LEARNING MADE EASY

Wealth Building Essentials

for dummies®
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Get to know top wealth strategies

Jump start your wealth building plan

Avoid the mistakes that derail your goals

Eric Tyson, MBA
Author of *Investing For Dummies*
with Bob Carlson, Robert S. Griswold, Margaret Atkins Munro, and Jim Schell

Wealth Building Essentials

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Introduction

Welcome to *Wealth Building Essentials For Dummies.* This book draws on my decades of experience working in the financial services industry as a financial counselor and bestselling author to help you create a plan to boost your wealth.

I know from working with people of modest and immodest economic means that they increase their wealth by doing the following:

- Living within their means and systematically saving and investing money, ideally in a tax-favored manner
- Buying and holding a globally diversified portfolio of stocks
- Building their own small business
- Investing in real estate

This book explains the essentials of each of these wealth boosters. You learn how to build a mindset toward wealth, pick smart investments, pursue revenue-building opportunities, and mitigate risk. And I help you keep wealth in its proper and balanced perspective.

About This Book

This book covers the essential financial strategies you can use to build wealth. I begin by helping you consider what wealth means to you in terms of boosting your assets and beyond. I also discuss the mindset required to be a successful wealth-builder. The chapters that follow discuss financial strategies you can use to boost your assets.

You can read this book from cover to cover if you want, or you can read a particular chapter or part without having to read what comes before it. Handy cross-references direct you to other places in the book for more details on a specific subject.

Foolish Assumptions

Every book is written with a certain reader in mind, and this book is no different. Here are some assumptions I made about you:

- You may have some investment knowledge and investments, but you're looking to get serious about building and protecting long-term wealth.
- You want to evaluate your investment advisor's or broker's advice or other investment ideas.
- You have a company-sponsored investment plan, like a 401(k), and you're looking to make some decisions or roll it over into a new plan.

If one or more of these descriptions sound familiar, you've come to the right place.

Icons Used in This Book

The icons in this book help you find particular kinds of information that may be useful to you.

TIP

This icon denotes strategies that can enable you to build wealth faster and leap over tall obstacles in a single bound.

REMEMBER

I think the name says it all, but this icon indicates something really, really important — don't you forget it!

WARNING

With this information, I try to direct you away from blunders and mistakes that others have made when making important personal finance and related decisions.

Where to Go from Here

If you have the time and desire, I encourage you to read this book in its entirety. It provides you with the essential information you need to maximize return on your wealth-building efforts while reducing risk. You also can pick and choose the information you read based on your individual needs. Just scan the table of contents or index for the topics that interest you the most.

IN THIS CHAPTER

» Shifting your mindset toward abundance

» Applying a wealth mindset to debt

Chapter 1 Developing a Wealth Mindset

In this chapter, I encourage you to consider what wealth means to you. I explain how to think in terms of abundance, which is essential to cultivating a healthy wealth mindset. I also help you recognize the common flaws in mindset that lead to counter-productive financial habits, such as over-saving and accumulating too much debt. Think of this chapter as a touchstone you can revisit as you define your financial goals.

Focusing on Abundance

Wealthy people with a healthy and balanced perspective on wealth and life possess a mindset that focuses on abundance. They use and enjoy their money, and although this may sound counterintuitive, they resist over-saving.

Yes, it’s true: Over-saving is possible. Some people, in fact often the best savers, get hooked on amassing more and more money and have trouble enjoying and using their money. Super savers and money amassers generally equate more money with more financial security. Theirs is a scarcity mindset.

This section can help you recognize this scarcity mindset in yourself and others, and provides tips to address and temper it.

Avoiding a scarcity mindset

Over-savers possess a scarcity mindset. Just as some people think that their financial problems would be solved if only they could earn a higher income, over-savers typically believe that if they could reach a greater level of assets, they'd be more relaxed and could do what they really want with their lives. The bar, however, continually gets raised, and the level of "enough" is rarely attained. For this reason, some of the best savers and money accumulators also have the most difficulty spending money, even in retirement.

Some super savers have insecurities relating to money. Specifically, they view amassing financial assets as providing them with safety and security that extend far beyond the financial realm. While having more financial assets, in theory, provides greater financial peace of mind, these riches don't necessarily provide more of the other types of security — friendships, for example, for which hoarders are searching.

Achieving a certain level of affluence can provide for greater access to quality healthcare. However, once one reaches the point at which quality healthcare is the norm, the incessant pursuit of more money can have a negative impact on an individual's long-term health and quality of life. For example, super savers often believe that they will be better protected as seniors and better able to enjoy their retirement years with hefty account balances. But the pursuit of more money, which typically entails longer work hours and greater stress, can lead to more health problems before and in retirement.

Many super savers, who also tend to be obsessed with work, come from homes and families where they felt on the edge economically and emotionally. Although there are so many things that we can't control in the world, money amassers typically derive a sense of both economic and emotional security from saving a lot of money.

Super savers have an amazing ability to selectively hear particular stories that reinforce rather than question their tendencies and beliefs. For example, stories periodically surface about how the legions of baby boomers retiring will bankrupt Social Security and cause a stock market collapse. Super savers batten down the hatches, save more, and invest even more conservatively when such stories worry them. News stories about stock market declines, corporate layoffs, budget deficits, terrorism risks, rising energy prices, and conflicts in the Middle East and elsewhere cause super savers to close their wallets, clutch their investments, and worry and save more.

Balancing spending and saving

Most people don't want to work their entire adulthood. And, even if they do enjoy working for pay that much, who wants to live on the edge economically, always dependent upon the next paycheck to be able to pay the monthly bills?

That's why you should avoid the extremes of overspending and over-saving. Consider the analogy to eating food: Eat too little or not enough of the right kinds of foods, and you go hungry and possibly suffer deficiencies of energy and nutrition; too much eating, on the other hand, leads to obesity and other health problems.

Overspending and its companion, under-saving, hamper your ability to accomplish future personal and financial goals and in the worst cases, can lead to bankruptcy. Over-saving can lead to not living in the moment and constantly postponing for tomorrows that we may not live to enjoy.

Remember Goldilocks and her quest at the bear's home for the bowl of porridge that was not too hot and not too cold and a bed to rest in that was not too hard and not too soft. Everyone should save money as a cushion and to accomplish important personal and financial goals.

- **Keeping money accumulation in proper perspective:** As with any good habit, you can get too much of a good thing. Washing your hands and maintaining proper hygiene is worthwhile, but it becomes problematic when you obsess over cleanliness and it interferes with your life and personal relationships.

  Conquering over-saving and an obsession with money typically requires a mix of education and specific incremental behavioral changes. Substantive change typically comes over months and years, not days and weeks.

The vast majority of super savers work many hours and may neglect their loved ones and themselves. They typically need to work less and lead more balanced lives. That may involve changing jobs or careers or simply coming up with a "stop-doing list," the opposite of a "to-do list."

- **Giving yourself permission to spend more:** Money amassers usually need to discover how to loosen the purse strings. Figuring out how to spend more and save less is a problem more folks wish they had, so consider yourself lucky in that regard! Give yourself permission to spend knowing that the money you've saved will continue to grow and be available to you as you need it.

- **Doing some retirement analysis:** Understand the standard of living that can be provided by the assets you've already accumulated. There are numerous useful retirement planning analytic tools you can use to assess where you currently stand in terms of saving for retirement.

  TIP

  Among the various mass market website retirement tools, I really like T. Rowe Price's (`www.troweprice.com/usis/advice/tools/retirement-income-calculator`) and Vanguard's (`investor.vanguard.com/calculator-tools/retirement-income-calculator/`).

- **Getting smart about investing your money:** While super savers love watching their money grow, some have trouble with investing in volatile wealth-building investments like stocks because they generally abhor losing money. Even bonds can be a turn-off because they, too, can fluctuate in value.

  So, part of the challenge with getting comfortable with spending more of your money is to get wiser about investing. Please see Chapter 3.

- **Going on a news diet:** Super savers often benefit from minimizing and even avoiding news programs that dwell on the negative, which only reinforces your fears about never having enough money. One justification that super savers use for their actions that constantly resurfaces in the news is the litany of fears surrounding the tens of millions of baby boomers hitting retirement age around the same time. The story goes that retiring boomers will cause a mammoth collapse of the stock market as they sell out to finance their golden years. Real estate prices are supposed to plummet as well, as everyone sells their larger homes and retires to small condominiums in the Sun Belt.

Such doomsaying about the future of financial and real estate markets is unfounded. The fear that boomers will suddenly sell everything when they hit retirement is bogus. Nobody sells off their entire nest egg the day after they stop working; retirement can last up to 30+ years, and assets are depleted quite gradually. On top of that, boomers vary in age by up to 16 years and, thus will be retiring at different times. The wealthiest (who hold the bulk of real estate and stocks) won't even sell most of their holdings but will, like the wealthy of previous generations, pass on many of their assets.

- **Treating yourself to something special:** Regularly buy something that you historically have viewed as frivolous but which you can truly afford. Once a week or once a month, treat yourself!

  By all means, spend the money on something that brings you the most joy, whether it's eating out occasionally at a pricey restaurant or taking an extra vacation during the year. How about tickets to your favorite sporting events or other performances?

- **Buying more gifts for the people you love:** Money hoarders actually tend to be more generous with loved ones than they are with themselves. However, over-savers still tend to squelch their desires to buy gifts or help out those they care about.

  Think about those you care most about and what would bring joy to their lives. Try hard to think about what they really value and enjoy.

- **Going easy when it comes to everyday expenses:** How would you like it if a family member or close friend followed you around all day and totaled up the number of calories that you consumed? Well, then, why would you expect your family to happily accept your daily, weekly, and monthly tracking of their expenditures? In some families, super savers who habitually track their spending drive others crazy with their perpetual money monitoring. Personal finances become a constant source of unnecessary stress and anxiety.

Especially if you're automatically saving money from each paycheck or saving on a monthly basis, does it really matter where the rest of it goes? (Of course, none of us wants family members to engage in illegal or harmful behaviors. But other than that, enjoy life.)

Work at establishing guidelines and a culture of spending money that everyone can agree and live with. Some couples, for example, only discuss larger purchases, which are defined as exceeding a certain dollar limit such as $100 or $200. Parents who teach their children about spending wisely pass along far more valuable financial lessons than do elders who nag and complain about specific purchases.

Remembering that wealth is about more than numbers

REMEMBER

Getting bogged down in the climb up the career ladder, burning the midnight oil, and accumulating wealth and possessions is easy in a capitalist society. In your pursuit, losing sight of some areas — the ones not about money — is also easy. These areas are just as important as — if not more important than — your finances, which is why you should be working just as hard at planning them. Here are some ideas to get you started:

- **Personal connections:** A lot of research shows that those individuals who have strong and healthy connections in their later years tend to be happier, enjoy better health, live longer, and live longer independently. Make sure you spend time making and maintaining healthy personal relationships. Doing so is an investment that pays dividends by improving the length and quality of your life.
- **Personal health:** Your health is much, much more important than your financial net worth. Just ask folks who have major medical problems — especially those they could have avoided — if they wish they had taken better care of their health. Although anyone can experience bad luck or bad genes when it comes to health, you can do a lot to stay healthy and enjoy enhanced longevity and the best possible quality of life.

» **Activities, hobbies, and interests:** Consider taking up activities and hobbies, part-time work, and volunteering. Giving something back to society pays many dividends.

TIP

You can find a zillion volunteer opportunities. Your place of worship, organizations that support a cause you believe in (for example, fighting cancer or heart disease), and schools are super places to start looking. Stumped for ideas? Try a service like VolunteerMatch (`www.volunteermatch.org`).

Developing a Wealth Mindset Toward Debt

Consider why you borrow money. Usually, you borrow money because you don't have enough to buy something you want or need — like a college education. A four-year college education can easily cost $100,000, $150,000, $200,000, $250,000, or more. Most people don't have that kind of spare cash. So borrowing money to finance part of that cost enables you to buy the education.

How about a new car? A trip to your friendly local car dealer shows you that a new set of wheels will set you back $25,000+. Although more people may have the money to pay for that than, say, the college education, what if you don't? Should you finance the car the way you finance the education?

There's a *big* difference between borrowing for something that represents a long-term investment and borrowing for short-term consumption. I'm not saying that you shouldn't buy a car. The point is to *spend what you can afford.* If you have to borrow money in the form of an outstanding balance on your credit card for many months in order to buy a car (or take the vacation, or whatever), then you *can't afford* it.

Avoiding bad debt

I coined the term *bad debt* to refer to debt incurred for consumption, because such debt is harmful to your long-term financial health.