MEETING THE AUTOMATIC MILLIONAIRE

By David Bach

I'll never forget when I met my first Automatic Millionaire. I was in my mid-twenties and was teaching an investment class at a local adult-education program. Jim McIntyre, a middle-aged middle manager for a local utility company, was one of my students. He and I hadn't spoken much until one day when he came up after class to ask if he could make an appointment with me to review his and his wife's financial situation. The request surprised me. Though I felt strongly (and still do) that just about everyone can benefit from the advice of a qualified financial planner, Jim didn't strike me as the type who would seek it out.

I told him I'd be happy to set up a meeting, but if he wanted my help, his wife would have to come too, as my group managed money only for couples who worked on their finances together. Jim smiled. "No problem," he said. "Sue's the reason I'm here. She took your *Smart Women Finish Rich* seminar and told me I should sign up for your course. I've liked what you've had to say, and we both figure it's time to do some fi- nancial planning. You see, I'm planning to retire next month." Now I was really surprised. I didn't say anything, but as I looked Jim up and down, I doubted he could be in a position to retire. From the few comments he had made in class, I knew he was in his early fifties and had worked for the same company for thirty years, never earning much more than $40,000 a year, and didn't believe in budgets. I also knew that he considered himself to be "ultraconservative," so I figured he couldn't have made a fortune in the stock market. My Grandma Rose Bach had taught me never to judge a book by its cover. But something didn't add up. Maybe Jim had just inherited a lot of money. For his sake, I hoped so.

"WHAT AM I MISSING HERE?"

When the McIntyres came into my office a few days later, they looked exactly like what they were: hardworking, "average Joe" Americans. What has stuck in my mind about Jim is that he was wearing a short-sleeved dress shirt with a plastic pocket protector in his breast pocket. His wife, Sue, had a little more flair, with some seriously blond highlights. She was a beautician, a couple of years younger than Jim. The thing was, they didn't act like middle-aged people. They were holding hands like two high school kids on a first date, bubbling with excitement. Before I could ask how I could help them, Jim started talking about his plans and what he would do with his free time. As he did, Sue kept exclaiming, "Isn't it great he can retire so young! Most people can't retire until they reach sixty-five if then, and here's Jim able to do it at fifty-two!"

"LET'S NOT GET AHEAD OF OURSELVES."

After ten minutes of this, I had to interrupt. “Guys, your enthusiasm is contagious, but let’s not get ahead of ourselves here. I’ve met with literally hundreds of potential retirees over the last few years, and I have to tell you—hardly any of them have been able to retire in their early fifties.” I looked Jim in the eye. “Usually people come to my office to find out *if* they can retire,” I said. “You already seem to be sure you can.What makes you so certain you can afford to?” Jim and Sue exchanged a look. Then Jim turned back to me. “You don’t think we’re rich enough,” he said, “do you?” The way Jim put it, it wasn’t exactly a question. “Well, that’s not the way I would have phrased it,” I replied, “but yes, it takes a fair amount of money to fund an early retirement, and most people your age aren’t even close to having saved enough. Knowing what I do about your background, I’m truthfully curious about how you could possibly have enough money.” I looked him in the eye. He gazed back at me serenely. “Jim, you’re only fifty-two.” I said. “Considering that only about one in ten people can barely afford to retire at age sixty-five with a lifestyle equal to what they had when they worked, you have to admit that retiring at your age with your income would be a pretty big feat.” Jim nodded. “Fair enough,” he said and handed me a sheaf of documents. They included his and Sue’s tax returns as well as financial statements that listed exactly what they owned and owed. I looked first at their tax returns. The previous year, Jim and Sue had earned a total of $53,946. Not bad. Not rich, to be sure, but a decent income. Okay, next. How much did they owe? I scanned their financial statements. I couldn’t find any outstanding debts listed. “Hmm,” I said, raising an eyebrow. “You have no debt?”

“THE MCINTYRES DON’T DO DEBT.”

They exchanged another smile, and Sue squeezed Jim’s hand. “The McIntyres don’t do debt,” she said with a chuckle. “What about your kids?” I asked. “What about them?” Jim answered. “They’re both out of college, on their own, and God bless ’em.” “Well, all right then,” I said, “let’s see what you own.” I turned back to the financial statement. There were two homes listed: the house where they lived (valued at $450,000) and a rental property (a second house valued at $325,000). “Wow,” I said. “Two houses and no mortgage on either?” “Nope,” Jim replied. “No mortgage.” Next came the retirement accounts. Jim’s 401(k) balance currently amounted to $610,000. And there was more. Sue had two retirement accounts of her own that totaled $72,000. In addition, they owned $160,000 in municipal bonds and had $62,500 in cash in a bank savings account. Talk about a substantial asset base. Add in some personal property (including a boat and three cars—all fully paid for) and they had a net worth approaching $2 million! By any standard, the McIntyres were rich. It wasn’t simply that they owned a lot of assets free and clear (though that in itself was pretty impressive); they also had a continuing stream of income in the form of interest and dividends from their investments and $26,000 a year in rent generated by their second house. On top of that, Jim had qualified for a small pension, and Sue liked being a beautician so much that she planned to keep working until she was sixty (even though she didn’t need to). Suddenly, Jim’s plan to retire at fifty-two didn’t seem so crazy. In fact, it was completely realistic.More than realistic—it was exciting!

“WE INHERITED KNOWLEDGE.”

Normally, I don't get wide-eyed about people's wealth. But there was something about the McIntyres that impressed me. They didn't look rich. And they didn't seem terribly special. To the contrary, they seemed perfectly ordinary—your average, nice, hardworking couple. How could they have possibly amassed such wealth at such a relatively young age? To put it mildly, I was confused. But I was also hooked. I was in my mid-twenties at the time, and even though I was making good money, I was still basically living paycheck to paycheck. Some months I did manage to save a little, but more often than not I'd get busy or spend too much the next month and not save a dime.Many months it seemed that instead of getting ahead, I was falling behind, working harder and harder to make ends meet. It was embarrassing, really, and frustrating. Here I was, a financial advisor teaching others how to invest, and I was often struggling myself. Even worse, here were the McIntyres, who probably in their best year barely made half of what I was making, and yet they were millionaires, while I was falling further and further into debt. Clearly, they knew something about taking action with their money that I needed to learn. And I was determined to find out what it was. How could such regular people have amassed such wealth? Eager to know their secret but not knowing where to begin, I finally asked them, "Did you inherit any of this?"

Jim broke out in a deep belly laugh. "Inherit?" he repeated, shaking his head. "The only thing we inherited was knowledge. Our parents taught us a few commonsense rules about handling money.We just did what they said, and sure enough it worked. The same is true for a lot of people we know. In fact, in our neighborhood, about half our friends are going to retire this year, and many of them are even better off then we are." At this point, I was hooked. The McIntyres had come to interview me about how I could help them, but now I wanted to interview them.

LOOKING RICH VS. BEING RICH

"You know," I said, "every week I meet people who take my classes like you did but who are exactly the opposite of you. I mean, they look rich, but when you get into the details of what they really have, it often turns out that they are not only *not* rich but broke. Just this morning, I met with a man who drove up in a brand-new Porsche, wearing a gold Rolex watch. He looked loaded, but when I went through his statements I found he was actually leveraged to the hilt. A guy in his mid-fifties, living in a million-dollar home with an $800,000 mortgage. Less than $100,000 in savings, more than $75,000 in credit card debt, and he was leasing the Porsche! Plus he was paying alimony to two ex-wives." At this point, the three of us couldn't help ourselves. We all began to laugh. "I know it's not funny," I said, "but here was this guy, looking rich and successful, and actually he's a financial and emotional wreck. He handled his finances just like he drove his Porsche: redlining all the way. Then you guys come in. You drive up in a Ford Taurus. Jim here is wearing a ten-year-old Timex—" "Nope," Jim interrupted with a smile. "It's an eighteenyear- old Timex." "Exactly!" I said. "An eighteen-year-old Timex. And you're *rich*.You guys are happy as clams, still married, two great kids you put through college, and you're retiring in your mid-fifties. So please tell me—what was your secret? You must have one, right?" Sue looked me straight in the eye. "You really want to know?" she asked. I nodded wordlessly. Sue looked at Jim. "You think we can spare an extra fifteen minutes to explain it to him?" "Sure," Jim said. "What's fifteen minutes?" He turned to me. "You know, David, you already know this stuff. You teach it every day.We just lived it."

JIM AND SUE SHARE THEIR STORY

Sue took a deep breath, then launched into their story. "Well, first, we got married young. Jimmy was twenty-one when we started dating, and I was nineteen. We were married three years later. After our honeymoon, both of our parents sat us down and told us together that we needed to get serious with our lives. They said we had a choice. We could work all our lives for money and live month to month, paycheck to paycheck, like most people. Or we could learn to make our money work for us and really enjoy our lives. The trick, they said, was simple. Every time you earn a dollar, you should make sure to pay yourself first."

"WE DECIDED TO PAY OURSELVES FIRST."

Jim nodded in agreement. "You know," he said, "most people think that when they get their paycheck, the first thing they should do is pay all their bills—and then if there is anything left over, they can save a few dollars. In other words, pay everyone else first and yourself last. Our parents taught us that to really get ahead of the game, you have to turn this around. Put aside a few dollars for yourself, THEN pay all your other bills." He sat back in his chair and shrugged, as if to say, "No big deal." Sue smiled and shook her head. "Jim makes it sound easy," she said, "but the truth is we had to learn how to save our money. In the beginning, we tried to put ourselves on a budget, but somehow the numbers never added up and we started fighting a lot. One day I called my mom, upset because of a money fight we'd had, and she told me that budgeting didn't work. She said she and my dad had tried it and all it had led to was endless arguments. So they decided to toss the budget and instead take 10 percent of their pay out of their paychecks and put it in a savings account before they ever saw it or had a chance to spend it on anything. 'You'd be surprised how quickly you get used to doing without that 10 percent,' she told me. 'And meanwhile it's piling up in the bank.' The secret, she explained, is that you can't spend what you don't see. "So that's what we did. We originally started by putting aside just 4 percent of our income and slowly increased the amount. Today, we save 15 percent. But on average we always saved about 10 percent, just like Mom said." "And what did you do with your savings?" I asked. "Well," Sue said, "the first thing we started saving for was our retirement." "You know, back then we didn't have 401(k) plans," Jim broke in. "But a lot of companies, including mine, had pension plans that allowed you to contribute extra money if you wanted to. Most of our friends didn't bother. But we did." Sue took up the story again. "After that, our next priority was to put aside enough so we could buy a home. Both our parents told us that their homes had been the best investments they had ever made—that nothing gives you freedom and security like owning a home. But the key, they said, was owning it free and clear. In other words, you pay off that mortgage as quickly as you can. "They said that while our friends were busy splurging on decorating their apartments and eating lunch out every day, we should be watching our spending and saving as much as we could. They made a big point about how so many people waste big money on small things." She looked at Jim. "You remember that, honey?" she asked. "I sure do," Jim replied. He turned to me. "You know, the trick to getting ahead financially isn't being cheap and boring. It's watching the small stuff—little spending habits you have that you'd probably be better off without. In our case, we realized that one of the main 'small stuff ' things we were spending too much money on were cigarettes. We both smoked about a pack a day and our parents hated it. Back then, the health risks were just beginning to be publicized, and they pointed out that if we stopped wasting money on cigarettes we could probably save enough in two years to make a down payment on a home. And we'd be saving our health in the process."

"WE WATCHED OUR LATTE FACTOR."

Jim leaned forward in his chair. “You know that concept in your seminars that you call The Latte Factor, where you teach people to stop wasting money on expensive coffee each morning and instead invest it?” I nodded. “Well, my dad didn’t call it that, but it was the same thing. He could have called it the Cigarette Factor or the ‘Don’t be dumb with your money’ factor. The idea was identical. If we saved a few dollars a day, we could eventually buy our own home. He said if we rented we would always be poor, making someone else rich. If we bought a home, we’d eventually make ourselves rich.” “That’s it?” I asked. “You saved some money by cutting out cigarettes and bought a home?” I looked at Jim and Sue. They smiled back at me and nodded. “But how did you end up with two homes, both mortgage-free?” “Well, we don’t really have two homes,” Sue said. “We’ve got one home and a rental property. That was another part of the secret.” Jim took up the story. “Our parents taught us a trick that makes it easy to pay down your mortgage early. It’s a trick they said the banks would hate but we would love, and they were right. These days it’s easier than ever. What you do is take your mortgage payment and instead of paying it in full once a month, you pay half every two weeks. You do that consistently, and by the end of the year you’ve made a whole extra payment without ever feeling the pinch. So instead of taking thirty years to pay down your mortgage, you’ll have the thing paid off in twenty-three years. We figured that by following this plan we could buy a home in our mid-twenties and own it free and clear by the time we were in our late forties. What actually happened was even better. We ended up making even more extra mortgage payments on a consistent basis. So by the time we were in our late thirties, the house was pretty well paid off.” “So then what?” I asked. “Then we didn’t have any more mortgage payments to make, and without them, we had all this extra money each month.” Jim grinned at me.“We figured either we could waste it or we could buy a nicer house and rent out our first one. So that’s what we did, using the same trick with the payment schedule to pay off the mortgage faster. Bingo—next thing you know, we own two homes free and clear: one to live in, the other to rent out for a nice, steady stream of extra income.” “Good plan,” I said.

Jim nodded vigorously. “Another thing Sue’s mom and dad taught us was never to buy on credit,” he said. “They had a strict policy, which they passed along to us, and which we’ve passed along to our kids: No matter how big they are, you pay for your purchases with cash or you don’t buy. The only exception is buying a house, and, like Sue said, you pay off the mortgage as quickly as you can. It’s not always easy, but that’s the rule.” “That’s right,” Sue chimed in. “It took Jim five years of saving to be able to buy that boat of his.” “And even then, I chose to buy a used one,” he added. “But that’s okay. I was perfectly happy to let someone else make the mistake of buying it new at full price—and then letting me have it for a fraction of what he paid. We did the same thing with all our cars.We always bought used, and never regretted it. You have the car checked out by a reliable mechanic, take good care of it, and it’ll run just fine.” “The point is,” Sue said, “if we didn’t have enough cash to buy something, we didn’t buy it. The entire time we’ve been married, we’ve never carried credit card debt.When we used the cards, we paid them off the same month. That was another tip our parents gave us that they said we’d love and the banks would hate.”

THE MOST IMPORTANT SECRET

I sat back in my chair, amazed at how simple the McIntyres made it all seem. There had to be a catch. I thought about it for a moment, and then I realized what it was. "Everything you're talking about," I said, "it all makes sense. Cutting out wasteful spending, accelerating your mortgage payments, paying yourself first, buying only with cash, avoiding credit card debt—you're absolutely right. These are all things I teach in my seminars. But to put it all together the way you have must have taken phenomenal will power. Seriously, my hat is off to you. I wish everyone had the kind of self-discipline you guys clearly possess. Unfortunately, most of us don't. I guess that's why most people never become rich the way you have." Once again, Jim and Sue exchanged glances. They both smiled, and Jim gestured for Sue to explain.

YOU DON'T NEED WILL POWER OR DISCIPLINE

"But that's just the point," she began. "We *don't* have phenomenal will power. If following our parents' tips had been a matter of self-discipline, I don't think we would have done nearly as well as we have." "I don't think we would have done well at all," interrupted Jim. "I mean, Sue has some self-control, but me—forget about it." Now I was really confused. "I don't get it," I said. "If you don't have any special self-discipline, how did you do it? After all, we live in a society in which advertising and entertainment —even the government—are constantly bombarding us with temptations to do exactly the opposite of everything your parents taught you to do. So how did you resist? How did you get yourselves to stick to all those rules in the face of all that temptation?"

I was asking out of more than just professional curiosity. As I said, I was in my mid-twenties at the time, and I was personally finding it incredibly hard to be disciplined enough to save the kind of money I knew I should be saving.My intense desire to know must have shown in my face, because both Jim and Sue suddenly burst out laughing. After a moment, I joined in too. "You know, David," Jim said finally, "we have a daughter who's just a little bit younger than you. So believe it or not, we do understand how hard it can be to be disciplined about saving money when you're in your twenties. But that's the beauty of our approach. It doesn't require discipline." I gave him a doubtful look. "I'm not surprised you're skeptical," Jim said. "It's so simple and obvious that even someone who knows as much about money as you do has a hard time seeing it. Here's the thing. Let's say you know you should do something, but you're afraid you may be tempted to do something else. How can you make sure you do the right thing?" Jim looked at me. I shrugged. "Like I said," he continued, "it's simple and obvious. You take the decision out of your hands. You arrange to have the thing you should do happen automatically." "Remember what I was telling you before, about how we started paying ourselves first?" Sue interjected. "What we did was arrange to have a portion of our pay automatically taken out of our paychecks and put in a savings account. The key thing was that it was all automatic. Once we'd set it up, we didn't have to do a thing. It was out of our hands—literally." "Of course," I said. "It's just like the systematic savings and investment programs I talk about in my class. Except you apply it to every aspect of your finances."

"Exactly!" Jim exclaimed. "If you don't have to think about it, there's no chance you'll forget to do it—or, worse, change your mind and deliberately *not* do it. Once the decision is out of your hands, there's no way you can be tempted into doing the wrong thing."

"WE DECIDED TO BECOME AUTOMATIC MILLIONAIRES."

It was Sue's turn again. "Our parents called it protecting yourself from yourself," she said. "We didn't have to worry about having any special will power, because we really didn't have to do anything except decide at the beginning that we wanted to be rich. With the help of this great thing called 'payroll deduction,' we made everything automatic. We created a literally foolproof automatic system to achieve wealth. "We had Jim's company take money out of his paycheck and invest it in his retirement account. We handled our accelerated mortgage payments in a similar fashion. The minute the banks started offering automatic transfer programs, we got ours to take our monthly mortgage payment— plus a little extra—right out of our checking account without our having to do or say anything. We also used a systematic deduction scheme to automatically invest a portion of both our incomes in mutual funds. Eventually, we even automated our tithing.We always used to give a little each year to charity, but as time went on we realized how simple it would be to make the process automatic."

"Understand," Jim said, "we're not talking about huge amounts of money. At the beginning, I was having less than fifty dollars a month deducted from my paycheck. But over time it really adds up." I glanced down at the McIntyres' financial statements,with their seven-figure net worth. "You're not kidding," I said. "It really is remarkable." Sue McIntyre shook her head. "That's where you're wrong," she said quietly. "It's not remarkable. If we can do it, anyone can do it. By deciding to be rich at a young age, and then, by creating an automatic system for wealth, we made it impossible to fail. It's like the Nike slogan, with a twist. They say, 'Just do it.'We say, 'Just do it . . . once.'When it comes to money, all you have to do is automate your system and you're done."

Jim nodded in agreement. "You know, back when we started, the technology of doing things automatically was new and most of our friends didn't trust it. But today, it's a no-brainer. I mean, with all the programs they have now, you can automate everything you do financially in literally minutes. Our daughter Lucy got everything set up for herself in less than half an hour. Now she's all on her way to becoming an automatic millionaire just like us." "And don't think," Sue said, laughing, "that you have to be a couple of old fogies like we are to make it work. You'll excuse a mother for bragging, but our Lucy happens to be a very stylish young lady. No Timex on *her* wrist." "Yeah." Jim grinned. "She's got one of those Swatches. Very fashionable and all, but not ridiculously expensive." "And that's the point," Sue said. "You can save and still have fun and look great. You don't have to become a stick-in-the-mud in order to get rich. We certainly weren't. We've had a blast together the last thirty years, as much fun as our friends, if not more, because our lives have been free from the stresses of worrying every day about money."

The McIntyres left my office the way they came in, hand inhand, looking forward to their future together with all the excitement of a newlywed couple. I sat at my desk for a long time, thinking about what they had told me—especially Jim and Sue's parting words. The key, they said, was to "set yourself up for success."Why make getting rich hard, they said, when you can make getting rich easy? They were right, I realized. As long as you know what to do and can arrange to do it "automatically," anyone can become an Automatic Millionaire. That session with the McIntyres was a turning point in my life. It made me realize the one crucial step to creating a lasting, positive change in the way you handle your money.

MAKE IT AUTOMATIC!

As a result of what I learned that day with the McIntyres, I automated everything I was doing financially. And you know what? It worked. Today, I too am an Automatic Millionaire.

NOW IT'S YOUR TURN

The story of the McIntyres and how they got rich without discipline by amassing wealth slowly and steadily can become your story. To find out how, turn the page and continue reading. You are a few hours away from a new way of thinking and a new way of handling your hard-earned money. You are on your way to becoming an Automatic Millionaire.