



Money 2011

The 21tiger guide to building a fortune, no matter how much you make.

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Preface

In the last book we explored fun and passionate things we love to do, regardless of money. We set up a daily or weekly routine so we're practicing regularly (dancing, singing, drawing, jiu-jitsu, photography, whatever it may be) on a regular basis, as a *practice*. Now, we can focus on money, because, while it's not the meaning of life, it's a very powerful tool. Now with a strong base, we can approach the subject of money-- how to make it and how to grow it-- from a place of strength and abundance, not weakness and fear.

Humble Origins

I take great pride in the “bad jobs” I worked from the ages of 14 to 24 (through University and into Grad school). I worked in restaurants, factories, and retail stores. I’ve chattered away in countless freezing cold warehouses, leaning on massive machines that spat out plastic cups, plates, buckets, that I dutifully caught, labeled, and packaged. I’ve been in hundreds of 20ft. long haul semi truck containers, climbing up on the boxes, and lifting everything from 100 pound bags of coffee beans to televisions to Chinese toys. I’ve done shifts in some of the most remote venues, often coming home at 7 AM in a dirty sweaty haze. My ‘uniform’-- a single pair of ripped jeans and a old blue hooded sweatshirt, draped over my scrawny frame, was legendary. The car, a 1991 Subaru Loyale, like a best friend, was my only company on those late night missions. As minimum wage eked in, it afforded my attending college. Somehow, I still look back on those days and nights with tremendous pride.

I think of that period in my life really toughened me up. It was hard, and I was soft, not to mention young, scruffy and inexperienced. I took anything and everything I could find. As I got older, that toughness helped me get hired, and get promoted. It made me friendlier to strangers (having met, worked with, and befriended hundreds). Finally, I got a thicker skin, and eventually that nightmarish job I dreaded so much, was a breeze. I worked hard, got a few dollars, and got out of there. But those were jobs, now it’s time for a career.

This is about making money. If we can make enough money that we can afford to have a little time off, and do what we love, then great. But until that time, we have to work like crazy to make money. Always being moral, staying principled. The way we make money is by being the hardest working man or woman in the company. As for financial goals, we strive to double our annual income every year, in the minimum amount of time possible.

Sound intimidating? There’s no reason why it should: after all, there’s men and women out there that make 5, 10, 20, 100 and 10,000 times what you made last year. All you have to do is double it. And if it means working exactly twice the hours you worked last year, so be it. Just sleep less. ;)

Habits

List your three hardest jobs (either paid or unpaid). Come up with at least one positive thing to say about the experience for each. Did you learn something about the job? Did you learn something about yourself?

Learning

But money's not the only thing that counts. One of my Economics Professors once declared that University was not about learning *stuff*, it was *about learning how to learn*. In those days we were all staying up late memorizing Economic theorems and formulae, and here comes the head of the Economics department declaring that what we were learning in school would likely *not get us a job*. Our reaction was predictable: *'What? Then what were we hear for? What on Earth are we investing all this time and money in school to ... not have any job-ready skills when we get out? What's a degree for if not to show your prospective employer that you would be a great fit at the company?'*

Many young adults, like myself, believed that our entire lives up to our mid-twenties was about graduating college and getting a good job. The Professor continued, and assured us dropping out was not a rational response: *"You haven't learned how to be an Economist, or do any kind of Financial planning, you've just learned how to learn, and it happens to be in the context of Economics."*

The thinking goes like this: upon graduation, you and about 20 million other young people with effectively the same educational background will go looking for a job. If, by chance, one of the companies likes your manner, and your face enough to hire you, the real 'training' begins. Why would companies have 2-, 4-, and 6-month training programs if University taught them everything they needed to know?

To the company, the assumption when bringing in a new University grad (namely, Bachelor degrees), is that he or she knows nothing. However, the advantage of a University grad is the *steep trajectory with which he or she can learn*, not only the specifics and subtleties of the job, but in time, managerial skills.

In University you had homework every night, projects every month or two (often working in teams and delegating responsibilities), and mid-term and final exams. You also probably had a part-time job, and hopefully a handful of friends (maybe even a girlfriend/boyfriend). You were managing a pretty full schedule, and managed to escape University, so it turns out that you did, in fact, *learn how to learn*. And now, all these years later, you still read, you still train, you still follow the latest developments in your industry. So do I: the reason I started 21tiger.com was to primarily to motivate myself to read more, and share it with other like minded people.

Habits

What kind of books do you pick out and how often do you read? If you're not reading daily (non-fiction in the day time, fiction at night) you're not taking advantage of all the resources around you. Just by reading regularly you're getting smarter and more interesting, and valuable to your company. Start today.

Working

If you don't have a job, your job is getting a job. Brush your teeth, fix your hair, Put your shoes on, and punch in by 9AM... Later that night, when you get home, you'll feel a sense of accomplishment about all you did. Yes, this feels harder than actually working, but consider that motivation to get hired.

A few weeks into the job, you'll probably find a semblance of familiarity. And that's when you start to actually take pride in your work. It doesn't matter if you're hauling boxes (do it faster), or sweeping a factory lot (do it better), facing customers (get them to love you) or working with a group of people you have absolutely nothing in common with (learn how to meet people and make friends fast). Very quickly, you'll find that doing the job itself (known as deliverables) is just a small part of the job.

I remember one summer, I worked for a lumber shipping company. The workspace was a massive hanger about the size of a football field. Every day we would receive lumber from the mill and the forklift guys would place these huge and long rectangular stacks, for us to work on. There might be 9 piles of about 200 wood planks, 4ft across and 4 ft high, wrapped in a bright blue tarp, and strapped together with metal braces. Our job was to rip the covers off, cut the metal straps, then take a few rows of wood planks off the top of each of these stacks. With the excess, we'd build a new stack and repackage all of these piles. Why were we going through this insane dance? It turns out this wood was being sent to Japan, where the trucks are slightly shorter than they are in Canada. So when the massive blocks get stacked up for shipment, the Japanese ask that we package these in a slightly shorter stacks. We had our very small part in a massive international trade of lumber being exported to Japan.

Not only was it mundane, but physically brutal. We didn't carry fifteen foot long wooden planks one at a time, obviously: two men would carry together (one on each end) and we'd push ourselves to carry four, six, even eight of these long heavy planks. Back and Forth, all day long.

A few weeks in, an amazing thing happened: we actually took a bit of pride in it. It's funny now to imagine taking pride in something so menial, but we did. You took pride in ripping the packaging off quickly. You took pride in moving quickly. You took pride in stapling the cover back on after it was all done, and folding the cover perfectly (like a Christmas present). No was going to stop me if it was a bit sloppy, *but the fact that I cared*, made the job less horrible--and that's why I was good at it.

One day, we came in and there was a new guy in the lunch room. Immediately I could tell this guy was cocky. He didn't look very strong, but he told us he was here to "push us to go faster." He wasn't a slavedriver, but he worked *alongside us* and tweaked our Male egos. Like when he tried to pit the pairs of guys against each other, turn it into a competition, shouting "they're too slow, we kicking' their butts!". If you wanted to pickup four planks, he'd go for six. You went for eight, and he wanted to do ten. Your arms were about to fall off, but it didn't matter. *Competition is fun*. You can turn anything into a game. No matter how tough, brutal, depressing, boring the task is, you can turn anything into a game, and take pride in being better, faster, stronger, more efficient. And I've always thought about that summer: Whether its a good job or a fun job is up to your own attitude.

Habits

How do you have fun at your job? How do you take mundane tasks and make them competitive and fun? Everything is a game. List 3 ways you could make your current job more fun/competitive.

Making Money

So you start working and about 3 weeks into your new job you finally get paid. Before you go Plasma TV shopping, let's take a look at your situation. I don't care if you make \$100 a week or \$10,000: there are three things to do with that paycheck:

- a) Pay your Living Expenses (food, rent, electric bills, etc)
- b) Pay down existing Debt (credit cards, mortgage, student loans, personal debt)
- c) Invest the rest

I know. There's nothing on here about going to Vegas, 'investing' in a new Pool table, or hitting the bar for a night of debauchery. It's time to tap into the real power of money.

You don't have to be rich to be great with money. In *The Richest Man in Babylon*¹, George Clason gives us the roadmap for total wealth and prosperity in ancient Babylon. The best part is that this system scales all the way. It relies on percentages, not actual dollar values, so no matter what you earn, you can use this--just break that cheque into three parts.

First, take account of your expenses, and do whatever you have to do to ensure they make up no more than *70% of your monthly income*. If you have to stop going out for dinner, do it; if you have to move to a smaller apartment, do it; if it means eating out less, do it. You can do it, it's just a matter of *priorities*. Remember, monthly expenses here refers to recurring bills, and recurring necessities (food, shelter, electricity, taxes). Imagine a list of the most important purchases/expenses in the last 90 days. What's at the top? Food, rent, electric bills. What's at the bottom? Buying a new snowboard--things that are great, but you could live without. Just start at the bottom of that list and start chopping off needless expenses *until the following formula holds true*:

$$\text{Monthly Expenses} = 70\% \text{ of Monthly Income}$$

The remaining 30% is broken up into paying down debt and investing.

Using this formula, I made a chart showing how a 22 year old could theoretically go from grossing just over 20 grand a year to over a half a million dollars, before the age 30:

| Age | Last Year Income | This Year Goal | Max. Yearly Expense Payments | Pay off Debt/ Mortgage | Invest | Accum. Investment | Year End Actual Income |
|-----|------------------|----------------|------------------------------|------------------------|----------|-------------------|------------------------|
| 22 | \$22,000 | \$44,000 | \$15,400 | \$4,400 | \$2,200 | \$2,200 | \$35,000 |
| 23 | \$35,000 | \$70,000 | \$10,150 | \$7,000 | \$3,500 | \$5,700 | \$51,000 |
| 24 | \$51,000 | \$102,000 | \$14,790 | \$10,200 | \$5,100 | \$10,800 | \$76,000 |
| 25 | \$76,000 | \$152,000 | \$22,040 | \$15,200 | \$7,600 | \$18,400 | \$129,000 |
| 26 | \$129,000 | \$258,000 | \$37,410 | \$25,800 | \$12,900 | \$31,300 | \$175,000 |
| 27 | \$175,000 | \$350,000 | \$49,000 | \$35,000 | \$17,500 | \$48,800 | \$240,000 |
| 28 | \$240,000 | \$480,000 | \$67,200 | \$48,000 | \$24,000 | \$72,800 | \$320,000 |
| 29 | \$320,000 | \$640,000 | \$89,600 | \$64,000 | \$32,000 | \$104,800 | \$520,000 |

With the goal in mind of doubling income every year, his goal was to earn \$44,000 in the first year. He fell short, but went back and adjusted his goal for the next year and bit by bit, grew his income every year. He survived by spending just 70% of his income on living expenses (which includes paying your taxes), and the rest he used to pay down debt (20%) and invest (10%). When he had no credit card debt, he paid down the student loans, when he had no student loans, he paid off his mortgage. And when his mortgage was done, he bought a second home and paid that mortgage off (using this home to rent out to tenants for several thousand dollars of extra income each month). And all the while, he was building up a handsome portfolio of stocks, and earning a stream of dividends from that growing portfolio. And it all started with \$22,000.

Again, once you've paid your food, rent, and bills, you can do whatever you want with the rest of the 70%. If you can afford to go on a ski trip, great, by all means. Just stay within the 70%, so you don't jeopardize your commitment to debt and investment.

Habits

Reproduce a table like the one above for yourself on the computer today. Notice the relationship between the cells. The goal is always doubling last years gross income. And you always break up the income into 70/20/10 to pay expenses,debt,investments, respectively.

The Magic Ratio

Now I want to explore one of the most powerful concepts I learned about Money, something that drives all of my personal finances these days. I call it the Magic Ratio. And what it does is it pushes you to focus on increasing certain Assets that grow, and Decreasing your debt.

There's just two components:

- **How much Debt you have outstanding**

Yes, that's your credit cards, student loans, and of course the remainder of your Mortgage unpaid. Ignore the various interest rates, just write down the total dollar value.

- **Do you own any property, or assets that grow in value over time?**

Think about common stock you may have bought, or been given. Maybe you have some old comic books, baseball cards, or valuable artwork. If you're younger than 30, it's quite possible that you have absolutely none of these "Growth Assets". Anyway, what's the dollar value.

So if you have \$500 Worth of Rare Comic Books and \$20,000 of Student loans, the simple formula for the 'Magic Ratio' is:

$$\text{GROWTH ASSETS} \div \text{DEBT}$$

$$\$500 \div \$20,000$$

$$= 0.025$$

You're going to start paying down your debt and pouring money into smart investments. Your goal over the next 10 years and beyond is to get that 0.025 number up to 1.00, and eventually to 2, 5, 10, 100 and beyond! *Do whatever you can to keep increasing that Magic Ratio number.*

Now there's an interesting dynamic here, as you eliminate all your debt and grow your small investments into a sizable treasure chest, of course the ratio will bloom, but having stronger financial standing will also open the door for you to take on more debt (like taking out a mortgage for your first house). You shouldn't be afraid of debt, just

high interest rates. Debt itself is a useful tool to optimize your financial standing. But remember, as soon as you take out that big loan, you work everyday to pay down that debt, using the same 70-20-10 ratio. It's incredibly satisfying to watch that Magic Ratio go up, little by little! In fact, a part of me looks forward to my weekly financial checks where I run down all my finances, and at the very bottom of the list, calculate my Ratio. As long as it's higher than the week before, I know I'm on track, and it feels great.

Habits

Do you check your credit card and bank accounts at least once a week? Do you even know how much debt is on your credit card, or what the interest rate is? Start checking online on a weekly basis and growing your magic ratio.

See the Appendix for a sample of an Excel Spreadsheet.

The Good, the Bad and the Ugly Debt

Basically all debt bears interest. Credit Cards and loans are acceptable, as long as you're putting that credit into something that is going to grow for you. That's why the loans exist. Even taking out a loan on a car (something that loses half its value when you drive it off the lot) is still reasonable, because, for many--as in my case--they need a car just to drive to their job site, and *start earning money*.

Good debt is like a Government student loan, not only will it lead to future employment (e.g.. its an investment in your own human capital), but the interest rate is low. Another example is getting a mortgage for a house--instead of human capital, you're investing in a home, another growth asset.

Bad debt is the exact same loan, whereby upon finishing school, you don't take advantage of the loan (e.g.. you get a degree in Architecture, but for some reason, didn't decide to work in that field). Now you have a ton of debt, but you'll pay it off at a much slower pace, because you don't earn as much. You can still use the Magic Ratio just as described in the previous section.

Ugly debt is where it gets scary. These are the people who went to college by racking up \$10,000+ debt on their credit cards (20% interest!). Going to a great school like Princeton or Harvard with surely cost over \$100,000, so this scenario is more common than you think. Many people assume that graduating from a prestigious school guarantees a great job and a great salary. Sure. Somewhere, but maybe not in your hometown. Or maybe not in a city where you're girlfriend, boyfriend or spouse is willing to move to.

Often College Grads take 'bad jobs' out of College, because as soon as they collect the Diploma and snap a picture with Mom, the Bank is calling them asking for money. Whenever possible, getting money from the Government is best. Or just going to a cheaper school. The ugliest debt is Credit card debt that you've forgotten about. With rates hovering around 20% per annum, those things start racking up *fast*. It's scary, but you absolutely must find out how much you owe the credit card company. Take satisfaction not in the number, but in the gradual weekly chipping away that you do, as the Magic Ratio grows.

The message here is that Debt is not intrinsically a bad thing, after all, someone is doing you a huge favor by lending you money, but its you're job to aggressively pay that debt back. Fortunes are made every year, as people get lazy with their credit cards, or too liberal with their loans. Enjoy the whole process, not just spending the

money, but paying it back every week. Who knows? Maybe in a few short years, you'll own some shares in AXP, and then it'll be American Express *paying you* a couple percentage points every year!

Habits

Set aside a good half an hour once a week (I do it Friday), to go through an Excel spreadsheet you've set up that breaks down your financial position. What are your total Growth Assets? What's your total Debt? What's the Magic Ratio? Once you get in the habit of paying that down, it will be incredibly satisfying.

Not all Assets are the Same

When I first moved to Shanghai, I lived in an apartment complex behind a Mercedes Benz dealership. One day, walking home it occurred to me that while luxury cars are exorbitantly expensive, they, like luxury computers and luxury watches, do have one thing going for them: they maintain their value longer. And we can actually look at the whole spectrum of assets from those that lose tremendous value over time, and those that actually grow in value over time.

| Asset | Value | Resale Value After 2 Years | % Change |
|---|-------------|----------------------------|----------|
| Sony HDTV | \$2,000 | \$900 | -55% |
| Mercedes Benz | \$30,000 | \$20,000 | -33% |
| 2 Year Term Deposit | \$5,000 | \$5,700 | 14% |
| Downtown Apartment | \$1,500,000 | \$1,850,000 | 23% |
| 100 Shares of Florida REIT (with 5% Dividend) Stock | \$2,700 | \$3,900 | 44% |
| 100 Shares of Mobile Processor Company Stock | \$2,500 | \$4,300 | 72% |
| 100 Shares of Medical REIT (with 5% Dividend) Stock | \$1,550 | \$3,000 | 94% |

Despite the price (whether high or low) if you buy quality assets, they will depreciate more slowly over time. In other words, those very high quality assets have higher relative resale values 2 years later.

What if you buy something in 2008, and can resell it for the exact same price in 2010? Actually you can do that pretty easily if you buy art, or rare baseball cards. Also if you buy Gold, or other precious metals, the value is typically maintained or grown. What if you bought something in 2008, and sold it for more in 2010? These Growth Assets are generally referred to as investments. Yes they can be very complicated, but the payoff can be absolutely drool-worthy. Take another look at those REITs (Real Estate Investment Trusts). Not bad, huh?

The richest people in the world aren't employees, they're owners. When we discuss the 10% of monthly income to be used in investments, this is exactly what we're talking about. You can head to the bank next week and ask about mutual funds. If you're

under 30, go for growth (more risk), if you're over 50 go a little more conservative (less risk). Beyond that, the bank will take care of the details.

Yes, they'll charge you for doing the actual 'investment' for you, but hey, at least it's a start! Get some growth assets now. Depending on your age, you might opt to grow your portfolio via a Dividend Reinvestment plan.

Basically when companies are small, they pour all their revenues (and profits) back into the company, developing new technologies, making acquisitions, etc. As such, the company's stock will soar. As the years go by, the room for growth starts to shrink. When this happens, the business is not threatened, but less growth means investors are less willing to pay a high price *since they don't expect the stock price to grow*.

So why would anyone ever hold stock in a company like aforementioned American Express, IBM, or General Mills? These gigantic companies stopped trying to grow years ago, and instead give a chunk of their profits right back to the investors, once every 3 months. These are called Dividends.

So an option is a *Dividend Reinvestment Plans (DRPs)*, which is a way of automatically buying stock with the dividends you earn, from--say--Proctor and Gamble. As the money comes in, you get more stock, and over time, the value compounds. A virtuous circle. DRPs are a way to begin investing with a very small amount of money and to keep investing monthly (or as frequently as you can afford) in small or large amounts while avoiding brokerage commissions and reinvesting dividends. In the long term, it's a great and "patient" way to grow money. The dividend yields range anywhere from 3% to 10% annually, on top of any stock growth of course.

Going back to the \$2200 Investment on page 10. If you put it in a 6.5% returning mutual fund, it would pay out like this.

| Year | 2,200 | Year | Year | Year | |
|------|---------|------|---------|------|---------|
| 1 | \$2,343 | 8 | \$3,641 | 15 | \$5,658 |
| 2 | \$2,495 | 9 | \$3,878 | 16 | \$6,026 |
| 3 | \$2,657 | 10 | \$4,130 | 17 | \$6,418 |
| 4 | \$2,830 | 11 | \$4,398 | 18 | \$6,835 |
| 5 | \$3,014 | 12 | \$4,684 | 19 | \$7,279 |
| 6 | \$3,210 | 13 | \$4,988 | 20 | \$7,752 |
| 7 | \$3,419 | 14 | \$5,313 | 21 | \$8,256 |

Which means, $\$8256 - \$2200 = \$6056$ in dividends accrued after 20 years.

Oh, and since we're taking off 10% of, say \$22,000, and investing *every year, not just once 20 years ago, shouldn't we be earning a lot more? You bet.*

| Year | 2,200 | Year | | Year | |
|----------|----------|----------|----------|----------|-----------|
| \$1 | \$2,343 | \$8 | \$3,641 | \$15 | \$5,658 |
| \$2 | \$2,495 | \$9 | \$3,878 | \$16 | \$6,026 |
| \$3 | \$2,657 | \$10 | \$4,130 | \$17 | \$6,418 |
| \$4 | \$2,830 | \$11 | \$4,398 | \$18 | \$6,835 |
| \$5 | \$3,014 | \$12 | \$4,684 | \$19 | \$7,279 |
| \$6 | \$3,210 | \$13 | \$4,988 | \$20 | \$7,752 |
| \$7 | \$3,419 | \$14 | \$5,313 | \$21 | \$8,256 |
| Subtotal | \$22,169 | Subtotal | \$31,032 | Subtotal | \$48,223 |
| | | | | Total | \$101,424 |

\$101,424 - \$44,000 = \$57,424 Dividends accrued after 20 Years

And that's if you only made \$22,000 for the rest of your whole life!

Habits

Go online to Google Finance, and check out the following companies CVX, PG, CLX, GE, MSFT, IBM, GIS. Dividends are listed beside 'Div/yield' with the dollar amount, and the percentage.

How to Pick Companies to Invest In

If you must venture into picking your own stock (assuming you already own your own home, and have paid off all your debt, and have some nice healthy retirement funds set up already), there's a few things I can touch on here. What you want to do is keep a 'shopping list' of great companies in an Excel file on your computer.

Go online and check the New High List on Barchart.com². That's a list of great companies that must be doing something right (or are just in a hot sector) because their stock is the highest it's been in a year. We hear the term 52-week high and basically that means it's a great time to be a holder of the stock, and a bad time to be shopping for the stocks (since they're higher priced than they've ever been), but it's a terrific place to look for good companies. We can take note of the great names, and *buy them when the price comes down again*.

What to look for:

- Companies that show good returns for years and years in a row
- Over 20% Net margins, over 40% Gross margins
- No Long term Debt.
- EPS Increasing over a 10 year period
- High returns on Shareholders Equity
- Competitive advantage, that isn't likely to be threatened in the next 5-10 years
- Waiting for the right time to buy using Earnings Per Share % + Dividend %

What to avoid:

- In bad sectors (or sectors you don't understand)
- Relatively Low on cash

Well, I want a stream of dividends coming in. I want to ride great companies that pay you because they're making lots of money. Those are the dividends we talked about.

Habits

Checking the Barchart 52 week high list, see if you can spot trends in some of the companies that are high. What might be going on in the world/economy to cause that to happen. Check individual stock pages on Google Finance to see the news.

Dancing with the Devil

Look, it turns out that Capitalism actually rewards companies for making lots and lots of money, and sometimes you may not like what they're peddling. You might not like the fact that Cigarette companies make billions of dollars year after year after year, but you're not going to stop them by withholding your investment dollars! Not when institutional investors in New York, Chicago, Tokyo and London are pouring billions in everyday! Their profits go up, their dividend rates go up, and if you're on the sidelines, I'm sorry, but you're only hurting yourself.

Make a list of all the companies you don't like. The more greedy, the more wealthy, the better. Buy their stocks and get big fat dividends.

- Cigarettes
- Insurance Companies (Including Health Care)
- Missile Defense
- Oil Companies
- War Profiteers
- Privatized Water Suppliers
- Telephone companies that overcharge rates
- Megabanks

Want to get involved? Great! You should! These companies are stopped by peaceful protesting and actual legislation. You know what would really beat them up? If one of their competitors was able to make a profit while honoring their own values. Yes, governments, charities, (and lawsuits) are the way to do good in the world. That's OK! In the meantime, you can make lots and lots of money off them for a change!

Habits

Do you feel uncomfortable investing in companies that you don't like? Would you feel more comfortable investing in a company that was cool, trendy, exciting? What if that company lost you money? You can do a lot of good in this world if you use these companies to your advantage, rather than fight them via your portfolio.

The Magic Ratio Revisited

Back to ratios again. The Magic Ratio we discussed was simply,

$$\text{GROWTH ASSETS} \div \text{DEBT}$$

We've gone through the concept of relative resale value, and how higher quality assets maintain their resale value over time, and even better assets are ones that grow in value over time. Those growth assets go on top.

Debt, unless it's to your parents, etc, incurs interest. The bank, the government, the credit card companies, they are lending you the money in hopes you will take a long time to pay it back, and pay lots of interest. We want to pay off debt, and pay it off *aggressively*. That's why we throw 20% of our gross income at it.

Let's see an example of how the ratio grows over time. Believe me when I say this, that watching this ratio grow will be an incredibly fun and satisfying process. Every week, I check on my financials, and pay off recent credit card purchases, and check on my investments, and the ratio grows accordingly.

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|--------------------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Income | \$22,000 | \$27,000 | \$32,000 | \$37,000 | \$42,000 | \$47,000 | \$52,000 | \$57,000 |
| Beg Year Debt | \$30,000 | \$30,100 | \$29,215 | \$27,197 | \$23,877 | \$19,058 | \$12,517 | \$3,995 |
| Pay to Debt (15%) | \$4,400 | \$5,400 | \$6,400 | \$7,400 | \$8,400 | \$9,400 | \$10,400 | \$11,400 |
| Pay to Invest (5%) | \$2,200 | \$2,700 | \$3,200 | \$3,700 | \$4,200 | \$4,700 | \$5,200 | \$5,700 |
| Growth Assets | \$200 | \$2,910 | \$6,256 | \$10,268 | \$14,982 | \$20,431 | \$26,652 | \$39,770 |
| End Year Debt | \$30,100 | \$29,215 | \$27,197 | \$23,877 | \$19,058 | \$12,517 | \$3,995 | \$1 |
| Magic Ratio | 0.01 | 0.10 | 0.23 | 0.43 | 0.79 | 1.63 | 6.67 | 39,769.93 |

This is pretty exciting. We assumed income growth of 10% per year, with a boatload of debt (e.g.. college loans, long forgotten credit card debt that has swollen to frightening size. What seems like a horrifying realization, amounts to a pathetic Magic Ratio of 0.007. This is our baseline. Our rockbottom.

When I first started my Magic Ratio was very low, about 0.01, and it was a shocking, if not depressing, thought. But the salvation comes in watching that number grow over time. A year later, using the very simple principle of paying off debt with 20%, and putting 10% into a growing investment (like a mutual fund or REIT). Over the years, the number does come back up, finally hitting 1.000 halfway through the sixth year! This act of reaching the top of the mountain, and coasting down the other side, is a truly powerful moment, with about \$15000 in Debt and Investments at that time.

Bear in mind, 15% interest on debt and a conservative 5% have been worked in to these numbers, so what began as a minuscule 0.007, soon begins to snowball. In the last three years, the power of the ratio really comes to life, and when our hero has no debt (here marked as a single dollar, so as to not divide by zero), it's time to go forward and take on more debt. This time, not the scandalous 15-20% offered by Credit Card companies, but good debt, like a mortgage on a home from the bank--a home that will soon be our hero's biggest investment yet. When that's paid off, it's time to start growing the empire with additional properties. But always maintaining the same principles that got you there in the first place.

Habits

What is the significance of the Growth Asset over (Growth) Debt ratio? Have you seen something like that in other arenas before? What about health? What about Sports? What about Education?

Buying a Home

Why is it so important to own a home? Why not just rent and fly around the world, living in various cities and partying? Well that's great when you're younger, but as you get older, and want to settle down, buying a home is the best thing to maximize your Magic Ratio (oh yeah, and you might want to get married and raise a family some day!).

Because we originally counted rent in our monthly expenses, which would be 70% of our monthly income, we can actually put that into 'paying down the mortgage' now. That \$18,000 in the first year not only brings your Mortgage down, it brings your House ownership up!

| Year | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Income | \$62,000 | \$67,000 | \$72,000 | \$77,000 | \$82,000 | \$87,000 | \$92,000 |
| Beg Year Debt | \$250,000 | \$238,900 | \$225,967 | \$211,146 | \$194,380 | \$175,612 | \$154,780 |
| Pay off Mortgage (3%) | \$18,600 | \$20,100 | \$21,600 | \$23,100 | \$24,600 | \$26,100 | \$27,600 |
| House Ownership (5%) | \$80,000 | \$102,600 | \$127,830 | \$155,822 | \$186,713 | \$220,648 | \$257,781 |
| End Year Debt | \$238,900 | \$225,967 | \$211,146 | \$194,380 | \$175,612 | \$154,780 | \$131,824 |
| Magic Ratio | 0.33 | 0.45 | 0.61 | 0.80 | 1.06 | 1.43 | 1.96 |

Because you took out such a huge loan, your Magic Ratio starts at the bottom again, but boy is it fun to watch that grow. In 5 years, its back up to over 1.0, with a growth asset size of nearly \$200,000. And remember, this all started with a low salary and terrifying credit card debt. The power of home ownership is that the money you spent on rent not only contributes to debt reduction, but also asset investment at the same time. And you can always buy a second home when the first one's paid off. Rent it out to someone such that the rental is more than the monthly mortgage payments. Beautiful.

Habits

At what age would you like to be a home-owner? How many years do you have until then? Remember, the power of owning your first house is that, without changing your income, all your rent payments are *converted into investment payments, accelerating the rate you grow your wealth.*

Alternatives to “Working”

Look at last year’s gross income: Can you receive commissions as part of your compensation? Commissions open the doors to all the wealth in the world. With commissions you never have to have the dreaded ‘can I have a raise’ conversation with your boss--he or she *can already see the numbers and is happy to share the wealth*. If you already make commissions but want a higher percentage, you can bet your boss would listen up if you negotiated *less salary* for higher commissions. You’re effectively eliminating the risk for your boss. And you make more, because you’re more motivated. In Passion, we looked at how passionate people get accelerated levels of energy, do better at work, make more money, and thus, could afford more free time to do what they love. Beautiful, isn’t it?

In time you may want to move into a sales role whereby you’re actually a subcontracted Consultant. That means you don’t just work for one company (customer) but many companies (customers) and have multiple income streams. There are tons of financial advantages (diversity of income streams, leadership experience, lower taxes in general and writing off business related expenses as non-taxable, etc.)

One of the most powerful advantages of this alternative work life is the ability to make your own hours. You can wake up as early as you want, get started with a brisk 30 minute jog in the morning, get in a 20 minute meditation, then plunge into your favorite Guitar practice, all before checking your email. Not only is the order of your work/life sorted out, the length of time you need to work is lessened. When suddenly you’re your own boss, you just sit down, do the work, then you’re done. You will work much faster, on top of making more money, you’re doing it in much less time. That’s what I do, and I credit that with my ability to do so many fun things.

I remember one of my earliest business ventures was offering to paint my neighbor’s fence. I’d actually worked a full summer painting houses, and climbing up on roofs, so considered myself an ‘semi-expert’ at that. When some friends around the neighborhood heard about my current employment, they asked if I could help with their huge white fence that not only encircled the house, but their massive backyard field. The fence was looking rough, and had cracked and stained in places over the years.

I did calculations based on what at the time was a decent wage for a young kid in Canada, \$10 per hour. I calculated that at that length of fence, considering I’d have to prime the panels, and paint them the next day, I could do the whole job in 50 hours. That’s either 7hours per day for a whole week or 5 hours per day, only on weekdays, stretched over 2 weeks. This system is called piece-rate, and says that you’re going to

get paid the same no matter how long it takes you to do the job. Based on the size of the fence and my expected hourly wage, I gave them a price for the whole job.

Once they agreed, it was in my best interest to not only do the job as quickly as possible, but to do a great job. After all, they were living there, if there was any missed spots, for sure the homeowners would see them. I love this kind of piece rate system because the customer doesn't really have to 'manage' you. They already know that it's in your best interest to do a good job and do it fast (and if you do a bad job, you won't get paid, so do it well), so you can move on to the next job. To be honest, every other job I had, years after my painting job, I'd always tried to delegate and encourage employees to work this way. I really believe if you give someone a responsibility, something for them to take real pride in, they'll do great work. And if you can run your consulting business like that, your customers will love you. Years later, I hired students to do marketing for my first online venture, using a similar quote/piece rate system. The results were great, and I never had to watch over anyone's shoulder. It's a good thing too, because most of the students were in universities I'd never been too. I couldn't watch over them!

If we're going to take this 'you are a company' thing to the bank, let's see how you stack up using some of the rules of thumb on page 18:

- Have you been earning a good salary for several years in a row now? Has it been increasing gradually over time?
- Have your margins been good? How much has your Net Worth increased over the last three months (e.g.. the last quarter)?
- Do you have any Debt? If so, why?
- Do you have a competitive advantage (more talent, ability, contacts, knowledge than other individuals), that isn't likely to be threatened in the next 5-10 years? If not, which of these could you acquire?

Consulting is a job title that basically means, you can hire me to help you with something. If you have a particular country or background (e.g.. your Master's Degree in Translation in Asian Languages) you can have a niche. You can meet people in Networking events in your city, and also have fun meeting new people. You can craft your life to be one big virtuous circle where your work, your exercise, your reading, and your friends, are all spinning and boosting each other: your friends advise you on great new books and cool business ideas; you introduce your friends to new friends; you all go jogging, or play tennis together, your friends want to work just like you do, and you show them how; your friend wants to join your company, or you want to join theirs. And

all of it is possible because now you have a little more freedom, a little more free time, and a little more control over your life.

One of the biggest advantages of being a consultant (as opposed to an employee) is that now you can consider moving to a new country, and setting up a bank account there to take payment. You are totally mobile, because you're not working at a plastics factory, you're a service provider, out there networking, and reading tons of great books, getting smarter and more resourceful all the time. With modern technologies like Email, Wide broadband internet adoption, Web-conferencing, Cheap International Video chats from your phone, you can really do your work from anywhere in the world.

One of the greatest rewards for being a consultant is that you are learning many facets of the business. You'll learn to talk to people, to sell yourself, you'll learn to schedule business trips, and budget them. You'll learn about event planning, and you'll learn how to put on powerful presentations, and run the most interesting booth at Trade shows and Expos. You'll learn how to use the web to promote yourself, and how to build your personal brand. You'll get to bounce from one country to the next picking up linguistic and cultural tools and insights, that make you stronger and stronger.

And after a job is done, you can go back and update your résumé, not just with your work experience, but abilities and statistics (e.g. increased sales 30%). More and more these days, the CV is not a paper document, but online. This means getting a LinkedIn account to start, and in time, getting a personal domain name (e.g. michaelarobson.com), and building your online presence. Have you ever Googled yourself? Have you ever wondered what people think of your Facebook profile? These online networks, when used correctly, can catapult your career, and your profile. They are platforms, from which you can meet more people, and draw more customers to your little empire.

Remember, every company needs a salesman, and needs linguistic help for international business. And every company is looking for new customers around the world. Thousands and thousands of ambitious 'consultants' are doing this very thing all over the world: they charge a foreign company for the chance to meet a handful of local companies. The consultant gets to pick his own price, and get paid up front for introducing, effectively matchmaking, the foreign and local companies. Moreover, the consultant can even negotiate a royalty agreement with the companies that win out. In other words, if you're in Brazil and your customer is an American Clothing company looking for a Distributor, the Brazilian company that ends up winning the contract, you

can negotiate to receive royalties (effectively a results based finders fee) on that deal. This means its in your best interest to only interview the very best candidates because you really do want them to have a long healthy prosperous relationship.³

Habits

Starting your own business doesn't have to be an invention or store. In the modern age, many are starting their own consulting businesses. They're selling services. Make a list of the services you'd like to offer. How would a company benefit financially from your insight. Think about alternative methods for them to get the same thing accomplished. This is how you can come up with a price. Can you do it piece rate (quote, then guarantee results)? Good luck, and have fun.

Goals

Take out a sheet of paper and think about your goals. Consider your performance at work, and the way you act around people socially. How did you do in school/college? Anything you'd like to improve or get handled? Mentally, you might have trouble getting away from negative thoughts, or maybe you procrastinate, or maybe you just want the will power to read a ton of books every year, right after this one!

Write down 2 super ambitious goals, and add them to the Health goals from the previous book...Stumped? Here's one I wrote, ages ago:

"I establish multiple income streams in multiple ventures."

Whether you're working to make money, or just working hard to find a new job, notice what you're learning. You're not just working for money, but as an extension of your education. If you stop learning, either discuss a promotion with your boss, or if that's not possible consider a new line of work. Become obsessed with learning new things, and the money you want can be yours.

Habits

These goals-turned-affirmations are brilliant because you can control them. Notice how strange they feel the first time you say them, and how natural it feels in the coming weeks. Get into the habit of reading these a couple times, after your morning meditation. As the weeks go by, your behavior will change. From time to time, consider the wording and revise it, as your goals evolve

Closing Words

Combined with the Passion from the last book, and now Money, you have the freedom to create your own life. I firmly believe that without Passion, none of this stuff matters, but with that in your back pocket, you can really unlock the power of what money you do make. Growing your wealth isn't about begging for a raise, it's about seeing the whole financial picture, and having control over your emotions to invest rather than waste.

I don't think people actually dream about money, but rather, the security we think money can buy. When we're young we are under this spell, but as we get older we see our decidedly non-rich friends totally happy and fulfilled, and read stories of multi-million dollar celebrities with serious problems, and the illusion starts to break. Security is not a motivator. Money can't buy that. So what good is all this money? Well, in the next book, lets talk about Philanthropy. Now that you have some money... lets talk about how you can really have fun with it...By Giving it all away! In just two books we'll go from being clueless about money, to being the most generous person you know, from being the pauper to being Santa Claus. What an amazing feeling.

Appendix

| Net Worth | | |
|--|---------------|---------------|
| Date | 12-Jun | 19-Jun |
| Base Salary - Monthly | | |
| Base Salary - Annually | | |
| Commission Annually | | |
| Assets | | |
| Mutual Fund Cost Basis | | |
| Mutual Fund Valuation | | |
| Cum. Growth | | |
| RRSP Valuation | | |
| Buying Property | | |
| Potential House Purchase 5% Down Payment | | |
| Potential House Purchase 20% Down Payment | | |
| Bank Accounts | | |
| BMO | | |
| Bank of China | | |
| Cash on Hand | | |
| Accounts Receivable | | |
| Unpaid Salary | | |
| Unclaimed Rent | | |
| Tax Return | | |
| Total Liquidity | | |
| Prepays | | |
| Chinese Visa | | |
| Chinese Apt Rent | | |
| Chinese Apt Deposit | | |
| Prepaid Mandarin Class | | |
| Total Prepaid Assets | | |

Here are some sample Row Headers for your Excel spreadsheet of weekly financials. Notice I'm trying to track Salary, Mutual Fund Value, Cash/Liquidity, and even Charity, this year's and accumulated Charitable donations. The goal is simple: don't run out of liquidity while you aggressively pay down debt. It's more fun to track Magic Ratio than Net Worth.

As you plan to buy your first house, use the Mutual Fund Valuation, so you know when you can flip that into your first home (both 5% and 20% downpayment mortgages available, at different interest rates).

| | | |
|--|--|--|
| Education | | |
| Princeton Tuition | | |
| Harvard Master Tuition | | |
| Total Human Capital Assets | | |
| Previous Years' Charity Paid | | |
| Current Year's Charity Paid | | |
| Current Percentage of Current Year Income | | |
| Liabilities | | |
| Credit Card Debt | | |
| CDN Student Loan | | |
| Total Debt | | |
| Metrics | | |
| Net Worth | | |
| Net Worth + Charity | | |
| Liquidity/Debt | | |
| Magic Ratio | | |
| Current Year's Tax | | |
| GA+ Charity + Tax / GL | | |
| CC Expenses Details (100) | | |

Notes

- 1 Clason, George S. "The Richest Man in Babylon" Signet 2010
- 2 Barchart. <http://www.barchart.com/stocks/high.php>. Oct 2010.
- 3 You probably wouldn't receive royalties forever. It's just a finder's fee.