hand, consumers have been able to attain a lifestyle previous generations only dreamed about. On the other hand, many people live well beyond their means. If they added up their net worth they would find that though they live in a nice house, drive nice cars and go on nice vacations they really have very little net worth and are in serious debt.

Smoke and mirrors

As you can see, there is a great struggle to maintain and grow one's net worth. Advertisers and marketers will tell you that to truly live you have to have their products and services right now. Lenders reinforce such a philosophy by making it easy for consumers to borrow money and rack up debt. Even your friends and family will say you deserve to have it all.

The truth is, you can have it all (or at least more than enough), but gaining all the world has to offer requires you to leave the room of smoke and mirrors the marketers and advertisers have so carefully crafted for you and ask yourself the following questions:

- Do you know what your net worth is?
- Do you consider the impact on your net worth when you make a purchase?
- Did you know budgeting is not required to get ahead financially?
- Did you know there are three simple ways to increase your net worth on a monthly basis?
- Do you have any goals or targets for your net worth?
- Do you know if your net worth is growing each year?

If you answered “no” to two or more of the above questions keep reading *Net Worth Principle*. The first step to getting out of debt and building net worth is to become net worth minded.

Chapter 3:

When We Are Fat

Fat years are good years. You might be living in them right now. Fat years are seasons in a person's life when he or she has high or dual incomes and the money seems to flow in without any end in sight.

During fat years many people reason, "I work hard, so why not play hard?" Such thinking is understandable. After all, who doesn't like to spoil themselves every now and then? But when you are living in the fat years you must use them to your advantage, because if you do not you will later regret squandering them.

During the fat years individuals and couples usually spend freely with little regard for the next season in their lives, which for most of us are the lean years.

Lean years are marked by tight finances because we are plunking down all our savings to buy a house, have a baby, climb out of debt, or deal with a crisis like taking care of a sick or elderly parent.

Somewhere between the fat and lean years are the get-along years. During these years a person makes a decent salary, is wise enough to save for the future, but is still accumulating debt slowly but surely.

No matter if you are living through fat, lean or get-along years you need to be net worth minded. Being so will help you get and stay out of debt, increase your net worth, and put you on the road to financial stability. Here is how.

Becoming net worth minded

To become net worth minded you have to start thinking in terms of how your financial choices — the big and small ones — actually affect your net worth. Many people waste years of their lives worrying about their debt or lack of retirement savings. My grandfather had few of those kinds of worries.

Gramps was a middle-class guy who worked hard and was smart with his money. For years he worked for a utility company and then for Coca-Cola before retiring comfortably and living for almost 30 years off his savings and modest pension with little or no debt.

How did he do it?

He became net worth minded at a young age.

One of the first lessons of becoming net worth minded is to be content with what you have. It sounds simple, but how many times have you bought something just to keep up with the Joneses?

Gramps never paid much attention to what his neighbors were doing. For years he lived in the same house. When he bought a vehicle, it was one year old and he drove it for 10 years before repeating the process again. He embraced the theory that you always buy cheap twice, so he made sure he bought quality items that were built to last. He also saved regularly and was against living beyond his means.

When it came to his savings he never touched the principal. "Always try to buy without digging into the principle," he would tell me.

Gramps taught me to look at the world, people and finances differently than most people do. Though my grandpa was not famous or rich he lived a quality life free from worry, free from debt. He lived the kind of life we should all be living. By becoming net worth minded you too can be worry and debt free — in other words you can be financially free.

Forget about budgeting

It may sound ridiculous, but I want you to scrap your budget if you already have one or forget about making one if you plan on having one. Sounds crazy, I know, but budgeting does not work for most people. In many ways budgeting is like dieting. It works for a few people, but for most people it is a waste of time. In my experience many people who budget do not stick with it.

For many readers I have not only introduced a new concept, I have insulted them. They have been told all their lives they must budget to become financially free and wise. It is not true.

If budgeting works then why are so many people not saving for their futures or are in debt? If it really works then why do so many people neglect their savings and retirement accounts to pay down debt or just get by?

So if you are not going to budget what should you do?

You have to get net worth minded!

To do that, you simply have to go back to the basics of personal finance. Let me explain. Budgeting focuses on the negative. Each day you can look at your budget and see where you are failing. It is like reading doomsday headlines every morning or having a nagging spouse yelling at you every time you make a financial mistake. Instead of budgeting, I suggest you find out what your net worth is and do everything in your power to protect and increase it.

One of the first things you can do to protect and increase your net worth is to avoid additional debt and pay off old debt. Knowing what your net worth is and that you have a duty to protect it should give you the fuel to resist the temptation to buy things you really do not need, save for the future and pay off the debts you have already incurred.

Jeff and Mary came to me a few years ago seeking help. From the outside looking in they were doing quite well. In fact, they seemed to be doing all the right things when it came to their finances. They kept a strict budget, saved and used every extra penny to pay off their debts, which were quite large.

They were so into their finances that they paid to go to seminars to learn how to manage their money and their bookshelves were stocked with finance books. The only problem with Jeff and Mary was that they were completely stressed out about their finances.

When we met they told me all the things they felt they had done right and the areas where they needed to improve. Much of what they said resonated with me, but when I asked what their net worth was they did not have the slightest clue. I pulled out a pencil and my net worth worksheet and in about five minutes we had determined their net worth.

They were amazed at how big their net worth was. They had no idea that they were worth so much. It was a moment in which they realized the fruit of their labor. Suddenly a sense of relief seemed to fall on them.

As I applied aspects of my net worth principle to Jeff and Mary's finances it became clear they just needed to keep focusing on saving and paying off their debt. The exciting thing, Mary told me, was that now they had definite goals they could work toward.

I saw them a few months later and they thanked me for bringing peace to their once-restless financial souls. As the debts continued to fall, the net worth was continuing to build.

So what is your net worth?

Scratch out the numbers?

The first and fastest way to become net worth minded is to learn what your net worth actually is. For some people you will be worth less than you thought. Sorry. For others you will be worth far more than you thought. Congratulations.

The only way to find out what your net worth truly is, you must run some numbers. Take five minutes to pull all your financial records together such as your checkbook, pay stubs, credit card bills, mortgage and so forth.

No matter if your net worth is high or low, at least you will know what you are worth and you can begin protecting and growing what you already have.

Chapter 4:

Determining Your Net Worth

Calculating your net worth is easy. In fact, you have probably calculated your net worth many times and didn't even know it. Every time you complete a loan application at a bank or credit union you usually have to calculate your net worth. Knowing your net worth is like having a compass while out hiking in a dense forest — it can show you what you need to do and where to go.

To help you become a master at calculating your net worth you need to become familiar with some terms and revisit some math you may have forgotten from your high school accounting class.

Assets

Assets are the positives in your net worth. They are the things you own that have value. That shoebox of baseball cards under your bed to the rental house you own on Main Street are assets. The car in your driveway is also an asset. Your house is an asset. Big or small you have assets all around you.

That couch you're sitting on as you read this book — yep, it's an asset. But one thing you need to know about assets in relation to your net worth is that some of them have long-term value and some do not.

For calculating your net worth you need to only include assets that have long-term value. Sorry, that foam hand you bought to cheer on your favorite team is not a long-term asset.

A rule of thumb when calculating net worth is to look at the big-ticket items you own. Even though you may spend a lot of cash on clothes, electronics and furniture, such items are not long-term assets though they are very nice to have. The value you associate with your assets should be what you could actually sell them for if you wanted or needed to.

One of my friends is an electronics junkie. He is always buying sound and game systems for his house. Each year he loses hundreds of dollars trying to upgrade to the latest and greatest toys. In his mind, he can buy then sell an item — at a drastically reduced price — to friends. The sale of an item gives him seed money to upgrade to the newer and better objects of his desire so the hit he takes on the new purchase doesn't feel as bad. Plus, he can convince his wife more easily to sign onto his latest purchase.

But the bottom line is that he loses a lot of money every time he turns one of his electronic assets, even if he gets a good deal on the new item he fancies.

When I asked him about this fact he

shrugged and told me he's going to lose money on the deal anyway so he might as well get an upgrade while he can. This is definitely not a good way to build net worth.

If you want to see this kind of mentality in action go to a garage sale this weekend. You will find all sorts of equipment, furniture, electronics, clothing and housewares people just had to have last year only to sell them on a wooden table in a garage sale this year. The fact is, people love to spend their money, and usually it is on short-term assets that have very little lasting value.

That said, most people do have several long-term assets that can actually make them money in the long run and fortify their net worth right now. Most people can easily identify the real assets in their lives. These would include items such as:

- Home
- Other real estate
- Vehicles
- Jewelry
- Artwork / collectibles
- Recreational vehicles /boats / planes
- Savings accounts

- Retirement accounts
- Mutual funds
- Bonds
- Stocks
- Investments
- Businesses

Liabilities

Liabilities are the “negatives” that work against your net worth. They are obligations to banks, credit unions, creditors and anyone else you owe money to.

Liabilities almost always have a monthly statement associated with them. Even worse, they almost always have some kind of interest or fees. Some of these debts are directly tied to assets you might own, such as your car, house, furniture, electronics or jewelry.

Everyone has liabilities, but most people hate to admit they exist. The good news regarding liabilities is that they are very useful in determining what you are really worth. If you think of them like that, they are not that bad. But you should still keep a rein on how fast you rack up liabilities.

The goal of the net worth principle is to limit and reduce the number of liabilities you have while increasing the number of assets you own.

Even if you have more liabilities than assets, do not despair. No matter how old you are or how much money you make you can always work toward improving your net worth by gaining assets and losing liabilities.

Following are some liabilities:

- Mortgage
- Home equity loan
- Car loans
- Student Loans
- Credit cards
- Lines of credit (at banks or retailers)
- Other real estate loans
- Commercial loans

Net worth

To calculate your net worth you need to do some research and determine exactly what your liabilities are and what your assets are.

Once you have done that your net worth will begin to take shape. As you add up all your assets then subtract your liabilities you should begin to realize how liabilities are like thieves stealing from you.

The difference between your assets and liabilities equals your net worth. Pretty basic stuff, but knowing your net worth is a very valuable tool that can help you increase your assets and decrease your liabilities in the years to come. Knowing your net worth is the first step toward financial independence and for some riches.

On the next page you will find a worksheet called the net worth calculator. List all your assets and liabilities and you will be on your way to knowing your net worth. In the following chapters I will show you how to reduce liabilities and increase your assets.

Net Worth Calculator
Example

Estimated Net Worth: **$25,500**
(Assets minus Liabilities)

Assets		**Liabilities**	
Personal Items	**Fair Market Value**	**Secured Loans (Correlated to Assets)**	**Actual Value**
Home	$225,000	Mortgage loan	$180,000
Vehicle 1	$15,000	Home equity loan	$22,000
Vehicle 2	$5,000	Car loan	$13,000
Jewelry	$1,000	Car loan	$2,000
Artwork/collectibles	$3,000	Other real estate loan	$ -
Furniture	$1,000	Other real estate loan	$ -
Electronics	$200	Commercial loan (Personally guaranteed)	$ -
Antiques	$500		
Other	$ -		
Cash or Cash Equivalent	**Actual Value**	**Educational Debts**	
Checking account	$1,000	Student loan	$14,000
Savings account	$800	Student loan	$8,000
Certificates of deposit	$2,000	Other	$ -
Money market account	$3,000		
Life insurance (cash value, not death benefit)	$ -		
Other	$ -		
Investments	**Actual Value**	**Unsecured Debts**	
401k/403b/457	$3,000	Credit card	$3,000
401k/403b/457	$ -	Credit card	$ -
IRA	$1,000	Credit card	$ -
IRA	$ -	Line of Credit	$ -
Mutual fund account	$ -	Signature Loan	$ -
Brokerage account	$6,000	Other	$ -
Brokerage account	$ -		
Real estate other than home	$ -		
Other (LLC, LP, other business interests)	$ -		
Other	$ -		
Assets Total	$267,500	**Liabilities Total**	$242,000

Get worksheets or MS Excel spreadsheet online at: www.networthprinciple.com

Protect and increase

Now that you know what you are worth, you are either happy because you didn't know you were worth so much or you are dejected because your poor financial decisions over the years have left you with very little or no net worth. Either way, today is a new day. Today you need to start protecting your net worth (no matter how great or small it is) and increasing it.

To protect it, you simply need to become vigilant when it comes to any purchase you make. Whenever you go to the grocery store think about how what you buy is going to impact your net worth. When you go to the department store to buy clothing ask yourself the same question. If you want to move to a neighborhood that everyone knows has better schools than the neighborhood you live in ask yourself if you will be hurting your net worth.

Keeping your net worth in mind whenever you buy something is the best budget you will ever have. And even better, you will not only protect your net worth, you will begin increasing it with the money you save by making sound financial decisions.

Now that you have taken the first steps to becoming net worth minded I want to tell you about some of the exciting possibilities being net worth minded will allow you to pursue.

Chapter 5:

Big Ticket Items

Ever found yourself trying to keep up with the Joneses? Most people have, but doing so is a worthless pursuit that can rob you of peace of mind, negatively impact your net worth and fuel your envy engines. That said, it is not uncommon for a family to make at least one major purchase every year as part of the maintenance of their home or simply for entertainment purposes.

I define a major purchase as any purchase that equals or surpasses one week of your annual salary, which is about two percent of your annual pay — ouch!

Depending on your debt load and how you spend your money you may have a significant level of discretionary income. But many people do not, so the purchase of a major item is, well, a big deal. No pun intended. The reality is most people can only afford to make one or two major purchases per year, if that.

With resources already stretched by mortgages, retirement savings, auto loans, school bills and other obligations, most people will go into debt when they make a major purchase. It is a sick cycle. Yet many people cannot imagine falling behind the Joneses.

Before you make that next major purchase remember this little thought: The Joneses are not worth keeping up with because they really are not worth much — they just look like they are.

Putting resources into assets

Recently my wife and I purchased a very nice house in a very nice neighborhood. Some friends of ours came over to visit and kept commenting that we must be rich. I laughed and told them that we were not rich (not yet anyway), but that we were just very careful in handling our money.

Instead of pouring money into paying off debts or buying every thing we see at Best Buy, we have made it a priority to put as much money as possible into investments that appreciate. Our house happens to be one of those investments.

Our friends, whom I call *DINKS* because they are dual income with no kids, seemed to be even more impressed when I explained my philosophy to them. I think they left convinced that putting their income into investments that gain value is the smartest thing to do.

When to buy

The purchase of big-ticket items (barring emergencies) should only be made when you have the ability to pay cash for them. Instant gratification does not last long, so do not buy on impulse if you do not have the cash to do so. The pain of making payments on items purchased on credit quickly diminishes the thrill of a purchase.

Buying items such as appliances, furniture, whirlpools, vacations, tech gadgets and other leisure items using credit is very detrimental to your net worth. Even worse, doing so is really a double whammy.

Most major purchases depreciate rather than appreciate. Because of that sad fact, buying such items on credit could cost you double. For instance, if you bought a flat panel television and paid $2,000 using your credit card and you paid twice the minimum payment your credit card required, the television will actually cost you $5,000 and take nearly 10 years to pay off. By the time you make your last payment on the television it will not be worth much.

Now imagine taking a vacation using your credit card or a signature loan. Sure, you will have fun on vacation. You will relax, pursue your interests, rest and even make some great memories. But more than likely you will also be paying for that vacation for years to come.

Rather than running out and buying that flat panel television or taking that dream vacation, save for such luxuries and pay cash for them. There is a great amount of satisfaction and peace of mind when we save for the things we want.

I have a friend who has a scratched and beat up toy plane in his office. One day I asked him why he had a toy plane in his office.

He smiled and told me how when he was a child he dreamed of that plane many nights, but his dad wouldn't buy it for him. Every time he would go by the store he would beg his mom to buy him the plane. One day his mom told him she would split the cost of the plane with him. So my friend saved his allowance for several weeks. During that time, he said, he resisted his urge to buy candy and other luxuries he loved.

As we sat in his office he held up the plane proudly. "It took me several months to save $2.50," he said. "That doesn't sound like much now, but back in the 1970's that was a lot of money for a 7-year-old."

He told me how he was almost salivating as his mom drove him to the store to buy the plane one day after school. When they arrived he rushed into the store with his mom in tow. He got the plane, he said, and played with it for hours.

"That was my first lesson in saving," he told me. "I love this plane because I worked hard for it. Now I keep it around to remind me to save for the things I want."

Have you ever saved for something and bought it? Remember how good it felt to know you worked hard for something and paid cash for it? That's a natural feeling that comes when you do things right. If you want something, big or small, save for it.

Doing so preserves your net worth, gives you peace of mind, keeps you out of debt and will give you a sense of satisfaction that may be foreign to you.

At this point I want to stress the importance of knowing the difference between having cash to buy something and being able to afford the monthly payments.

What can you afford?

Many people get caught in debt traps when they make a major purchase because they buy into every seller's mantra, which is, "How big of a monthly payment can you afford?"

Don't be fooled by such talk. Most people can only afford to spend 2 percent of their annual income on a major purchase per year — some people cannot even afford to do that. But as a general rule stick to spending only 2 percent of your annual income if something major needs to be purchased.

Remember, sales people usually work on commission. The more you buy, the more they make. It is in their best interest to move you into the most expensive item they have for sale.

The first tip off that you are getting in over your head is when you look at the sticker price and realize you cannot afford to pay cash for the item. The second tip off is when the sales person says, "Let's find out how much you can afford to pay each month." The third tip off is when you do some quick calculating and realize the item costs more than 2 percent of your annual income.

At that point, run. You can't afford it.

Following are a few scenarios that show how major purchases can negatively impact your ability to buy a house.

Let's say your household gross income is $50,000 per year.

- Mortgage lenders like debt payments to be less than 40 percent of gross income, which would be $20,000 per year or $1,666 per month. Don't be surprised if you get a loan for 50 percent of your gross income — it is a new trend in lending that can be disastrous.

- $1,666 per month is what you have to work with for finding out what you can afford.

With this hypothetical model in place, let's look at some scenarios that will illustrate why we need to be wise when we make major purchases.

Types of Loans	Monthly Payments
School debt payment	$250
Auto loan	$400
	($20,000 for 5 years @ 7%)
Credit card debts	$250
	(Minimum payment on $5,000)
Leftover for home	$766
	(Approx. $110,000 loan with tax and insurance)
TOTAL:	$1,666

Types of Loans	Monthly Payments
School debt payment	$250
Auto loan	$400
	($20,000 for 5 years @ 7%)
Credit card debts	$0
Leftover for home	$1,016
	(Approx. $150,000 loan with tax and insurance)
TOTAL:	$1,666

Types of Loans	Monthly Payments
School debt payment	$0
Auto loan	$400 ($20,000 for 5 years @ 7%)
Credit card debts	$0
Leftover for home	$1,266 (Approx. $185,000 loan with tax and insurance)
TOTAL:	$1,666

Now you can see how the types of debts you incur can greatly affect your standard of living. This is why it is crucial to pay attention to your net worth. If you are going to incur debts, make sure they are tied to assets that increase in value rather than things that become worthless over time.

Make sure each year you have at least two percent of your annual income available to be used for major purchases.

Buy now, pay later

Leeann was fed up. The garage sale couch she bought in college had springs that poked people in the back, stains that only seemed to grow and a distinct low-level odor she found embarrassing when company came over. It was definitely time to buy a new couch.

With 300 hard-earned dollars in her purse she went to the local furniture store to buy a couch. When she arrived the saleswoman showed her what $300 could get her. Leeann was disappointed. She had the choice of two couches that looked as if they had been sent to the future from the late 1980's. Though comfortable, they were not stylish nor anything like the couch she had in mind.

Sensing her disappointment, the saleswoman gladly informed her that the company had a special deal extended to select customers.

"Spend a minimum of $2,000 today and you won't have to pay a penny for 12 months."

Leeann could hardly contain herself as she eyed all the leather sectionals nearby. Sure, the sectionals were well out of her budget, but she was expecting a raise in the next six months and if she couldn't pay the sectional off in the next 12 months she could always make the monthly payment.

That night Leeann stretched out on her new leather sectional. It felt so good seeing the old couch hauled away. And what could be better, she thought, then having zero payments for a year?

Twelve months later the smell of the new leather had worn off and Leeann did not receive the raise she thought she was getting. When the first bill for her gently used sectional arrived she could hardly believe it.

Suddenly the sectional wasn't so comfortable, especially as Leeann thought of all the interest, principle and monthly bills for a sectional she could now only sell for hundreds of dollars — if she could find someone to buy it.

Chapter 6:

Buying a Car

More than 86 percent of American households own at least one vehicle. Obviously, vehicles are a significant, if not crucial, part of life in the United States. The same is not true in other countries. In Europe people walk, ride bikes or utilize public transportation more than they drive cars. This is due to high fuel costs, limited parking spaces, proximity to places people want to go and, for some, a choice to live healthier lives.

In the United States, especially in non-urban areas, almost every desired destination — from the grocery store to the mall — is at least a short drive from one's home. Americans rely greatly on their automobiles to get from point A to point B. Moms shuttle their children to school, basketball practice, piano recitals and church activities in enormous gas-guzzling SUVs. Dads hop in the family's second car and join tens of millions of commuters on the nation's roadways each weekday morning. Teens dream of the day they will get to drive without a parent barking warnings and direction. Elderly drivers dread the day they can no longer drive.

I once asked a friend if she would be willing to use only public transportation for six months.

"Sure, if I lived in New York," she said incredulously. "If I had to do that, I'd just stay home."

That's the attitude of most Americans despite soaring fuel prices, exorbitantly high priced cars, regular maintenance, high insurance premiums, traffic, car thefts, pollution and accidents.

In the United States we have embraced the credo that our automobiles say something about who we are. Four-by-four pickups and SUVs tell people we are rugged, tough and have a spirit of adventure. Shiny new convertible coupes tell people we're fun, wealthy, stylish and cool. Luxury sedans tell people we're mature, sophisticated, smart and able to buy the finer things in life.

Funny thing — you can drive a convertible and not be fun, wealthy, stylish or even cool. But marketers continue to tell us that to be all those things all we have to do is buy a convertible.

So what kind of car do you drive?

Does the car you drive match your personality?

The truth is, you are rugged or you are not. You are cool or you are not. You are sophisticated or you are not. Your car does not have much to do with such characteristics though automobile makers and their marketers will tell you different. Driving a car may make you look like something you are not, but at the end of the day you are who you are — so stop believing the lies marketers tell you.

I often wonder what a content person's car would look like. The only thing I can conjure in my mind is a person standing next to a car, any car, that is paid off.

That's right. As you become net worth minded you too will move beyond striving to impress others and embrace the freedom that comes with being content. When you achieve that, staying out of debt and building your net worth will follow.

What's the real price of a car?

Over the past two decades the cost of cars has escalated to the point they are many people's second-largest purchase next to their homes. In addition, automobiles are most people's second-biggest debt — even worse is that in most cases the newly acquired car is a depreciating asset. Those monthly payments burn up almost as fast as that expensive gasoline running through the car's engine.

Walk around a car lot these days and make quick work of getting past the shiny chrome, rich colors, smell of fine-grain leather and the hum of a brand-new engine lest you become hypnotized and buy one of the beasts. But since you are already there take a look at the sticker prices on the windows.

Sick (and I'm not using sick as in cool).

If you have not realized it by now, automobiles are very expensive and usually are very poor investments. In spite of that, tens of thousands of people keep buying them each year even though few consumers can actually afford to purchase such an item.

In a simple world, the purchase of an automobile should add an asset of a particular value and the auto loan would offset the value as a liability. If this law of loans worked, when a person purchased a new vehicle this would have a zero net effect on a person's net worth. However, this is rarely the case.

Even worse is that when consumers buy new vehicles they are paying a premium for what I like to call the newness of the car. Automobile makers know consumers can barely contain themselves when they smell fresh leather, hear a new sound system, feel cushy seats and see shiny paint. For many consumers that newness is worth thousands of dollars.

I could rail against the buying of new cars for chapters, but the fact is, many people, even those who yearn to be net worth minded, are never going to be swayed from buying a new car.

Because of such people I offer the following facts and advice.

To buy or not to buy

People often ask me if they should buy a new car. I always ask them if they think they can really afford it.

Most people say, “Yes, Paul, I can afford the monthly payment.”

At that point, I quickly explain the net worth principle to them and suddenly they are not so sure they can afford the car they desire. In most cases they are right — they cannot afford it.

Those are the times I live for.

In spite of my impartation of wisdom, many people still move forward with their plans to buy a new car. It is as if such consumers have bought into the gospel of “having it all” that automobile makers and marketers have been preaching for decades.

I am not opposed to new vehicles as long as they are driven into the ground. I do not recommend my clients buy new cars unless they plan on driving them for 10 years or more. But I am a realist. Some of you reading this right now are contemplating buying a new car even though your last new car is only 3-4 years old.

If you want to get a new car only because of discontentment, please reconsider. Please, please change your mind and buy a gently used car or do not even get another car. Keep driving your current one until you have driven it for at least 10 years so that you get more of your dollars out of it.

Did that work? Did you change your mind? Has common sense prevailed?

All right, if you insist on buying new, here are some pointers.

First, research the brand of car you want to purchase. Make sure it has the safety features you want, good reviews from the likes of *Consumer's Report* and a good resale value.

Going to car lots, test driving vehicles and kicking tires is great fun, but you need to dig beneath the surface before you buy a vehicle. What kind of gas mileage does it get? Will your insurance go up? How often does the manufacturer suggest regularly scheduled maintenance? What do current or previous owners of the model of car you are interested in say about it? These are simple questions, but they will give you an idea of what you are really getting into.

Researching vehicles is a breeze with the Internet. It is a good idea to visit the manufacturer's Web site to learn all you can about the car you plan on buying. But you should also visit third-party Internet sources such as *Consumer's Report* to find the real story behind vehicles and their costs and values.

Now that you have researched the vehicle of your desires you should do the same research on similar models to the car you are interested in. Doing so might lead you to a car you will like better and may even get cheaper. At the very least you will be able to sleep a little bit better after forking over a chunk of savings and committing to monthly payments for the next few years.

The second thing you need to do is get your financing in order. It is best if you do this at your local credit union or bank, as you will most likely get a better rate and you will at least have some control when the negotiations begin at your local car dealer.

The third thing you need to do is forget about leasing. Do not waste your time on such notions unless you have a small business, but even then leasing is a quick way to lose lots of money.

The fourth thing you need to do is sell your old car yourself rather than using it as trade-in bait. You will likely get 10-20 percent more out of the old jalopy if you sell it yourself. If your car has little monetary value but is still in good running order and you are determined to get a new car, give it to a charity. Many times the tax deduction you will receive will be as much as the cash you will get selling it.

The fifth thing you need to do right now is reconsider keeping your old car and forget about the new one that keeps you up at night. Did you know that for most people the cheapest car you can own is the one you have right now?

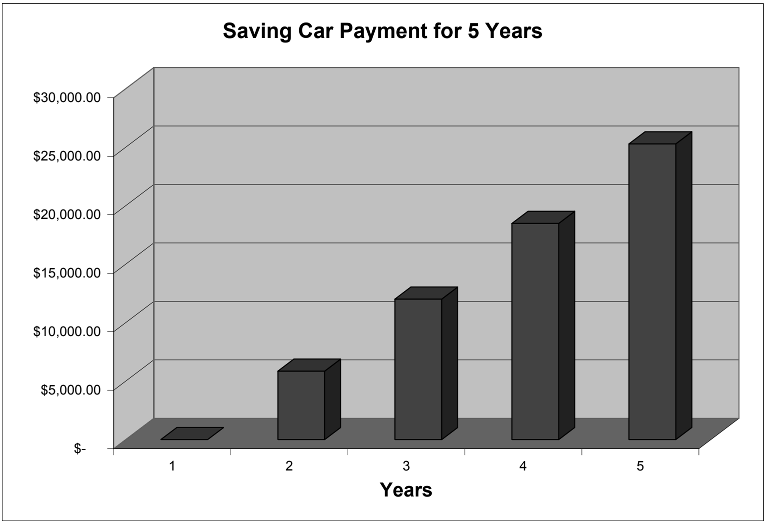
The real value of vehicles comes after we own them for a long time. They are kind of like wine — the older they are the more they are worth. Most of the depreciation occurs in the first five years of a vehicle's life, the years that you have a loan against them. The second five years are actually very stable for the vehicle value — so keep making that payment, but instead of giving it to a bank, give it to your savings account.

Take a look at the following chart and you will see how fast you can save money and build your net worth.

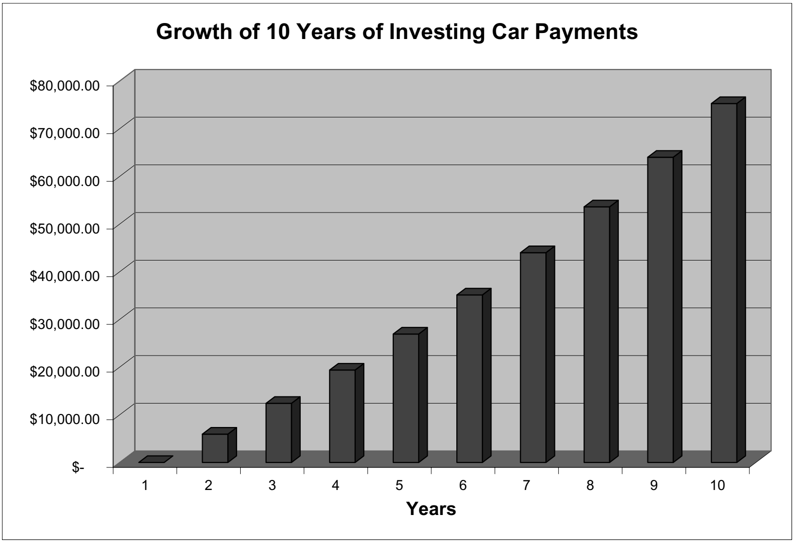
	Values		Loan summary
Loan amount	$24,000.00	Scheduled payment	$475.23
Annual interest rate	7.00%	Scheduled number of	60
Loan period in years	5	Actual number of	60
Number of payments per year	12	Total early payments	$ -
Start date of loan	1/1/2007	Total interest	$4,513.73
Extra payments	$ -	**Total Paid**	$28,513.73

After five years when the car is paid off, the value would most likely be less than $10,000 if not closer to $5,000-$6000. If you drive the vehicle another 5 years, then it may only depreciate by $2,000-3,000 more by the time you get rid of it.

Check out how much you will have if you save the $475/month payment for the second five-year period while only earning 5 percent at the bank. You can then pay cash for your next vehicle, and never have a car loan again.



Now look at how your net worth will grow if you drive the car with which you paid cash for the next 10 years. This assumes you are actually investing the $475/month payments rather than just saving them at the bank in the earlier chart. The assumed rate of return is 8 percent.



As you can quickly see, the way you deal with vehicle purchases can make a big difference in growing your wealth. The luster of a brand new car may not be as appealing now that you see how the bondage of vehicle loans holds a person's net worth down from taking off in the future.

How to deal with a dealer:

- The dealer can always "deal" with you so be sure to walk away at least once.

This will help you save some money off the top when you come back to negotiate.

- Make low bids and work your way up as they come down. You will find this very rewarding once the deal is done.
- If it is possible, get quotes from two dealers. You can even get quotes online or by e-mail. (By the way, dealers may come down quickly for you when they know you are online researching the vehicle.) This is especially nice if you feel a bit timid at doing it in person.
- Keep your vehicle for a minimum of twice the term of the loan you take out on it. If you do a 5-year loan, then drive the vehicle for 10 years. If your response is that it will have too many miles, then find a vehicle that can handle it. If you drive a lot due to a work situation, then you may not be able to do this. However, most people can easily do it.

Car salesperson's dream: The frequent shopper

Ted loves the smell of new cars. He also can't think of a better feeling than the grip of a new steering wheel. Nothing makes Ted feel more proud than when he rolls down the neighborhood in a new car, stereo blasting, windows down and all his buddies looking lustfully at his new set of wheels. Life is good for Ted and he likes to tell all his admirers, "My monthly payment only went up twenty bucks!"

Ted should be proud. Every three years he is the envy of his neighbors, and for only $20 more a month. What could be better?

On the surface Ted is living the life. He gets the thrill of getting a new sled every three years, his payments don't seem to go up much and everyone is envious of him – isn't that the American Dream?

Not quite. A peak behind the curtain reveals the dirty truth about the acquisition of new cars. Let's say Ted bought a new Chrysler 300M for $24,000. After three years of making payments he gets an itch to buy something new. Men refer to such itches as "upgrades" when they are selling the idea to their wives.

Anyway, Ted goes to the dealer and learns that after three years he owes just over $10,000 on his car. According to nada.com he should have trade-in value of about $12,000. But the dealer tells him the model he has isn't moving fast off the lot so the best he can do is give him $10,000 trade-in value. Ted begins thinking maybe upgrading isn't going to work.

The salesman realizes this and quickly says, "That's a bummer I know, so to help you out I'll make sure your monthly payment barely budges from where it's at right now."

Ted smiles. All is well in the world. A few hours later he shuts the door on his old car and slides into his new one. After everything was said and done his payment only went up $20 a month, no big deal. Now he has heated seats and an upgraded stereo system. Totally worth the extra $20 a month, he reasons.

What Ted may not know, and what he would never tell his wife or friends if he did, is that his net worth took a $2,500 hit when he accepted the lower trade-in value. Then he shelled out another $1,000 for taxes and fees. When he drove off the lot his new car depreciated by a couple thousand bucks. In total, his net worth took around a $5,000 hit. Plus his monthly payment went up and he'll be investing around $300 a month into a depreciating asset for at least the next five years.

Chapter 7:

Building Equity in Your House

It is truly amazing how recklessly many people approach the process of buying a home. Real estate purchases force people to make some of the most major decisions they will ever have to make. Because of that, the decision to buy a house should be well researched, considered, contemplated and reconsidered.

For most people their home is the biggest asset they will ever own. Once again, the so-called experts will do their best to convince a homebuyer that the purchase of a home is no big deal and that the most important thing is if the buyer can afford the monthly payment. There is so much more to buying real estate than that, so don't believe the sales pitches you will hear.

Buying a house should be intimidating. But to help you make the wisest purchase and get the most for your money it is imperative you know some basic laws for making such a purchase. The information in this chapter will prepare you for such a transaction.

Owning a home builds net worth

The beauty of a mortgage is that it allows you to increase your net worth while using someone else's money. When you borrow money to buy a house, the house itself is an asset, which immediately offsets the loan when calculating your net worth. The bank will make sure that this is true before it will loan you the money.

However, the balance of the loan will decrease each month as you make payments. The fact is, you have to pay to live somewhere whether you are paying rent or a mortgage. So you might as well be pouring money into something that will increase your net worth.

One of the great things about real estate is that it almost always increases in value over time. Sometimes there are aberrations in particular housing markets, which overinflate prices and result in real estate declines for a period of time. But in general, real estate will continue to rise in value as long as population growth continues. At minimum, it should increase by the rate of inflation, which historically has been about 3-4 percent.

Take a look with me

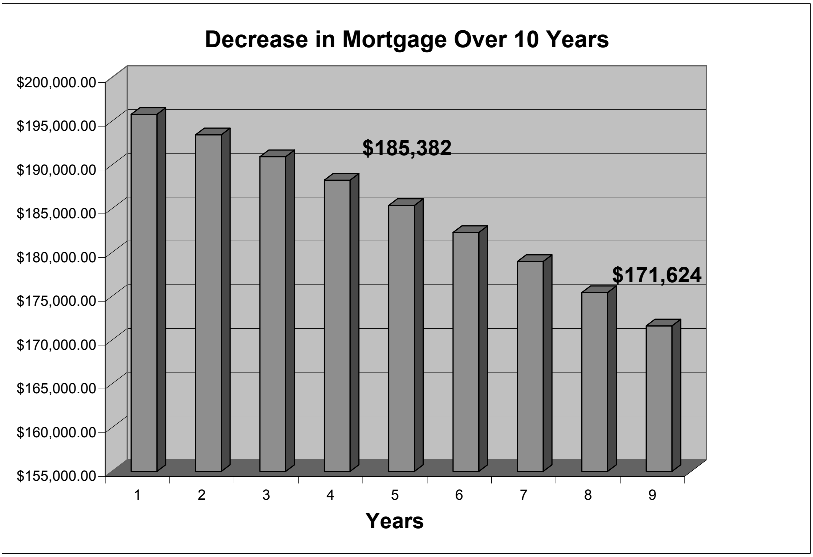
Home and mortgage start out at $200,000 (assumes 100 percent financed) each having a zero effect on your net worth. In order for you to rent something comparable let's assume you would have to pay at least 6 percent of $200,000 per year, which is approximately $1,200/month. With a 7 percent mortgage rate your net worth would be affected negatively by 1 percent. With a 4 percent increase in property values you would end up gaining 3 percent towards your net worth.

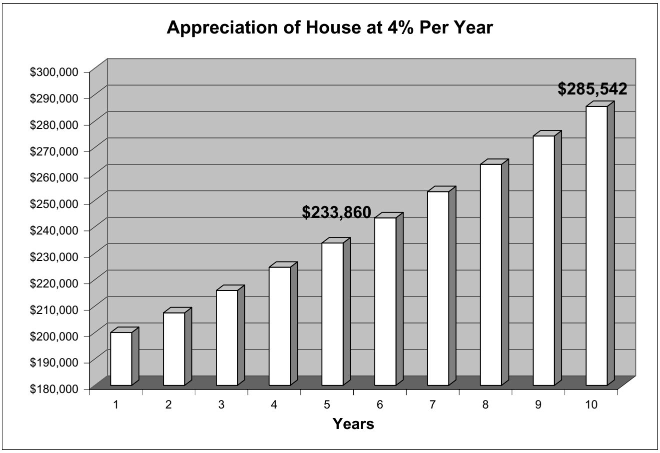
$200,000 @ 7 percent = $14,000 in interest expense

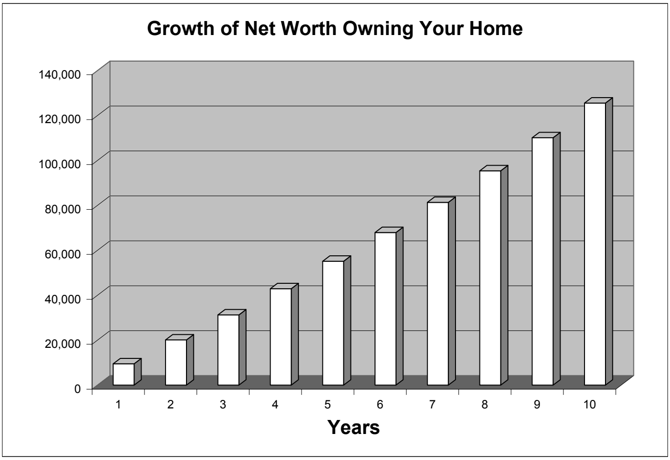
Rental cost would be at least $12,000

$14,000
minus $<u>12,000</u>
=$(2,000)

A four percent increase on $200,000 = $8,000. This increases your net worth by $6,000 the first year. Take a look at the following charts illustrating how this works.







As you can see, your net worth grows nicely by simply buying a home and living in it. Just don't rob yourself by blowing this equity on a home equity loan for something that has little or no value.

Research before you buy

Buying a house is the single most significant purchase most people will make. Yet, many people wander aimlessly into a home purchase with a Realtor who has a vested interest in making money. Since you will be investing so much money you need to invest as much time as you can to learn about real estate and housing before taking the plunge. This may scare you, but it may be simpler than you think.

Of course, you can read about something you are interested in, but it is always smart to reinforce such studies with practical experience. Get out and look at properties that are in your price range.

Do not rely on a real estate agent to hold your hand while doing so. When you are with your agent ask many questions and learn as much as you can about as many properties in your range as you can. But it is also wise to do much research on your own. Visit open houses and look at as many houses as you can. Look at houses that are both above and below your range to understand thoroughly what you can get for your dollar. Also, this will allow you to know without the help of a pesky salesperson if you have found a "gem" or not.

Find friends and family who have done well on their real estate purchases to learn what they did and what really made the difference for them. They may share some valuable horror stories and mistakes that will give you the heads up so that you can avoid making them. They might also know something that can save you thousands of dollars in the long run.

One bit of information you should embrace and never forget is to buy a home in a great area that many people would love to have. Look for qualities that will make the house very marketable to other people looking for homes in that price range. If you are already wealthy, then you can buy or build a home that is suited only to you. Otherwise, it is important to look ahead and realize the future value of your home will depend on your ability to sell it to someone else.

Build your house

Building a home can be a great way to jumpstart your net worth. This is especially true and more likely to work out if you put in lots of "sweat" equity. This is not a magical means that automatically gets you ahead. The 10-30 percent equity that can be achieved by building your own home comes by you adding time, effort and most likely many hours of work to the process. It is actually you getting paid for taking some risks and making the effort needed to get the job done.

Building or contracting your home to be built requires research to know what you are doing and getting into. It can be an amazingly rewarding experience or it can be so stressful that it can pull a family — your family — apart. If building a home is something you feel you can do, then it can be a great boost to your financial picture.

Let me show you in a simple way how

Let's assume you end up with 20 percent equity (you may get as high as 30 percent if you know what you are doing) on your $200,000 house after it is finished and financed. This means you have just added $40,000 to your net worth. After five years, your house may be worth about $220,000 and you would have paid down your 30-year mortgage by $15,000. This gives you $75,000 in home equity. Now build a $220,000 home and save 20 percent again. Your cost would be $178,000, but you would clear about $60,000 after real estate commissions and such. Your home would be worth $220,000, but now you only owe $118,000 on it. Now you can see how you could own your home free and clear after doing this 3 times over about 15 years.

However, this is not for everyone. It takes some know-how and skill to build. However, you can be handsomely rewarded for taking such efforts.

Pay attention to your mortgage options

Not all mortgages are created equal. Looking at the all the paperwork can be scary. Plus, all the terms and jargon baffle the brightest of minds. There are a few things to consider that can save you thousands of dollars, so consider these guidelines.

1. Do not buy a house for the amount the mortgage lender or real estate agent tells you you can afford. They will most likely give you the maximum amount possible that will take you to the edge of financial pitfall. Figure out a payment that you feel comfortable making each month, and then ask them to tell you how big a loan that payment will support. Play with some calculators online to get a feel for it as well.
2. Many mortgage loan officers are paid on commission. Many can even make more if they are able to dupe you into loan terms that are more favorable to the lender. This may be just a little more each month, but can literally be

thousands for the lender. Some are just downright sleazy. Always check at least two mortgage lenders, and let each of them know that you are doing so. This will help ensure they do not take advantage of you for fear that the other will reveal it.

3. Get a full breakdown of the closing costs to compare side-by-side with your other options. This is where you can easily save $2,000-$3,000 if the loan officer has slid some junk fees and costs into the equation. Remember that every dollar you save adds directly to your net worth.
4. Pay attention to the APY, not just the APR. Interest rates are quoted starting with the Annual Percentage Rate (APR). However, your true cost over time is the Annual Percentage Yearly (APY). The APR may be lower than a competitor's, but the APY much higher due to the difference in closing costs. Make sure you are comparing apples to apples by looking at both when getting a loan.
5. Make sure you can prepay as you wish, and ask about biweekly or bimonthly payments. Paying your monthly

payment in two installments each month will knock years off of your mortgage without costing you a dime extra.

6. Consider taking a mortgage out for a shorter term. First, the rates on a 15-year mortgage are almost always lower, which will save you money. Second, half of your monthly payment will go toward the principal on a 15-year mortgage. With a 30-year mortgage it will take 15 years before half of your monthly payment goes toward the principal.

The un-happy homeowners

Phil and Suzy were happy in their new house. They had paid $200,000 for it. Their closing costs were $3,000, but after three years the house had appreciated and was now worth $224,000.

Phil and Suzy's best friends moved to a new neighborhood, and the thought of being left behind drove Phil and Suzy nuts. They sold their house and bought a new right next to their friends. When they sold their house they paid their realtors around $13,000 in fees.

At the new house they couldn't stand the white walls for long so they had the interior painted. They also needed blinds and window treatments. When all was said and done they had spent $5,000 in moving and decorating fees. Their closing costs on the new house were $3,000 (which they rolled into their mortgage payment) and all was well…until one night Suzy started adding up all the costs for the move: $21,000.

Sure they had a new house and their payment didn't go up much, but they had just kissed goodbye almost all the equity they had built up over the past three years.

Suzy shook Phil and told him what she had just figured out, but Phil wasn't interested in knowing the real costs.

"After all," he said, "that's what it costs to keep up with the Joneses."

Chapter 8:

The Big Three
Net Worth Builders

Talk to the average Joe on the street and ask him if he ever received a nice inheritance or even has one to pass down to his children and you'll most likely hear something like, "Just like my parents, I'm just trying to stay afloat and make it paycheck to paycheck."

Most of us have been duped into believing that building a nest egg to retire on or having a sizable chunk of money to pass down to our children is a luxury only for rich people. That is a bold-faced lie. There is no mystery when it comes to having a nest egg for you and your family to enjoy. To have a nest egg all a person has to do is be consistent.

This seems so simple and minute, but take a look at your life and those you know. Most people wander haphazardly through their lives when it comes to their finances with no consistent course to follow. Marketers want you to make all kinds of decisions big and small on the spur of the moment because they know with careful thought you may put off a purchase or not buy at all. The sad fact is that most people can't control their buying impulses, thus they can't stay on any course that will have a nest egg at the end of it.

But there are few repetitious things most of us do every month that enable us to consistently build our net worth. They are saving for retirement, making our mortgage payment and paying down debts. If you aren't doing all of the aforementioned three points you could be headed for an average Joe existence.

Saving for retirement

First, save regularly to a retirement account. Most employers have one available for you to participate in. The power of having it payroll deducted makes the deduction happen before you get your net paycheck. This will force you to save for the future whether you want to or not.

I met a minister and his wife once who were somewhere in their 70's. The minister showed me his retirement savings. To my surprise he had accumulated more than $400,000 by saving just a small amount each month. His income had been extremely low all of his life.

When I met him he was making the most he ever had — a little more than $30,000 a year as pastor of a very small church. By the way, his salary included his and his wife's Social Security checks.

As I talked to him I learned that his house was paid off completely. If he retired, he could live off of the interest of his investments along with his Social Security payment and never touch the principle of his investments.

When I asked him how he did it, the minister looked at me and said he started saving consistently for retirement when he was 25 years old. When he first started saving he put $25 a month into his company retirement plan, which was primarily invested in fixed income without stocks. He admitted he never had a big income, but he and his wife determined to always find at least a few dollars every month to save.

Think about it. If you put 6 percent of a $25,000 salary into a retirement account, then your net will grow by $1,500/year just by doing this alone. If you have a $50,000 income and save only 6 percent a year then you will save $3,000/year. If you are fortunate enough to work for a company who will match it, then those amounts will obviously double. If you work for a company that matches your investment and you are not investing you are throwing thousands of dollars away each year and probably tens of thousands of dollars away over the course of your life.

Check this out:

Current salary	$50,000
Your contribution	6% of salary
Salary growth	3%/year
Investment growth rate	8%/year

Now sit back and check these figures out. Your retirement savings will grow to $487,814 in 30 years and $1,176,932 in 40 years. Double these amounts to $975,628 and $2,353,864 respectively if you are getting a company match of the same amount.

Paying down your mortgage

Paying your monthly mortgage payment is another way to grow your net worth if your mortgage is financed conventionally. Exotic mortgages may keep you in debt for a long time so avoid them. Stick with the simple stuff when it comes to mortgage loans.

Every month you are paying interest and principle. Your net worth is growing by the principle amount. It may start small, but each month it will get a little bigger. This can easily add hundreds per month to your net worth. People do this all the time and "build equity" in their home. Add your principle pay down amounts to your net worth each month or year.

Now just leave that equity alone and let it grow. Do not make choices that will reduce your equity and add nothing to your net worth.

Check this out:

House value	$250,000
30 year mortgage	$237,500

(This loan is only 5% down.)

In this example approximately $250/month of the mortgage payment will go to principle and grow from there each month. Assuming that you pay the home off after 30 years the loan will be zero. Just imagine the effect if you paid your home off in 15-20 years.

The home value at just an average rate of growth of 4 percent, which is a little above the inflation rate, will grow to more than $800,000 in that 30 years.

Paying down other debts

The third way to consistently build your net worth is to pay down all your other debts each month. This is not too hard since you get billed for it each month. Paying off debts will add to your net worth by getting rid of the negatives or the liabilities you have incurred. The debt may be student loans, auto loans, credit cards or any other type of loan. Zeroing the other debts out from your net worth may increase it by thousands.

Pay such debts off as quickly as you can. Vehicle loans may be unavoidable for a while, but seriously avoid the rest. This may enable you to get a more valuable house that will appreciate in value for you.

Making it simple

Quickly add up all the principle payments that you make each month on your mortgage and your other loans. Add your retirement contributions to the amount as well. See how each month you can add significant amounts to your net worth without doing anything special. Many people are amazed at what they add to the bottom line each month.

	Monthly Amount
Retirement savings (6% of $50,000)	$ 250.00
Principal amount on mortgage	$ 250.00
Other loan principal payments	$ 200.00
Total Added to Net Worth	$ 700.00

All three of these repetitious practices are easy for everyone to do. Most of us actually already do them. The key is to regularly and consistently make it happen. If you do these, then all you have to do is avoid the big net worth bombs that try to destroy what you have consistently built.

Chapter 9:

There's a Way

When I first met Natalie she told me there was no way she could save for retirement. She lived in a pricey area on the West Coast where she was raising two teenagers with her husband and working as an administrative assistant. Natalie and her family had a good life, but like many Americans things were tight financially.

We met when I was setting up a retirement plan for the company where she worked. While doing so, I had an opportunity to talk to Natalie about the importance of saving for retirement as I explained to her what services my company would be offering. Months later I returned to her company to hammer out the final details. I saw Natalie and she had some exciting news.

She told me she now wanted to save for the future by making regular contributions to her company's new retirement plan. I asked her how she planned to do so. Natalie confessed that our conversations months earlier had got her thinking about her family's future. That eventually led Natalie to think of creative ways to come up with money to save.

While driving to work one day, she told me, she figured out the easiest way she and her family could save several hundred dollars each month. Natalie admitted she, her husband and their two teenagers stopped regularly at Starbucks and over the course of each month spent nearly $400 on coffee and treats.

Natalie and her family went cold turkey and cut Starbucks from their weekly routine. This was why she was so excited to see me, she said. She couldn't wait to open her account and start putting money away for retirement.

Where there's a will

The beauty of living in an industrialized nation such as America is that where there is a will there truly is a way. This is true even when your salary is small, when ends barely meet and there seems to be no way to come up with extra cash. Most of us have habits that easily add up to hundreds of dollars a month.

You may immediately say, "Not me."

But take a moment to think about this. Starbucks, eating out, cigarettes, sports events, and any number of other hobbies or habits are common things people spend their money on without regard. I do not have a problem with any of the aforementioned things or activities [except for smoking because it can kill you], but if partaking in such things keeps you from saving for retirement you need to get your priorities straight.

Though most people can easily cut frivolous expenses to grow their net worth, you may legitimately just be making enough to pay the bills. Finding money to save can be an arduous task.

Even so, it is vitally important to your future that you save or invest for the future. Building your net worth is imperative and it only takes a couple of hundred dollars a month to make a significant difference in your net worth.

Kyle, a twenty-something, had been budgeting meticulously for over a year when he and I discussed his finances. Despite his discipline he could not save any money. He was frustrated because he worked so hard but seemed to be getting nowhere. I analyzed his finances and quickly deduced that no matter what he did he would not be able to save much because his income was so low that he had just enough to pay his bills.

After encouraging him by calculating his net worth and showing how it was already growing each month by paying his debts down, I gave him the cold, hard facts. He was going to have to increase his income in order to have money to save each month. His job only required 40 hours a week from him so the solution was simple. Kyle needed to get a part-time job that would make at least $50 per week.

Kyle got a job at a local restaurant where he picked up one shift a week to make the $50 needed. Kyle believed this would be a small sacrifice in relation to the reward of being a millionaire some day.

Get creative and opportunistic

Creating streams of income is critical to building your net worth. Nobody gets rich working only 40 hours per week unless they make a very high income — and just about every high-income job I have come across required far more than 40 hours a week.

The great news is that if you are currently only working 40 hours a week there are a multitude of opportunities that can add to your bottom line. Some will require you to humble yourself, but keep in mind that what really matters is your net worth, not the appearance of wealth.

Here is a list of some great ways to add additional income needed to become a millionaire, which will be addressed in the upcoming chapter "Making a Million Easy."

- Work an extra part-time job. People are addicted to eating out all the time, so the restaurant business is full of opportunities.
- If you are a stay-at-home mom, baby-sit someone else's child.

- Start a business on the side. There are innumerable opportunities for such endeavors. Find a need and fill it.
- Work an extra shift at your current job.
- Get a service job with the elderly by taking them shopping or checking on them. This is a growing area of need.
- Clean houses.
- Wash windows for homes or businesses.
- Perform handy-man jobs.
- Moonlight skills from your day job.
- Perform consulting for other companies.

This list could go on. The point is you have to look for opportunities to make money. All of these and many more can be done without any significant risk or start-up costs. They are also easy ways to add hundreds of dollars to your net worth each month.

Once you have some money

There are other ways to create income streams. However, they carry more risk and some have significant start-up costs. Yet they are wonderful ways to build a significant nest egg. Some people can even take their sideline work and make enough that the sideline work becomes their primary job. The key is to get assets working for you. Here are some common ways for doing so:

- Own rental property. Live in a house for a couple of years and then convert it to a rental when you purchase another home. Be sure to research this, but it is a great net worth builder.
- Write a book about something you are passionate about or are an expert on.
- Buy or start a company. This takes a lot of research and work, but there are many opportunities.
- Trade stocks. This is very difficult to do successfully, but some people have a proclivity for good investing. If you do too, go for it.
- Passive income from interest, dividends and capital growth should grow more and more as your accounts grow over time, so keep a close eye on them.

Just like building a house takes much work, so does building your net worth. It takes incremental additions along the way to put together a substantial nest egg. Make sure you are conscious of the opportunities to build and the detractors (expensive habits) that undermine the reality of a secure future.

Chapter 10:

Making a Million Easy

The most you are ever going to have to save per year to become a millionaire is $3,600. For the average American household that is only about 6 to 7 percent of their income. Not much to become a millionaire! Invest 94 percent of your income into the things you want and need to do and let the other 6 percent make you rich. The trick to saving a million dollars is consistency.

Think about momentum. You need it when you play any sport and you need it when it comes to your finances — especially if you want to win. Ever watch a basketball game? A team can be down 15 to 20 points with only a few minutes to play in regulation and they can still win. It's been done hundreds of times. How? Momentum.

Hit a few three pointers. Stop your opponent. Make a few layups, hit a couple more threes and you're back in the game and taking home the win.

The same is true when it comes to saving for your future. You have to generate some momentum. Once you do, nothing can stop you.

Most people think becoming a millionaire is an impossibility or pipedream at best. Such beliefs stem from the fact most people focus on seven digits and how they will accumulate them rather than the power of saving over many years — saving slowly but surely is the momentum you need.

So what do you do if you don't have a dime saved for your future? Generate some momentum by getting into the game. To do that, all you have to do is start saving. Even if it is twenty or thirty dollars a month, you have to save money. Remember, every million dollars saved started with one saved dollar.

There is an old adage that says, "Change your attitude so you can change your latitude." The essence of that saying is true particularly regarding your net worth. If you want to become a millionaire you need to think like a millionaire.

Here is a trick question: When are you halfway to being a millionaire?

Most people blurt out, "When I have $500,000 in assets."

Wrong!

Actually, you are halfway to being a millionaire when you have $40,000 saved.

What? You ask incredulously.

Yes, it is true even though the math does not seem to add up. Whether or not you believe me, set your pessimism aside and follow me here for a moment — it could make you rich.

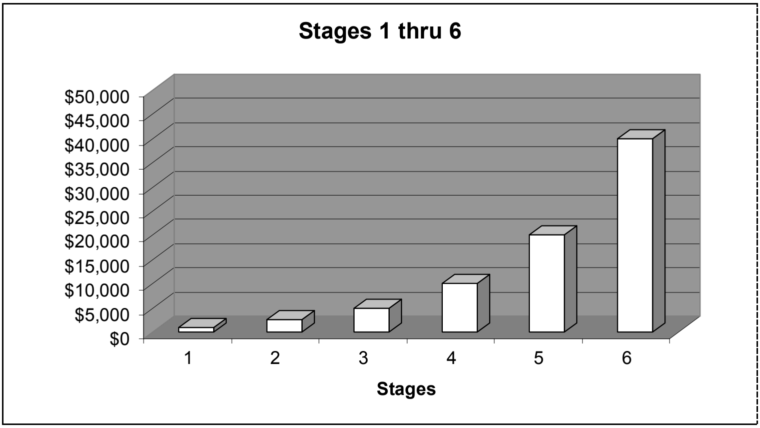
Yes, it is true. When you have $40,000 saved you are halfway to being a millionaire. Bear with me and, even if you disagree with me, suspend your disbelief so I can teach you how to become a millionaire. Believe me, you will thank me for this information in about 40 years.

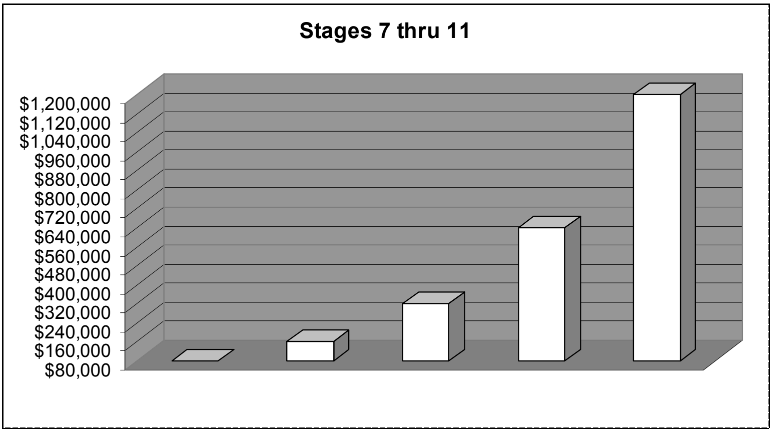
Take the first step of the journey to becoming a millionaire by reading then putting into practice the steps below. You may be older than the ideal age to start on this journey to a million dollars or you might be way behind in terms of how much you have saved thus far. Do not worry about it. Do your best to meet the goals and start saving — it is never too late.

Starting at age 20 is preferable, but you can start at any age. It is never too late to start saving. In the following table 8 percent is the assumed growth rate on savings/assets. Net worth amounts are rounded to even figures, however the effect is insignificant. You are halfway there with a net worth of $40,000.

Stages (doubles)	Age at End of Year	Amount to Add Each Year	Years in Each Stage	Net Worth Target
1	21	$1,000	1	$1,000
2	22	$1,500	1	$2,500
3	23	$2,400	1	$5,000
4	25	$2,000	2	$10,000
5	28	$2,000	3	$20,000
6	33	$2,000	5	$40,000
7	39	$2,400	6	$80,000
8	46	$2,800	7	$160,000
9	54	$2,800	8	$320,000
10	62	$3,600	8	$640,000
11	68	$0	6	Over $1 Million

The charts are split in half due to the exponential nature of how doubling your money works. Find out where you should be by the stage and your age. Start moving towards this end as soon as possible. You can get on track if you are determined enough.





1. Do whatever it takes to get $1,000 saved. Work extra. Make do without. Ask for cash gifts instead of items for birthdays and anniversaries. In other words, do whatever it takes to save a thousand bucks. Sell your monkey costume from Halloween on eBay if you have to.
2. Once you've saved $1,000, put it to work for you in anything from a CD to a diversified mutual fund. As soon as you've done that, save another $1,500 to add to the initial $1,000. I know that sounds crazy and like a lot of hard work, but time is going to go by whether you save or not, so start saving.
3. Once you have the $1,500 saved, invest it as mentioned in step 1.
4. Now save $200 per month for the next year. That will give you $2,400 of savings at the end of the year. If you want to be really smart about it, put the money you save directly into a mutual fund or CD as mentioned in step 1 (as you may have noticed, step 1 is becoming very important).
5. With a tidy little nest egg built you now need to save at least $2,000/year

for the next 10 years. *Ouch! What? I thought this would be easy*. I can hear you now: *Paul the world is ending*. *Did you just say $2,000 a year for next 10 years?* Yes, I did. That is really not too much of a sacrifice. Sure you will have to forgo Starbucks, curb your spending at the mall and drive a used car, but you will also have a million bucks awaiting you in the future. The really good news is that at the end of this 10-year cycle you're worth at least $40,000. Believe it or not, at this point, you're halfway to a million dollars. *Say what?* Keep reading.

6. Now for the next six years save a mere $200 per month. At the end of this time period you will have around $80,000 in cash baby and hopefully you are not even 40 yet.
7. Here is some good news — at this point you are more than used to saving money, so for the next seven years save at least $240 a month. *Ouch*, you say. Get over it, it is only $40 more per month — cut the satellite television if you have to. By the end of seven years you will have more than $160,000. Now that is what I am talking about.

8. For eight more years continue to save at least $240 a month and your money will double to $320,000.
9. At this point in your life you are probably in the prime of your earning years so kick the savings up to $300 per month for the next eight years and you will have $640,000. I would also recommend at this point that you ask all your buddies how much they have saved since you began saving. Ha! That is right, most of them probably have not even saved $30,000 and here you are already almost worth a million — you sly devil you.
10. Add what you want from then on, but your money will grow to more than $1 million in the next six years if you maintain an 8 percent rate of return. And then you are officially a millionaire. Celebrate! Come on, go buy something. You deserve it.

If you want to be a millionaire you most likely are going to need to save your way to it. Most people spend $200-$300 a month just on gas. Imagine if you could discipline yourself to save that much each month so that you can become a millionaire.

It's all about small amounts being saved and using the extraordinary tool of compound interest over many years. Look at it this way — you can choose to buy a television or a new car or boat, or you can throw those monthly payments toward your goal of becoming a millionaire. Remember that after 30 years $2,000 growing at a rate of 8 percent will be worth more than $20,000.

You have probably noticed that the plan is supposed to start when you are 20 years old. What do you do if you are 33 and you have not saved a dime?

Start saving right now. Find extra work. Get a second job. Cut back on your spending. Save. Save. Save. Sell valuable things that are collecting dust around your house. Get rid of high monthly payments on luxuries and put that money into savings. If you receive an unexpected inheritance put as much of it as possible into your net worth plan. Use unexpected windfalls such as tax returns and rebates to catch up if you are behind the aforementioned schedule.

Do whatever it takes to save as much money as you can. The earlier you start to do this in life the better.

Remember, becoming a millionaire is all about your perspective. Yeah, you can have it all now — if you want to incur a handsome debt and be a broke old man or woman. Or you can save a couple hundred dollars a month and become a millionaire. I am not the smartest guy in the world, but the latter option is obviously the best option.

I like to call saving "pay me now or pay me later." Few people invest their way to financial success, but there are a multitude of individuals who have saved their way there. You can too.

Chapter 11:

Investing

The key to achieving an average rate of return is to diversify. You have probably heard, "Don't put all your eggs in one basket." I would to tell you not to even buy all eggs.

When it comes to investing you have to diversify and look for investments that will give an average rate of return. By diversifying you cannot help but achieve an average rate of return, and most people will be doing well achieving that.

Getting rich quick is not the goal you should be pursuing if you are serious about building a solid net worth through investments.

Have you ever heard someone say, "Don't invest unless you can afford to lose it all?"

Before you answer that, I can tell you such a saying is symptomatic of a really bad philosophy that plagues many people's net worth, so don't buy into it. Sure some people get rich quick. That is a reality and also the lure that hooks people into believing getting rich is easy. But the number of people who lose or do serious damage to their net worth far outweighs those who strike it rich.

That said, you might be thinking I'm a little nervous Nelly afraid to take risks. Not true. In fact, risk is something you must embrace like a long-lost relative. Because if you want to build a cogent net worth you are going to have to invest, and investing has inherent risks — albeit they are calculated risks.

But let's not go crazy thinking we have to invest the way we have always been told we have to invest (i.e. stocks, bonds, real estate). Sure, those can be great investments, but there are other ways to safely invest that carry equal risk and reward. Investing is simply putting your money or resources into anything in which your intent is for it to grow to more than what you put in over time.

Because of all the benefits of investing you cannot bury your money in a hole in your backyard. There it will not grow, inflation will devalue it and thieves could steal it or the elements could destroy it. This unwritten law is why everyone must invest. But what should you invest in?

Easy, something you are passionate about that has a good track record and a prospect for a good future.

Somehow a lot of Americans came up with the notion that to make good investments an investor had to be buying real estate or playing the stock market. That is inaccurate. You might invest in a business venture. If you love stocks, buy stocks. If you love real estate, invest in real estate. Maybe you have an eye for up-and-coming artists. If you do, invest in art. Do you see where I am going here?

I am not advocating one investment over the other. I'm merely trying to open your eyes to the many ways to invest your money and build your net worth.

It's important to invest in things you are passionate about because things you are passionate about are things you know about.

Don't get me wrong. You might be passionate about fried okra, but that doesn't mean you should buy every bag of it at the grocery store and try to sell it somehow for a profit. But if you are passionate about blue chip stocks, fine art or overseeing mutual funds you should stash your money in such places.

Keys to success

Investing should not be haphazard or done on the spur of the moment. Investing takes consideration and research if it is going to build your net worth. The key to investing is getting a nice rate of return that will increase your net worth. If you do things right there will be a point in your life where your investments are making more money for you than the income from your job.

If you are already at Wal-Mart looking to invest in their fine art, put the piece down, step away and quietly exit the store.

There is a big difference between investing and what I call speculating. The first looks to be diversified, seeks an average rate of return and has a good track record. The second is a bit dicey in that speculation is not always diversified, it does not always aim for an average rate of return and it does not always have a good track record. Yeah, you have heard people say, “The pioneers take the arrows.”

The same is true when investors troll the uncharted waters of speculation hoping to get rich quick. What happens when most people speculate is that they get into unfamiliar areas, become enamored with the possibilities of making a quick buck and do little research while opting to live and die by the word of their new, slick buddy who turned them onto the speculation.

That is much different than a person who has some expertise, sees an opportunity to make big money and has enough patience to scope out all the angles before laying his or her money down.

Million Dollar Baby

Few people ever invest their way to

indescribable wealth. The idea of hitting it big should be associated with speculation rather than investing because speculating carries more risk, excludes the masses and rarely has a proven track record to give speculators a good night's rest.

Investing offers more stability, less risk and has past performance, which can be used as an indicator of good times to come.

Investing needs to be diversified, while speculation is concentrated in order to make a fortune. To help you differentiate between an investment and a speculation I offer the following chart.

Investments commonly consist of the following items:

Money market accounts	Certificates of deposit
Stocks	Bonds
Mutual funds	Exchange-traded funds
Index funds	Loans and loan certificates
Real estate (even your home)	Precious metals
Artwork	Collectibles

The list could go on, but the aforementioned list represents the bulk of the items most people invest in. Of course some of these items could become speculative, but for the most part they are typical investments. There are volumes already written on each type of investment mentioned so I will not get into the "how to" of investing in this book.

Investing imperatives

Most people do not have vast incomes and cannot afford to take many major financial losses in life. That is why investing is usually a better route for the average person than speculating.

For many people it is a struggle to set aside money each year to even grow their net worth. Add to that the possibility of losing large chunks of money on a bad investment and people run away from the whole idea of investing all together.

But investing is not as scary or daunting as it has been made out to be. Nor is investing an automatic guarantee that what an investor invests (no matter where it is invested) will be there when the investor goes to withdraw the money and its earnings.

The goal for investing should be to achieve an "average rate of return" while protecting the money from everything from poor spending habits to inflation. When it comes to investing, more than half of all investors fail to get an average rate of return on their investments.

Scary alerts should have just gone off in your cerebral cortex. If not, go see a doctor. The good news in all of this bad news is that it makes being average actually outstanding.

Solo flight?

Gurus swing constantly from recommending investments in stocks, to real estate, to gold and even bonds. Each decade seems to bring a new boom in one of these areas. When you invest wisely you will just be average. When you do well you will not run around bragging about a financial landslide, but when times are bad you also will not need medication to overcome your depression.

Here are a few thoughts to keep in mind. Getting an average rate of return only requires that you spread your money around. I know diversification admits ignorance because it places money into every class of investment knowing that at least one or more of the areas will most likely do well at any given time. It is not sexy by any means, but historically investors have received an average rate of return and they have protected their money.

If you are paralyzed by the thought of investing, then hire an investment advisor to assist you. Most employer-sponsored retirement plans are already structured to make investing simpler and easier to diversify.

If in doubt, invest 50/50. That is 50 percent in equities and 50 percent in bonds. At least this way you will always be half right.

But if you do go to an advisor, here are some things you should ask:

- How long have you been investing yourself?
- How do you make your money off of me?
- How much will your recommendations cost me annually on $10,000?
- Do you have any vested interest in your recommendations? *Fee advisors remove this whole element since you are the one paying them instead of someone else.*
- What was your greatest investment?
- What was your worst investment?

The last two questions do not mean anything except to actually see if they really do have some experience. All investment managers have horror and glory stories. Mistakes can be great tuition for becoming better and wiser in the future.

But remember, to join the revolution that will secure your future and put you in control of your money you must diversify and not settle for anything less than an average rate of return.

Now let’s look at speculation.

Chapter 12:

Speculating

Speculating is not for the faint of heart. It differs from investing due to the inherent level of risk — it's investing on steroids. Speculators should be willing and able to lose all that they invest when they speculate. Though the returns can be great, they can also disappear quickly along with all that is invested.

Everyone needs to invest to build their net worth, but speculation is not necessary for most people. However (and this is another area where I break from the pack) if speculating is in your DNA, go for it. Just be wise about it.

Speculation is similar to investing because it involves many of the same types of investments mentioned in the previous chapter. The difference is simply that it does not involve a high level of diversification and most of the time has zero diversification. All your eggs are in one basket, as they say.

For most investments risk and reward are fairly equal. But there are anomalies where the reward is far greater than the risk and vice versa. When the reward is greater than the risk speculators cash in and leave everyday investors saying, "Why didn't I think about that?"

A few points about speculation

You can lose a lot of money when you

speculate and should expect to lose at least 50 percent of your investment if the investment tanks. That is a fact of speculation.

For example, if you invest in the entire group of stocks that make up Russell 1000 or Russell 3000 Indices, then the probability of losing everything is extremely low. For that to happen the entire group of the 1,000 largest companies in the United States would have to go bankrupt.

That's theoretically possible, but it's like betting on the end of the world. It's just not a good idea because it will only happen once. The same can be said about the reward of investing in these indices. It would be just about impossible for such an investment to double overnight or even in a few years.

On the upside speculation is about making fortunes. If you dream of being on the Forbes 400 list of wealthiest people in the world, then you or a family member will have to speculate and take some substantial risks to get there.

To do that you will need to buy a company or start one up and take many risks along the way to attract customers and drive up sales. Or you might start building your empire by going into some serious debt to buy a piece of real estate that is way undervalued and positioned to make you millions of dollars in a few years. Or you could spend countless hours analyzing a company's stock then pouncing on the stock at exactly the right moment and selling at the exact moment when the stock is at its highest. Or maybe you will quit your job at the factory and write a best-selling book that leads to a multibook deal with a publisher. Your speculation might take the form of buying art or collectibles for significantly reduced prices and reselling for astronomical prices on eBay.

Speculation can range from any of the aforementioned endeavors all the way to buying a lotto ticket.

Most mass manias carry substantial risks. Some schmuck is always pedaling some wild idea to make you rich quick. Remember, people with vested interests do not love you, and they are not your friends no matter how friendly they appear. Following are a few facts about speculating you need to keep in mind:

1. Speculation is not necessarily gambling, but most people gamble when they speculate by not committing the effort and research needed to protect and grow their investment.
2. Evaluate the risks as much as the rewards. Most people dream of riches without counting the costs associated

with getting them.

3. Do not speculate if the reward is not multiple times the amount of the capital that is at risk.
4. Keep in mind that a long string of great returns multiplied by zero always equals zero.
5. If it is too good to be true, then it probably isn't true.
6. If a salesman is involved in the deal, ask yourself, "Why on earth would he tell me about this if it was such a sure thing?" Then run as fast as you can.
7. There are no guarantees in speculating!
8. The only way to make more money than everyone else is to have knowledge the crowd doesn't have or to do something the crowd isn't doing.
9. Be honest with yourself.
10. Measure twice, cut once. In other words research, then speculate.
11. No one will ever ring a bell to signal a great speculation.
12. If you can't calculate the risk to reward ratio, then don't speculate until you can.

Chapter 13:

Your Greatest Investment: You

People are always looking for the latest and hottest investment. It seems everyone wants a piece of the American dream, and most people are looking for the quickest way to attain it. But in the rush to get rich many people take unnecessary risks and make huge financial mistakes. One of the biggest mistakes people make is that they overlook their number one investment — themselves.

Studies have shown that workers with at least a college degree earn 62 percent more over the course of their careers than people who don't have a degree. This reality cannot be ignored. It's crucial to get the education and skills needed early in life for many reasons including personal enrichment and financial gain.

Even though having a college degree does not denote how good you may be as an employee, it is does make a difference in terms of opening doors for you into industries where college degrees are coveted. Not surprisingly, industries that require such degrees are usually higher paying than industries that do not require a college degree.

Look at the following example to see what I mean.

Joe Dog makes $25,000 annually at his job. If Dog works for 40 years at the same rate of pay he'll make $1 million over the course of his 40-year career. However, if Joe was able to get a job that paid $35,000 per year and he worked 40 years he'd make $1.4 million, which is an additional $400,000 made over his lifetime.

In other words, if a college degree can make you even $10,000 more annually you're going to be much better off.

It is also important to consider the degree you're going to pursue while in college because fields that are similar can have significantly different starting salaries. In some cases a student would be better off to get a specialized degree such as accounting or finance rather than just a general business degree.

If you go to college and obtain a degree do not settle for being average. Find something you can become an expert in so that you will stand out from other applicants when you look for employment.

Whether you go to a college, university or vocational school or even participate in an apprenticeship, know they are all very worthwhile endeavors. Each of them will increase your value by enabling you to earn a better income. But remember, the school you choose and the amount you pay for an education will greatly affect the return you receive on your investment.

Choose wisely

Many young people never contemplate the income potential of the occupation for which they prepare. I always advise college-bound teens never to choose an occupation based on income alone, as there are many variables such as future growth of industries, potential job openings, individual giftings and even what a person has a passion to do with his or her life. But once those decisions have been made each person needs to consider what their future earnings will be in the industry considered.

Remember, formal education is expensive. If you're going to invest tens of thousands of dollars and at least four years of your life into something, you should have long-term plans to get everything out of your education and career that you can.

Spending money to make money

Quality education is getting more expensive every year. Every parent I've ever talked to is acutely aware of this. Most parents want what is best for their children and are more than willing to invest in their child's education. For many families it is the most satisfying and long-lasting investment they will make.

Because of that, research is critical. Students and their parents should work hard to determine which college major will be best for the student. College should not be a time of wandering; it should be a time of working hard toward a definite goal.

Go to any college or university and you will see your share of slackers — kids who seem intent only on partying or hanging out with their friends. For such students, academics are a joke and hard work is as foreign as a country they've never visited. Even students who are somewhat serious sometimes make financial mistakes by switching majors, failing a class here or there or not making the most of the educational opportunities presented to them.

Before enrolling in college, students should take career and personality assessments to help them determine the most effective and efficient route to a degree. But figuring out what the best route is takes a lot of homework.

If you are too busy to do the homework or just cannot bother doing it, take a year off from school until you are serious enough about it to do the research that can save money and set you up for a bright future.

How much debt is too much?

There are many opinions about debt. Many debts are clearly bad ideas. However, investment debt used properly is essential to almost every great company's success, and students can apply such a philosophy when investing in themselves.

The difference between "good" and "bad" debt is that good debt actually increases your "bottom line." If you believe this philosophy, as I do, borrowing money to get a college education is OK.

But be warned, improperly gained debt while in school can severely cripple a student's outlook on life and limit his or her career choice upon graduation. Do not rack up credit card or automobile debts while in college.

I cannot tell you how many people I have met who have a college degree, work for a corporation and feel led to leave the corporate world to serve in a ministry or charitable organization. Unfortunately, many people cannot make such a move because they are strapped by debt. The danger of crippling your ability to serve others later in life is just one of many reasons to avoid consumer debt while in college.

In some cases a person's debt can force them out of an occupation they love. Whether you believe in God or not (I do), it is not God's plan that debt pull people away from doing what they are passionate about doing.

What does all this mean? Simply put, don't get in so much debt that you cannot follow your dreams.

Key steps to take

Here is a recap of the steps you need to consider before enrolling in college.

1. Find out what your desired occupation will pay by talking to those who are already out there doing what you wish to do.
2. Ask potential schools about job placement statistics and what their graduates make on average.
3. Apply for any and every grant and scholarship available. You would be surprised at how few people do this.
4. Realize that the advisor at the school has a vested interest, and his or her interest may not necessarily be aligned with yours.
5. Work while you are in college even if it means you have to be in college more. This is especially true if you are going into an occupation that is considered lower paying.
6. Do not use school money for anything

but your education! If you do, it will haunt you for years to come — I guarantee it.

7. Do not use credit cards or any other store credit while you are in school. Even gas cards will get you into trouble unless someone else is monitoring and even paying the bill.
8. Figure out as quickly as possible what your major will be so that you do not have to switch midstream.
9. Make it a goal to get your education with the least amount of debt as possible. Family and friends may tell you that you can pay it back after you get a "real" job, but why start your life in a pit of debt?
10. Do not take on school debt totaling more than 110 percent of your first year's expected income after graduation.

Joe Dog has an opportunity to do things right

Dog's school costs are $14,000 per year. Dog anticipates earning $26,000 in his first year out of college. This means the maximum amount of debt Joe should accumulate while in school is $28,600. If Joe finds a way to pay for half of his school costs, then he will be just fine when he graduates. This can be done with the help of family and working part-time. After all, statistics show that students who work during college get better grades and make better employees afterwards.

Focus on the future

Spending money to enhance your skills and increase your value as a worker is extremely important. The key is knowing how much you can spend. Remember, many businesses fail within their first year of existence. The main contributor to this fact is too much debt. Don't be like most businesses.

It pays to learn

If you have a high school diploma, stats from the Federal Reserve say you will probably make around $35,000. The average income of a person who has some college is a little more than $40,000. Those people who hold a college degree can expect to make more than $70,000 on average. This is a big difference and reason enough to finish college. As you can see, education pays.

Chapter 14:

Eleven Bombs to Your Net Worth

There are many easy ways to ruin your net worth or seriously impair it. Everyone is susceptible to losing all their money no matter how savvy, prepared or rich he or she may be. What is really scary is how fast a person can ruin his or her net worth. To help you avoid such a fate, consider 11 of the most likely ways people ruin their net worth.

1. Take out the maximum school loan and live large

College years should build necessary life and career skills that will benefit a person for the rest of his or her life. But most students are not thinking about their net worth or financial future. Instead, they are thinking about partying, impressing people and living large. It may sound crazy, but it happens.

One of the seemingly easy ways to live large is to take advantage of all that “free” money available through student loans.

Here is something you should know: Colleges and universities need money to operate efficiently, expand their campus and stay competitive. Because of this they have become adept at securing and pushing loans on students whether students really need them or not.

Many times those loans far exceed the cost of tuition, books and board. When students cast their hungry eyes on the surplus they get intoxicated with all the possibilities.

A large loan feels like getting free money — until the student gets his or her first student loan bill after graduation.

If your loans cover more than what you need immediately do not use the money for your wants. Put it all towards future needs, or pay it back. Put money down against next year's tuition, for example. You do not need to party, buy that Ipod or leather jacket, or go on vacation for spring break.

In many ways saying no to using that cash for wants is your first real test in becoming an adult.

Recommendation:
Run baby run.

2. Get a divorce

Divorces can be ugly affairs. In some cases they are warranted, but in our fickle society they are often an attempt to avoid tough times.

No matter what your situation is, remember that divorce is extremely painful and costly. And severing a marriage can destroy your net worth faster than you can say divorce.

In most states a divorce will cut a person's net worth in half. Ouch! Tack on alimony and child support, and a person's net worth is going to take a major hit.

How can you avoid this problem? First of all, marry the right person. Don't rush into a marriage like you would a building to save a baby. Second, do everything you can to make your marriage work even if things go south. Third, and this is a last resort, sit down and calculate how much it will cost to get divorced. That might just sway you to stick with the person you've committed your life to in front of God and friends. Fourth, get some counseling. The cost of counseling will pale in comparison to the cost of a divorce.

Unless your spouse won't stop cheating on you or is abusing you, do not get divorced. Get over your differences and make your marriage work.

Recommendation:
Marry the right person and make it work.

3. Make horrible investments

Investing is a difficult game to be sure. Everyone who invests will most likely have at least one investment go bad. Lawrence Livingston, one of the most successful stock traders in the early 1900's, said all his mistakes taught him how to be successful. So, if you make a mistake with your investments it is not the end of the world.

Mistakes can be learning experiences. But too many learning experiences can be costly. Major mistakes will not just teach you a lesson; they'll make you broke.

The scariest investment you will ever make is the one that another person tells you is a sure thing and cannot miss. These investments can be sucker stock picks, pyramid investment schemes or complete frauds from around the globe.

Recommendation:
If an investment sounds too good to be true, it probably is.

4. Buy and sell too frequently

Buying a house is a big deal. Real estate is a great investment, but it is meant for long-term holdings. A lot of people — even those who have little expertise — have gotten into flipping houses.

Flipping a house means a person buys a piece of real estate and fixes it up or holds onto it for a period of time in the hope of selling it for more money.

If you are going to invest in real estate it's imperative you be extremely critical, develop a cogent level of expertise and be savvy. If you do not posses such skills you could end up with a piece of real estate that will drain your net worth slowly or quickly depending on the situation.

Recommendation:
You can get tripped when you flip.

5. Go on a credit card tangent

Credit cards are extremely dangerous to your net worth. Whether used for a shopping spree or one major purchase, credit cards can ruin a person's net worth as fast as a card can be swiped.

Besides providing immediate purchasing power, credit cards offer many people an emotional release. Some people use them as a crutch to get through a difficult time.

When credit cards are used like this I call them sprees. Some people go on a broken-heart spree after a relationship ends. Other people go on a tragedy spree after experiencing the death of a family member or friend. A lot of people go on success sprees when they get a big raise or bonus at work. You can identify any number of sprees; the one thing all sprees have in common is that they can ruin a net worth.

If you have a history of going on a spree for any reason, holster your credit cards by leaving them at home when you go to the mall. Or even cancel and cut up all but one of them and use that one only for emergencies.

Instead of going on a spree do something nice for someone, go for a run, paint your house or dive into some other worthy project. Do anything that does not require a credit card.

If you know a breakup is eminent or a raise is in your future set aside a little cash and promise yourself to stop buying as soon as the money is gone. That way you will feel like you have got your fix, and your net worth will be intact and growing rather than declining.

Recommendation:
Chop up the credit cards and stay out of the mall.

6. Co-sign a loan for a deadbeat

Co-signing always starts out with the best intentions. The temptation generally arises with someone we care about. We want to help the person out because there is no way they can do whatever they want to do on their own.

Net worth savvy people must keep in mind that the person cannot get a loan on their own for a reason. And no matter what that reason is, it is usually a good reason for you not to co-sign for them.

Maybe the person cannot pay back the loan, or they have defaulted on previous loans, or they are too young or inexperienced to do what they want to do.

As loose as banks are these days with lending, a denial for a loan should throw up serious red flags that you need to pay attention to.

That said, there are some instances where co-signing for someone you love and care about will seem like the right thing to do no matter how badly the numbers do not square. If you have already decided to take the risk, here is the number one rule for doing so: Only co-sign if you are willing and able to actually give the amount of money borrowed to the family member or friend. In other words do not co-sign for anyone you do not trust or love — and even then be cautious. As the saying goes, the road to hell is paved with good intentions.

Recommendation:
Sounds crazy, but never co-sign on something you cannot or will not gladly cover.

7. Make minimum payments

Making the minimum payments on your debts is like sentencing your net worth to a slow and painful death. Sure, you will get the creditors off your back for three to four weeks, but you will be doing nothing to pay off your debt.

I had friends in college who, in order to make their monthly credit card payments, would actually take a cash advance from their credit card to cover the payment. It was a sick cycle that took many of them years to dig out of.

Making only minimum payments, especially on credit cards, seems like a gift from the credit card company, but it is really a curse from them. When you only make the minimum payment you are putting cash in their pockets and extending your payments, increasing your debt and destroying your net worth.

The sooner you figure out that these entities are not your friends, the better.

Recommendation:
Pay off your credit cards in full each month.

8. Withdraw your retirement accounts

Taking draws on your retirement accounts is stupid. No one wants to be stupid. This mistake is easiest to make when people change jobs or make a major move. It has become more frequent in the past few years as people change jobs more frequently — every three to five years for many people.

This means that retirement plans have to be dealt with each time the person changes jobs. Everyone hates paperwork, but you have to deal with it. Do not be an ostrich! And don't touch the money when you shift its location.

We all need 30 to 40 years to grow our wealth for retirement. If you take that growing money out of its nest and use it for anything that does not grow your net worth you will regret it 30 or 40 years from now.

Resist the temptation to spend your hard-earned and saved money. Leave it where it belongs — out of your hands and in investments that will grow.

Recommendation:
Do not touch the kitty.

9. Start a business on a whim

Starting a business is both an exciting and fearful endeavor for many. It can lead to significant fortunes; but most businesses fail early on in their history, and they generally consume significant portions of their owners' net worth either in initial capital or debts secured by assets.

There are innumerable great ideas for business start-ups. The bomb is tied to the fact that many are not thought through carefully enough. Avoidable mistakes in the early days of business are extremely costly. An extremely successful entrepreneur once told me his motto was, "Measure twice, cut once." It has stuck with me ever since, especially as I looked back over mistakes I made.

The damage from this bomb can easily range from thousands to millions and last for years. I encourage entrepreneurs to go for it. Just do your homework first.

Recommendation:
Measure twice.

10. Trade in upside-down vehicles

Wow, old vehicles must be getting closer to the endangered species list. When I grew up they were everywhere, even in high-class neighborhoods. Now, brand new cars abound. People trade cars in before they ever get paid off. Nobody sees the thousands of dollars that disappear from their net worth. All they focus on is a monthly payment that appears affordable.

Down payments, warranties and initial depreciation all add up. Do not make decisions to buy vehicles on a weekend's notice because you had nothing else to do that weekend. Buying cars is a big deal. Make sure you buy one you will be content with for 5 years or more. Remember, car sales people may be nice, but they are not your friends.

Recommendation:
Drive it until the wheels come off.

11. Borrow from retirement

It has become very prevalent to borrow from retirement accounts. Retirement accounts that have been steadily grown over time with regular contributions from both the employee and employer are many times the biggest asset people have. Since the advent of home equity loans, retirement account borrowing is the last sacred ground that has been desecrated by consumerism.

You should never take a loan from your retirement account unless it is specifically used to gain another appreciating asset. Many retirement plans have made it easy to borrow, but it is extremely detrimental to your net worth to pay off other debts or purchase things or go on vacations with funds that could have sustained you years from now.

Your retirement accounts are the one thing creditors cannot touch even if you lose everything else. That is just one benefit such accounts afford. By now you should also know that time is on your side when you are young and saving cash for the future. Build a retirement account for eight years then empty it to pay off a handful of old debts and you have just erased eight years of savings and tens of thousands of dollars in future earnings. Not too smart.

No matter what is tempting you to drain your retirement account, resist it. There is absolutely no good reason to touch that money unless you are rolling it into some other investment with just as good or even better potential to build your net worth.

Recommendation:

Because saving for the future will only be harder as you get older, save as much as you can while you're young and do not mess with it.

All of the aforementioned points are quick and easy ways to ruin your net worth. Do not fall victim to any of them. Some of the challenges mentioned above may be less significant the bigger your net worth gets, but others remain dangerous no matter how big your net worth is. All of them are easily avoidable and costly to ignore.

Now you know the 11 bombs that can ruin your net worth. Don't blow it. Remember, avoiding these common pitfalls will make it easier to safeguard your net worth and secure your future.

Chapter 15:

The Charitable Factor

True worth goes far beyond your net worth. I know that sounds crazy, especially in a book that teaches the values of net worth, but it's true. A person's true worth should be measured by the positive difference he or she makes in his or her world. I am not one to stand on my soapbox proclaiming righteousness, but I have to tell you that your net worth does not equal your true worth.

Your net worth is a means to an end, and that end should be helping others as you accumulate assets and live life to the fullest. In other words, one of your main goals in life should be to use your net worth to better not only your life, but also the lives of those around you.

If you picked up this book and are studying net worth as a means to finding self worth or fulfillment, you are on a journey to nowhere but disenchantment and pain. Yes, building net worth is extremely important and a worthy endeavor, but to build a fortune at the exclusion of living a fulfilling life is foolish. Simply put, build as much net worth as you can and do your giving while you are living so you know where it goes.

True worth

When I think of people I admire the most, many of them are not among the super rich.

My grandfather, whom I mentioned earlier in this book, was one of my great heroes. Yes, he accumulated wealth, but he also lived a good life and poured his life and resources into others. He's a model of balance I try to emulate.

Think of the people you admire most. Does it matter to you if they are rich or poor? Do you admire them because of their possessions or who they are? Do you like them only because they have the latest and greatest cars and furniture? Of course not. The people we admire the most are people who invest in our lives and make the world a better place.

As you pursue building your net worth do not focus entirely on the bottom line. Follow your passions, help others and invest in the lives of people you love.

The road to riches

Many of the richest people in the world did not get rich by solely focusing on amassing money. Instead, they became passionate about something and that passion led to fortunes.

Warren Buffett is the only money manager who has ever made it to the top of the world's wealthiest lists. His goal may or may not have been to get to the top of that list, but one thing I do know about him is that he always wanted to achieve a return of 15 percent a year on his investments. Look at Bill Gates, founder of Microsoft. He passionately pursued the idea of personal computing and the result made him a fortune.

But if you have followed the headlines lately you know that Buffett and Gates have given away millions, even billions, of dollars to humanitarian causes. Why would they do that?

Because being rich does not make you happy. Wealth can make life easier and open many doors for an individual, but I am not convinced it makes a person content. If it did, why would Buffett and Gates give so much of their net worth away?

Give and live

Building my net worth has always been important to me. However, I found there is much fulfillment in tempering the desire for money with the reality of giving. Giving needs to be something you do along the way as you build your net worth — do not wait to give after you are dead. Some of your greatest joys in life will be in investing in the lives of others.

I believe strongly in giving to worthy causes in line with my personal values and priorities in life. Of course, any Scrooge would point to the fact such giving detracts from my net worth. Yet, I find great value that cannot be measured in dollars by using my resources to make a difference for others.

I have made a personal goal to grow my net worth to a significant level. When I first made the goal it was only to achieve wealth. However, I quickly realized that if I focused exclusively on some final dollar amount in the future it would be impossible to give as charitably as I desired. I have fallen in love with giving. In many ways it is very contagious. Giving will alter your view of money and you will quickly see the power and impact of giving generously.

I have seen it firsthand and have reprioritized my financial goals so that I can give.

Building net worth and being a good steward of your money gives you freedom to live the life you want and help other people when needs arise.

Rules for giving

One of the first rules of giving is do not give what you do not have. Yes, make sacrifices to give, but do not go into debt to give.

Give regularly and make room to use some of your net worth to give special gifts to special people and organizations along the way.

Give to causes or people you believe in. It is important to me to track what I give to the organizations of my choice. Whenever I feel I am not building my net worth to the levels I should, I look back over my records and see the investment I have made in organizations and people that mean so much to me. That gives me a sense of satisfaction.

Worthy goals

The goal of the *Net Worth Principle* is not to make everybody amazingly wealthy. Instead I want to help you have a good life and help you direct your resources into things that have long-lasting value.

Your net worth will enable you and others you love to have a high quality of life. Remember, to build a cogent net worth it is going to take time and wisdom. One of the wisest things you can do is commit to give some of your net worth away to those you love or admire.

Chapter 16:

The Power of Rewards

Ever use a day to wander around your house, a mall, a park or museum? On one level, if you boil wandering around down to what it really is, it's a waste of time. But it could be argued that we need to wander every now and then to relax, get away from reality or wind down from a tough week. I wander every now and then just to regroup. Sometimes I take my kids to the mall and we just window shop; other times we walk around a park with no cares in the world.

Though wandering can be beneficial to our health, there is one place you should never wander — and that place is in your financial planning.

"Yeah, right," you might be saying to yourself. "I'm only in my early 20's. I've got plenty of time to figure out a financial plan that will make me rich."

Many people think like that, and many of those same people are now 35 years old, well established in a career, supporting a family and carrying a hefty mortgage. And they still have not even considered saving for the future. It is as if they are saying collectively, "Let net worth worry about itself."

I have bad news for you — it will not.

To build your net worth you need to be

plotting a course long before you make your millions in your dream job. As a matter of fact, if you are just out of college — or even in college — building your net worth needs to be a priority in every financial decision you make.

That may sound ridiculous right now — after all, you are young and you have your entire life in front of you. There are high definition flat panel televisions and new cars to buy and expensive meals to enjoy. But if you do not take your net worth seriously, no one else will.

You have to make a plan and stay focused. A vast majority of people waste many years of their earning ability, and even go into major debt, during some of the best years of their lives to be investing.

There is a simple motto in the financial world that must become your mantra: Invest as much as you can as fast as you can while you are young.

Why?

Compound growth.

Get started

I have met so many 45-plus-year-olds who are burdened with fear and regret while they struggle to figure out some sort financial plan that will build their net worth in the short amount of time remaining. Building wealth is not a mystery. You have to have a plan and plenty of patience.

I often wonder why people are so intimidated by finances. It seems that many people are afraid of finances because they get overwhelmed with all the decisions and information out there regarding finances. Hopefully *Net Worth Principle* will ease some of their fears.

Remember that finances are like a garden. You have to plant the seeds in good soil, tend to those seeds regularly by watering (saving) them and pulling out the weeds that threaten them (debt) in order for them to produce beautiful results. Other than that they are pretty self-sufficient and capable of rewarding the gardener.

The magic in building net worth, no matter how you choose to build it, is starting to build it as soon as you can.

Different roads

When it comes to building net worth, everyone will have different goals depending on their career (whether high-income or not) and the significance of wealth in their lives. The important thing is that everyone builds their wealth to a level that meets their real needs and goals.

This means that year after year (especially in the first 20 years of your career) your net worth grows. There may be some instances where it will dip, but the focus and long-term goal of your strategy will be growing it.

For some people, the best way to build net worth will be to follow the "Making a Million Easy" model provided in this book. Such a person will start building his or her net worth early in life and increase his or her assets by a few thousand dollars at a time. Others will be high-income producers, and they will want it to grow substantially year after year.

Power of rewards

Like most people my wife, Lisa, and I like new things. And like most people we have been tempted to go into debt to get the things we want. But when we first married we set some goals and parameters when it came to our finances.

We discussed our goals and agreed we wanted to have $25,000 in savings in the first three years of marriage. This took a lot of discipline and focus to accomplish, but as dual-income-no-kids (DINKs) it was very achievable, so we went for it.

Because saving $25,000 was going to require some heavy-duty sacrifices we agreed that if we could save $30,000 in three years' time I would reward Lisa with a $5,000 check she could use any way she wanted.

Since saving $30,000 was my idea and doing so would be reward enough for me, I knew the $5,000 reward would get Lisa to help me accomplish the goal. That is the way marriages are supposed to work — we can do great things when we work together.

Putting a reward into the mix for achieving such a significant goal made it much easier to pass up lots of little distractions along the way. It also increased our unity in the endeavor, which is always a good thing to build when you are newly married. Lisa admits now that she was not all that interested in how much savings we had, but she was very interested in the pending reward. That interest drove her to make lists of ways she could save money and build our savings. She also made lists of the ways she would spend her $5,000. A trip to Europe, LASIK eye surgery and new furniture were at the top of her list.

As the months went by it became easier and easier to save because of habit and growing momentum. It was an exciting day, almost three years after making the commitment, to put our last deposit in the bank taking us over the $30,000 mark.

For Lisa something even more exciting happened. I gave her a check for $5,000. She elected to use the check to pay for LASIK eye surgery, which was a double positive because she no longer had to wear glasses or contacts and she had the satisfaction of paying cash for an elective surgery that many people go into debt to get.

Plus, we have saved thousands of dollars over the years not having to go to the optometrist or buy glasses or contacts and all the associated supplies.

Setting the goals

Setting financial goals starts with taking baby steps. When you set your goals make them realistic and achievable. Because life changes, be sure to be open to tweaking your goals as life happens. You might get married. At that time, increase your goals because now you have more earning power. You might have children. At that time evaluate your goals again so you have money saved for your child's college education. You might have several job changes and with those changes may come salary increases or decreases. At that time make the necessary adjustments to your goals so you can maximize your net worth.

At some points in your life you might need to be more aggressive or conservative depending on your annual earnings or how the market is doing or what opportunities come along. The key is to have a plan when you're young and stick to it throughout your life. Do not end up like many people who regret not taking advantage of the good times of their youth when they had plenty of resources to build a financial snowball.

Get started

You may be coming to the end of this chapter and saying to yourself, "I only make $25,000 a year, I have school debts, rent and food to buy on my own for the first time in my life. How am I going to save a dime when I don't have a dime to spare?"

The answer is simple.

- Calculate your net worth.
- Develop a plan to build your net worth.
- Set short-, mid- and long-term goals.

- Scrutinize big-ticket purchases.
- Cut costs and pay down debts.
- Save for retirement.
- Reward yourself now and then.

Remember, time is on your side. The money you can save now — no matter how small it may seem — can be worth much later in life. As the old man said to the young man: “Time goes by whether you are saving or not, so start saving.”

Chapter 17:

Opportunity Comes Knocking

Your net worth can open doors for you. One of the disappointing realities of life is that the rich get richer and the poor get poorer. The reason this saying proves itself true time and time again is because rich people have the assets (positive net worth) to take advantage of deals and investments that come along, and poor people (those with small or no net worth) do not.

Everyone is looking for that pie in the sky to come along, but for many people even if such an opportunity did come along they are so deep in debt they could not do anything about it.

It is true that opportunity surrounds everyone in America. Great financial opportunities do not necessarily arise every day, but I guarantee you that if you live in America they will come along once in a while and when they do you better be ready.

When I was growing up my dad regularly told me about investments or ventures he had seen in the past that he never took advantage of. It was not that he did not have the stomach for risk; he did not have the means to act on the opportunities before him.

Many times he would dejectedly tell me about land or business deals he could not partake in because he simply had not built up his net worth the way he should have. At times it was like listening to an old fisherman talk about the big one that got away.

After I became an adult I realized my dad had let me know about the deals that had gotten away from him so I would be mindful of building a net worth and would not miss similar opportunities that would come my way. Like a good father would do, he wanted me to learn from his mistakes and missed opportunities.

The fact is, you do not have to be rich to have opportunities fall into your lap and to be able to take advantage of them. But you do need to have a positive net worth to draw upon and little debt to deal with. Did you know banks are ready to lend you money if you have a good business plan and a positive net worth?

In banking I have personally helped many people buy property without using any money of their own to get it. Instead of their own money they use their net worth to get loans. It can be risky, but I have seen people increase their net worth by tens, if not hundreds, of thousands of dollars by making their net worth work for them.

Mark Burnett, producer of *Survivor* and several other successful television programs, borrowed against his house to buy the rights to *Survivor* in the United States. Since then, he has made millions. He first had to have something to borrow against (home equity or net worth) to take advantage of the biggest opportunity in his life.

You can be like Burnett by leveraging part of your net worth to take advantage of a great deal. But to even be given a seat at the table of a great deal you have to have a positive net worth.

That is why it is imperative you become net worth minded and build your net worth. Imagine how you will feel if a negative net worth keeps you from a truly great investment or business deal.

Not just the big things

Having a positive and ever-growing net worth is also important for the smaller opportunities that come along in life. Have you ever met someone who could not take a dream job because they were in bondage to debt?

Or, what about the family who never takes a vacation because they spend all their money on keeping up with the Joneses? Sure, they have new cars every other year and a McMansion, but they cannot go anywhere without going into debt because they have little or no net worth. That is not the way it should be.

By now the concepts in this book should have started revolutionizing the way you view money and personal finance by making your bottom line your top priority. Life is not about all sacrifice or all gratification. It is about finding a wonderful balance between the two so that you can experience the gratification that a reasonable amount of sacrifice brings.

Become net worth minded, build your net worth and start living the way you were meant to live.

The Man Behind

Net Worth Principle

Paul Ebisch has traveled the entire United States working with all types of people from those with incomes both high and low, those with lots of education to those without any, to those with multitudes of debt causing them to have a negative net worth, and to those with millions of dollars in net worth. He has a significant understanding of both the “big wig” and the “little guy” that enables him to provide amazing insight into the lives of all Americans.

Paul started out after graduate school in the estate planning department and as a retirement planner at AG Financial. Later, he worked his way up to become the Director of one of the largest retirement plans in the nation. He founded Blaicol Capital Management, LLC in 2004 and serves as both the Senior Equities Trader and Investment Advisor. Paul is the President of Ebisch Management, LLC which owns an online marketing firm and other business endeavors. Currently, Paul is the Chief Financial Officer and Vice-President of the Assemblies of God Credit Union in Springfield, MO.

You can contact or find out more about Paul and his concepts or read his blog online at:

www.networthprinciple.com