The Wealthy Habit

Be the boss of your money and buy back your time.

I am not a financial planner or an investment adviser. This is education, not financial advice, and none of it accounts for your situation. Everyone is at a different stage, so take the principles and check the specifics with someone who knows your numbers.

Before any of the money, a thought experiment. Draw a person. Give him a fire and some open country, shelter from weather and animals, food, and a companion. Is that a complete life? It is close. They can live and work and argue and sing, raise children, solve problems, learn things. Now extend it: they win five hundred million dollars. Mansion, cars, staff, nannies, nothing they are obliged to do, and they can lie in bed watching films all day if they like. Are they happier? Research and experience both say no.

So the question is not how to get rich. It is what money is actually for. The ingredients of a contented life are mostly free: freedom, faith, community, friendship, health, purpose. Notice what is not on that list. Children know this and most of us unlearn it.

Money is stored life

- Everyone knows time is money. The reverse is the one that changes decisions. **Money is time,** because money buys back hours you would otherwise have to sell.
- Think of it as a battery. The transmission goes out and you discharge the emergency fund instead of taking the hit. You lose a job and three to six months of expenses carries you. When the battery produces more than you spend, you are off the grid, and that is what financial independence is.
- If a stipend arrived tomorrow that covered your life, the interesting question is not what you would buy. It is how you would spend your hours, and whose hours in your household would change.
- **Debt is the same equation with the sign reversed.** You owe part of your future life, which is what it means that the borrower is servant to the lender. It changes your psychology before it changes your balance sheet. You need the job, so you absorb whatever comes, and you call it the daily grind.
- **Wealth is what you do not see.** When a singer who had nearly spent herself broke sued her financial adviser, he asked whether it had really been necessary to tell her that if you spend money on things, you end up with the things and not the money. Yes, people do need telling. Most who say they want to be a millionaire mean they want to spend a million dollars, which is the opposite.

Woody Allen put the practical half of it best: money is better than poverty, if only for financial reasons. And the other half is that the less you need, the easier freedom is to reach. I tell my children that not wanting it is as good as having it, because lifestyle is a choice rather than a fact. Thoreau said his greatest skill had been to want but little. If you can live on less and still be satisfied, and the sources of real contentment are free anyway, you shorten the road considerably.

The road nobody actually chose

Imagine buying a GPS, switching it on, and simply driving wherever the manufacturer had preset. Ridiculous. And yet the default financial route is fully mapped, and most people follow it exactly. Thirty to a hundred thousand in loans for a degree, because the money is easy and everyone signs. A first job that feels like a fortune. A car loan, generously spread over sixty months. Credit cards, for convenience, with the subscriptions attached and one-click enabled so the things simply arrive. A wedding, because it happens once. Two incomes, because nobody lives on one. Then a house, because renting is throwing money away and prices are rising. Then the forever house, a stretch, but you qualified and the broker seemed like a smart guy. Then the furniture, the lawn service, the cleaner, because who wants to spend the weekend on it. Then two upgraded cars, because you have an important job and cannot be breaking down. Then the boat, because the neighbors have one and it is family time. Twenty years on, you have arrived.

- 63 percent of adults live paycheck to paycheck. 47 percent of cardholders carry a balance, and 61 percent of those have carried it more than a year.
- The personal saving rate is under 3 percent of disposable income.
- 32 percent of households with a worker over 55 have no retirement savings and no pension. Median net worth for that group is about nine thousand dollars.
- Only 30 percent of Americans say they could pay a thousand-dollar emergency out of savings.

Some of that is not your fault. An entire industry exists to make borrowing frictionless, which is a politer word than slippery, and you can almost feel the water at your back. But before you build a tower you are meant to sit down and count the cost. There was a time you had to have the money before you began. Borrowing means working out how much of your future the loan takes, and nobody does that arithmetic at the desk.

Count it in hours

The cost of a thing, Thoreau wrote, is the amount of life which is required to be exchanged for it. At a median income near $85,000, an hour of your life is about $41.

What it really costs

A $400,000 mortgage at 6.69% over 30 years repays $928,224, or 22,640 hours. A $38,000 student loan repays $59,580, or 1,453 hours. A $44,000 car at 7% over 72 months repays $54,018, or 1,318 hours. A $6,700 credit card balance at 24.5% costs $23,789, or 580 hours.

What that adds to

25,991 hours. That is 12.5 working years, and closer to 40 years of life once you account for the share of income that goes to debt. What if the car loan application read: by signing below, you will owe 1,318 hours of your life.

Personal finance is mostly personal

- Call it 80 percent behavior, 20 percent math. Anyone can teach the vocabulary and the arithmetic. Nobody changes your behavior except you and the person in the mirror.
- The math does not negotiate, and people keep trying to invent new math, usually by spending the same unexpected money three times. You do not have to be a genius. You have to avoid a small number of large mistakes, and the two that decide most outcomes are the house and the cars.
- **House.** The wrong number is whatever you qualify for. The right one is a mortgage of two to three times annual income. On $100,000 that is a $200,000 to $300,000 loan, or a $250,000 to $375,000 home at 20 percent down. Buy the smallest house you can comfortably live in, pay it off, and stay. A house is not an investment, it is your largest expense.
- Where the market will not cooperate, and along the Wasatch Front it does not, the rule wants about $159,000 of income against an actual median near $101,000. Four honest options remain: rent longer and save, buy less house, change location, or break the rule knowingly. Drifting into it without admitting it is the only bad one.
- **Cars.** Everything with a motor adds to no more than 30 percent of annual income, and you pay cash. Borrowing for something losing value while you pay interest on it is a loss twice over. The reason you are not a millionaire may be sitting in your driveway.

Where the money actually goes

Before any plan, two things most people have never looked at squarely.

- **Take an inventory.** Write down every financial account you have: checking and savings, every credit and store card, every debt, and every investment account. Most people cannot complete this list from memory, which is itself the finding.
- **Look at what leaves before you see it.** Federal and state income tax, local tax, Social Security at 6.2 percent, Medicare at 1.45 percent. A large share of your income is gone before you can make a single decision about it, which is why a dollar saved can be worth close to two earned, and why a refund is a return of your own money rather than a bonus. As Bill Murray had it, the best way to teach your children about taxes is to eat thirty percent of their ice cream.

Then look at what two ordinary decisions do to the same income. Take a household on $100,000, roughly $75,000 after tax. With a $300,000 house and $30,000 of cars, housing runs about $23,400, vehicles about $12,000, living costs about $25,000, and roughly $14,600 is left for saving and giving. Move to a $500,000 house and $60,000 of cars and housing takes $38,800, vehicles take $22,700, and the arithmetic no longer closes. Nothing dramatic happens next. They stretch the auto loans to 84 months, skip the health savings account, drop the retirement contribution, defer the roof, and start carrying a balance. Nobody decided to stop saving. They decided on a house and two cars, and stopping saving was the math.

Eight steps

1. **Give first.** Tithing, charity, whatever form it takes for you. Taking it off the top before anything else sets the tone for everything after it, and it is a values decision rather than a mathematical one.
2. **Build an emergency fund,** three to six months of expenses, not income, held separately. An emergency is unexpected, necessary, and urgent. Christmas is none of the three, and neither is a good deal on something you do not need.
3. **Write a money plan.** Most people run income minus expenses equals savings, which leaves savings whatever survives, the dregs of the barrel. Rearrange it: **income minus savings equals expenses**. Identical equation, completely different life, because expenses are now constrained to what remains.
4. **Protect what you have.** The point is to avoid ruin, so insure the big things: income, health, home, auto. Skip the narrow policies. Buy term rather than cash value, and shop direct.
5. **Attack the debt.** Smallest balance first, then roll each freed payment into the next one.
6. **Right-size the big purchases,** by the house and car rules above.
7. **Get a financial education.** Putting it off fails. Handing it entirely to a money guy usually disappoints. Advice is not worthless, but over thirty years the fees can run to a million dollars, so you should know what you are buying.
8. **Invest wisely.** Save 15 to 20 percent of take-home, automate it, max the tax-advantaged accounts, use low-cost index funds, keep expense ratios under 0.20 percent, and write the plan down.

Save a thousand dollars a month for thirty years at 7 percent and watch what happens. For the first decade essentially nothing does, because everything you can see is your own deposits. You conclude that this saving business is broken. Around year fourteen the curve begins to lift, and from twenty to thirty it does the real work. Almost everyone who quits, quits during the flat part. Automation is how you do not, and it may be the single highest-value afternoon of work available to you.

Two things sink this, and they are opposites. The first is a boat with no compass: plenty of motion, no idea where it is going. The second is a boat with no engine: pointed correctly and going nowhere. Vision without a plan and a plan without action fail in exactly the same amount.

TRY THIS

- List every account you have. Most people cannot do this from memory.
- Automate one transfer this week, even at twenty five dollars.
- Price your next large purchase in hours of your life.
- Book a monthly money hour on the calendar.
- Pick one book or one course and actually start it.

The goal is not to die with the most. It is to die with the least left unlived. Spend on experiences while you can still have them, and give while it still changes someone's life.

Resources

The check-up: where are you?

- **Life support.** Giving consistently, a thousand dollars set aside, cards paid in full monthly, a written plan.
- **In-patient.** All vehicles worth under half your annual income, home loan under 3.5 times income, disability insurance, one financial book read.
- **Urgent care.** Getting the full employer match, saving at least 10 percent, three to six months of expenses banked.
- **Off the couch.** Savings automated, student loans gone, net worth calculated and tracked.
- **Athlete.** Investing 15 percent or more, automated monthly, tax-advantaged accounts maxed, written investment plan, expense ratios under 0.20, your financial independence number calculated.
- **Olympian.** Mortgage paid off, investments worth 25 times annual expenses, a generous giving plan, more than one stream of income.

Tracking tools

- Pen and notebook, which still beats an app nobody opens
- Tiller, spreadsheets with bank feeds
- YNAB, best for changing behavior
- Monarch, budget and net worth together
- Empower, free investment tracking

Reading

- *The Simple Path to Wealth*, JL Collins. The shortest honest answer to what should I invest in.
- *The Psychology of Money*, Morgan Housel. Why the behavior half is the hard half.
- *The Bogleheads' Guide to Investing*. The reference volume.
- *Die With Zero*, Bill Perkins. The other side of the trade, on converting the money back into life.

Courses and sites

- bogleheads.org and whitecoatinvestor.com, both free and both deep.
- Podcasts: *Money for the Rest of Us* and *The Long View* for investing, Dave Ramsey and Jesse Mecham for debt and habits.

Theme: wealth. From my course *Healthy, Wealthy, and Wise*. The companion sessions are on daily habits, health, and continued learning.