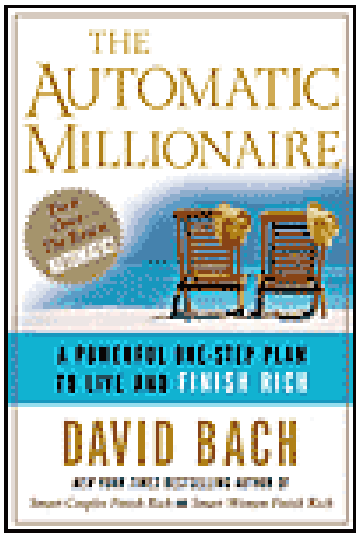
[ ]BusinessSummaries

WISDOM IN A NUTSHELL

The Automatic Millionaire

A Powerful One-step Plan to Live and Finish Rich



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The Big Idea
What if someone told you that for ten dollars a day you can be a millionaire-- roughly the cost of a pack of cigarettes or the price of a latte and a muffin? In addition to that, you neither need will power nor budget-- all you need is at least an hour to put everything in motion. Too good to be true? The McIntyres, an “average” American couple, did it. David Bach outlines the philosophies on becoming The Automatic Millionaire:

- 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”
- By using The Latte Factor, you can build a fortune on a few dollars a day.
- The rich get rich because they pay themselves first.
- Homeowners get rich; renters get poor.
- Above all, you need an “automatic system” so you can’t quit.

Chapter One: Meeting the Automatic Millionaire

The idea on becoming an Automatic Millionaire all started when the author met the McIntyres-- an "average" American couple that sought advice regarding their financial situation. Apparently, the husband was planning to retire at an early age of 52 despite his being a middle-aged middle manager of a local utility company and his wife being a beautician.

Realistically, most average American couples expect to retire by the age of sixty-five. Moreover, according to the American Savings Education, nearly half of all American workers have less than $25,000 in savings while almost 60 million Americans have no savings at all.

Even more fascinating than Mr. Mcintyres’ plan to retire at 52 is the fact that the McIntyres are debt free. The McIntyres own two houses without mortgages and earn an additional $26,000 a year for the lease of the second house. The husband has a 401(k) retirement account amounting to $610,000 and the wife has two small pension funds amounting to $72,000. They also own some municipal bonds and both has a substantial amount of cash in a bank savings account. A lot of their personal assets, which included a boat and three cars, are all fully paid for. To sum it all up, the couple has a net worth of roughly two million dollars of which none was inherited.

Remember that there is a big difference between looking rich and being rich. The McIntyres is a typical and average American family-- they did not own a fancy car nor a million dollar home-yet by any standards, they were rich.

The McIntyres Share Their Story

Like any average American family, the McIntyres started with a paycheck-to-paycheck existence with their monthly salary. Until finally, they realized that they could either continue with this kind of life or learn to make their money work for them.

The couple then decided to do the following:

- To pay themselves first.
- Watch their Latte Factor.
- Make everything automatic.

In doing so they where able to achieve what most people are still hoping for - they became automatic millionaires.

Chapter Two: The Latte Factor: Becoming an Automatic Millionaire on just a few dollars a day

The hard truth is: the amount of money we earn is not always directly proportional to the amount of money we save because, more often than not, the more money we make, the more we spend. This sad truth teaches us that: "How much you earn has almost no bearing on whether or not you can and will build wealth". These truths, however, didn't hinder the McIntyres from making more than what they get. They started watching their little spending habits-or buying small things that they don't necessarily need or things they can live without.

Everyday we are bombarded with all sorts of ads and gimmicks that attract us to spend. Even the government promotes the idea, simply because this is good for the economy. This leads us to become dependent on our paychecks and salaries. We end up literally living on a paycheck-to-paycheck existence. We become trapped in an endless cycle of spending everything we earn. As a result, we experience stress and uncertainty. Even worse, we are opening ourselves up to the possibility of bankruptcy.

We need to address these basic questions: Do you earn more and save less? Is your income helping you become more free or less free? Would it be better if your money worked for you?

What is the Latte Factor?

"The Latte Factor has become an internationally recognized metaphor for how we dribble away what should be our fortunes on small things without ever really giving it much thought".

The Latte Factor is a very important component in becoming an Automatic Millionaire. It is important to understand how small savings on unnecessary commodities could generate into a substantial amount through the power of compounded interest.

Take this case for example. Savings on the cost of a latte and a muffin with a given annual return of 10 percent, can astonishingly give a substantial amount if accumulated over a period of 40 years.

USE THE POWER OF THE LATTE FACTOR
$5.00 (average cost of a latte and a muffin) x 7 days =$35/week =approx. $150/month. If you invested $150.00 a month and earned 10% annual return, you'd wind up with 1 year = $1,885 2 years = $ 3,967 5 years = $11, 616 10 years = $ 30, 727 15 years = $ 62,171 30 years = $ 339,073 40 years = $ 948,611

The Latte Factor can be adapted to almost anything, from the coffee you drink every morning and to the muffin that comes with it. Consider everything you spend regardless of whether you paid this with cash or with credit. There is something about seeing your expenses written in cold, clear figures. These figures could motivate you to change your spending habits.

Try the Latte Factor Challenge and track down your expenses for one day and see how much more you could save after checking out the actual figures.

THE LATTE FACTOR CHALLENGE		
DAY:__________________	DATE:____________________	
Item: What I bought	Cost: What I spent	Wasted Money! (check for yes)
1		
2		
3		
4		
5		
6		
7		
8		
9		

10		
My Latte Factor Total: (Total Cost of Checked Items)		

Here is a supplementary form to calculate your Latte Factor:

THE LATTE FACTOR MATH
My Latte Factor for one day = _____________ My Latte Factor for one month=__________________(Latte Factor x 30) My Latte Factor for one year=__________________ (Latte Factor x 365) My Latte Factor for a decade=__________________ (Latte Factor x 3,650)
IF INVESTED MY LATTE FACTOR FOR:
10 years it would be worth= ______________________________________ 20 years it would be worth= ______________________________________ 30 years it would be worth= ______________________________________ 40 years it would be worth= ______________________________________

Basically, the point of the Latte Factor is to make you realize that you already earn enough to start saving and investing. Better yet, it is already a step to start getting rich.

Chapter Three: Learn to Pay Yourself First

One of the great misconceptions of becoming rich is the belief that obtaining great wealth is possible through proper budgeting. However, the truth remains that very few of us were born with the gift to budget. This is primarily because budgeting is monotonous and mostly isn't fun. To some extent it goes beyond human nature. Moreover, we are constantly being bombarded by thousands of advertising stimuli that urge us to spend.

Budgeting is a constant struggle and the weak at heart do not last long enough. Simply compare budgeting to dieting. Any system that is designed to control human impulse is ultimately bound to collapse. Humans want to be in control.

Budgeting, therefore, is not the quick route to wealth. The following are:

- Win it.
- Marry it.
- Inherit it.
- Sue for it.

- Budget for it.
- Pay Yourself First.

Most people think that after they receive their paychecks, the first thing they should do is to pay all their bills. If anything is left after settling all those accounts, they can then save a few dollars. When following the Pay Yourself First philosophy, you must first put aside a portion of your income before settling any bills. A good benchmark to shoot for is between 10 to 15 percent. You can, however, start on a much lower percent of your gross income and work your way up later.

Remember that everybody's benchmark is relative to their level of commitment but here is something to guide you with:

- **Dead Broke.** You don't Pay Yourself First. You spend more than you make and borrow money using your credit cards.
- **Poor.** You think about Paying Yourself Forward but don't actually do it. You spend everything you earn monthly and save nothing.
- **Middle Class.** You Pay Yourself First 5 to 10 percent of your gross income.
- **Upper Middle Class.** You Pay Yourself First 10 to 15 percent of your gross income.
- **Rich.** Pay Yourself First 15 to 20 percent of your gross income.
- **Rich enough to Retire Early.** Pay Yourself First at least 20 percent of your gross.

So which one would you want to be? Remember: "The foundation of wealth building is Pay Yourself First".

Chapter Four: Now Make it Automatic

In order for Pay Yourself First to be effective, the process has to be automatic. There are a number of utilities and systems already provided by banks and companies that could either automatically debit a specified amount from your checking account or for a company to directly deposit your paycheck to where it is due.

Decide to be financially independent from the government, your employer, or even your family to enjoy a stress-free life after retirement. Set up a system that automatically funds your own personal retirement account.

Utilize the most common retirement plans available, like the 401 (k) retirement plan. These plans allow you to contribute your own money to your personal retirement account without paying taxes. Learn more about the benefits of pre-tax retirement plans. For most experts, this is where all the wealth starts.

The fastest way to become rich while utilizing your retirement plan is to MAX OUT THE PLAN. Opt for the largest contribution you can make under the plan's rules. If you are self-employed, you can open an Individual Retirement Account (IRA)— a financial repository into which you can make tax-deferred contributions.

Invest your retirement wisely. It is recommended that you spread it among the different financial instruments available. An asset allocation or balanced fund can do all the work for you-- offering the right mix of cash bonds and stocks in one fund.

Chapter Five: Automate for a Rainy Day

Unexpected events usually happen without warning. They come when we are least prepared for them. A good way to prepare for such uneventful scenarios is to build an emergency basket of cash automatically.

The Rules of Emergency Money

1. Decide how big a cushion you need. It is always safe to have three-month worth of expenses as a cash cushion. This provides a buffer fund if ever untoward circumstances should occur.
2. Don't touch it. Only use this fund for real emergencies, something that threatens your survival and not just your desire to be comfortable.
3. Put it in the right place. Invest this fund on something that works for you, something that earns interest and could generate income and additional funds.

Your Rainy Day Step-by-Step Fund

1. Do a lot of research on where best to invest your funds. Select a bank or brokerage that offers good money market rates.
2. Fund your rainy day account automatically. Check if your employer will direct deposit your paycheck, and arrange to have all or part of your paycheck automatically deposited wherever.
3. Determine how much you wish to save for your rainy day fund. Five percent of your net take-home pay would be a good start.
4. If it is not possible for your employer to directly deposit your paycheck, you could do either of two things. Either you instruct the bank to transfer funds from your checking account to your money market account or instruct the brokerage firm to do a systematic withdrawal from your checking account.

You can also utilize the following instruments to make your emergency fund earn:

- Inflation Bonds or I-bonds
- Patriot Bonds
- Other U.S. savings or government savings bonds

Chapter Six: Automatic Debt-Free Homeownership

You can't get rich renting. It's either you start renting or spend the same amount paying down on mortgage and wind up owing your own property free of debt.

A study by the Federal Reserve in January 2000 supports that homeowners are 31 times richer than renters. Owning your own home gives you a sense of security knowing that you live in a place that belongs to you. It is also a means of building equity. Having a home of your own, needless to say, is a priority.

"The fact is, you aren't really in the game of building wealth until you own some real estate."

Debt-Free Home Ownership Made Easy
The first step at this stage is to buy your own home. You need to be smart about how you pay for it, and learn how to utilize the necessary financial instruments available.

Six Reasons Why Homes Make Great Investments:

1. **Forced** Savings. Just about anyone would do anything to keep their homes. In order to keep this possible, mortgage payment would religiously be met.

2. **Leverage.** Basically, leverage is one of the most effective financial tactics available. This is done through using borrowed money to multiply your potential gains. Let’s assume that you have invested $50,000 (as down payment) in a $250,000 house. In the last five years, we have seen the increase in the prices of homes. If that house is currently $500,000 worth, you have virtually generated $250,000 on a $50,000 investment.

3. **OPM (Other People's Money).** It is not enough that you make your money work for you. You must also get other people’s money to work for you. This is the premise behind acquiring a loan, through a bank, to help you finance a home. Using the bank's resources to further generate assets.

4. **Tax Breaks.** The government provides incentives to encourage you to become a homeowner. In some instances, subsidizing almost a third of mortgage payments.

5. **Pride of Ownership.** Owning your own home gives you a feeling of security and achievement.

6. **Real Estate Is a Great Investment.** Since 1968, real estate investments have an annual return of 6.3 percent, on the average.

But What About the Payment?

Most people ward off investments on real estate simply because they think they can't afford it. In particular, they are scared of down-payments. There are a number of programs sponsored by developers, lenders and even the government that could help you, even for first-time buyers.

The U.S. government has even earmarked billions of dollars to help first-time homebuyers in their financial needs. In addition, the government is also helping to lower cost for mortgages, especially for first-time homebuyers. This is in line with the U.S. government's goal to increase the number of homeowners over the next eight years.

As a rule, most people could afford to spend 29 percent of their gross income on housing expenses and as much as 41 percent if you are debt free.

Mortgage Types

- **30-Year fixed rate.** For conservative planners, this plan offers the most benefits and flexibility. Banks love this type of mortgage because they get rich off this.
- **15-Year fixed rate.** This is for really committed savers who plan to live in their homes longer than 10 years. With this kind of loan, you can be debt-free in a decade and a half through locking your rate.
- **Short-Term Adjustable Rate (5 Years or Less).** For those who want to keep their monthly payment to a minimum. Good for people who don't plan to live in their houses for a long time. If rates remain low, this could a great deal.
- **Intermediate Adjustable Rate**. Ideal for people who want low rates and lower monthly payments. Also for those who do not want to plan to keep the property for a long period of time.

The Secret System to Debt-Free Home Ownership

After finding your appropriate financing, mortgage and loan option, it is time to find the home you want to buy and apply the secret system. The secret system is the bi-weekly payment plan to pay down your mortgage.

By paying your mortgage on a bi-weekly plan, you actually end up making an extra month's worth of mortgage payment each year. To setup your biweekly plan, all you need to do is to visit or call your lender or the bank that handles your mortgage. There is no restructuring or refinancing of loan involved, only that you pay your mortgage in a slightly different manner.

In only takes about roughly five minutes to make your system automatic. Most banks will probably refer you to a third party that runs such programs. Basically there will be a nominal one-time fee and corresponding transfer charges. Just be vigilant enough to monitor your mortgage payments, as banks are also prone to errors.

Benefits of Automatic Bi-Weekly Mortgage Payments:

- It saves you thousands of dollars in interest payments.
- It puts you on a forced savings system.
- It makes your cash flow easier.
- You'll never have to worry about paying your mortgage late because it's automated.
- It cuts years off your mortgage!

Chapter Seven: The Automatic Debt-Free Lifestyle

Strive to be debt-free. Debt is a trap that forces us to work longer than we need to. Start by getting rid of your credit cards. We usually end up paying the minimum amount. Compounding big balances and then slowly paying them, just to compensate for the interest, is an awful habit to develop.

Likewise, habitual borrowing should also be avoided. The only time that borrowing makes sense is when you do it to purchase something that can generate income or increase in value.

The next time someone offers you credit, or if you are faced with a very tempting opportunity to earn discounts through a store charge card, simply say NO. That basically is the first step towards a debt-free lifestyle.

Beware of the "Quick Fix"

Always be suspicious of individuals or groups who present themselves as credible experts in providing "quick fixes" for your credit card problems.

Five Concrete Steps to Get Out and Stay Out of Credit Card Debt

1. **Stop Digging.** Get rid of your credit card.

2. **Renegotiate the Interest Rate on your Debt.** After preventing things from getting worse, now is the time to settle your current debt. This is your most basic goal. The easiest and most efficient way to do this is to lower the interest it charges you.
   a. Find out how much interest you are paying. Inquire about the effective rate, not the rate above prime.
   b. Ask for a lower rate. Once you've learned the interest rate that you have been paying, tell the credit company that it's too high and that you would like to request that the interest be lowered. If the company says no, threaten to close your account and transfer to another credit company. Make sure to mention the other credit card company's name. Always talk directly to the supervisor and don't waste your time on the customer sales representative. If things go well, the interest rate should be cut in half.

c. Consolidate your Debt. Consolidate all your credit card debts and balances into just one card. Offer to transfer all your credit card balance to the credit card company that can offer you the lowest interest rate.

3. **Pay for the Past; Pay for the Future.** Whatever amount you save on your Pay Yourself First, split it in half and use the other half to pay off your debt. You'll see your money being saved and your debt being reduced

4. **Dead On Last Payment (DOLP) - Your Debt Out of Existence**. Make a list of the current outstanding balance on each of your credit card accounts. Divide each balance by the minimum payment that the particular card company wants from you. The result is the account's DOLP number.

Once you've figured out the DOLP number for each account, rank them in reverse order, putting the account with the lowest DOLP number first, the one with the second lowest number second, and so on.

5. **Now Make it Automatic!** Call your credit card company and arrange an automatic debit from your checking account on a monthly basis. If this service is unavailable, you can try asking your bank if they offer online payment for credit card balances.

Chapter Eight: Make a Difference with Automatic Tithing

Always put into mind that there is more to life than money. There is always an option to share and there is always something to share. Sharing gives life meaning, and makes us feel better. This form of sharing is through tithing or giving back a part or a proportion of what you have earned.

Do not be mistaken that tithing is a form or practice of getting rid of guilt in hope of being rewarded in the future. Tithing is simply giving for the sheer joy of giving.

Tithing is a personal decision. You can start with a small amount or a small portion of your savings.

Five-Step Plan for Tithing

1. **Commit to Tithing.** Tithing should be a consistent commitment.

2. **Make it Automatic.** Most organizations and charities will be happy to arrange for your automatic transfer schedules. Banks provide account debit and online bill payment systems.

3. **Research the Charity Before You Give**. Do some research before committing any amount to any organization. Always remember that no charity can pass through 100 percent of what it raises.

4. **Keep Track of Your Deductible Contributions.** The U.S. government has long allowed deduction of contributions made to legitimate charities. You can even offset as much as 50 percent of your income depending on the amount you have contributed.

5. **Find Out About Donor Advised Mutual Funds**. Donor advised or charity funds allow individuals to invest their money for charity to get tax deduction. These mutual funds are designed specifically for charity-minded investors.

Benefits of Charity Funds:

1. Instant tax deduction.
2. More money for charity.
3. Less pressure.
4. Creation of Legacy.