"A unique voice on money, one singularly attuned to…his generation."

—*SAN FRANCISCO CHRONICLE*

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I WILL TEACH YOU TO BE RICH

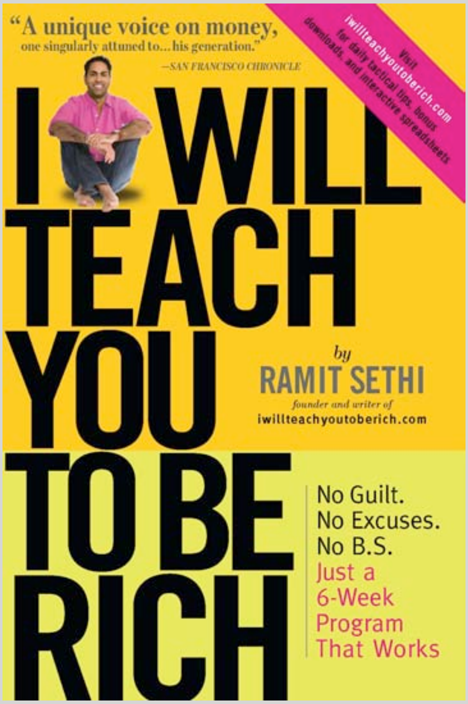
by

RAMIT SETHI

founder and writer of

iwillteachyoutoberich.com

No Guilt.
No Excuses.
No B.S.
Just a 6-Week Program That Works



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About the book

At last, for a generation that's materially ambitious yet financially clueless comes I Will Teach You To Be Rich, Ramit Sethi's 6-week personal finance program for 20-to-35-year-olds. A completely practical approach based around the four pillars of personal finance—banking, saving, budgeting, and investing—and the wealth-building ideas of personal entrepreneurship.

Additional Praise for Ramit Sethi and *I Will Teach You to Be Rich*

"Ramit Sethi is a rising star in the world of personal finance writing. . . one singularly attuned to the sensibilities of his generation. . . . His style is part frat boy and part Silicon Valley geek, with a little bit of San Francisco hipster thrown in."

—*SAN FRANCISCO CHRONICLE*

"The easiest way to get rich is to inherit. This is the second best way—knowledge and some discipline. If you're bold enough to do the right thing, Ramit will show you how. Highly recommended."

—SETH GODIN, AUTHOR OF *TRIBES*

"You've probably never bought a book on personal finance, but this one could be the best $13.95 you ever spent. It'll pay for itself by the end of Chapter 1 (check out the box on page 24 to see what I mean)."

—PENELOPE TRUNK, AUTHOR OF *BRAZEN CAREERIST: THE NEW RULES FOR SUCCESS*

"Most students never learn the basics of money management and get caught up in the white noise and hype generated by the personal-finance media. Ramit's like the guy you wish you knew in college who would sit down with you over a beer and fill you in on what you really need to know about money—no sales pitch, just good advice."

—CHRISTOPHER STEVENSON, CREDIT UNION EXECUTIVES SOCIETY

"Smart, bold, and practical. *I Will Teach You to Be Rich* is packed with tips that actually work. This is a great guide to money management for twentysomethings—and everybody else."

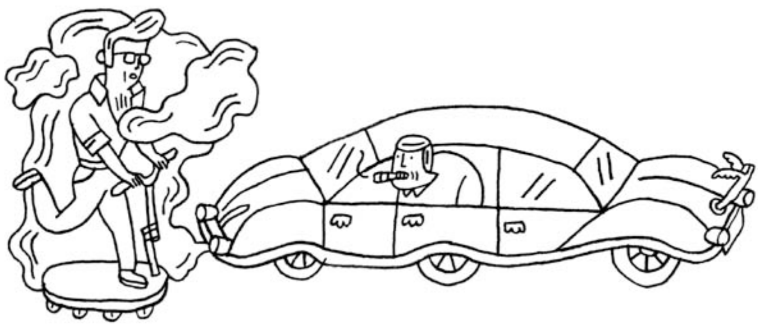
—J.D. ROTH, EDITOR, GETRICHSLOWLY.ORG

"Ramit demystifies complex concepts with wit and an expert understanding of finances. Not only is this book informative, it's fun and includes fresh tips that will help anyone master their finances."

—GEORGE HOFHEIMER, CHIEF RESEARCH OFFICER, FILENE RESEARCH INSTITUTE

INTRODUCTION

WOULD YOU RATHER BE SEXY OR RICH?



I've always wondered why so many people get fat after college. I'm not talking about people with medical disorders, but regular people who were slim in college and vowed that they would "never, ever" get fat. Five years later, they look like the Stay Puft Marshmallow Man after a Thanksgiving feast, featuring a blue whale for dessert.

Weight gain doesn't happen overnight. If it did, it would be easy for us to see it coming—and to take steps to avoid it. Ounce by ounce, it creeps up on us as we're driving to work and then sitting behind a computer for eight to ten hours a day. It happens when we move into the real world from a college campus populated by bicyclists, runners, and varsity athletes who once inspired us to keep fit (or guilted us into it). When we did the walk of shame back at school, at least we were getting exercise. But try talking about post-college weight loss with your friends and see if they ever say one of these things:

"Avoid carbs!"
"Don't eat before you go to bed, because fat doesn't burn efficiently when you're sleeping."
"If you eat mostly protein, you can lose lots of weight quickly."
"Eating grapefruit in the morning speeds up your metabolism."

I always laugh when I hear these things. Maybe they're correct, or maybe they're not, but that's not really the point.

The point is that we love to debate minutiae.

When it comes to weight loss, 99.99 percent of us need to know only two things: Eat less and exercise more. Only elite athletes need to do more. But instead of accepting these simple truths and acting on them, we discuss trans fats, diet pills, and Atkins versus South Beach.

WHY ARE MONEY AND FOOD SO SIMILAR?

When it comes to food, we . . .	When it comes to personal finance, we . . .
don't track calorie intake	**don't track spending**
eat more than we know	**spend more than we realize—or admit**
debate minutiae about calories, diets, and workouts	**debate minutiae about interest rates and hot stocks**
value anecdotal advice over research	**listen to friends, our parents, and TV talking heads instead of reading a few good personal-finance books**

Most of us fall into one of two camps as regards our money: We either ignore it and feel guilty, or we obsess over financial details by arguing interest rates and geopolitical risks without taking action. Both options yield the same results—none. The truth is that the vast majority of young people don't need a financial adviser to help them get rich. We need to set up accounts at a reliable no-fee bank and then automate savings and bill payment. We need to know about a few things to invest in, and then we need to let our money grow for thirty years. But that's not sexy, is it? Instead, we watch shows with talking heads who make endless predictions about the economy and "this year's hottest stock" without ever being held accountable for their picks (which are wrong more than 50 percent of the time). Sometimes they throw chairs, which drives up ratings but not much else. And we look to these so-called "experts" more than ever in turbulent times like the global crisis of 2008. "It's going up!" "No, down." As long as there is *something* being said, we're drawn to it.

Why? Because we love to debate minutiae.

When we do, we somehow feel satisfied. We might just be spinning our wheels and failing to change anyone's mind, but we feel as if we are really expressing ourselves, and it's a good feeling. We feel like we're getting somewhere. The problem is that this feeling is totally illusory. Focusing on these details is the easiest way to get nothing done. Imagine the last time you and your friend talked about finances or fitness. Did you go for a run afterward? Did you send money to your savings account? Of course not.

People love to argue minor points, partially because they feel it absolves them from actually having to do anything. You know what? Let the fools debate the details. I decided to learn about money by taking small steps to manage my own spending. Just as you don't have to be a certified nutritionist to lose weight or an automotive engineer to drive a car, you don't have to know everything about personal finance to be rich. I'll repeat myself: *You don't have to be an expert to get rich.* You *do* have to know how to cut through all the information and *get started*—which, incidentally, also helps reduce the guilt.

Although I knew that opening an investment account would be a smart financial move, I set up a lot of barriers for myself. "Joey," I said, "you don't know the difference between a Roth IRA and a traditional IRA. There's probably a lot of paperwork involved in getting one of those started anyway, and once it's set up, it's going to be a pain to manage. What if you choose the wrong funds? You already have a savings account; what's wrong with just having that?" Clearly this was the voice of my lazy half trying to talk my body into staying on the couch and not taking action.

—JOEY SCHOBLASKA, 22

Who wins at the end of the day? The self-satisfied people who heatedly debate some obscure details? Or the people who sidestep the entire debate and get started?

Why Is Managing Money So Hard?

People have lots and lots of reasons for not managing their money, some of them valid but most of them poorly veiled excuses for laziness. Yeah, I'm talking to you. Let's look at a few:

INFO GLUT

The idea that—gasp!—there is too much information is a real and valid concern. "But Ramit," you might say, "that flies in the face of all American culture! We need more information so we can make better decisions! People on TV say this all the time, so it must be true! Huzzah!" Sorry, nope. Look at the actual data and you'll see that an abundance of information can lead to decision paralysis, a fancy way of saying that with too much information, we do nothing. Barry Schwartz writes about this in *The Paradox of Choice: Why More Is Less:*

> . . . *As the number of mutual funds in a 401(k) plan offered to employees goes up, the likelihood that they will choose a fund—any fund—goes down. For every 10 funds added to the array of options, the rate of participation drops 2 percent. And for those who do invest, added fund options increase the chances that employees will invest in ultraconservative money-market funds.*

You turn on the TV and see ads about stocks, 401(k)s, Roth IRAs, insurance, 529s, and international investing. Where do you start? Are you already too late? What do you do? Too often, the answer is nothing—and doing nothing is the worst choice you can make, especially in your twenties. As the table on the next page shows, investing early is the best thing you can do.

Look carefully at that chart. Smart Sally actually invests less, but ends up with about $80,000 more. She invests $100/month from age twenty-five to age thirty-five and then never touches that money again. Dumb Dan is too preoccupied to worry about money until he's thirty-five, at which point he starts investing $100/month until he's sixty-five. In other words, Smart Sally invests for ten years and Dumb Dan for thirty years—but Smart Sally has much more money. And that's just with $100/month! The single most important thing you can do to be rich is to start early.

HOW TO MAKE $80,000 MORE THAN YOUR FRIENDS (WITH LESS WORK)

	Smart Sally	Dumb Dan
When beginning to invest, the person is . . .	25 years old	35 years old
Each person invests $100/month for . . .	10 years	30 years
With an 8 percent rate of return, at age 65, their accounts are worth . . .	$349,856. Voilá—the value of starting early	$271,879. Even though he invested for three times as long, he's behind by $80,000

THE MEDIA IS PARTIALLY TO BLAME (I LOVE CASTING BLAME)

Why does just about everything written about personal finance make me want to paint myself with honey and jump into a nest of fire ants? Personal-finance advice has been geared toward old white men and taught by old white men for far too long. I don't understand why newspaper columnists continue to write about tax-optimization strategies and spending less on lattes, hoping that young people will listen. We don't care about that. We care about knowing where our money's going and redirecting it to go where we *want* it to go. We want our money to grow automatically, in accounts that don't nickel-and-dime us with fees. And we don't want to have to become financial experts to get rich.

WE DON'T WANT TO HAVE TO BECOME FINANCIAL EXPERTS TO GET RICH.

Now, I fully recognize that I'm a big fancy author (that's right, ladies) and am therefore part of the "media." Perhaps it's uncouth to mock my brethren. Still, I can't help myself. Pick up any major magazine and chances are you'll see an article called "10 No-Hassle Tips for Getting Ahead with Your Finances." Amusingly, the same writers who breathlessly encouraged us to buy real estate in 2007 are now advising us on "what to do in the downturn." I'm sick and tired of the same old boring, tired, and frankly horrible financial opinions that are paraded around as "advice." More on this in Chapter 6.

OTHER PEOPLE WE CAN BLAME FOR OUR MONEY PROBLEMS

There are other common excuses for why we don't manage our money. Most of them are complete B.S.:

- "Our education system doesn't teach this," people whine. It's easy for people in their twenties to wish that their colleges had offered some personal-finance training. Guess what? Most colleges *do* offer those classes. You just didn't attend!
- I also often hear the cry that "credit-card companies and banks are out to profit off us." Yes, they are. So stop complaining and learn how to game the companies instead of letting them game you.
- "I'm afraid of losing money," some of my friends say. That's fair, especially after market losses during the global financial crisis, but you need to take a long-term view. Also, you can choose among many different investment options—some aggressive, some conservative—it depends on how much risk you're willing to take. (Because of inflation, you're actually losing money every day your money is sitting in a bank account.) Fear is no excuse to do nothing with your money. When others are scared, there are bargains to be found.
- "What if I don't know where to get an extra $100 per month?" It doesn't have to be $100. And you don't need to earn another penny. I'll show you how to streamline your existing spending to generate that money to invest. Remember, $1 saved per day is $30 saved per month.

Too many of us are paralyzed by the thought that we have to get every single part of our personal finances in order before truly getting started managing our money. Should I use my 401(k) from work or open an IRA? Should I go for mutual funds or individual stocks? Do I need a variable annuity? Here's my answer: Do you need to be the Iron Chef to cook a grilled-cheese sandwich? No, and once you make your first meal, it'll be easier to cook the next most complicated thing. The single most important factor to getting rich is getting started, not being the smartest person in the room.

Put the Excuses Aside

Listen up, crybabies: This isn't your grandma's house and I'm not going to bake you cookies and coddle you. A lot of your financial problems are caused by one person: you. Instead of blaming "the economy" and corporate America for your financial situation, you need to focus on what you can change yourself. Just as the diet industry has overwhelmed us with too many choices, personal finance is a confusing mess of overblown hype, myths, outright deception—and us, feeling guilty about not doing enough or not doing it right. But we can't just blame corporations and the media: With both food and money, we're not taking personal responsibility to step up, learn this stuff, and get started. The result is that many of us end up fat, consumption-minded, and poor. No, seriously: Two-thirds of Americans are overweight or obese, and the average American is nearly $7,000 in debt.

BECAUSE OF INFLATION, YOU'RE ACTUALLY LOSING MONEY EVERY DAY YOUR MONEY IS SITTING IN A BANK ACCOUNT.

In 2008, when the global financial crisis really erupted in the stock market, the first thing many people did was pull their money out of the market. That's almost always a bad move. They compounded one mistake—not having a diversified portfolio—with a second: buying high and selling low. For all the people who blamed the government, CEOs, and evil banks, had any of them read *one* personal finance book? And yet they expected to get ahead with their money?

Let's put the excuses aside. What if you could consciously decide how to spend your money, rather than say, "I guess that's how much I spent last month"? What if you could build an automatic infrastructure that made all your accounts work together and automated your savings? What if you could invest simply and regularly without fear? Guess what? You can! I'll show you how to take the money you're making and redirect it to the places you want it to go—including substantially growing your money over the long term, no matter what the economy is like.

The Key Messages of *I Will Teach You to Be Rich*

I believe in small steps. I want to reduce the number of choices that paralyze us. It's more important to get started than to spend an exhaustive amount of time researching the best fund in the universe. *I Will Teach You to Be Rich* is about taking the first step—understanding the barriers that keep us from managing our money—and then tearing them down and putting our money in the right places so we can achieve our goals. Frankly, your goal probably isn't to become a financial expert. It's to live your life and let money serve you. So instead of saying, "How much money do I need to make?" you'll say, "What do I want to do with my life—and how can I use money to do it?" And instead of being driven by fear, you'll be guided by what history has shown us about investing and growth.

I'll keep it simple: Too many books try to cover everything about money, leaving you holding a book that you "should" read but don't because it's overwhelming. I want you to know enough to get started setting up automated accounts and investing, even with just $50. So here are the essential messages of *I Will Teach You to Be Rich:*

The 85 Percent Solution: Getting started is more important than becoming an expert. Too many of us get overwhelmed thinking we need to manage our money perfectly, which leads us to do nothing at all. That's why the easiest way to manage your money is to take it one step at a time—and not worry about being perfect. I'd rather act and get it 85 percent right than do nothing. Think about it: 85 percent of the way is far better than 0 percent. Once your money system is good enough—or 85 percent of the way there—you can get on with your life and go do the things you really want to do.

It's okay to make mistakes. It's better to make them together now, with a little bit of money, so that when you have more, you'll know what to avoid.

Ordinary actions get ordinary results. Most people are, by definition, ordinary. Yet more than half of a group of college graduates surveyed said they plan to be millionaires by the age of forty, an expectation that is not in line with reality. Look around you: How many of our parents are millionaires? Not many. And if we follow the same ordinary route they did, we'll end up ordinary, too. To be extraordinary, you don't have to be a genius, but you do need to take some different steps than your folks did (like starting to manage your money and investing early).

There's a difference between being sexy and being rich. When I hear people talk about the stocks they bought, sold, or shorted last week, I realize that my investment style sounds pretty boring: "Well, I bought a few good funds five years ago and haven't done anything since, except buy more on an automatic schedule." But investment isn't about being sexy—it's about making money, and when you look at investment literature, buy-and-hold investing wins over the long term, every time. Forget what that money TV station or finance magazine says about the stock-of-the-month. Do some analysis, make your decision, and then reevaluate your investment every six months or so. It's not as sexy as those guys in red coats shouting and waving their hands on TV, but as an individual investor, you'll get far greater returns.

Spend extravagantly on the things you love, and cut costs mercilessly on the things you don't. This book isn't about telling you to stop buying lattes. Instead, it's about being able to actually spend *more* on the things you love by not spending money on all the knucklehead things you don't care about. Look, it's easy to want the best of everything: We want to go out all the time, live in a great apartment, buy new clothes, drive a new car, and travel any time we want. The truth is, you have to prioritize. My friend Jim once called to tell me that he'd gotten a raise at work. On the same day, he moved into a smaller apartment. Why? Because he doesn't care very much about where he lives, but he loves spending money on camping and biking. That's called conscious spending. (Learn how one of my friends consciously spends $21,000 per year going out on page 98.)

I Will Teach You to Be Rich is about sensible banking, budgeting, saving, and investing. I'll teach you how to set up your accounts to create an automatic financial infrastructure that will run smoothly with minimal intervention. You'll also learn what to avoid, some surprising findings from financial literature (is real estate really a good investment?), and how to avoid common financial mistakes. And you'll start taking action instead of debating minutiae. All this will take you just six weeks—then you'll be on the road to being rich. Doesn't that sound good?

When I was in high school, my parents told me that if I wanted to go to college, I'd need to pay for it with scholarships. So like a good Indian son, I started applying . . . and applying and applying. In the end, I'd applied for about sixty scholarships and had won hundreds of thousands of dollars.

But my best scholarship was the first one—an award for $2,000. The organization wrote a check directly to me. I took it and invested in the stock market—and immediately lost half my money.

Oops. That's when I decided that I really needed to learn about money. I read the personal-finance books, watched the TV shows, and bought the magazines. After a while, I also started sharing what I'd learned. I taught informal classes to friends at Stanford. Then, in 2004, I began writing a blog called "I Will Teach You to Be Rich," where I cover the basics of saving, banking, budgeting, and investing. The rest, as they say, is history.

Why Do You Want to Be Rich?

I've talked to more than a million young people about personal finance over the last four years through my website and speaking engagements. When I do, I always ask two questions:

Why do you want to be rich?

What does being rich mean to you?

Most people never spend even ten minutes thinking through what *rich* means to them. Suckers. Here's a hint: It's different for everyone, and money is just a small part of being rich. For example, my friends all value different things. Dan loves eating out at super gourmet restaurants where a meal might cost $100. Anton loves traveling. And Jen loves buying jeans. If you don't consciously choose what *rich* means, it's easy to end up mindlessly trying to keep up with your friends. I consider myself rich now that I can do these things:

- *Make career decisions because I want to, not because of money*
- *Help my parents with their retirement, so they don't have to work if they don't want to*
- *Spend extravagantly on the things I love and be relentlessly frugal about the things I don't (e.g., spend lots on visiting family in New York, but don't buy the flashiest sports car)*
- *Start a scholarship fund for young entrepreneurs (launched in May 2006!)*

Before you go further, I encourage you to set your goals today. Why do you want to be rich? What do you want to do with your wealth?

What You'll Get Out of This Book

I love to laugh at people when they talk about investing. People think that investing means "buying stocks," so they throw around fancy terms like *hedge funds, derivatives,* and *call options*. Sadly, they actually think you need this level of complexity to get rich because they see people talking about this stuff on TV each day. Guess what? For individual investors like you and me, these options are completely irrelevant.

It sounds sexy, but when individual investors talk about complicated concepts like this, it's like two elementary school tennis players arguing about the string tension of their racquets. Sure, it might matter a little, but they'd be much better tennis players if they just went outside and hit some balls for a few hours each day.

Simple, long-term investing works. This idea gets nothing but yawns and rolling eyes during a conversation. But you need to make a decision: Do you want to sit around impressing others with your sexy vocabulary, or do you want to join me on my gold-lined throne as we're fed grapes and fanned with palm fronds?

SIX WEEKS OF ACTION STEPS

I Will Teach You to Be Rich will help you figure out where your money is going and redirect it to where you *want* it to go. Saving for a vacation to China? A wedding? Just want to make your money grow? Here's the six-week program that will let you tackle it.

IN WEEK 1, you'll set up your credit cards and learn how to improve your credit history (and why that's so important).

IN WEEK 2, you'll set up the right bank accounts, including negotiating to get no-fee, high-interest accounts.

IN WEEK 3, you'll open a 401(k) and an investment account (even if you have just $50 to start).

IN WEEK 4, you'll figure out how much you're spending. And then you'll figure out how to make your money go where you want it to go.

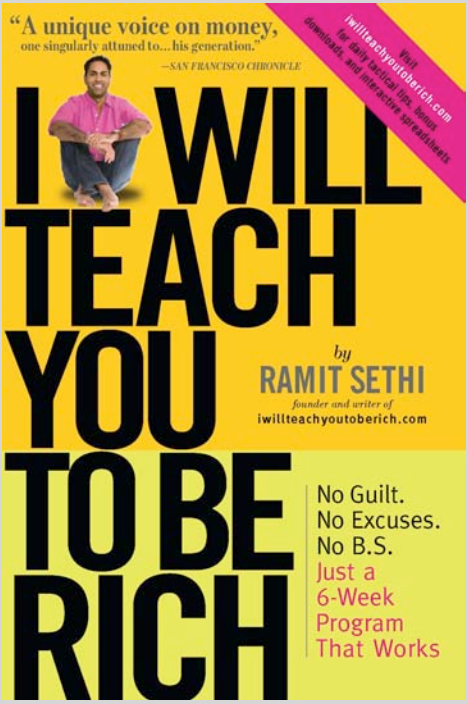
IN WEEK 5, you'll automate your new infrastructure to make your accounts play together nicely.

IN WEEK 6, you'll learn why investing isn't the same as picking stocks—and how you can get the most out of the market with very little work.

Plus, there's plenty more. You'll learn to choose a low-cost automatic portfolio that beats typical Wall Street portfolios, and how to maintain your investments by setting up a system that enables you to remain as hands-off as possible while your money accumulates automatically. There are even answers to many specific money questions, including how to buy a car, pay for a wedding, and negotiate your salary.

After reading this book, you'll be better prepared to manage your finances than 99 percent of other people in their twenties and early thirties. You'll know what accounts to open up, ways not to pay your bank extra fees, how to invest, how to think about money, and how to see through a lot of the hype that you see on TV and in magazines every day.

There aren't any secrets to getting rich—it just takes small steps and some discipline, and you can do it with just a little bit of work. Now let's get started.



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