

ROADMAP TO FINANCIAL INDEPENDENCE



ROBERT BARBERA

“Barbera’s realistic perspective is especially sharp when it comes to investing in the stock market.”—*Kirkus Reviews*

Peace of Mind

We are all on a journey.

We all want to better our lives, attain peace of mind, and be financially independent.

I believe that investing in our economy can be rewarding, personally and financially.

Achieving success takes due diligence as well as active participation. We must continually acquire information, evaluate risks, and remain vigilant. It takes patience and acumen.

But ultimately, it's not about how much wealth you acquire, but how you walked the path.

Happiness comes from ourselves.
Each of us makes the final decision on the kind of life we want to live, the person we want to be.

It's not too late to start today.
There is always time to do the right thing.

INTRODUCTION

*There is no independence without
financial independence.*

That might sound harsh, but it's true. If you are tied to a paycheck, you're tied to a job—sometimes a very specific job and a specific workplace that might not be the best for you. If you can't afford the security deposit, you might be stuck with a roommate you don't like, or in an apartment that adds an hour to your commute, or in a neighborhood that is becoming unsafe.

Without financial resources, you are yoked to people and situations that may not be ideal, or even defensible.

In one of my early jobs (for a private certified public accountant's office, which I will not name), on my first audit, I was sent to take inventory with the owner's foreman of some oil reserves in an oil field claimed to be owned by our client. I was to calculate gallons of oil by the gauge on the side of the tank pointed out to me.

I had some questions. First and foremost, how could I know if the gauges were accurate? Also, the field contained a few hundred tanks; how could I identify which ones belonged to our client? The foreman—who, of course, was not impartial, since he worked for the client—just shrugged and told me this was how they did it.

The next day I was reprimanded by my boss.

I smelled a fish and left that job. I could do that because I had financial resources: I was skilled and certified in an in-demand profession, so

I knew I would have no trouble finding work. I had an emergency fund to cover immediate needs. We didn't have a family yet, so my wife's job offered us a second stream of income. We didn't yet have the kind of wealth we would go on to create—and that I hope you will be able to create for yourself—but we were financially resourced. Money gave me the freedom to walk away.

If you found yourself in a similar situation, would you be able to walk away?

This is the power of financial independence: At its most basic level, financial independence increases your options. Financial freedom doesn't just offer the ability to leave a situation. Even more powerful is its ability to pull you toward a better future. Financial independence frees you up to focus on what you want to do, where you want to go, who you want to spend time with, and what contribution you can uniquely make in the world. It gives you the bandwidth to not just dream of spending time with loved ones, opening your own business, or writing a book as you travel the world, but also to develop concrete plans to make those dreams come true.

The freedom to create the life you want to live is intrinsically tied to your financial independence.

I have written several books on financial savvy, from my memoir, *Building Wealth*, to my first primer, *Building Wealth 101*, where I lay out both the mindset and multiple strategies to build wealth over time. In *Retire and Refire*, I offer information and roadmaps to people at all stages of life to set themselves up for retirement success. Most recently, in *How to Jump-Start Your Way to Real Estate Wealth*, I pass along a lifetime of lessons in investing in real estate and managing properties. So what is there left for me to teach you?

Financial wealth, that's what.

Financial wealth is money that comes from the financial world. Typically, we think of this as investing in the stock market, but it's much more than that. Furthermore, I have come across many smart people who look at the paper world—including the stock market, lending market, and other financing opportunities—as something mysterious or (worse) as gambling. I won't pretend there aren't risks,

but I do believe that “risk” is not the same as “gambling.” You take a risk when you cross the street, but not taking it means never leaving the block you were born on. Furthermore, you can avail yourself of traffic lights, pedestrian crossways, looking both ways before you step off the sidewalk, using a crossing guard ... you get my point. While there is a certain amount of risk no matter what you do (or don’t do) with your money, by taking precautions you can limit risk, just as you would when crossing the street. It is always a case of weighing risks and benefits.

In this book, you will find both risks and benefits on display, my missteps as well as my successes. The important thing, I believe, is not just to learn from your mistakes, but to learn the right lessons. One miscalculation should not result in you deciding you’re “bad with money” or that you can never succeed in the stock market or anywhere else. But it should teach you many other things, from understanding your personal tolerance for risk to recognizing the forces that act upon a particular industry or the world economy in general. Be a sponge. Stay open to new information. There is no shame in pivoting when necessary, in taking a new tack if that’s what is required to right your financial ship.

In other words, learn—don’t judge.

Finally (and I will say this more than once in these pages), this book is not to be taken as investment advice. I’m never going to tell you what you *should* do with your own money. Instead, I will lay out different things you *could* do to build wealth. Everyone is different; you have a different tolerance for risk than I do, entire industries are undergoing disruption and transformation even as I write this, and a stock I like today may not be around by the time you read these words. But fundamentals never change. This book seeks to demystify financial wealth so that you can make a more informed choice about where and why and how you can forge your own path to building wealth. But it is not investing advice, and I will continue to offer you all the disclaimers.

And that’s a good thing. The bad news is that you can never follow someone else’s path and get the same result. If those days ever existed—and I have my doubts—they are long gone. There are too

many variables, and the first and most important one is you. You will succeed in your own way, hopefully learning from the mistakes of others (including me) and bouncing back sooner when you do stumble. If you take nothing else from this book, take this to heart: There is always a way forward. Find it.

I hope your journey to financial success is filled with opportunity.

CHAPTER ONE

A PRIMER ON WEALTH

The Wealthiest Country

Let's take a broad perspective.

The collective wealth of a nation is measured by all the production and consumption in the economy. In other words, a healthy economy both creates and consumes.

Productivity

Productivity is the amount of both goods (physical things, from growing tomatoes to making rocket ships) and services (from dog-walking to banking) that citizens of a country produce. In economic circles, it is called the gross national product (GNP). The GNP is very close to the gross domestic product, or GDP; the main difference is that the GNP includes any income our citizens receive from overseas investments. Both measures quantify our nation's wealth, rather than the wealth of any individual person.

From my point of view, production is infectious: The more we produce, the greater our standard of living, and the more inspired we become. We want to produce more and better. The United States is

very good at production. We have abundant resources, a creative labor force, and well-educated engineers. I believe that the more invested we are in our economy, the more incentive we have to continue building it with new products and services.

This is one reason why I believe everyone should be invested financially in the country's economy—to bring home this idea that we are all working together for a better future. You are not a cog in the wheel. You are a member of the team.

Consumption

Consumption probably doesn't need an explanation, but just in case, it's driven by all the stuff we buy. You're a consumer when you consume your breakfast cereal or when you buy a new phone. Your personal, individual preferences in what you consume/purchase drive the market by creating demand for the things you like. When more people want a product, producers work to increase the supply of that product.

You've surely heard the phrase "supply and demand." The push and pull between these two forces (how much there is of something versus how many people want the thing) sets market prices. Pricing is just one of many ways to encourage people to buy or to not buy a thing. For instance, when there is too much of something—say, corn—and not enough demand, the price of corn goes down as a way to encourage people to buy it. Sure, corn might not be something you'd spend \$10 on to bring to the barbecue, but maybe it looks more enticing to you when you can get a bag of ears for only \$5. At least, that's what the corn growers hope.

It works the other way as well: When more people want to move into a neighborhood than there are houses in that area, they will pay above the asking price. That's when bidding wars happen, and sometimes those higher prices will actually convince someone to sell their house, adding to the number on the market—in other words, increasing supply.

This dance continues, both up and down, all the time. Of course it's a little more complicated: There are bad actors who take advantage

either by falsely creating scarcity or otherwise trying to scam people. The government may step in either to manage those bad actors or to artificially make it easier or more difficult to purchase something. And we shouldn't forget that consumers themselves are fickle! Some markets are driven up or down by fads or fears or just plain greed. But in time, people's choices correct the market while consumption and production remain in balance.

Capitalism

The number of people in our country who are capitalists is more than most people think. It includes people who invest in the stock market either individually, in retirement accounts, or in pensions. Own a small business? Work for yourself? You're a capitalist.

Capitalism is the antithesis of communism. Capitalists own and control the means of production, while in a communist state, only the government owns and controls the means of production. The success of capitalism far exceeds communism in terms of production.

Why? Because people work harder when they have a stake. We want the freedom to create our own destiny.

All activity starts with capital, or money; it is the driving force in our economy. Investments are stored capital, generating more money for you in interest, dividends, increased share value, or a combination of those.

*The most important single central fact
about a free market is that no exchange
takes place unless both parties benefit.*

—Milton Friedman

Government Wealth

The U.S. government is made up of We the People, for the people. Our government is not expected to be a producer or competitor in the production of goods and services. Rather, it provides the people of the country with the things we need to keep the country together, such as roads, bridges, and other infrastructure for the common good; public schools to ensure an educated populace; and a standing military to provide for the country's safety. Government agencies oversee, protect, and/or regulate a plethora of things (oil production, farming, food) and professions (contractors, attorneys, doctors). There are agencies ensuring fairness, such as the Office of Weights and Measures, which makes sure that both buyers and sellers are measuring the same way—apples to apples, rather than apples to hippos. Building and safety regulations protect construction so that dangerous corners aren't cut, while the Environmental Protection Agency assures safe water and air, the highway patrol keeps traffic flowing, and the judicial courts interpret the law the same way for everyone. There is great value in uniformity, in fairness, and in the ability to depend upon a baseline of safety. We appreciate it as human beings, and because financial markets are driven by human beings, the markets appreciate it as well.

I am not anti-government. I believe in the government's role to keep us secure and to regulate as needed in the public's interest. There are plenty of bad actors in the world, both foreign entities and our own citizens, who violate our laws. As scams become increasingly complex, the bureaucracy needed to manage the burden of protecting us from scams continues to grow. But just because I don't love bureaucracy doesn't mean I don't see the need for it. It would be much worse to allow people like Bernie Madoff to run amok and wipe out people's life savings, or companies like Theranos to dupe investors with impunity.

As I travel around the world and visit other countries, I come to appreciate the United States even more. Our infrastructure is far ahead in terms of roads, bridges, waterways, and highways. The government is involved in innumerable areas to protect its citizens in manufacturing, hospitals, shopping centers, food safety, child safety, and

creating educational facilities, not just for K-12, but also for colleges and universities. I am proud of our continued investment in our citizens. Our economy is dependent on safe roadways, convenient distribution of goods, and an educated workforce. It's right that we all share in the costs of these underpinnings of our society.

*Europe was created by history.
America was created by philosophy.*

—Margaret Thatcher

That said, there are negative outcomes of government as well. The average tax burden is rising; whereas in 1940, it took sixty-six days of working to pay off one's taxes, today it takes an average of 106 days (per the Tax Foundation, a think tank in Washington, D.C.). The average person's tax burden has risen from 18 percent of their income to 29 percent. That's a tremendous weight on working people, cutting into the amount they themselves can invest in our country, build their own wealth from, and save to take care of themselves and their loved ones in retirement.

While bureaucracy may be necessary, it doesn't necessarily have to be as convoluted and expensive as it is. Reasonable people can disagree on where government funds should or shouldn't be allocated. And I used to work for the Internal Revenue Service (IRS). I know firsthand how adding rules and regulations to the tax code puts pressure on citizens.

Our economy is complex. Even our brightest, most experienced minds don't always understand the ramifications of regulations or other steps that might seek to drive an industry or even our entire economy up or down. Increasing government debt, for instance, may have an immediate impact on the economy, but it can also have a long-term negative price to pay. And as we've sadly learned, even good-faith efforts can be co-opted by greed.

I don't believe there's a magic bullet to perfectly regulate any economy, but I do think it behooves every investor to learn basic economic theory so they can make informed decisions on their investments in particular, and understand the market at large.

As an investor, it is vital for you to know if a regulatory agency or a new rule or a rate hike is beneficial or detrimental to your investment. The government is our silent partner, providing infrastructure, services, and protection. In exchange, that silent partner collects taxes. Business decisions should always be made by taking tax implications into account. As someone who worked for the IRS, I believe in everyone paying their fair share, but that doesn't mean you need to pay above and beyond. Tax codes were built to create incentives; there is nothing wrong with taking those into account when you contemplate investments. Again, it is up to you to be an active participant in our country and our economy.

As a democracy, we have a say in our government, and with that comes the responsibility to understand the role of government in keeping our country organized, protecting our security, and maintaining our quality of life, including the costs associated with these and other government decisions. I welcome criticism of the government when it comes from caring, from wanting to see the government do better for everyone. I don't think anyone will be surprised to know that I appreciate our capitalist system and am against government interference in the market, particularly the types of government activities that go on in communist countries in an attempt to control not just their economies, but their citizens as well. In fact, I believe our market economy offers everyone a chance to participate in the wealth of our country. That is a strength, not a weakness.

After the Constitution was signed, Elizabeth Willing Powel asked Benjamin Franklin, "Well, Doctor, what have we got? A republic or a monarchy?"
Ben Franklin replied: "A Republic, if you can keep it."
—Reported by James McHenry

I believe we will keep it.

Individual Wealth

After World War II, in the late 1940s and early 1950s, the middle class became more significant. Women went into the workplace in

greater numbers, and with that second income, the standard of living changed. New appliances reduced housework, families acquired second cars and bigger houses, people ate out more often and went on more vacations. Education grew in importance; you no longer could get into many professions with just a high school degree. Wardrobes, hair grooming, health insurance, early retirement . . . daily life required more of an investment on every level.

According to the U.S. Census Bureau, in 1960, the median household income was \$5,600. Forty years later, it was \$42,148. By the 2020s, the median household income reached \$74,580. Households with two wage earners now average around \$120,000 per year, with 65.6 percent of working women now working full-time year-round. Our grandparents could never have imagined the standard of living we currently enjoy.

The minimum wage has gone up, there is free public education, and amenities our grandparents never dreamed of, such as television and cell phones, have become available to the average person. With longer life expectancy, individuals have more years to create wealth; many will pass that wealth along to the next generation, which (I hope) will be able to live even longer lives. More blue-collar workers have entered the stock market, if only through their pensions or IRA savings accounts. Ideally, we are all benefiting from our country's economic growth.

The key is, once our basic needs of food, clothing, shelter, and transportation have been met, to start investing our savings to get the most financial growth—for ourselves and to pass along to the next generation.

Let's get started.

CHAPTER TWO

START PLANNING TODAY

Nobody plans to fail. They just fail to plan. When it comes to planning for the future, mistakes are inevitable. No one has a crystal ball; no one is able to foresee all the possible problems, challenges, or even victories. But you must not let that stop you from making—and following—a plan.

An Incomplete Plan Is Better than No Plan at All

Let me tell you a story. When I was first married, my late wife, Bernice, and I lived in a house we rented from a man named Mr. Anderson. We lived in the house behind his, and every day, when I was on my way to class (I was in my first year of college at Los Angeles City College), I would see him relaxing or going for a walk, or maybe chatting with friends. Finally, I worked up the courage to ask him how that was possible. When did he go to work?

“Robert,” he told me, “I don’t go to work anymore. The rent you pay and the rent my other tenant pays me, that’s enough for me to live on. I don’t have to worry about making money. I can spend my days doing what I love.”

To say I was taken aback would be an understatement. I had never imagined such a thing. Mr. Anderson's way of life was a revelation to me.

I talked to Bernice about it right away. "How can we do what Mr. Anderson is doing?" I asked her.

Bernice was Mexican American and we thought we might want to live in Mexico, so we did some research, found out how much money we needed each month to live well there (it was between \$350 and \$500; this was in the early 1950s), and figured out what we needed as a nest egg to get us that much money in interest from our savings account.

At the time, the interest rate was higher than it is now (our savings and loan was giving us something like 5 percent, if I remember right), so the math wasn't complicated. We realized that if we continued saving as we were doing, we'd have enough money to generate that amount of interest by the time I was 40, which sounded much better to me than working until I was sixty-five. That was our first plan: We were going to build a savings account balance that would give us \$500 per month in interest income, move to Mexico, and retire so we could do whatever we wanted all day long.

It had some flaws in it, that plan; quite a few hiccups, in fact, which I'll talk about as we go on. But it had one golden benefit that more than balanced out all its shortcomings—it pointed us in a clear direction. It marshaled our efforts toward a well-defined, compelling goal: financial freedom.

*Wealth, like happiness, is never attained
when sought after directly. It comes as a
by-product of providing a useful service.*

—Henry Ford

How Much Money Do You Need to Be Wealthy?

You may think that you want to live like the cartoon character Scrooge McDuck and take a daily dive into a pool of gold coins, but

I'm going to suggest that fantasy deserves a deeper look. Above a certain level of financial security, more money does not make human beings significantly happier.

There have been lots of studies done on lottery ticket winners and happiness, and they've all found the same thing: There is an initial bump, an increase of happiness, when someone wins the lottery, but within a few months, they go back to their initial, pre-lottery level of happiness.

Look, I would be thrilled for you to become a multimillionaire and test this out for yourself, but I can tell you it's certainly been true in my own life. I remember the day Bernice and I broke the million-dollar income level for the first time. The truth was it snuck up on us. We were so busy with our lives, raising our kids, managing the apartments we owned (I mowed the properties' lawns myself on the weekends). It wasn't until I was doing the books one night that I realized, hey, we had finally hit an annual income of a million dollars. And you know what? The next day, we got up and kept on doing the work. It didn't change our lives or our happiness level.

I'm not trying to burst your bubble. I think this is actually great news: It means you don't have to wait until you're a millionaire to be happy. In fact, you get to be happy along the way. One of the things that makes us happy is striving for and achieving meaningful goals. Setting meaningful goals that will help you reach your ultimate goal of financial independence allows you to feel good again and again as you reach each one. And having a specific end goal helps keep you focused.

So, let's figure out what the finish line is. How much money a year would you need to live your ideal life?

Mr. Anderson needed the income from two income-producing properties to cover his needs and his greatest desire, which was to relax and hang out with his family and friends. Bernice and I originally planned for what we would need financially to be able to live a great life in Mexico. You may want to travel the world or fund a nonprofit. Whatever your dreams are, attaching a number to them will help you get there. Remember, an imperfect goal is still better than no goal at all.

If you think your goal is to have, say, a private jet and eat all your meals on gold-plated dishes, let me suggest you rethink your goals.

Look, if you're a pilot and having a private jet means you can fulfill your lifelong dream of flying to every country in the world, maybe that makes sense. I won't try to stop you. But you can see how that's a very different reason for wanting a jet than simply owning a jet as a status symbol.

Look for the goal underneath the thing you think you want. I've never been one to advocate for conspicuous consumption. In fact, I've given lectures where I've had people cut up their credit cards right there! "Keeping up with the Joneses" is poison to your future wealth; it prevents you from building your investment portfolio. When Bernice and I were just starting out, we enjoyed free concerts in the park, long walks, home-cooked meals, and watching television. We were never caught up in spending money because other people did, and what we found was the joy and pride of building that pot of money that we quickly put to work for us . . . that was worth far more than the newest car or a night out on the town.

That man is richest whose pleasures are cheapest.

—Henry David Thoreau

Look at your goals and think about how you want them to make you feel. Aren't there other ways you can get that feeling of pride or of success? Can you get it from the difference you're making in your own life, in the lives of your family, or in the world, rather than from the stuff you own? Are you really free if you're constantly comparing yourself to others?

How much do you actually need each year to live the life you want?

If you truly have no idea, let me give you some parameters. According to the U.S. Census Bureau, the median household income in the United States was \$74,580 in 2022, so around \$75,000 per year. How does your current income (from your job[s] and the interest or dividends from whatever assets you currently have) stack up to this? Does your current income allow you to live the life you want? Does it give you the freedom to spend your time working on things that give your life meaning and joy?

What you're looking for now is a number that reflects what your ideal spending would be for a year. It sounds simplistic, but it's worth saying: All you need for financial freedom is to reliably have MORE money coming in than going out. So don't think of it in terms of being a millionaire or billionaire—a lot of that money might be in assets you can't easily touch.

Financial independence is having a reliable, repeatable income that is just above what you need to live your ideal life. What is that number?

Congratulations! You now have a goal.

There are lots of ways you can get there. Mr. Anderson reached his with rent income from two tenants. Bernice and I planned to reach ours with simple compound interest. But before you can figure out how you're going to get where you want to go, you have to take stock of where you are now.

You Are Here

When you look at a map at places like shopping malls or nature trails, you will invariably see a big marker that clearly states “You Are Here.” And that is valuable information. How can you figure out how to get where you want to go if you don't know where you are?

So where are you?

When I sat down with Bernice and tried to replicate Mr. Anderson's success, we were just starting out. Bernice and I had recently married. She worked full-time (and was amazing at everything she did) while I completed my college degree. After that, I worked a day job while she took care of our family and, as our real estate holdings increased, kept the books for our growing business. We were partners.

There's a lot you can learn from my own situation, so keep reading.

Invest in Yourself

Attaining my college degree was the first milestone in our financial success. I started working right out of high school (actually, I started working years earlier, first as a shoeshine boy, but that's a story you

can read about in my first book, *Building Wealth*). I noticed that my colleagues with college degrees made more money than I did, even though we did the same kind of work. Opportunities for advancement were also more difficult to come by with just my high school diploma. For me, getting that college degree was foundational.

What is foundational for you in your career?

I know this is a book about making money in the financial world, but you need money to make money. Earning top dollar at your day job helps you build the pool of money you will use to invest. Some people disdain day jobs. Not me. Not only do I think you should have a day job, but I also think you should get paid as much as possible for your labor. Because that is money you can parlay into a diversity of other investments. If there's a credential or a skill set that would be valuable to your employer (or other employers in your field), helping you earn promotions and raises or move to a better-paying company, it behooves you to get it.

Education has been a mainspring for our democracy and freedom, a means of providing gifts of knowledge and opportunity to all citizens, no matter how humble their background, so they could climb higher, help build the American Dream, and leave a better life for those who follow.

—Ronald Reagan

My parents had worked hard to buy their own clothing factory. Before the Great Depression, my dad was riding high, like there was no tomorrow. But he had no backup plan, nothing put away for the future. When the Depression hit, we lost our clothing factory. My dad was a smart guy and very talented at what he did, but he didn't have enough experience or education to know how the stock market really worked, or that the economy would eventually bounce back. We lived from hand to mouth all through the Great Depression. From the experience of those tough years, I was determined to have a better life for my own family.

What does this have to do with you earning top dollar?

Wallace Stevens was a poet at night and on weekends. During the workweek, he was an executive at an insurance company. This job gave him the freedom to do his art and not have to worry about how he would provide for his wife and daughter, even through the Great Depression. Ultimately, he won the Pulitzer Prize as a poet. Would he have been able to attain such success as a poet if he'd been struggling like we were to put food on the table? Maybe, but maybe not having to worry about such things allowed his talent to flourish.

You are investing in yourself by reading this book. Learning a new skill, doubling down on your talents, networking, educating yourself on financial opportunities . . . these can all move the needle. Be intentional; just like with money, you need to get a return on investment (ROI) from your *time*.

Identify what has the most impact. Focus your resources. Get the most bang for your buck (and your time/energy).

Identify Impact

Identifying what creates the most impact is the same philosophy I used when I started managing apartment complexes. I asked questions, I paid attention, and I put together a list of extras that made potential tenants more interested in renting one apartment over another. What did they value? Windows and parking spaces were critical (you can't reliably rent out a windowless apartment, for example), but things like freshly painted common areas, clean laundry facilities, and great landscaping attracted those willing to pay top dollar.

What creates the highest return on your investment in yourself?

Know Thyself

To recap, start by taking a good, hard look at where you are. Set an intention that gets you started. For me, that first step was maximizing my earning potential in my field, which was finance and accounting. Once I accomplished that, I needed a new goal, and that is where Mr. Anderson's lifestyle shone like a beacon. I had learned how to read contracts at my mother's knee. If Mr. Anderson and my mother could be landlords, why not Bernice and me? We wouldn't have to wait as long to retire. Buy some property, get a couple of long-term tenants, quit my day job, live the good life. Simple, right?

I hope you're laughing at that, because it makes me laugh at myself thinking about it. But I did promise to be as honest about my missteps as I am about my successes. And this obviously was not nearly as simple as it looked to me at the time.

The problem with this initial plan was not, however, that I was naively optimistic about the amount of money we could make; on the contrary, my first wife and I exceeded all our financial goals before Bernice passed away. No, the problem was that I was completely wrong about what made me happy. One of my first mistakes was not understanding myself and the role my personality played in my financial decisions.

It took me a long time to realize that I am, by nature, restless. I do best when I am challenged. Time and time again as I moved through my careers—note the plural—I started at the bottom. This was often on purpose; I wanted to learn how and why different types of businesses succeed. Each time, as I made a transition from one career to the next, I carried that knowledge with me. My successes and failures in one arena were invaluable lessons that made my next career go more smoothly.

Since I thrived when given a challenge, sometimes I created challenges, choosing ambitious goals as ways to stretch myself. In fact, the first property Bernice and I bought was supposed to be a duplex . . . and then I started running the numbers for a four-unit building . . . but the more we looked at potential properties, the more I realized how much sense it made to buy an eight-unit complex instead. Bernice was a whiz with numbers, and to her it was clear that

there was simply no way we could afford an eight-unit place. It was impossible.

I said, “Watch me.”

Meeting the challenge was itself fulfilling for me, and that is the lesson here. (NOTE: The lesson is *not* that you have to extend yourself financially to the limit; that is never the lesson!) What is fulfilling for you? It took me a while to realize that decisions aren’t just made by looking at numbers. Yes, numbers matter. Be book-smart about your investments—run all the numbers, imagine the worst-case scenario, never leap before you look. But you must also realize that your own personality is going to play a role in your decision-making. Recognizing that early allows you to take that into account. Play to your strengths; don’t fight against them.

Most books on financial literacy invite you to take stock of your current financial situation. I agree that is very important. But I also want you to take stock of yourself. What makes you happy? If you have a free afternoon, do you spend it hanging out with friends, like Mr. Anderson did? Or building furniture that you sell on Etsy? Tending to an herb garden? My weekends were spent doing maintenance on our rental properties; it was a family business, and we got the whole family involved. Even now, I’m ninety years old, ostensibly retired, but look at me—I’m writing my fifth book to help people build wealth, and I’m loving every minute of it.

There is no right or wrong answer for you, but there is a true answer. And if you know yourself well, you can know what you really want financial freedom to bring you.

Mr. Anderson was perfectly content with owning two properties and having two sets of tenants. It was enough to meet all his needs; the freedom he desired wasn’t to travel the world, but to cultivate friendships and enjoy a life free from having to work for someone else. I ended up owning apartment complexes totaling 500 units, and for much of that time, I held another full-time job. I would have gone crazy trying to live in the aimless, relaxed way that Mr. Anderson so enjoyed. It was more than just the fact that I do best when challenged: I loved the thrill of making big dreams come true, and I found great personal fulfillment in managing clean, respectable homes for so many families.

What does your flavor of financial freedom look like?

Be as honest as you can. When I thought of emulating Mr. Anderson, I wasn't being dishonest, I was just mistaken. I was young and I didn't yet understand what drove me. But learn from that mistake, as I did. Dig a little deeper.

Having said that, don't wait to have all the answers before setting your first goal. You will refine the goal, as we did, when you have better data, but for now, make your best, most honest guess. If all your financial needs were met, what would you really do with your time?

Scam Alert!

We know to be wary of opportunities that are clearly high-risk, but by the same token, be very, very wary of anyone who tries to tell you that an investment opportunity has no risk at all. They may be trying to manipulate your emotions, tapping into your desire for safety, to hide the fact that it's all a scam.

Every investment carries a certain amount of risk; someone telling you otherwise should be an immediate red flag.

I met a lady in the catering business who worked hard for her money—and who lost her entire nest egg to Bernie Madoff's Ponzi scheme. She had to start all over. It can happen to anybody.

Understanding Your Risk Tolerance

Let's look at the next important factor you bring to the table: your tolerance for risk. Knowing your personal tolerance for risk is essential to developing a strategy for building wealth.

While it is possible to increase (or decrease) your risk tolerance over time, you have to start where you are. Jumping into a situation that you unconsciously consider to be unacceptably risky can lead you to make terrible choices once you're committed. Don't let anyone—including me—talk you into investing in something you believe to be too risky for your peace of mind. (Reminder: Don't let me talk you into any investment! The goal of this book is to demystify financial wealth, not offer specific investment advice.)

I had a colleague once who ran home every day to read *The Wall Street Journal*. He wanted to check how his portfolio was doing. The only thing was, it was a purely imaginary portfolio. He never bought a single stock. He did pretty well, too! I asked him why he didn't open a real account; he obviously knew what he was doing. But he replied that he didn't gamble. This was just his hobby, and he enjoyed it because there was no monetary pressure. Which is true . . . but there was also no monetary reward.

The problem with assessing risk is that we're pretty bad at it. We, as human beings, are more averse to losing something than we are to NOT gaining something. Which makes no sense, but there are many studies backing it. What it comes down to is that we're more afraid of taking action when there is any chance that we might lose money than we are of taking no action at all, *even when doing nothing means there is a 100 percent chance of not making any money*. And when it comes to money, zero gain actually translates to a *loss* because of inflation.

Case in point: I have some friends who are great savers. They don't go so far as to stuff their savings in their mattresses, but they might as well. Merely putting your money into a savings account is not a path to growth. What these people fail to see is that the money you have today will not be worth the same amount tomorrow, or next year, or in fifty years. Inflation inevitably eats away at your purchasing power.

According to the U.S. Census Bureau, three-quarters of all American families—31 million of them—lived on \$5,000 a year or less in 1950. Only 3 percent of American families lived on \$10,000 a year or more. What was an elite annual income seventy-five years ago wouldn't even cover a year's rent in most of the country today. Sticking

your savings in anything that earns you less interest than the rate of inflation—whether it's a piggy bank or a savings account—means you are LOSING money. Your purchasing power is going down faster than your savings balance is going up.

People sometimes erroneously think they will need less money in retirement than they do now, while they're still working. Disabuse yourself of that notion right now. Sure, you may no longer need a professional wardrobe, but there are other things you might want to spend money on. Many retirees look forward to traveling, for instance, or to spending more time (and money) on a hobby. No matter how good your health insurance may be, you may have costs associated with medical or other quality-of-life issues as you get older.

It is not my place to make your decisions for you (see again all my disclaimers—this book is meant to offer up possibilities, not give you any sort of specific financial advice), but you must understand that if you value security to such an extent that you refuse to take any risk with your money in order to earn a higher-than-inflation return, you are going to need to make some hard decisions now so that you can save as much as humanly possible. It is an uphill battle to attempt to finance what I hope will be decades of healthy, enjoyable retirement just from a savings account alone.

By the same token, it is very difficult to build wealth on a paycheck alone, especially a single paycheck (more on exposure and diversification later). You need to leverage your money in some other way, and that way must return more on your investment than the rate of inflation.

In other words, your money has to work for you, and work hard.

Nothing will come of nothing.

—William Shakespeare

What does this have to do with risk tolerance?

Generally speaking, the higher the risk of losing your investment, the higher the potential reward. That's pretty straightforward. Once you understand that doing nothing with your money—or putting it

somewhere where its earning power is limited to a return below the rate of inflation—is ALSO risky (in fact, it’s a guaranteed loss of purchasing power), you can nudge your tolerance for risk up a notch. You can get yourself in the game, not to gamble, but to make informed choices that can help you accumulate wealth over the long term.

I want you to be aware of your innate risk tolerance so you can make decisions you can live with, and so you can understand what is truly risky and what is not, at least when it comes to your investments. Understanding the reasons behind why you choose to make a financial decision will help you make decisions better—and possibly make better decisions. I want you to remember that choosing *not* to take action is itself an action. We can’t escape having to make decisions with our lives and our money, but we do better when we align them with who we are as people, our core values, and our life goals.

My mother and father are a good example of this. Where Bernice and I were a partnership, both working toward the same goal, my parents had different goals in life. More importantly, they had different levels of risk tolerance. My mother was very ambitious. She would set a goal, reach it, and use it to leapfrog to a bigger goal. Sometimes it worked out and sometimes things got tough. When I was a kid, we ended up selling our house and moving into one of my mother’s apartments; this was after she parlayed a sewing job where she was paid by the piece into buying a vacant lot, building one duplex, then another and another, selling and buying until she owned a 60-unit apartment building in Brooklyn. There were constant challenges—the Great Depression, lawsuits, avaricious partners, bad lawyers, tenants who didn’t want to pay rent—but my mother had a voracious capacity for risk. Every setback led to her regrouping and rebuilding.

My father, on the other hand, had much less tolerance for risk. He was incredibly successful and sought-after in his field of fashion design. He had started in the business by sweeping factory floors and worked his way up to the height of the industry. He made enough money working during “the season” that he was able to take more than half the year off entirely. Where my mother was happiest in a tense negotiation, my father was at peace listening to opera and sipping wine. Where risk

energized my mother, it ate away at my father, and ultimately, while they remained married, they had to separate.

Whether you are choosing business partners or life partners, you should take into account the capacity you each have to tolerate risks. It's not that one of you is right and the other is wrong; it's that as human beings we make different decisions when we're afraid than we do when we're not. Understanding your own and other people's risk tolerance allows you to understand why they do what they do, possibly anticipate potential problems before they become dire, and in general make better decisions. All of which will help you make money no matter what you do.

One way to balance return on investment with less risk (not "no risk"—remember not to trust anyone who tells you there's no risk!) is to plan to get rich *slowly*.

What Is Inflation?

Inflation is what we call it when the cost of goods and services increases over time. That rate varies tremendously. According to the U.S. Bureau of Labor Statistics, the average rate of inflation was 3.4 for the year 2000, 0.1 for 2015, and a whopping 8.0 for 2022. As I write this, the average rate of inflation is 2.9 (July 2024).

Practically speaking, it means that a loaf of bread cost \$0.28 in 1974, and now in 2024—fifty years later—that same loaf of bread would cost about \$1.83. In other words, if you're on a fixed income, your money will buy less and less over time. You must take this into account as you plan your future

Get Rich Slowly

Do not try to get rich quickly.

The level of risk involved in “get rich quick” schemes is tantamount to gambling. Not necessarily because of the opportunity itself, although many are either cons or actual gambles, but because of the psychology behind the “get rich quick” mindset. We are tempted to put our money on the long shot at the horse race for a number of reasons. Maybe we believe we know more about the horses/racecourse/jockeys than anyone else. Perhaps we get swept up in the idea of a big payout. Or we need a big payout to cover other debts; merely doubling our stake wouldn't be enough. Or someone else convinces us that everyone (or the “right” everyone) is betting on that horse, or we are actively seeking out the elation that can come from taking a huge risk.

Arrogance, naivete, desperation, greed, following the crowd, seeking emotional highs . . . all of these are the wrong reasons to bet on a horse, and they are the wrong reasons to make an investment.

Here's a lesson you can learn from my mistakes. Very early on in life, before I married Bernice, I started day trading on the stock market. I did pretty well, winning more than losing, and yes, I'm using that language—the language of gambling—deliberately. Every day before going to work, I would stop in at a broker and make day trades. It was exciting! I had visions of getting rich quickly. You know how this is going to turn out, right? One day, the market dropped. I had a margin call, and the broker sold the stock. I was pretty much wiped out in that one transaction.

So much for day trading.

You should take note of the lesson I learned from this. I did NOT learn to never invest in the stock market. That would have been the wrong lesson, though it may be the first one to spring to mind. What I learned was to not GAMBLE on the stock market. Don't use it to get a little excitement in your life. Don't expect to get rich in one fell swoop. It can be hard to resist. The energy of the stock market is amazing; the potential for growing your wealth is absolutely there, and it is easy to get caught up in the excitement of the moment, in the frenzy.

But that day taught me that I was going about it the wrong way. I needed to learn how the market worked. I needed to learn from people who were smart and experienced stock market professionals, just as I learned how to read contracts and negotiate deals from my mother. And I needed to start from the bottom, like my father, and work my way up.

Let me take this moment to say what an amazing country we live in, where all of this is even possible. I remember my mother saying, “Only in America!” And it’s true. We have a freedom denied to so many others, and that is the opportunity to make our own lives better. To be the people we want to be. I have so many friends from other countries who remain skittish; they don’t dare to take risks, to invest, even to build anything because they are afraid it will be taken from them. I’ve never had that fear. Born in America, I very much appreciate our legal system, our rights of property, our ability to be active participants in the market and not just cogs in a machine. Are there problems with the system? Of course. But we continue to work them out. And no other system offers the same freedom of opportunity, allowing people to build bigger lives than the one they were born into.

The essence of America, that which really unites us, is not ethnicity or nationality or religion. It is an idea. And what an idea it is: that you can come from humble circumstances and do great things.

—Condoleezza Rice

My mother was right. Only in America.