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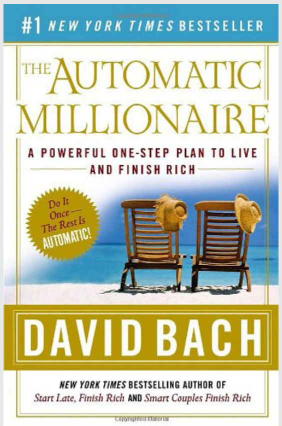
abbreviated principles



The Automatic Millionaire

A Powerful One-Step Plan to Live and Finish Rich

David Bach
Crown Business 2005
272 pages

Rating

9

9 Importance
8 Innovation
9 Style

Focus

Leadership & Management
Strategy
Sales & Marketing
Finance
Human Resources
IT, Production & Logistics
Career & Self-Development
Small Business
Economics & Politics
Industries
Global Business
Concepts & Trends

Take-aways

- Budgeting isn't necessary, you don't need determination, your salary is inconsequential, and setting up your personal finances doesn't take much time.
- It doesn't take a lot of money to be rich, just a little money saved every week for a long period of time.
- What matters is not how much you earn but how much you spend.
- The secret to creating lasting financial change is to decide to pay yourself first and then make it automatic.
- Buying a real estate makes up a great investment opportunity.
- Own your own house, and pay down the mortgage as quickly as possible to free up more money to eventually save.
- You don't need discipline to save if the money is taken out of your paycheck automatically.
- "Automation plus compound interest equals serious wealth."
- Don't set a budget, but keep some of your money from getting to you so that you don't spend it.
- Buy a house, live it in for a long time, and pay it off.
- Always save money.
- Paying yourself first is a must.

Relevance

What you will learn

In this summary, you will learn

1) What is all about latte factor
2) How to be an Automatic Millionaire
3) How to pay yourself first

Review

"The Automatic Millionaire" is a book that about common-sense rules of becoming rich enough to retire early. It's a book that will help you create your own financial plan to live and become rich. What makes this book remarkable is that it does not only teach you how to plan for your financial future, but also it teaches you how to automate your wealth building, so that you can have a discipline action towards your financial plan, without the necessity to continuously reminding yourself.

Summary

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THE PODCAST

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The "Automatic Millionaire" approach:

- You don't have to make a lot of money to be rich.
- You don't need discipline.
- You don't need to be "your own boss." (Yes, you can still get rich being an employee.)
- By using what I call 'The Latte Factor' you can build a fortune on a few dollars a day.
- The rich get rich (and stay that way) because they pay themselves first.
- Homeowners get rich; renters get poor.
- Above all you need an "automatic system" so you can't fail.

The Latte Factor

"A latte spurned is a fortune earned."

This is a theory of wasteful spending. To consider the amount of time it takes you to earn the money you spend on lunch out each day and if that is truly worth the expenditure. Realize the effects of your spending and what other, bigger things you could do with the money you spend on frivolous things everyday. Do the accelerated mortgage payments. Charting all your spending for a week to see where your money goes, and make changes accordingly. Taking control of your latte factor means the willingness to give up on the little things for the sake of big wins (those that bring long term happiness and value). It calls for discipline of your spending habits.

However, a total stoppage of something you enjoy and do everyday is extremely hard. Advocate hording all your money until retirement.

"watching the small stuff – little spending habits you have that you'd probably be better off without." You spend money because you have it. If you get extra money you do not save it. The proof that you do not save extra money is that anytime the government wants to jump start the economy they talk about cutting taxes – the government knows you will spend the extra money and rather than save it.
Changing your lifestyle will take quite a bit of discipline and will power – even though the results will definitely be worth the effort.

Safe Investing

Setting up accounts that are low risk and safe.

- Decide how big a cushion you need. Have a three months of living expenses, but the more is better.

- Don't touch it. *"The reason most people don't have any emergency money in the bank is that they have what they think is an emergency every month...A real emergency is something that threatens your survival, not just your desire to be comfortable."*

- Put it in the right place. *"Not earning interest on your emergency money is almost as bad as burying it in your backyard."*

Automate

"You need to have a system that doesn't depend on you following a budget or being disciplined."

"Whatever type of account you open, arrange to have your contributions automatically transferred into it, either through payroll deduction at work or an automatic investment plan run by the bank or brokerage firm where you've set up your retirement account."

No matter how little you think you can set aside each month, even if it is just 1% of your income, set it up so that you do not have to write a check but instead have it auto deducted from your paycheck or your bank account.

Sign up for whatever retirement account is available to you at work. These plans are almost always pre-tax so that any amount you contribute is not counted as income for your taxes.

Whatever plan you are able to open, you need to contribute as much as possible. Most people do not and retire poor. This decision will do more than any thing else in your life to determine whether or not you will become rich. This is because: Over time, money compounds. Over a lot of time, money compounds dramatically!

Paying yourself first

Don't buy lattes, have money payroll deducted to a retirement account, and forget about budgeting.

Any system that is designed to control your normal human impulses is ultimately bound to fail because human beings don't want to be controlled. You want to be in control. The only way to become rich is to pay yourself first and pay it automatically by payroll deduction into a retirement account. Most of us work barely 22 minutes a day for ourselves if any at all. You should focus on a percentage of your income that you should put away. With this, you must work an hour a day for yourself.
When you pay yourself first, you're mentally establishing saving as a priority. You're telling yourself that you are more important than the electric company or the landlord.
Paying yourself first encourages sound financial habits. People spend their money in the following order: bills, fun, saving. Unsurprisingly, there's usually little left over to put in the bank. But if you bump saving to the front – saving, bills, fun – you're able to set the money aside before you rationalize reasons to spend it.
By paying yourself first, you're building a cash buffer with real-world applications. Regular steady contributions are an excellent way to build a nest egg. You can use the money to deal with emergencies. You can use it to purchase a house. You can use it to save for retirement. Paying yourself first gives you freedom – it opens a world of opportunity.

Rainy Day Fund

"Put at least 5% of your salary away each month towards this rainy day fund."

The amount of money you put away to cover monthly expenses in the event that your family has no income coming in for an extended period. Figure the amount you're comfortable with on your own, by figuring out how much you need every month to maintain your lifestyle, and then figuring out how much you need in a money market reserve account to cover at least three, and preferably as much as twelve, months of expenses. First is to decide how big a cushion you need. Have at least 3 months worth of expenses set aside (note this is not 3 months worth of income). This emergency fund is to give you liquidity in case of emergency. Your regular investments should be earning a better return than your emergency fund and should be accessible within 3 months of the emergency, if needed. The second rule is not to touch the emergency fund. This money is for true emergencies. A real emergency as something that threatens your survival – not just your desire to be comfortable. The final rule is to put this emergency fund money in the right place. The money needs to be earning a decent return and regular savings accounts and suitcases in the back yard just won't cut it. Shop for the best money market rates at regular local banks as well as at online banks or to use government I-Bonds.

About the Author

David L. Bach is an American financial author, television personality, motivational speaker, entrepreneur and founder of FinishRich.com.