SAFELY PROSPEROUS OR REALLY RICH?

CHOOSING YOUR PERSONAL FINANCIAL HEAVEN

HOWARD RUFF

BESTSELLING AUTHOR AND PUBLISHER OF *THE RUFF TIMES*

FOREWORD BY

ROBERT ALLEN

BESTSELLING AUTHOR OF *MULTIPLE STREAMS OF INCOME* AND *NOTHING DOWN*

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Foreword

Robert Allen

Author of *Nothing Down,* the best-selling real estate book in American publishing history, as well as the best sellers *Creating Wealth* and *Multiple Streams of Income,* and the 2003 best seller, *The One-Minute Millionaire*

Before me and my ideas, there was Howard Ruff and his ideas, inspiring me and millions of other entrepreneurs and investors in America.

I've known Howard personally and professionally for many years. Everyone should have a friend like Howard. He was there for me when I was going through some serious crises. He believed in me even when I wasn't sure I believed in myself. Professionally, I have always admired his work. His writing and speaking are always clear, direct, and simple, so no one is ever left wondering what he's talking about. He has always been a highly principled man, and his old-fashioned views on ethics, faith, and family as they relate to money have always been a breath of fresh air.

I subscribed to and faithfully read Howard's financial newsletter, *The Ruff Times,* greatly valuing his counsel and often putting it to work in my own life and businesses.

I read with great interest his 3-million-selling *How to Prosper During the Coming Bad Years,* and was blown away by how right on he was at that time. I was also amazed that he could sell 3 million books. My first book, *Nothing Down,* had just been released, and I was hoping for similar success.

As fellow Californians, Howard and I crossed paths often, sometimes attending or speaking at the same events. I was always impressed with his take on the financial world and what it meant for Main Street America. When Wall Street was saying one thing, Howard was usually saying another—and he was usually right.

Howard Ruff was one of America's first franchise millionaires, buying a speed-reading franchise and brilliantly marketing it into a booming business that rivaled the parent company, which used Howard's marketing materials as its own.

Howard Ruff was one of the first businessmen of stature to legitimize network marketing in America, an industry now responsible for more millionaires than any other (and one I advocate and participate in myself).

Howard Ruff wrote, produced, and distributed one of the largest financial newsletters in the history of American publishing—*The Ruff Times*—which has had a cumulative total of 600,000 subscribers over the past two-and-a-half decades, a success no other financial newsletter has ever come close to duplicating.

Howard Ruff was personally responsible in part for the 1980s gold and silver rush in America, accurately predicting the time to buy and sell, which made untold millions for investors who can trace their fortunes back to Howard Ruff.

Howard Ruff is personally responsible for saving those who listened from financial ruin when he accurately predicted the recent dot-com stock market collapse.

Howard Ruff is a marketing genius. He was the first newsletter marketer to utilize the self-return mailer, courageously mailing it to millions of people at a time with great success—an idea I and others also used in our businesses with great success. In fact, my company never did a mailing for which we did not rent Howard Ruff's mailing list, which always pulled well for us, because Howard had such a large and loyal fan base (which inspired me to keep track of and take care of my own mailing list).

Howard Ruff is a media darling, appearing on every major radio and television talk program in America with an aplomb that made me want to do the same each time one of my books was released.

Howard Ruff was also one of America's original financial and political radio and television commentators, with his own TV and radio shows syndicated in more than 350 markets nationwide.

PERILOUS TIMES

These are perilous times in America—and no one knows more about making money in America during uncertain times than Howard Ruff. In fact, I think Howard is more relevant today than ever before. After a decade of all the twenty-something Wall Street experts who have turned out to be dead wrong, we need a real adult to lead us forward. At age 73, with a lifetime of experiences, successes, and failures, Howard is that real adult.

Howard has watched, analyzed, predicted, profited, lost, and profited again for nearly three decades now, always shrinking it down to terms Main Street America can understand and profit or be saved from, making him one of America's most beloved and respected financial elder statesmen. I know his followers—and their posterity—are as anxious for Howard's take on the current economy and future trends as I am and welcome this, his latest, greatest work as much as I do.

This new book proves to me that, like a fine wine, Howard has only gotten better with time. Though I write and speak about wealth myself, Howard's insights here have given me some thought-provoking new perspectives to consider.

I am intrigued by Howard's unique concept of the Safely Prosperous versus the Really Rich. Howard would know: He has been both. I like how he has divided his book into two sections, the first dealing with becoming Safely Prosperous and financially secure by avoiding stupid money and investment mistakes and the second dealing with how to make the leap beyond Safely

Prosperous to Really Rich by taking the right carefully calculated risks. I've never read a book that so accurately outlines these two clearly defined paths.

Howard's brilliant concept that the roads to prosperity and riches are very different is liberating, and the true stories that illustrate this point are engrossing and compelling. I was especially moved by the story of Howard's father. The open book he has made of his life is unprecedented. In most financial books, the author would never do what Howard has done: recount with unflinching honesty the big mistakes he has made over the years so readers can avoid the same stumbling blocks and pitfalls. Only a very secure man would have the guts to do that.

I want to share a very personal experience with Howard. In my books and seminars, I talk about the down times in my career. In 1986, when my seminar company closed, I was devastated and embarrassed. Howard, who was enjoying great fame and fortune at the time, took time out of his grueling schedule to write me a personal note that read, in essence, "You'll be back and even stronger next time." That vote of confidence from a man of such stature greatly encouraged me. And he was right: I went on to build two more successful businesses and to write four more best-selling books.

Recently I was seriously injured in an automobile accident. When Howard learned of it, he immediately called my business partner, offering his love, concern, and help. That's the kind of man Howard Ruff is: brilliant at reading and analyzing and profiting from the markets, good and kind and generous to others.

I hope this book is read and applied by millions of people so they can become Safely Prosperous or Really Rich. Although not always easy, the road map Howard has laid out is clear and simple.

Acknowledgments

I'm surrounded by a veritable sea of friends, associates, and role models who have influenced me, taught me, and contributed to my personal and professional life and this book. First, there is Kay, my most recent wife (49 years and still counting). She is the stabilizing anchor in my life, and the only person in the world I'm afraid of—for fear she might be disappointed in me. As the mother of 13 children (four adopted) and numerous foster children, and grandmother of 63 (and counting), she is the quintessential earth mother. When I introduce her as Old Granny Ruff, audiences gasp, as her timeless beauty makes that the ultimate irony. She is the role model for all supportive wives.

Then there are our offspring who read this manuscript and made priceless suggestions, always looking for indications that I might be too full of myself.

Joann Allen has been my assistant for 24 years. Not only has she kept track of my schedule and managed my day-to-day personal finances, she would fall on a grenade for me. She has been a priceless contributor to this book, formatting, proofreading, and offering important insights.

Peg Fugal is a one-woman advertising agency, and was my muse at an important juncture as this book was taking form. Tom Lipscomb was the president of Times Books, and the publisher of *How to Prosper During the Coming Bad Years* in 1976. He saw its potential right off the bat, and his brilliant insights and marketing strategies helped turn it into the biggest-selling financial book in history. I again turned to him when this book was in the early development stages, and he immediately saw that I was on the wrong track. That painful counsel led me to many of the decisions that made this book what it is.

There are so many people to thank that I'm sure I will miss some, and to them I offer my apologies. There's W. Cleon Skousen; Jim Cook; Fran Perry; Terry Jeffers; Senator Orrin Hatch; former president Ronald Reagan; Neal Blair; Art Linkletter; Gary North; Jim Blanchard; my courageous mother, Rena Ruff; J. W. Marriott Sr.; Ezra Taft Benson; Robert Allen; Judy Kimball; Paul Eldredge; Sandy Broadus; my brother, Jim Ruff; Jeff Carneal; Mark Stoddard; Jay Abraham; Mike Bayback; Dan Rosenthal; Jack Anderson; Art Laffer; Dave Nemelka; Richard Russell; Mark Skousen; and countless others.

My editor, Jimmy Vines, jumped at the chance to represent me, as he had grown up in a home where his dad was a Howard Ruff fan, and dinner conversation often centered around my latest newsletter or TV show. He has been a friend and calm counselor all through the complex process of negotiating the sale of the book to a big New York publisher.

Then there's my editor at Wiley, Executive Editor Debra Englander, who saw the potential of this book and decided to take a chance on an old guy whose last blockbuster book success was a quarter century ago.

Introduction

If you are going to take my advice, you have every right to know what kind of a guy I am, so a little bit of history is appropriate. If my life bores you, you can cut right to the chase and go directly to Chapter 1.

Let's start with some of the fun stuff. My life has been so full and unusual that I cannot resist reprinting here something I wrote for fun a few years ago, right after a neighborhood barbecue when we played a game where we had to recount things we had done that we thought nobody else there had done. That fun trip down Memory Lane started my memory running wild. Enjoy!

- I traded one spool of 8-pound-test monofilament fishing line to a chief of a village in the Amazon jungle in return for two monkey-skull necklaces, a blow gun and darts, a bow and arrows, and an anaconda snake skin. After consulting with my wife, Kay, I respectfully declined the chief's offer of a night with one of his four wives in return for a second spool.

- I've walked through the dramatic story of the death of Rasputin, the Mad Monk, right on the actual murder scene in a restored palace in Leningrad.
- I've interviewed (with Jack Anderson) newly elected President Václav Havel of Czechoslovakia in Prague Palace while he was wearing Nike shoes and a UCLA Bruins sweatshirt. He had been a political prisoner until the Iron Curtain went down.
- I've visited the Forbidden City and the Great Wall in China, Machu Pichu, the Imperial Palace in Bangkok, and wild game preserves in Kenya and South Africa and have snorkeled on the Great Barrier Reef and watched great sea turtles lay their eggs and their baby turtles hatch.
- Oliver North, my Washington staff, and I persuaded Ronald Reagan to send Stinger missiles to the Afghan Freedom Fighters, which bogged down the Soviet army in Afghanistan for six years, which led to Soviet bankruptcy, which led to Gorbachev withdrawing Russian financial and military support from Eastern Europe, Cuba, and Nicaragua, which led to a breakout of freedom, which led to the crash of the Iron Curtain.
- I have sung solos with the Mormon Tabernacle Choir, the Philadelphia Orchestra, the National Symphony, and on the Ed Sullivan Show. I also performed in, conducted, or directed hundreds of performances of Gilbert and Sullivan operas; became deeply involved with the Utah Lyric Opera society as a performer, director, and general manager; and was a church choir director at age 16.
- I had my own national TV talk show and daily two-minute radio commentary in more than 300 markets.
- I was called a liar in an angry speech on the floor of Congress by Congressman Steve Neal of South Carolina, and was denounced by Pravda, Tass, and Soviet-controlled Radio Kabul as a "radical reactionary."
- I once refused a phone call from an angry President

Ronald Reagan. He swore at me, and then sent me an unsolicited, personally autographed portrait as a peace offering.

- A ruffled Jimmy Carter succeeded in knocking 50 stations off my radio syndicate by threatening them with trouble at license renewal time if they didn't cancel my show.
- I married a celestial woman, Kay. We've been through thick and thin (I used to be thin) for 49 years, probably because we have one thing in common: We're both in love with the same man!
- We have given birth to nine children, adopted four teenagers, and helped raise 18 foster children—and endured the accidental death of one child.
- I broke up an orphanage run by American pedophiles in Bangkok, which resulted in jailing them and caused an international incident between ABC, me, and the Thai government. I set up my own orphanage to take care of the children in Bangkok.
- I was on *Donahue, Good Morning America, Today, Merv Griffin, Dinah Shore, Oprah, Regis and Kathy Lee, Crossfire, PBS Late Night, Nightline, Charlie Rose, The McNeil-Lehrer News Hour, Wall Street Week,* and hundreds of local radio and TV talk shows, many of them multiple times.
- My 1977 book topped the best-seller lists for two years and was the largest-selling financial book in history—3 million copies!
- I have had dinner with Chiang Kai-Shek and Madame Chiang; the Secretary to the King of Denmark; and President Synghman Rhee, the father of modern Korea.
- I sang *The Star Spangled Banner* at the White House numerous times as a soloist for the Air Force Band and Singing Sergeants.
- I sold 100,000 copies of an album, *Howard Ruff Sings,* with the Osmond brothers and the BYU Philharmonic and A Cappella Choir as my backup groups.

- I caught a piranha in the Amazon and ate it (poetic justice?).
- I've owned nine airplanes, and have logged 3,500 hours as "pilot in command."
- I was forced into bankruptcy in 1968 by a newspaper strike, and then paid off $500,000 (plus interest) in debts from which I had been legally discharged. It took me 12 years.
- Evelyn Wood personally taught me to read 3,000 words per minute, and I then developed the marketing and advertising which made her famous.
- I cruised the Mediterranean with Art Linkletter.
- I took over Madame Tussaud's Wax Works in London one night for a private party for my subscribers, and Kay and I flew to Ireland just to spend a weekend in a castle with Elizabeth Taylor. Unfortunately, Taylor didn't show, so we spent a weekend in a castle in Ireland *without* Elizabeth Taylor.

Whenever I think I've accomplished a lot, I just remind myself that when Mozart was my age—he'd been dead for 38 years.

Now let's get serious.

HOW I LEARNED WHAT NOT TO DO

I was born with a wooden spoon in my mouth. My mother was widowed when I was only six months old (there's an important lesson for you in this full story in Chapters 2 and 12). We were poor, but I didn't know it, because in the depths of the Great Depression everybody else was poor too. We were actually too poor to afford a father. My Mom took in sewing to feed me and my older brother, Jim. By the time I was nine years old, I knew what I wanted to be when I grew up. A writer? A financial advisor? A prophet of doom? None of the above! I was a really good boy soprano, and I knew I wanted to be a singer on Broadway or at the Met some day.

When I was a pre-adolescent during World War II, we lived in Reno, Nevada, and I became a member of the Victory Boys, a group of boy sopranos. We gave patriotic programs all over the state of Nevada. That's when I found what I loved the most in the whole world—applause!

When I was 13, we moved back to Oakland where my voice changed abruptly from soprano to baritone, so at age 16, I joined a San Francisco musical-theatre company and also sang in San Francisco's famous opera clubs for $10 a night and tips. We would sing operatic arias and duets by request from 9:00 P.M. to 2:00 A.M. It was really just a smoke-filled bar, but I was doing what I loved to do.

When I was 18, my voice teacher told me she had arranged for a full-ride scholarship to the Curtis School of Music in Philadelphia. Curtis was considered on a par with Julliard, and could be a very important step on my road to the Met. But when I told my mom, she threw a big monkey wrench into the works: "But you are supposed to go on a mission!" It was expected that young men from practicing Mormon families would volunteer to leave home for two years and teach the gospel to potential converts. I didn't want to go because I knew that my Curtis scholarship would be toast.

After a period of intense spiritual inquiry, I finally made the hard decision that, unbeknownst to me, would change the whole direction of my personal and professional life. I decided that if I served the Lord, He would take care of me, so with blind faith, I launched out into the dark and decided on the mission. They sent me to the heathens in Washington, DC, and not only did it jump-start my lifelong interest in government, economics, and politics, it was where I first heard the Air Force Band and Singing Sergeants in a Sunday night concert on the Capitol steps, which would change my life forever. I was also befriended by the two senators from Utah, Arthur Watkins and Wallace Bennett (the father of Utah's present senator), and J. Willard Marriott Senior of hotel fame. We had had long discussions about life, business, and the issues of the day, and I began forming my economic, business, and political opinions. I attended the Missionary School of Hard Knocks—on thousands of doors—and learned one of the great lessons of life that every salesman and marketer must learn: how to live with rejection and failure and keep bouncing back day after day. It was a tough but immensely satisfying and character-building experience, and I was sorry when the mission was over.

After my mission, I went to BYU to continue my musical education. When I ran out of money after my junior year, I went back to San Francisco, where my mother now lived, to make some money so I could go back to school, singing in the opera clubs by night and selling Chryslers by day. Then, unexpectedly, I was reclassified 1-A in the draft and ordered to report for induction into the army. I remembered the Air Force Singing Sergeants, called the Pentagon to get their phone number in Washington, DC, and was given the number of Col. George S. Howard, Chief of Bands and Music for the Air Force, so I called him. He told me he had an opening coming up for a new baritone soloist, but wouldn't be in California for six months, so I told him, "I'll audition in Washington next Wednesday."

I borrowed $150 from my big brother, flew to Washington, auditioned, got the job with a letter to prove it, and enlisted in the Air Force. After only three weeks of basic training, I was ordered to report to Washington to go with the Air Force Symphony on a tour of Iceland and Scandinavia as soloist and announcer, so I called the lovely Kay Felt in San Francisco and rather arrogantly informed her we would be married in Salt Lake City on the way to Washington the following Monday.

Fortunately, she couldn't think of any good reason why not, so we were married on schedule, and Kay Felt became Kay Felt Ruff (when she realized what her name would be, it almost killed the marriage). She has been the spiritual and nurturing center of my life and family, and our numerous kids (twelve living, including four adopted as teenagers) and grandkids (63 at last count). All adore her—and so do I.

I traveled all over the world with the band, meeting and in some cases having dinner with such historical figures as Chiang Kai-Shek, Synghman Rhee (the founder of modern South Korea), and assorted prime ministers and royalty on three continents and 20 countries We also toured in 48 states. I was having an amazing educational experience, while Kay was at home having babies.

But I wasn't really an absentee father. Being a Singing Sergeant was a government job, so when we weren't on tour (we were only gone about 15 weeks out of the year), we only had to report for two hours a day for rehearsals. So I got a job as a stockbroker, continuing my economic and financial education, and spent a lot of time at home, helping Kay with the kids and learning to love fatherhood.

When my four-year hitch was up, we moved to Denver to work for my broker/employer, stumbled across Evelyn Wood Reading Dynamics, bought the Denver franchise and then the Bay Area franchise, and launched my business career, teaching the world to read faster and more efficiently. I learned I had valuable gifts as a marketer, writer, and public speaker, but I was also laying the foundation for my first big learning experience—a business failure!

We had had eight glorious years, with more than 10,000 students in the San Francisco Bay area. I wrote the ads and designed the marketing for all the nationwide franchises, and became the protégé of Evelyn Wood, who taught me how to read over 3,000 words per minute, a life-changing skill that has served me well ever since. We taught law students at the University of California and Stanford, high school and junior high students, and businessmen how to read more rapidly and efficiently and both enjoy and absorb more from their reading. And as the money was rolling in, we spent it. We gave money to the

Oakland Symphony, and I bought Kay a $1,000 designer dress so that when we had our picture at post-concert receptions on the society page, she would look great. In the meantime, our family was continuing to grow, and Kay bore more much-loved and much-wanted children.

However, I was making the biggest mistake of my life to that date, one that is the genesis of Chapter 3 (although bigger mistakes would come later). Because I thought the gravy train would last forever, we didn't bother to accumulate any savings or cash reserves. We had good credit and used it. We spent our money as if there was no tomorrow—or, to be more accurate, I did. Kay expressed her concerns, which I discounted because I thought I knew better.

Then disaster struck. I had planned an eight-page advertising supplement to go into all of the Bay Area newspapers one Sunday. On Friday night a wildcat strike hit all the Bay Area papers, and the Sunday paper was never published. I had spent $25,000 printing that supplement, which at the time seemed like all the money in the world, and we couldn't just keep them and use them at a later time because they were all geared toward specific demonstration meetings on specific dates at specific places all over the Bay Area.

I was in deep trouble. I didn't have any cash reserves, accounts payable began to pile up, we were up to our ears in hock and personal debt, and I was in arrears with my royalties. Finally the parent company, seeing an opportunity to grab off the business and resell it to someone else, abruptly canceled my franchise and notified the sheriff. My doors were locked and I was out of business. I went to work rich one day and came home broke, which ruined my whole day.

This forced me into bankruptcy, but Kay and I, prompted by some ethical counseling by local church leaders, decided that even though we had filed for bankruptcy, legally discharging half a million dollars in debt, we would not be right with our creditors and the Lord if we didn't some day pay it off. So I made perhaps the most important decision of my life; I would eventually pay off those debts, which meant I couldn't just get a J.O.B.—I had to become rich again. That all happened in October 1968, and we had already been hit by a tragedy the previous June when our toddler, Ivan, drowned in our swimming pool. This was a devastating year, but I now know that sometimes the healing and correcting spirit of God can only enter us through our gaping wounds, and this spiritual process had begun at Ivan's death when we had to decide what we really believed, so we were ready to make the spiritual, financial, and emotional commitment to pay off half a million dollars in debt. It took us 12 years to pay for that dead horse, but we did it! This lesson from 35 years ago has had a profound impact on this book, especially the second half, as it illustrates two of its most important principles, including the principle that *the first step in getting rich is simply to decide to do it*, which is what I did.

In the meantime, we had taken in a teenaged foster son in the neighborhood who had become estranged from his family, and the word got around, so over the following years we were offered more than 18 children, mostly teenagers, who we took in for varying lengths of time. We eventually adopted four of them.

I began my business comeback as a distributor in the multilevel sales organization for a major manufacturer of food supplements, The Neo Life Company, which is still in existence today and is one of the honorable survivors of the multilevel marketing business. I quickly became its largest distributor and won all of the company awards for performance, and began a lifelong obsession with keeping up with the research and development of nutritional supplements.

About this time, I began to worry about what I saw as a coming train wreck for the economy. When I was in an airport, I saw a book whose title intrigued me: *How to Prepare for the Coming Crash* by Robert Preston. Thinking it was a way to stay safe if the airplane went down, I bought it to read on the plane, but that wasn't the crash it was talking about. Preston advocated investing in silver and gold as a hedge against an inflation-induced economic crash, and for the first time my stock-market-oriented brain began to turn in that direction. I began to study the fundamentals of Austrian economics and the inflation that would lead to economic troubles and a resurgence of gold, and began to worry about what I believed the government was doing to the economy with its inflationary policies.

I also became convinced that there was a real possibility of a deep recession that could possibly turn into a depression, characterized by high inflation and unemployment, so I became a vocal advocate of an emergency food-storage program as a kind of family insurance program. After all, we had once lived on our stored food when the bottom had dropped out of our financial lives in 1968. This traditional Mormon practice grew not so much out of the church's theology as out of its nineteenth-century pioneer self-sufficiency culture. It was not an apocalyptic practice, but a very practical one, designed for just the kind of circumstances we had to face. This very prudent, risk-free piece of financial advice planted the roots of what would some day be the cause of my near-universal bad press.

I wrote my first book, a very bad self-published book called *Famine and Survival in America*, not realizing how powerful words could be. Rather than a carefully reasoned discussion of why you ought to have a food storage program as a conservative, prudent precaution against hard times for your family, it sounded more like a scream in the night. But to my amazement, as I began to do radio and TV shows to promote this self-published book, it caught on because people were scared of what was happening in the world around them as inflation was soaring.

In the book I promised to send a monthly update on the markets to book buyers, so I soon was sending out 5,000 monthly updates and going broke doing it. So I sold off my supplement distributorship to finance a for-pay newsletter, which I called *The Ruff Times* to a chorus of sardonic jeers. But my gut told me that name was right for our times, so I launched *The Ruff Times* newsletter in June 1975, forecasting rising inflation, a falling stock market, and rising gold and silver prices. Was I ever right! At the time, gold was only $120 an ounce and silver was under $2, and they had not yet begun the spectacular bull market that would take them to $850 and $50 per ounce, respectively.

As precious metals and *The Ruff Times* took off, I decided I needed to write a manual for new subscribers because you couldn't reinvent the wheel every time you went to press. With no intention of publishing it as anything but a manual, I wrote *How to Prosper During the Coming Bad Years.* A member of my board of directors knew many New York publishers, so he persuaded me to go there to meet several of them, and four of them wanted to publish the book. I chose Times Books, a division of *The New York Times,* of all things, of which Tom Lipscomb was president. Tom was a brilliant publisher and marketer who believed passionately in me and the book and shared my philosophy, and he and I made publishing history together, selling 3 million copies!

By this time I had a syndicated TV talk show called *Ruffhou$e,* interviewing a lot of interesting guests. One day I got a call from a radio syndicator who had been distributing Ronald Reagan's daily radio commentary. When Reagan decided to run for president, he gave up his radio show. I was asked to fill that slot because I was getting a lot of notoriety as the book hit the bestseller list and my TV show was gathering millions of viewers. So I created a two-minute daily radio commentary, which eventually was on some 300 stations, and *The Ruff Times* was on its way to the stratosphere—or so I thought!

As a public service to benefit from my high profile and high levels of trust from my like-minded subscribers, I founded Ruff-PAC, a political action committee, and Free the Eagle, a registered lobby in Washington, DC, and began to fight for free-market issues and free-market-oriented candidates for public office. We were successful in some pretty important things, such as persuading President Reagan to get stinger missiles to the Afghan rebels. This forced the Soviets to fly so high they couldn't devastate the villages that were harboring the mujahadin, and stalemated the war. The body bags kept going home and the Soviet Union was on the verge of bankruptcy trying to support its functional equivalent of our Viet Nam. Eventually Gorbachev withdrew from Afghanistan; pulled back the Soviet Army from the Iron Curtain satellite countries; and stopped financial support of Cuba, the Sandinistas in Nicaragua, and communist insurgent groups in Africa; and the Iron Curtain began to crumble. I honestly believe we had something to do with starting that whole process.

In any event, *The Ruff Times* had become a publishing phenomenon. *How to Prosper During the Coming Bad Years* was #1 or #2 on the hard-cover best-seller list for months, and when the paperback came out a year later, it not only stayed at or near the top of the hardcover list, but was also #1 on the paperback list. It stayed high on both lists for two years.

Early on, the Prophet (sometimes spelled *Profit* by the media) of Doom title began to plague me. It seems that the hard-core survivalists were getting a lot of media attention. These extremists shared some of my economic views, but they believed that society would collapse completely, so they were building impregnable retreats in the mountains and buying lots of guns and storing food and hunkering down, waiting for the end. I had a chapter in *How to Prosper During the Coming Bad Years* about the advisability of a food storage program as a no-risk, prudent hedge against personal or public financial difficulties. There it was: guilt by association!

The simple-minded media saw me as a hook for critical stories about hard-core survivalists, and the Prophet of Doom title was forever attached to me, despite my protests. Heck, the *How to Prosper* in the title, which is not exactly an end-of-the-world idea, should have been a clue to them that they were wrong.

THE BEGINNING OF THE END

Then, at the very peak of my notoriety and popularity, I made the most stupid and costly business mistake of my career, which I describe in detail in Chapter 14. I also continued to publish *The Ruff Times,* but to save money, I later decided to take it to the Internet. Another big mistake!

MY BIGGEST PROFESSIONAL FLOP

I believed that the Y2K crisis was deadly serious and could have devastating effects on the economy, said so in my newsletter, and even wrote a book on the subject. I was dead right about the seriousness of the problem, but for the only time in my life, I underestimated the willingness and the ability of government and industry to solve the problem in time to beat the deadline of January 1, 2000. Miraculously, they did fix it in time, due to the efforts of Senator Bob Bennett of Utah and others. On New Year's Day, 2000, when the dire consequences failed to materialize, I had egg all over my face. That book became my first big publishing flop. It wasn't that I had not analyzed the problem properly; it was that I didn't believe that they would have the will and the smarts to fix it in time. I was wrong big time!

MY BIGGEST TRIUMPHS

But it has not been all bad. There were many triumphs, but two that stand out.

Way back in 1975, when I started publishing *The Ruff Times,* I foresaw the coming inflation that plagued us for the next seven years, analyzed correctly that it would cause a big boom in gold and silver, and recommended gold when it was only $120 an ounce and silver when it was under $2. Gold subsequently went to $850 and silver to $50 per ounce for a few days, and I published a sell order when gold was $750 and silver at $35. This angered and offended my subscriber base, who were mostly Gold Bugs, and they began deserting me as an apostate from the true religion of the Golden Calf. For many years since then, gold has stayed around $300 and silver under $5 per ounce (more about this in Chapter 9), and I was bearish on the metals until 2004.

I turned bullish on the stock market in 1983, mostly because of Ronald Reagan. I stayed bullish for several years, and did very well for my subscribers, but I started telling people to get out of the stock market about six months before it peaked in March 2000 and called the market an "unsustainable mania and a bubble." This was right on the money, as March 2000 was the peak of the greatest bull market in history and the beginning of the greatest bear market in history. I've been on the right side of that market ever since, keeping people out of it and instead recommending 30-year T-bonds and 10-year T-notes, where there were big profits in 2000 to 2003. This has saved my readers untold millions of dollars.

In 1983 I was at the top of my popularity; my book was number one on the best-seller lists in both hard cover and paperback and on its way to becoming the biggest financial best seller of all time. My syndicated TV show, *Ruffhou$e,* was showing in 350 markets, and my two-minute daily radio commentary was on 300 stations. My newsletter, *The Ruff Times,* had more than 175,000 subscribers. I thought I was a marketing genius, as all the direct mail pieces I wrote worked. My Washington lobby, Free the Eagle, and RuffPAC, my political action committee, were real powers in Washington. I had access to President Reagan and to any senator or congressman I wanted to talk to. I was famous, I was rich, and the world was my oyster. But just as for the high-tech investors in March of 2000 who thought they were great stock pickers, it would in retrospect be the high-water mark of my professional and business life; it would be all downhill business-wise from there. Little did I realize that I wasn't the marketing genius I thought I was. I was just a very lucky guy with the right message at the right time, and if conditions changed much, I wouldn't be so smart. And conditions changed!

Ironically, even though I had campaigned vigorously for him and had warm personal relations with him, the election of Ronald Reagan was the beginning of a long downhill slide for me. I had made my mark in the world by telling people how to prosper during the scary Jimmy Carter–induced inflation of the 1970s. Ronald Reagan was my friend and Jimmy Carter was my foil. Ronald Reagan and Paul Volcker's successful assault on the runaway inflation and interest rates of the late 1970s made people less convinced we were facing some coming bad years, and rightly so, so my old message was less compelling. As I changed with the times and became appropriately bullish on America, the optimistic new message was less interesting than the scary old one, and media publicity was harder to come by.

During that years-long downhill slide I made a series of stupid mistakes that taught me most of what I know today, and laid the foundation for this safely-prosper or get-rich-surely book. I had learned how to make a fortune and had done it twice, once in good times and once in bad times. Then I had learned how to *lose* a fortune, and had done that twice, also in good times and bad.

In retrospect, as I became a celebrity, my financial success and notoriety infected me with a bad case of *hubris*—the Greek word for the arrogant pride of the gods. I unconsciously believed that I was so smart I could violate my own published rules with impunity and avoid the problems that would trip up lesser mortals, and my success wasn't teaching me a thing. Too often my operative principle was "Do as I say, not as I do." Unfortunately, I was wrong—*really* wrong—which has cost me millions. Also, much of what I thought I knew that eventually turned out to be wrong came out of my successes.

One reason I felt driven to write this sometimes-embarrassing treatise is that I don't want my posterity to repeat all the foolish mistakes I will tell you about; my successes are nowhere near as instructive and helpful. If I can't pass on what I learned about the things that no longer work—or didn't work in the first place—some of my most valuable experiences will be wasted, and making the mistakes I made will prevent people from becoming Safely Prosperous or Really Rich. I also want the cathartic benefit of publicly facing reality about myself and cramming a little humility down my unwilling throat. It will be too late when I am trying to explain my arrogant pride to God.

OLD FOGY WISDOM

This book could only be written by someone of my ripe years (sometimes I wish I was 72 again). I've been observing the world of money through three serious recessions, three major bull and bear markets (including the late, lamented dot-com bubble of 1996 to 2000), the insane inflation of the 1970s, a real-estate boom and bust, a historic gold bull market and subsequent collapse, 13 children (4 were adopted—we couldn't find homes for the other 9), 18 foster children, and 64 grandchildren. I've made and lost two fortunes by making most of the stupid mistakes I describe here, and have been written off by Wall Street as a fringe character at times. But for a few glory years, I couldn't walk down any sidewalk in the Wall Street financial district without being recognized. For the last decade, I've been laying low, laboring away in relative obscurity just publishing my newsletter on the Internet and germinating this book.

In short, in a financial world that has been dominated by twenty- and thirty-something kids who weren't even stockbrokers during the last bear market in 1987, I'm one of a small clique of real adults—newsletter writers, financial publishers, analysts, and advisors—who are old enough to have been around since the 1960s and 1970s, through good times and bad. For the most part, Wall Street people have not respected us, but that's OK because we don't have a lot of respect for many of them either, for reasons I will explain later.

I'm also old enough and emotionally secure enough to admit my bloopers. In fact, that's part of what inspired this book. Like an old trailblazer, I want to mark the trail's pitfalls as a warning to those who follow after me, especially my numerous posterity.

Remember the old bridge builder:

> An old man going the lone highway came at evening cold and gray, to a chasm vast and deep and wide, through which was flowing a sullen tide.
>
> The old man crossed in the twilight dim; the sullen stream held no fear for him. But he turned when safe on the other side and built a bridge to span the tide.
>
> "Old man," said a fellow pilgrim near, "you are wasting your strength by building here. Your journey will end with the closing day; you never again must pass this way; you've crossed the chasm deep and wide. Why build you the bridge at the eventide?"
>
> The old man lifted his old gray head. "Good man, in the path I have come," he said, "there follows after me today a youth whose feet must pass this way."
>
> This chasm that has been naught to me, to that fair-haired youth may a pitfall be. He too must cross in the twilight dim. Good friend, I'm building the bridge for him.
>
> —"The Bridge Builder" by Will Allen Dromgoole

A REAL ADULT: I'VE BEEN THERE

I have been publishing *The Ruff Times* through 25 years of bull and bear markets, unlike most of the hot financial advisors and brokers during the late, lamented bull market, who are so young they weren't even brokers yet during the last bear market in 1987. They were the invincible optimists at the peak of the last bull market in the spring of 2000, when I was yelling at them to get out of the market. I think I am one of a handful of real adults in the Wall Street kindergarten with a long-range view of the world of money.

I can write to you about your concerns because there aren't many of you I can't identify with. No matter where you are in life, I've probably been there.

Do you have a growing family? We have parented a ton of kids. I understand your fears for their future in an increasingly dangerous and volatile world and know how hard it is to balance the search for wealth with the more important demands of family and church. I can relate.

Are you struggling with age and health problems? I've had cancer and a heart attack, although I'm in great health now for a man my age. I guess you couldn't kill me with an axe. I can relate.

Have you struggled to build a business, perhaps without success? I've started six. Three of them failed and three of them didn't. I can relate.

Do you have an extended family you love and worry about? So do I, in spades. There are 11 families in our posterity, and we have a real juggling act to stay close to them. I can relate.

Do you live in a big city? A small town? A rural area? I've lived in all of them, from the San Francisco Bay Area to a small Utah town with 2,000 souls. I can relate.

A single parent? My mother was one, so I grew up in a one-parent family. I can relate.

Are you retired and trying to get by on your Social Security and less than 1 percent interest on your savings? I'm 73 years old. I can relate.

Up to your ears in debt? Broke? Here I can really relate. When I was growing up, we were too poor to afford a father. I know what it's like to not have a car, or to be the last ones in our neighborhood to have an old black-and-white TV, and to live in second- or third-floor walk-ups. I've also lost two fortunes, one of them after we had just gone through the shock and pain of our toddler, Ivan, drowning in our pool.

I know what it's like to be a newly minted bankrupt standing in the ruins of a collapsed business.

I've been a small investor and a big investor. I've won big and lost big in business and the markets. I've been depressed and euphoric. I've loaned and borrowed. I've made every costly and stupid mistake there is. I've been there, and I can relate.

In short, I'm one of you. I'm not a twenty-something Wall Street hotshot in a $2,000 Brooks Brothers suit, detached from the realities you face every day, who thinks there is no real life west of the Hudson River. I'm just a regular family man who loves bass fishing; BYU football; the Utah Jazz; *Star Trek, the Next Generation* on TV; directing my church choir; singing in, directing, and conducting Gilbert and Sullivan comic operas with the local opera company; dinner with Kay at the Outback or the Red Lobster; teaching a Sunday School class; off-the-wall humor; and movies that don't make me wade through garbage.

Prosperity or real wealth is within the reach of anyone—I promise! If you will do the things I will describe here that the Really Rich or the Safely Prosperous do, prosperity or wealth is inevitable, and will come much faster than you might think! However, it's not easy, because they both require big changes in your mental paradigm, attitudes, and temperament.

Book I

The Safe Road to Prosperity

You are probably on the road to Financial Hell, and may not even know it. But as Yogi Berra said, "When you come to a fork in the road, take it."

It's never too late to change course. Now it's time to explore the first of two alternatives to a much better place than the Hell that awaits most middle-class Americans.

Book I outlines the steps on the safe road to prosperity. Its objective is nothing less than changing your life. It's for those who have concluded that they will never be financially secure, who have rationalized their lack of success. It's also for those who are doing OK but living way too close to the edge, with little hope of a decent retirement or a college education for their kids. It explains how your prosperous and secure neighbors got that way and how you can too. It opens up the prospect of a genuinely prosperous retirement for the wage slaves of America, and explains why many of the people you think are rich because of the big house and the boat and Mercedes in their driveways are really headed for Financial Hell. It tells you why "the mass of men live lives of quiet desperation" on that evil road, even if they appear to be really well off—and sometimes *because* of how they got that way. This somewhat embarrassing section also tells you why after years of huge income I'm not half as rich as everyone thinks I am and could have been.

Above all, it tells you how in 10 to 20 years you can build a financial basis for an enjoyable, independent retirement, with little or no risk, no matter what your current income or job status, simply by not making the stupid mistakes most people make.

Section I of Book I outlines the five most important and most universal mistakes that put you on the road to Financial Hell.

Section II of Book I outlines the most costly stupid mistakes that have cost amateur investors hundreds of billions of dollars and often have undone years of discipline and saving.

Book I is not about how to become Really Rich. The strategies and techniques for that blessed state are totally different, and are the subject of Book II. Book I will probably be more useful to more people than Book II, because it is risk-free, and prosperity is probably good enough for most people. There's nothing wrong with that. It means you will be debt-free, have a bit more income than you really need, and have a secure retirement. Your life will be secure and comfortable in Safe Prosperity Heaven.

Section I

The Dumb Mistakes Almost Everyone Makes with Their Money

If there is any one piece of advice I could give you that expresses the spirit of this section, it is that the key to safe prosperity is avoiding the mistakes that lead to Financial Hell. There are five common mistakes that most Americans make every day. These mistakes are the principal reason most of them are living lives of quiet desperation, either because they are in chronic financial trouble or because they know they would be if even a minor emergency created big, unexpected expenses or their income were cut off for more than a month or two.

This section is designed to help you set up a program that will steadily strengthen your personal balance sheet and reduce your vulnerability. If pursued for enough years, it will also make you Safely Prosperous. It is no-risk and within the reach of everyone. Even those who are more interested in the goal of being Really Rich should take these chapters seriously.

It's also a bit embarrassing, as I learned most of these principles by stepping in them.

Chapter 1

Two Tracks, Two Heavens

The two very different roads to Safe Prosperity or Real Riches

When you finally decide to abandon the road to Financial Hell, you have the choice of two distinct and very different financial heavens and a distinct and different route to get to each one. You can choose either Safely Prosperous Heaven or Really Rich Heaven.

SAFELY PROSPEROUS

The road to Safely Prosperous Heaven is risk-free though unexciting, and smoothly paved with old-fashioned virtues. In fact, it's hazard-free, although sometimes downright dull. At the end of the road, you will be debt-free, financially secure, and able to enjoy your golden years without worries about money. Safely Prosperous Heaven is the place where most readers of this book should go, because it is secure and virtuous. It's the place the first half of this book is about. You will have a comfortable retirement with most of the pleasant things we take for granted we are entitled to—a Winnebago, visits with grandchildren, a nice home in a retirement community, an occasional cruise on a nice ship, weekly dinners out at a nice restaurant. It's the American dream, and not to be sneezed at. All it takes is old-fashioned character and a willingness to postpone some gratification. It's the way to get rich slowly but surely.

The operative principle on this road is to be aware of and avoid several common stupid money mistakes made by most Americans.

REALLY RICH

Then there's the road to Really Rich Heaven. It's very different. It's strewn with rocks and pitfalls; 70-hour weeks on the job; worried, sleepless nights; humiliating failures that test your resolve as it has never been tested before; and marriage-threatening temptations. But it's downright exciting. At the end of this fast track is financial freedom beyond your wildest dreams. You will be able to fund your favorite charities generously and help down-on-their-luck friends and relatives. You will probably be honored by your community and asked to serve on various boards, because, as Tevye sang in *Fiddler on the Roof,* "When you're rich, they think you really know." You'll be able to buy anything you want without thinking about it or counting the cost. But the tough road on the way there will test your character and principles like nothing else in life can. It will be a tough route through a minefield between the transitory temptations that Mammon brings and the eternal happiness that comes from having a loving spouse and family to honor your name, and beneficiaries of your generosity that will rise up to call you blessed.

When you succeed, you will be the target of envy and the class warfare that paints all rich people with the political brush of unworthy selfishness and tries to use the coercive taxing power of government to take away your hard-earned money to give to the voting masses who want what you have but don't want to pay the price you did.

I will teach you how to exploit the principles and techniques that have created millions of fortunes. I have carefully mapped these two roads so you can follow whichever one you choose. They are both within your reach, and you do get to choose.

This started out to be a book called *The Ten Stupidest Things People Do with Their Money,* things I had done and observed others doing that kept them from becoming prosperous. It was to be my legacy to my numerous posterity. But as it unfolded, I realized that I knew about a lot more than just prosperity. I had been rich twice and lost everything twice, and *The Ruff Times* was really the perfect laboratory for watching thousands of others become not just Safely Prosperous, but Really Rich as well. So the book grew into more than just a prosperity guide. It was now also a how-to-get-rich guide, born in the real world of people who become Really Rich. This could really have been two separate books, one about prosperity, and one about real riches, so I have subdivided it into Book I and Book II.

Book I, "The Safe Road to Prosperity," is for those who really just want to be Safely Prosperous, which I define as living comfortably and then some, with no financial worries and a secure future even after retirement. It's in two sections.

Section I of Book I, entitled "The Dumb Mistakes Almost Everyone Makes with Their Money," is for the tens of millions of Americans who always have too much month left at the end of their money. It's about the foolish things they did with all the money that went through their hands day after day without sticking. It tells you why you aren't financially secure, and why some of your neighbors are, even though they may have no more income than you.

STARTING BELOW SCRATCH

Most stock-market or get-rich-quick books assume that you have money to invest, and ignore the crucial question of how to get it in the first place—and keep it.

Some years ago, on a promotional tour for my book *Making Money,* I found myself at a Chicago radio station that had a mostly black—and presumably poor—listening audience. After the usual opening pleasantries, the interviewer said, "Your book seems to be written for investors who already have money. What about those who are poor or barely making ends meet?" I responded weakly—but, I thought, cleverly—"I haven't yet designed an investment program for those who have no money to invest, and neither has anyone else."

Since I have grown much older and a little bit wiser, this book starts with the expensive mistakes you can avoid in order to accumulate a serious nest egg. It's about how to have a truly independent retirement, even if you're late starting and only a modest earner. It's about how to lay a nest egg out of current income, regardless of how small that is!

These expensive mistakes are well-nigh universal, and most readers, even those who are fairly well off, will at least catch a glimpse of themselves here.

In some cases, these strategies will take a few years to pay off, but don't write them off by telling yourself that you're too old for this sort of thing. The average life span in America has risen to 75 for men and 81 for women, so most of you have a few years to build an estate or add to yours to leave to future generations. Ten years is plenty of time.

Section II of Book I is entitled "Blowing Your Money in the Investment Markets." After you have eliminated the first six foolish mistakes and finally accumulated some money, I will teach you what I learned from some spectacular losers about the foolish things they did with their money that caused them to lose it in the market, especially during the current bear market. Most amateur stock-market investors have lost money, and I will tell you how they did it. These time-tested and infallible failure techniques have been implemented by millions of losing investors—

usually without them even knowing what they did and why they did it.

I wrote Book I for truck drivers and young married couples, small businessmen and Fortune 500 executives, retirees and their children and grandchildren, housewives, schoolteachers, and clerks, rich and poor. This is especially for all those who are struggling for survival every month and think it is because they didn't buy "a winning ticket in the lottery of life," as Bill Clinton said in one of the lower rhetorical points of his administration. Clinton meant that the rich were merely lucky, which is a crummy piece of class-war rhetoric. Luck had little to do with it.

BOOK II: THE REAL SECRETS OF THE REALLY RICH

Book II is a quantum leap beyond prosperity. It's about the most important things rich people have always done to get rich. This section teaches you how to leap the gulf between the Safely Prosperous and the Really Rich. One way to get rich is to choose your parents very carefully, but it's too late for that now. The rich really are different, and it's not just how much money they have or how smart they are, it's their attitude toward risk and fear, their understanding of when to break the rules of Book I, and their knowledge of a few simple capitalistic principles. It's also having the rich person's mind-set.

How do you define "Really Rich?" For the purpose of this book, I define it as having secure wealth that is way in excess of your real wants, with lots of discretionary cash flow produced from the assets on your balance sheet. You can afford to buy anything you want without a second thought, or to give away big chunks of money to causes you care about. It's a giant leap beyond Safely Prosperous. The truly rich can spend money or give it away whenever they want to without worrying about it and can give money to causes they care about without sacrificing any of their personal wants.

How do they measure their tangible wealth? Not by the cash in their bank account, but *by their balance sheets and the passive income their assets spin off.*

The Safely Prosperous are disciplined and make few mistakes with their money, but they take no risks, even calculated ones, live well within their means, and are very comfortable with a riskless lifestyle. That's OK, God bless 'em. But the Really Rich usually got rich by taking risks all the time and make a lot of mistakes along their journey. They aren't gamblers, except with a small part of their fortune just for the fun and excitement of gambling. They are comfortable with risk, but it is always calculated risk with the odds heavily on their side, usually where they can determine the outcome, and it has to return many times more than market rates. They are often driven—sometimes just by greed, sometimes to show someone they are someone too, sometimes by grand ideas. But most of all, they see risk as measurable and controllable, and they enjoy the game. And, ironically, they are usually heavily in debt. Their road to wealth is usually paved with failures, but their debts and failures aren't stumbling blocks, they are stepping stones.

In the parable of the talents, Jesus told about three servants who were given some money to care for by their master; one was given five talents (more money than a man could earn in a lifetime), one was given two talents, and one was given only one talent. When the master returned and asked for an accounting, the men who had been given five and two talents had both doubled their money, and were praised and promised great rewards. However, the man with one talent, knowing his master was a hard man, had buried it in the ground, and had no increase. The reward for his no-risk strategy? The master gave his talent to the man who had had five. Today's rich people go even farther than either of the first two; they earn 5-fold or 10-fold!

Book II teaches you the things rich people have always done to get rich that you don't do. In good times or bad—no matter how bad—smart people still get rich, and this book contains their secrets.

I'm not one of those ivory-tower experts in three-piece suits who say things like, "Given the inverted yield curve and rising GDP . . ." That is usually just gobbledygook that conceals the fact that they really don't have a clue. I love the English language, and it is most elegant when it is plain, simple, and direct.

Most people foolishly think the pursuit of prosperity or wealth is a sprint, not a middle-distance race or a marathon, so the get-rich-quick idea is very seductive, and get-rich-quick seminars draw big crowds. Is it possible to get rich quick? Sure, many have done just that, but the unvarnished truth is that no one magic secret will get you rich both fast and struggle-free.

"But," I hear you cry, "rich people are different from me; they're special." That may be so, but are millionaires especially talented? Are they all inventors or brilliant entrepreneurs? Are they financial geniuses? Are they NBA stars? Did they get rich quick? Not usually, although it often came faster than they expected. Most of them were just like you—no smarter, no luckier, and no more talented. They didn't do anything you can't do. But they understood and consistently and patiently practiced some old-fashioned principles of wealth growth year after year.

FORECASTING

I have made my living for a quarter century making financial and economic forecasts. Forecasting is not easy, but it made a lot of sense to me; if you can accurately forecast the direction of interest rates, you can make a lot of money in bonds and utility stocks. If you can forecast the direction of the dollar versus other currencies and the direction of inflation, you can make a lot of money in gold and mining stocks. If you can accurately forecast an imminent recession or recovery, you can make a lot of money investing in the stock market.

However, the techniques described in this book will work no matter what happens to the economy or interest rates or the stock market or the gold price, so you can achieve your objectives regardless of what the world around you does. However, for the record, I will tell you how the future looks from the perspective of late 2003.

First, we have been in the longest bear stock market seen since the 1930s, and despite the year-long burst of optimism from Wall Street in 2003, it's a long way from over. As this is written, the huge bubble of the 1990s is not yet fully deflated. The traditional standard measurements of value are actually higher than they were at the peak of the last bull market in March 2000. The price/earnings ratio (PE) on the New York Stock Exchange is now around 32 to 1. It was around 30 to 1 at its peak in 2000. No bear market in U.S. history has ever ended with such high evaluations. Not one! The PE at most bear market bottoms is about 7 to 1. That means that the Dow Jones will not bottom out until it falls below 4,000, or possibly 2,500. The Nasdaq doesn't have as far to go on the downside because it is already down more than 60 percent, so my downside target for the Nasdaq is below 1,000. There will probably be at least one more down leg to new lows, and it may take a few years.

This means the business environment will be chancy at least until late 2004, and possibly for several more years, with false rebounds in between.

But none of this matters much! The techniques I will teach you will work despite these uncertainties, and perhaps because of them. If I'm unduly pessimistic, I'll lead the cheering, and the techniques described herein will just be easier to implement.

DIFFERENT TRACKS

There are generic differences between the two tracks and those who abandon the road to Financial Hell to follow them:

- *Mistakes:* The reader who wants to be Safely Prosperous will have to avoid the most common mistakes and exercise some self-discipline and self-denial. Readers who want to be Really Rich must be willing to make mistakes as they launch their programs, some of which will fail and teach them much of what they will learn—but they are not the same mistakes prosperity seekers should avoid. To the Safely Prosperous, mistakes are stumbling blocks to be avoided. To the Really Rich, other mistakes are just stepping stones and business lessons along the road to real wealth.
- *Risk:* The prosperity seeker will be risk-averse and settle for modest but sure compound returns over the years. The wealth seeker must be willing to take calculated risks and sometimes shoot the moon.
- *Debt:* Prosperity seekers must avoid debt, and, indeed, liquidate the debt they now have. Wealth seekers will have to learn to use debt as an essential tool. In fact, they probably can't become rich without owing a lot of money under carefully controlled conditions.
- *Outside versus inside:* The prosperity seeker will always be a passive outside investor, buying the opportunities created and controlled by market forces and other businesspeople. The wealth seeker will be an insider, buying or creating investments at wholesale prices and selling them at retail to prosperity seekers.
- *Opportunity versus security:* The prosperity seeker has modest goals for financial security and values that security highly. The wealth seeker has little interest in security and is opportunity-oriented.

In summary, these are two different animals, and you could be either one of them. By the time you have heard me out to the end, you will have a lot better idea which one you are. It's too soon to decide.

WHO CAN BENEFIT FROM THIS BOOK

In the past, my financial newsletter, *The Ruff Times,* was most useful for upper-middle-class or wealthy families who already had cash to invest. Our surveys have told us that 49 percent of them were balance-sheet millionaires. They have tended to be personally and politically conservative and have seemed to enjoy my political commentary from the conservative/libertarian political side of the public debates. However, this nonpolitical book has little or none of that kind of content. It is conservative only in the sense that conservative financial principles cut across all political and philosophical lines. Money acts the same for Republicans and Democrats; liberals, conservatives, and libertarians; rich and middle-class.

Book I will be especially useful for young adults just starting their financial lives, and for the Baby Boomers and Generation Xers with 10 to 35 earning years ahead (30 to 55 years old). Many of them likely saw their paper profits decimated in the stock market crash of 2000 to 2002. While they are still in their peak earning years, they can most effectively use the long-term strategies herein to start now to prepare for their inevitable retirement—or for possible hard times while they are still over the horizon, if they are willing to face reality and stop spending money they don't yet have (borrowed money) so they can pretend they are already rich.

In the interest of full disclosure, I feel compelled to tell you that as a practicing Mormon, I intend to keep practicing until I get it right, but this is not a pulpit or a missionary tract; I save that for my Sunday-school class. However, Mormonism is not just a theology. It is also a classic nineteenth-century American culture with its roots in the old-fashioned self-sufficiency attitudes of that century, and those universal values have been planted in my bones and strongly influenced the content of this book. There is no overt or covert attempt to preach the unique

Mormon theology here. Tens of millions of non-Mormon middle-class mainstream Americans share these values down deep in their guts and will be comfortable with them.

Some of what you will read, especially in Book I, is very old-fashioned and probably politically incorrect. Successful people have practiced these principles for hundreds of years, and, in my opinion, they will never really go out of style, even if they periodically go out of favor.

I wrote this book to educate you, but as I have already paid your tuition, you now have a scholarship for only the cost of this book. Those of you who hire financial advisors to do the heavy lifting should make sure they read this book first so you can be sure his or her decisions don't undercut your newly honed guidelines. After you have read this, you will probably be smarter than your financial advisors are now!

All of these rules are very precious to me, and I hope they will be to you. They should be—I paid several million dollars in tuition to the school of expensive mistakes to learn them.

Chapter 2

Worshipping Mammon

The bad trade-offs of loving money more than God, family or country, and how to avoid them. How to have both money and true happiness.

The Apostle Paul wrote, "The love of money is the root of all evil." Not money, but the *love* of money. It is the archetypal two-edged sword; even if putting a misplaced love of money ahead of more important things often does lead to monetary wealth, it too often leads to misery.

The older I get, the less important getting rich seems to me, and the more intrigued I have become with studying the impact of money on character and true happiness. In fact, concern over the possible negative effects of the quest for financial security and wealth on the human psyche kept me from writing about how to become Really Rich until I sorted through the effects of the quest for money on me and my family. I finally decided I was not morally at ease with sharing what I have learned about the principles of wealth acquisition if I didn't share with you up front what I have experienced for myself and learned from others about the spiritual and emotional potholes along the road to wealth.

I have concluded that happiness is the real object and purpose of our existence, and the quest for riches and the sheer fact of the existence of excess money can either enhance or destroy it. That is a fact of life, and I have never read anything about what wealth can do for you and to you, so I decided to fill that void.

Those who are champing at the bit to join the acolytes of Mammon may be bored with this discussion and wonder why I even wrote it, but I believe it is the most important chapter in the book, and affects all that follows. That's why I put it near the front.

We usually think that money is impersonal, but in my quarter century as a financial publisher, I have observed that not much in life challenges us emotionally and spiritually as much as money—or the lack of it. More money and/or happiness has been lost because of misplaced devotion to money than most other causes put together.

Money—or the lack of it—profoundly affects you, depending on whether or not you worship Mammon, the heathen god who symbolized worldly financial success. Getting rich is not a sin per se, but it's a real test of what you are down deep inside, and how you react to money triggers a lot of genuine consequences. I have known some very happy rich men who left this life with a legacy of spiritual and moral riches and big estates, and I have known just as many rich but miserable men. I have also known some whose Mammon worship made them rich, but then cost them their fortunes and their families.

Mammon's evil, phony religion always leads to slavery, but you can become rich and also escape Mammon's chains before it is too late.

Out of my personal experience, I have included four real-life stories of men who all became very wealthy. Two worshipped Mammon and found misery; two defied Mammon and lived full and rich lives full of faith. They had the love and respect of all who knew them, and were great role models for their loving families. Their stories are instructive.

SAD EXAMPLE #1

Here is a sad but true extreme example of how worshipping Mammon (money) can lead to misery and loss of money at the same time.

Back in the 1920s, a very talented man was one of the founders of the chain of stores in Idaho and Utah which later became Safeway. He was their chief financial officer, and making money was his whole life. His favorite book, which he made into a kind of sacred bible for his life's guidance, was Napoleon Hill's *Think and Grow Rich*. He was also a mathematical genius; he could run his finger down a long column of figures six digits wide and give you a total at the bottom. He could inventory a store in his head and write down the figures accurately on the train on the way to the next town.

Getting rich was his one passion in life, but it was also his tragic undoing. He not only neglected his wife and family in the pursuit of business, but when his wife became pregnant for the second time, which he considered to be very inconvenient to his career, he forced her to have an illegal abortion, which was a source of great spiritual pain and guilt for her. When she got pregnant again, he tried to force her to have another abortion, but this time she refused. He was drinking heavily by now, and in a drunken rage, he beat her savagely to try to cause a miscarriage. She was injured so badly that her doctor recommended a therapeutic abortion to save her life, which she refused. She then went to bed for seven months to try to save the baby, and she gave birth in due time to a healthy son.

Flashing further back in time, some months earlier the man had made a decision to get *really* rich, so he liquidated his company stock worth almost $1 million and took the money to New York to make a real fortune speculating on margin in the stock market. The year was 1929, and he was wiped out in one day in the October crash.

He then turned to gambling in a single-minded effort to recoup his lost fortune, and gambled away the insurance money. Many months later, when his wife was nursing the baby, he walked into the room, put a gun in his mouth, and pulled the trigger. There was no insurance money.

He was my father.

I remember my mother's horror two decades later when she found me reading *Think and Grow Rich,* the book that my father called his "bible" and that I have enjoyed over the years. That was when she broke down and told me much of this story, which was later confirmed and added to by relatives. There are more informative details of my father's money obsession in Chapter 11.

This is not an anti-abortion tract, so let me leave it by saying that there are those who may think the world would be a better place if my mother had had an abortion, but I am not among them.

As I pieced this story together bit by bit from conversations with my mother and my aunts and uncles, it became clear to me that the unifying thread running through this story was "sacrificing on the altar of Mammon." I then vowed that I would never allow money to corrupt me as it had my dad, but, as you will see in later chapters, that was easier said than done, and when all is said and done, there is more said than done. Most of the real unhappiness I have experienced in my life came as a result of losing my focus—putting business ahead of my family, and allowing wealth and ready money to corrupt me—and amazingly, I was unaware of it. I thought I was the best husband and father in the world. I guess I was better than many, but I was nowhere near as good as I thought I was or should have been, and there was a price to be paid.

SAD EXAMPLE #2

Some years ago, the president and CEO of a Fortune 500 multinational company was a guest on my radio talk show. He was a fan of *The Ruff Times*, and was also a well-known force to be reckoned with in publicizing and eliminating government waste as the volunteer head of a government commission, as that was his public service. We had a very cordial interview and went out for a bite to eat afterward. He told me about his work schedule—18 hours a day, seven days a week. He also required the same of his management team. He flew all over the world in the company 727 and took his management team with him so they could work on the plane around the clock. He was a great guy who liked me, and I liked him in return, and envied his financial success—until he asked me a strange question: "Do your kids hate you?"

When I told him I was pretty sure they didn't, he said, "My kids won't talk to me and won't let me see my grandchildren. I haven't seen some of them for years." Then, to my amazement, he sprung a leak around the eyes and poured out his heart to me like a dam breaking, releasing his pent-up misery. When I asked him if his wife ever traveled with him on the company 727, he said yes, but then he told me that she understood that he would be working all the time with his staff and she also understood she was not to interrupt him. She always brought a friend with her so she wouldn't be alone, and he claimed she was happy with that.

I was planning to go to Bangkok, and since he was going to Singapore in his 727, he invited me to go with him and fly to Bangkok from there. I decided to go commercial anyway, as it was obvious he wouldn't have any time for me.

This man has since died, which triggered a bitter fight among his heirs over his fortune. Outside of his business associates, he was mourned by few. Right now, I guess, he's doing a lot of explaining.

THE OTHER SIDE OF THE COIN

In contrast, I have known some highly successful men who kept their balance.

HAPPY EXAMPLE #1

J. Willard Marriott Senior was the founder of the Marriott Hotels, among other things. He was an important lay leader in his church, and always put family and church first. He was a dear personal friend, and one of my real-life heroes. He changed my life permanently one evening at a party in his home, which he had invited me to attend. (I was 20 years old at the time.) Out of the clear blue sky, he put his arm around my shoulders and said, "Howard Ruff, you're an entrepreneur. Never work for another man." So I didn't.

He lived happily and died greatly loved by his family and everyone else who knew him. He was one of the happiest and most successful people I have ever known. He passed his values on to his family, and his son, J. Willard Marriott Junior, is not only CEO of the Marriot financial empire, but has followed in his father's footsteps as a husband, father, and church leader.

HAPPY EXAMPLE #2

Another role model was one of my ancestors, Joseph Younger Mayberry. During the deadly Mormon persecutions in Missouri and Illinois in the 1830s and 1840s, he was thrown into jail because of his religion, never charged with a crime, and forgotten about for six years. When he was finally released, he made his way to the Rocky Mountains and was one of the first settlers in what later became Franklin, Idaho, where he became a very prosperous farmer, rancher, and businessman. Throughout his life he rarely turned down a request for help or a loan. Even in times of poverty and famine, he shared his wheat and wool and the lumber and firewood he dragged down from the canyons through the heavy snows. He even tolerated it without comment when he knew needy people were stealing from him, and he said repeatedly, "I can't seem to give it away as fast as God blesses me with it." He died a happy and greatly loved man—and a wealthy one by the standards of his day. And never at any time was he less than a completely dedicated husband, father, neighbor, and faithful church member.

UNREQUITED LOVE

The love of money is usually a composite of two things: (1) the love of wealth for wealth's sake, usually egged on by the greedy desire to be richer than the next guy; and (2) the love of the things money can buy that confer status and the appearance of success.

Some people may have made a lot of money by loving it to the exclusion of any and all other things. Maybe they have even become very rich, but are miserably unhappy, having lost a lot of things that they eventually learned to their horror were more important than money. And their money never loved them back. You can't cuddle up to it on a cold night.

A PARABLE FOR OUR TIMES

Many people are like the Guadalcanal Island monkeys. Our Marines who took the island from the Japanese thought these cute simians would make terrific pets, so they concocted a strategy to catch them. They would hollow out a coconut and fill it full of rice, leaving only a small hole, and secure it to a tree. The monkey would put its hand into the hole and grab a fistful of rice, but couldn't get its hand out without letting go of the rice, as its clenched fist full of rice was too big to get back out through the hole. The monkeys were easy prey for the Marines, as the greedy little animals were trapped. They had the rice they wanted, but they had lost something much more precious—their freedom.

This is a parable for our times. Poverty has corrupted people, but so has wealth and its accompanying greed. The older I get, the more positive I am that genuine, lasting happiness depends on intangible matters of character and spirit, and the pursuit of wealth tests them all.

Loving your money too much can also cause you to lose it, as I will show you in a minute. But although putting money ahead of much more important things—like family, church, and country—can and sometimes does lead to wealth, it too often also leads to misery. You may have the Midas touch for years, but if you love your money too much, the Midas touch can, to coin a new metaphor, turn everything into old mufflers. There is nothing sadder than a person who has sacrificed marriage and family on the altar of Mammon due to stupid, greed-driven decisions, or even uncontrolled spending on vices, only to find Mammon is a fickle god who often breaks his promises.

Conversely, love of money can lead to loss of wealth because it spawns greed, fear, and covetousness, which can lead to costly emotion-driven bad decisions.

All of these stories set the scene for my point. *Worshipping Mammon—loving money more than family, church, and country—can lead to misery.*

WORKAHOLICS

A letter to Dear Abby illustrates the point.

> Dear Abby,
>
> I didn't know I had a problem until the day my wife/lover/best friend walked out on me two weeks before our 13th anniversary.
>
> All our married life I worked a seven-day-a-week factory job on second shift, and in the mornings managed my own retail business.
>
> I thought everything at home was great. Our house and cars were paid for. We even owned a boat. It turns out that all my wife wanted was for me to hold her, love her, and "be there" for her.

> I learned my lesson the hard way. I closed my business, but it's too late. Abby, please warn your readers about the danger of becoming a workaholic. Material things are not worth the price of losing the one person who shares your life.

The ratio of unhappy people to happy people is at least as high among the rich as it is among the poor, if not higher. Money is a two-edged sword that can bless you or curse you, depending on the place you allow it to fill in your heart. Money can be the key that opens the door to all the expensive vices, or it can be a tool to advance the good things in your life, and this depends on your personal decisions. You can decide to be prosperous and miserable, or you can decide to be prosperous and happy, as I did after my bankruptcy. It's really that simple. Notice I said *simple,* not *easy.*

I have evolved some rules to help you put money in its proper place in your life so you can not only make it and keep it, but use it to enhance your happiness, not blight it.

The first set of rules, aimed at the fathers of traditional two-parent families, will insulate them from money's most corrupting influences and make it a source of happiness and a blessing to the whole family. I promise!

RULES FOR FATHERS

Rule #1: Choose a profession that allows you to spend plenty of dedicated time with your spouse and children, even it means less money and a step down in lifestyle. The lost years of your offspring's childhood can never be recaptured. I know personally many men who have had successful careers and fulfilling family lives at the same time; they can and should go together. If you are struggling over the temptation to trade off riches for family life, let family win the debate. Maybe you need to settle for safe prosperity instead of real riches. Attend every major or minor event in your children's lives—dance recitals, soccer games, and so on—and elevate your wife to queen of your home, but don't be an absentee sovereign.

Rule #2: Set aside one night a week for a family night. We use Mondays. Use it for family activities and outings, game nights, family councils, and lessons in things that are important to your family's moral, spiritual, and ethical growth. This is your only chance to systematically pass on your family's values, history, and traditions so they become part of the family continuum. You can use this time to teach your kids the American history they are not learning in school, or old-fashioned virtues like work, worship, or the Constitution. If you fail to pass on the family baton, your children will grow up like a ship that is all sail and no anchor, drifting with every vagrant wind, and will be suckers for irresponsible peer pressure, as well as the vote-hungry politician's lawful prey.

This is the hardest rule to execute consistently as the kids are drawn in a million directions by school, their social life, and other activities on Monday nights. Our performance in the Ruff house has been less than perfect, but we have tried hard, and it has paid dividends in family togetherness and offspring with character and a sense of belonging to an extended family unit with standards and traditions.

Rule #3: Go over the family finances regularly with the whole family at least once a month. Don't just be a bank with what looks to the kids like an apparently endless supply of money. Make sure the kids know that hard financial choices are a routine part of life. In family financial conferences, you can implant in them a long-term perspective. The kids will moderate their demands on the Bank of Dad as they understand the family's financial parameters.

Rule #4: Don't have a secret financial life with unaccountable amounts of money to spend. No man would become a secret gambler or be tempted to have a mistress on the side if his personal finances were totally transparent. Not doing that can lead to divorce—which is always a financial catastrophe, as I will discuss later. Secret money that is available to finance secret vices can permanently crumble the character of a good man, and cover-up lies can become a reflexive way of life, turning a good man into a chronic liar.

Rule #5: Put aside at least 10 percent of what you make every month to earn compound interest (more about this in Chapter 3). This can be used for debt reduction, investments, bulk buying, entrepreneurial ventures, and bargain hunting, and it's the beginning of your retirement program. It's also a huge deterrent to irresponsible spending.

If you save at least 10 percent of what you make every month to build up a real nest egg, you will have found the antidote to greed and covetousness and the key to financial discipline. All of the Safely Prosperous people in your neighborhood (and there are probably several of them) have built up small or large fortunes by consistent savings over the years. The average American family earns about $3,000 a month, and $300 a month invested prudently can become a huge sum in 10, 20, or 30 years (how much is explored in Chapters 3 and 4).

Rule #6: If you must bring work home from the office, make it a rare exception, or save it until the kids are in bed. Making more money is not an acceptable excuse, and if you consistently spend family time working at home, your wife and kids will get the clear message that you care more about your work than you do about them—and they will be right.

Rule #7: Tithe to someone who can bless others. One evening we were having our regular family prayers, and one of our sons was leading us. Like a lot of kids, he had some ritualized catch phrases that are the easy substitute for genuine spiritual thought. With no real thought, He asked god to "bless the poor, the sick, and the afflicted," and I had an epiphany: "Why are we giving back to God the job he gave us?" From that time on, our prayers became, "God, lead us to those whose lives we can bless as thy servants." Giving away money may be the most important and effective way to eliminate greed and keep things in perspective, as well as to gain the genuine satisfaction and great self-image that comes from knowing that you have made a difference in the world. Do this off the top, or it won't get done. We tithe to our church; you can do it to any worthy cause. A tithe is a tenth, and is the cure for greed and selfishness. If you give away one-tenth of your paycheck every month, it will condition you to not love your money. Consider your income and assets, current and future, as a stewardship to bless others' lives rather than an entitlement.

There is a real payoff for this. When the Old Testament prophet Malachi promised us that if we will no longer "rob God" by not paying our "tithes and offerings," God will "open the windows of Heaven and pour out a blessing so great you can hardly receive it," he may have been talking about things that are more important than money. When your finances or your life are all messed up, you need all the help you can get—even divine help.

With the resulting stash, you can take advantage of bulk buying to save money. You can pay cash for a car or refrigerator, or you can pay the bills if you are sick or laid off. You can provide the seed money for that dream of a business you had. You can also swing for the fences on that great day in the future when the markets offer irresistible values with a terrific risk/reward ratio of at least 1 to10, as discussed in Chapter 16.

Rule #8: Be generous. This is the ultimate inoculation against the love-of-money disease. Never miss an opportunity to help someone in need. Who might that be? They are all around you. Be a soft touch, without thought of reward or even repayment (over and above your 10 percent tithe). My great-grandpa Mayberry learned the Law of Compensating Returns: You can't give it away faster than God blesses you with it. I really believe this works in the real world.

There is no happiness like that found in giving service or other help to someone. The recipient may not even appreciate it. There is an old half-true statement that says, "No good deed goes unpunished," but it doesn't matter: You know, and God knows, and peace of mind and serene nights of sound sleep are the result.

GET THEE BEHIND ME, GREENBACK

The Bible has some wise insights into the corrupting effects of money, such as, "You cannot serve God and Mammon." Those who put money ahead of family, wholesome family recreation, church, charitable works, and so on, usually live blighted lives. It has been driven home to me over and over that most very prosperous or rich people who got their money by single-minded dedication to making money at the expense of other much more important things are terribly unhappy. They are either divorced—sometimes several times—or have desperately unhappy marriages. They are usually estranged from their children and have become easy prey for gold-diggers less than half their age. What they have gained is dwarfed by what they have lost.

RULES FOR MARRIED WOMEN

Now, let's talk to married women.

You are the principal steward for your children, and you are your husband's conscience in keeping emotional and spiritual balance for your family. The following rules apply no matter how much or little your husband brings home.

Rule #1: If there are minor children, make sure one of you is a stay-at-home parent during the preschool bonding years, and I don't care which one—although in the early years, I think mothers are usually a lot better at it. I am not hostile toward working or professional women; I was raised by one. If you need a career, that's OK with me, but if you do, just don't leave your children with minimum-wage day care workers. If there is a great tug of war between making money and having a parent in the home, one of them will lose, although the damage to your children may not show up for years. They may seem to be coping just fine, but the latest research says that they are paying a silent price. Once you have a child, you are no longer a completely free agent. If one of you is not there during the day, you will miss out forever on all the important events of a child's life—the first crawl, the first step, and the first words. They will instead be witnessed by some emotionally uninvolved worker—if he or she is even watching. All those great teaching moments will be lost forever. Accept a smaller home; an older car; a smaller, older TV in exchange for a precious bonding experience. That's worth all the money, personal professional fulfillment, and prestige toys in the world. Some parents have worked it out by having staggered working schedules so one is always home when it matters. The rule is simple: kids come before all other supposed treasures.

Rule #2: Be the custodian and enforcer for the family savings account. Your husband is likely an overgrown kid on the loose all day. If he has unaccounted-for money burning a hole in his pocket, he'll spend it. You must save it and keep it out of his juvenile reach. Get him to agree on a small, fixed allowance he can spend as he chooses and not have to account for, and claim the same for yourself.

Rule #3: Train yourself to be a widow or divorcee. The odds are that you will not have a husband all your life. Statistics show that you will probably be alone for 5 to 10 years, and your adult kids will have to be a part of your financial life. If they have been taught well, they will be there for you when you need them. You have no idea how many new widows or divorcees call our consulting center begging for advice because their husbands had kept them in the dark about the family assets and income. You need to know the location of the insurance policies and the phone number of your agent as well as the location of the stock certificates, CDs, checkbooks, mortgage and payment books, and so on.

Rule #4: Don't let your husband become a workaholic. Insist on a weekly date to some inexpensive restaurant, movie, stage show, or sporting event. Gently but relentlessly suggest (demand?) that he preside over a weekly family night and/or family council and attend all the kids' special events and games and recitals, creating everlasting bonds that will become more and more precious as your lives wind down. Don't let him neglect his familial duties. Some day he'll thank you for it.

Rule #5: Stay out of the expensive social whirl. It will only lead to the keeping-up-with-the-Joneses syndrome, as it once did with us, and that will blow the family budget. It's just an ego thing, anyway. When Thoreau said, "The mass of men lead lives of quiet desperation," he must have meant the Joneses with their Mercedes, their boat, and their relentless, interest-laden credit-card bills.

RULES FOR THE UNMARRIED

Rule #1 through 10: Get married and stay married. A growing numbers of singles are postponing marriage until some undefined time in the future. Sometimes it's because they are getting lots of free sex without commitment in this increasingly permissive and sexualized world. Sometimes they are cohabiting with an undefined future—"We'll probably get married someday."

Often they give financial excuses, such as, "We'd like to get married, but we need to wait until we can afford children," or, "but we want to wait until we can afford a real nice home." They don't realize it, but they are sliding into a hell on earth on their buts.

Numerous studies have confirmed that married people are ultimately healthier, happier, and richer than singles. They are more emotionally stable, have more savings and investments, and make better employees and more successful entrepreneurs. Postponing marriage and childbearing does not seem to help people be more financially successful, perhaps because nothing concentrates the mind like having hungry mouths to feed and the emotional security of loving, being loved, and being committed to a joint future.

DIVORCE: THE FORTUNE WRECKER

Nothing is more devastating to your finances than a divorce; it's always a train wreck. It is an intolerable burden to the divorced husband, and there is rarely enough money to support two households. Poverty-stricken divorced women are almost a cliché, and many men don't make enough money to pay the court-ordered alimony and child support and also support a new marriage and family as they try to rebuild their ruined lives. They are society's most unsympathetic villains if they get behind. The chances for either party to ever have a financially sound future are small indeed.

I'll say it again: Get married and stay married, or be prepared to suffer from the terrible financial penalties that go along with a divorce.

Chapter 3

The Alien in Your Chest

Compound interest can be your best friend or your worst enemy. It is a two-edged sword—far more powerful than you thought.

Do you remember the gut-wrenching moment in the movie *Alien* when the horrible creature that had been quietly growing inside one of the spaceship crewmen suddenly bursts out of his chest? When I first saw that, my first thought was of compound interest on consumer debt. What is compound interest? It's interest earned or charged on top of interest, and, like fire, it is a powerful servant but a fearful master. Why is it like the monster bursting out of the spaceman's chest? Because that's what consumer debt does when your job is threatened in a recession, or when you wake up one day and find that your debt has grown until you cannot service it out of your income.

Compound interest is probably the main reason you won't ever be financially secure. Many corporations have become giants because of compound interest earned at your expense. It has burrowed deep into the lives of millions of families and individuals and quietly gnawed away at their substance 24/7—even while they slept—painlessly and surreptitiously eating their paychecks even before they were earned. Then, when these people are laid off in a recession or over-committed and can't meet their compounding-by-the-second debt service, it can burst out in the form of creditor calls, sleepless nights, daymares, and irresponsible behavior they would never engage in if it were not for their debts.

Much of the money I don't have was lost because I arrogantly ignored my own rules for borrowing. Money already committed for paying compound interest for consumer debt is not available for earning compound interest for the future. I have evolved (usually the hard way) some inexorable rules, including some you may not have heard before, that you must never violate if you want to convert compound interest from your mortal enemy into your best friend.

The first step in doing that is to accumulate a nest egg out of current income by redirecting the money you are now paying out in compound interest on your debts into savings that will pay you compound interest instead. This will turn the power of compounding into your servant instead of the wealth-destroying master it is now.

So far, I probably haven't startled you with the novelty of my wisdom, but that is probably because you have no clue as to the power of this mathematical phenomenon. Albert Einstein, who is rumored to have known something about mathematics, said, "The most amazing mathematical phenomenon is the magic of compounded interest." Let's examine why.

THE INVISIBLE PROSPEROUS PEOPLE IN YOUR NEIGHBORHOOD

There are financially secure people—even millionaires—in your own backyard. They live in nice but modest homes, drive nice but modest cars, live very comfortably, are financially and emotionally secure and debt-free, and a lot better off than you might suppose. Bill Gates is not their kind of guy; they didn't make a big killing in the stock market or invent a super widget that everyone had to have. They took no risks and lost no sleep. They didn't even work hard at building their estates. They just quietly, year after year, used the magical power of compounding to build their fortunes. They are the Safely Prosperous. Compound interest is their friend, and they are on the right side of this powerful force.

Then there are some of your other neighbors that you may envy because they seem so successful. They may also live in nice houses and have nice cars—maybe even a ski boat—in their driveway, but they are living lives of quiet desperation. They have no savings and lose a lot of sleep worrying about their bills, and they are only one missed paycheck away from bankruptcy. And their marriages are battlegrounds—usually over money. Even while they sleep, compound interest is gnawing away at their wealth and their future income. Even a big raise or promotion only enables them to run in place a little faster so they can have a newer, more luxurious car and keep up the illusion of prosperity. Compound interest is their enemy, and they are on the wrong side of it!

COMPOUND INTEREST AS A FRIEND

Richard Russell is the newsletter publisher colleague I respect the most, and he is highly regarded on Wall Street. He is a wise, balanced, real adult who has been around a long time and seen it all, and shares most of my old-fashioned values. Not too long ago he wrote the most popular, most requested article he has published in 40 years of writing. It makes my point better than I could, so I obtained Dick's permission to reprint most of it here.

> Making money is not just starting a business, winning a lottery or a big NBA contract, predicting which way the stock or bond markets are heading, or trying to figure which stock or mutual fund will double over the next few years. For the great majority

of investors, making money requires a plan, self-discipline and desire. I say "for the great majority of people" because if you're a Steven Spielberg or a Bill Gates you don't have to know about the Dow or the markets or about yields or price/earning ratios; you're a phenomenon in your field, and you're going to make big money as a by-product of your talent and ability. But this kind of genius is rare.

For the average investor, you and me, we're not geniuses so we have to have a financial plan. In view of this, I offer below a few principles that we must be aware of if we are serious about making money.

One of the most important lessons for living in the modern world is that to survive you've got to have money. But to live (survive) *happily,* you must have love, health (mental and physical), freedom, intellectual stimulation—and money. When I taught my kids about money, the first thing I taught them was the use of the "money bible." What's the money bible? Simple, it's a volume of *the compounding-interest tables.*

Compounding is the royal road to riches. Compounding is the safe road, the sure road, and fortunately, anybody can do it. To compound successfully you need the following: **perseverance** to keep you firmly on the savings path; **intelligence** to understand what you are doing, and why; and knowledge **of the mathematics tables** in order to comprehend the amazing rewards that will come to you if you faithfully follow the compounding road. And, of course, you need **time—**time to allow the power of compounding to work for you. Remember, *compounding only works through time.*

But there are two catches in the compounding process.

The first is obvious—compounding may involve *sacrifice* (you can't spend it and still save it).

Second, compounding is *boring—b-o-r-i-n-g,* or should I say it's boring until (after seven or eight years) the money starts to pour in. Then, believe me, compounding becomes downright fascinating!

Table 3.1 The Power of Compounding, Part I

	Investor A		Investor B	
Age	Contribution	Year-End Value	Contribution	Year-End Value
8	0	0	0	0
9	0	0	0	0
10	0	0	0	0
11	0	0	0	0
12	0	0	0	0
13	0	0	0	0
14	0	0	0	0
15	0	0	0	0
16	0	0	0	0
17	0	0	0	0
18	0	0	0	0
19	0	0	$2,000	$2,200
20	0	0	2,000	4,620
21	0	0	2,000	7,282
22	0	0	2,000	10,210
23	0	0	2,000	13,431
24	0	0	2,000	16,974
25	0	0	2,000	20,872
26	$2,000	$2,200	0	22,959
27	2,000	4,620	0	25,255
28	2,000	7,282	0	27,780
29	2,000	10,210	0	30,558
30	2,000	13,431	0	33,614
31	2,000	16,974	0	36,976
32	2,000	20,872	0	40,673
33	2,000	25,159	0	44,741
34	2,000	29,875	0	49,215
35	2,000	35,062	0	54,136
36	2,000	40,769	0	59,550
37	2,000	47,045	0	65,505
38	2,000	53,950	0	72,055
39	2,000	61,545	0	79,261
40	2,000	69,899	0	87,187
41	2,000	79,089	0	95,905
42	2,000	89,198	0	105,496
43	2,000	100,318	0	116,045
44	2,000	112,550	0	127,650
45	2,000	126,005	0	140,415
46	2,000	140,805	0	154,456
47	2,000	157,086	0	169,902
48	2,000	174,995	0	186,892
49	2,000	194,694	0	205,581
50	2,000	216,364	0	226,140
51	2,000	240,200	0	248,754
52	2,000	266,420	0	273,629
53	2,000	295,262	0	300,992
54	2,000	326,988	0	331,091
55	2,000	361,887	0	364,200
56	2,000	400,276	0	400,620
57	2,000	442,503	0	440,682
58	2,000	488,953	0	484,750
59	2,000	540,049	0	533,225
60	2,000	596,254	0	586,548
61	2,000	658,079	0	645,203
62	2,000	726,087	0	709,723
63	2,000	800,896	0	780,695
64	2,000	883,185	0	858,765
65	2,000	973,704	0	944,641

In order to emphasize the power of compounding, I am including this extraordinary study [Table 3.1], courtesy of **Market Logic** of Fort Lauderdale, Florida 33306.

In this study we assume that investor **B** opens an IRA at age 19. For seven consecutive periods he puts $2,000 in his IRA at an average growth rate of 10% (7% interest plus growth). After seven years, this fellow makes **NO MORE** contributions—he's finished.

A second investor (**A**) makes no contributions until age 26 (this is the age when investor **B** was finished with his contributions). Then A continues faithfully to contribute $2,000 every year until he's 65 (at the same theoretical 10%).

Now study the incredible difference between **B** who made only *seven contributions* but made them earlier, and **A** who made *40 contributions* but at **a later time.** The difference is that B had *seven more years of compounding* than A, simply because he started earlier. Those seven early years were worth more than all of A's thirty-three additional contributions combined. [Richard's lesson? Start today.]

This is a study I suggest you show to your kids. It's a study I've lived by, and I can tell you, "It works." You can work your compounding with muni bonds, with a good money market fund, with T-bills or five-year T-notes.

Let me interrupt Dick for a moment.

The amazing thing about his example is the small amount necessary to invest in order to achieve these results. The total net earnings weren't the real difference—$893,704 for investor A against $930,641 for investor B. But the out-of-pocket amounts invested were wildly different—$80,000 over 39 years for investor A, earning an 11-fold return, against only $14,000 over only seven years for investor B, earning a 66-fold return!

Because of compound interest, careless spending has a hidden cost. Due to the lost compounding, every dollar bill spent today for consumer goods or for compound interest on your consumer loans, instead of being invested to earn compound interest, could cost you as much as $20 at retirement time, depending on how many years until retirement. Borrowing at compound interest in order to buy things you could not otherwise afford devours your substance into the foreseeable future.

I have worked out a few more examples of the power of compounding to drive home the point. If you put aside only $40 a month, compounded yearly, and invest it at 8 percent, you will be astounded at how much richer you will be in the future:

After 5 years, you will have $2,980.
After 15 years, you will have $15,034.
After 20 years, you will have $24,763.
After 30 years, you will have $59,480.

If you blow $300 twice a year in Las Vegas for transportation, beer, smokes, or the slots, you just kissed off $71,397 thirty years from now.

Now, back to Dick.

> [The typical investor] doesn't comprehend the power of compounding, and he doesn't understand money. He's never heard the adage, "**He who understands interest earns it. He who doesn't understand interest pays it.**"
>
> But here's the irony; if from the beginning the little guy had adopted a strict policy of never spending more than he made, if he had taken his extra savings and compounded it in intelligent, income-producing securities, then in due time he'd have money coming in daily, weekly, monthly, just like the rich man. The little guy would have become a financial winner, instead of a pathetic loser.

So what investments can safely compound your money? As you consider these possibilities, remember that compounding by its very nature means earning interest on your interest. It requires that the interest be reinvested. It is important to maintain your stream of income from salary or business profits to live on as long as possible so you won't have to spend your interest until your estate is meeting your financial objectives and is earning enough interest to meet your needs—and, yes, your wants.

CHANGING OUTGO INTO INCOME

The first alternative is by far the simplest and offers the greatest guaranteed return. This can help anyone with a savings account, but it is especially useful for those who already have savings invested in low-interest bank deposits and money-market funds.

Let's say you have a 2 percent savings account and a 24 percent credit-card balance. If you pay off the credit card with the savings money, it's the functional equivalent of switching from a 2 percent investment to a 24 percent investment. It's the biggest riskless yield you can get anywhere. And there are other choices:

- Some "safe" investments offer no chance of either capital loss or profit—just a slow, steady, dependable, guaranteed yield and a guaranteed principal. These include bank savings accounts, T-bills, money-market funds, and mortgages. The bank and the money market fund will automatically reinvest your interest, making compounding easy and automatic. The downside? The yields can be very low (less than 1 percent as this is written) and, after taxes and inflation, offer a smaller return—even a negative real return—although these rates will not stay low forever. However, with T-bills and mortgages, you will have to actively put the interest immediately back to work earning interest to get the benefit of compounding.
- Some investments, such as Treasury notes, Treasury bonds, and corporate and municipal bonds, offer a fixed return and higher yield (around 4.5 percent as this is written)

> with safety of principal but with a chance of capital gains or losses. These investments are all interest rate–sensitive, meaning that your principal can fluctuate up and down in market value as interest rates fluctuate. Generally speaking, when interest rates in the marketplace are rising, these investments tend to fall in value. When interest rates are falling, they tend to rise in value, and can even be more profitable than stocks. Let me explain why.

If you bought a $1,000 10-year Treasury note yielding 5 percent, you would get a guaranteed $50 a year in interest for the life of the note—no more, no less—and when it matured, you would not only have earned your interest, you would also get your $1,000 back. T-notes are risk-free if held to maturity.

However, if market interest rates rose to 10 percent, your note with a fixed contractual return of $50 a year would only be half as attractive to a buyer as a newly issued note paying 10 percent a year, or $100. Many people think that if you buy a 10-year T-note you have to hold it for 10 years until it matures, but that's not so. There is an active, liquid market for T-notes accessible through any broker, so you could sell the note whenever you wanted; but when market interest rates were higher than your yield, the note would have to sell at a big discount (as much as 50 percent) to make the effective yield competitive for the new buyer.

To illustrate this point, let's say that when interest rates were high, such as in 1981, you bought a T-bond yielding 14 percent—paying $140 a year. Interest rates subsequently fell to 7 percent just a handful of years later, so this bond as much as doubled in market value, as it was now yielding twice as much as a newly issued T-bond. This, of course, was affected by how close to maturity the bond was.

Even though the rule is pretty simple, let me say it again: *When interest rates go up, note and bond prices go down, and when interest rates go down, note and bond prices go up.* But whatever the investment, the interest, dividends, or capital gains must be reinvested, not spent, or there will be no compounding. Failure to compound can mean hundreds of thousands of dollars less when you are about to retire.

So, buy fixed-return debt instruments only when interest rates are rising, high and stable, or trending down, unless you are positive you will hold it to maturity. Lock in the high rates and compound them by reinvesting the earned interest, and enjoy some potential capital gains as well.

One of the most profitable calls in my quarter century as a financial editor and publisher occurred in 1981. After several years of steadily rising interest rates, new 30-year T-bonds were yielding a historic high of 16 percent. I believed interest rates would fall as low as 7 percent, so I urged my subscribers to buy 30-year T-bonds. We not only locked in juicy all-time-high yields, but a few years later when rates on newly issued T-bonds fell to 7 percent, we sold and reaped capital gains as high as 100 percent, in addition to our terrific interest. This "conservative" investment was much more profitable than even the most profitable stocks over the same period, with no risk of losing the capital.

The nice thing about investing in government securities is its simplicity; with stocks, you always have to evaluate the business prospects for the individual company and its industry group as well as the market as a whole. With corporate and municipal bonds (munis), you also have to worry about the credit rating of the issuer, as a drop in the credit rating by the organizations that rate them means an instant drop in value, and most of the credit surprises are to the downside. With Treasury securities you only have to worry about the trend of interest rates. But that's what guys like me are for.

Munis do have one great advantage over T-bonds—the interest is tax-free. But this tax advantage can be shared by T-bonds if you buy them for your IRA or 401(k) or other tax-free or tax-deferred savings account. And the interest on T-bonds or notes is not subject to state taxes.

A VARIETY OF CHOICES

As this is written, most people assume they can't get more interest than the pittance of less than 1 percent they can currently earn in a bank passbook account or a money market fund. But there are always lots of alternatives for decent yields of as much as 20 percent with reasonable risk. We will explore some of these choices in Chapter 5. They are only for-instances in a changing world and may not be good choices by the time you read this, but they are a great place to start looking, and there are always such opportunities, regardless of what the banks are paying.

I have little sympathy for those who complain about low passbook rates just because they are too lazy to dig a little bit for the luscious rates that are always there to be found with a little work. It takes at least 6 percent to make compound interest your real friend, and that's always doable.

WHAT TO DO ABOUT RISING RATES

So now you know what to buy when interest rates are falling or staying low, but what do you invest in when interest rates are rising? That's easy: a money-market fund. These funds invest your money in very short-term notes and bills, ranging from T-bills maturing in as little as 30 days to short-term (even overnight) commercial paper. As interest rates rise, the funds are rolling over their entire portfolios in as little as 30 days into paper paying increasingly higher interest rates, and most of that is passed on to your account, so you benefit from rising interest rates. Money-market funds have one other big advantage: You can start a money-market fund account with as little as $100 and keep saving until you have enough money to buy a bond or a T-bill or T-note when the time is right.

In summary, anyone can benefit from compounding, and total returns around 10 percent (interest and capital gains) can be earned year after year, even when interest rates are generally low. All it takes is a little discipline and the ability to keep your eyes firmly fixed on the future. Let me illustrate that principle with a true story.

When I was getting my pilot's license, my instructor would tell me to fly straight and level at a certain compass heading and altitude. That was easier said than done. I found myself wandering all over the sky—up 300 feet, down 200 feet, or with the nose of the plane swinging as much as 10°, 15°, or 20° to one side or the other while I switched attention from the altimeter to the compass or vice versa. Then my instructor gave me some very wise advice that has been useful in other areas of my life. He said, "Point the nose of the plane on the compass heading you want to fly, and then pick out the farthest landmark that you can see straight ahead—a mountain, a pass, a building—and keep your eyes on it and fly toward it." To my amazement, the plane settled down, and straight and level became automatic and natural.

So how does this apply to the subject at hand? Keeping your eye on the long-term objective will help you to avoid the bad short-term decisions that can cost you hundreds of thousands of dollars at retirement time.

NIBBLED TO DEATH BY DUCKS

Your personal balance sheet is probably pathetic compared to those of the truly prosperous people in your neighborhood; however, the erosion of your potential wealth by doing stupid things didn't happen all at once. It was a lifelong process, sort of like being nibbled to death by ducks. You have probably been nickel-and-diming yourself to death.

I have now taught you the importance of compounding your money, but how will you get the money to start saving and compounding? That's easy: Become a plumber and plug the leaks!

DOING YOUR OWN PLUMBING: BIG LEAK #1

First, you are destroying your future with the really big leak—compound interest payments on charge accounts, car loans, and credit cards. But even with a sudden rush of frugality, it may still be a while until you are far enough out of debt to be able to divert much of that interest money into a savings program to convert compounding from a ravening monster of an enemy into a faithful but powerful servant. So where can you start accumulating some money now to begin to get on the right side of compound interest, as it's obvious that time is of the essence?

THE WAGES OF SIN: BIG LEAK #2

You could change a few things right now with very little pain that could make a five- or six-figure difference in 20 or 30 years. Here are some cold hard numbers.

Alcohol

The average American family drinks two six-packs of beer and/or a dozen bottles of soda a week. This costs you at least $9 a week, or $35 a month. If you gave up the brew and started putting that $35 a month into an interest-bearing account at only 8 percent, you would have $23,096 in 20 years. Unless you are a chronic alcoholic, this involves only the most minor inconvenience or sacrifice.

I don't know just how much I have saved over 46 years of marriage by being a teetotaler, when I take my wife out to dinner and don't order wine, but it's a lot—a whole lot.

Smoking

Let's assume you have a one-pack-a-day habit. That means you are spending $4 a day, or $120 a month. If you had invested that in a money-market fund at only 6 percent, you would have—are you sitting down?—$70,682 in 20 years! And you are much more likely to be alive to enjoy it because you probably wouldn't have died of lung cancer, emphysema, a heart attack, or some other painful and loathsome disease. Yes, a real nicotine habit is hard to kick, and you may have made dozens of false starts, but maybe I have just given you a serious financial incentive to kick an expensive, dirty habit.

But what if you have no expensive vices to repent of? Is saving money hopeless?

CREATING SAVINGS OUT OF NOTHING

I know women who save their families $20 or $30 a month just by clipping coupons, learning to change their own oil, or sewing or mending the family clothing. That's enough to make a real start on building some real wealth through compounding.

How about going out to eat at an inexpensive Chinese or Thai restaurant every other date night instead of some ritzy joint where the food tastes no better and costs two or three times as much? You will save $20 to $40 bucks twice a month.

How about waiting until the biggest hit movies come to the local dollar theater or on video, instead of paying the $9 regular admission for each of you? That's worth about $35 to $70 a month.

There is hardly a family in America that couldn't save and put away 20, 30, or 50 bucks every month. They just need a clear picture of their long-term goals and a grasp of the power of compounding and the financial rewards of even a modicum of self-control and personal discipline.

Here are a few more suggestions gleaned from *The Wall Street Journal.*

Trim Your Insurance Bill

Stay clear of expensive whole life insurance, and buy cheaper term insurance instead, at least until your newfound prosperity makes it worthwhile to take advantage of the tax benefits whole life can provide. As you near retirement, reduce your coverage to lower your premiums; you don't need as much coverage as a young wage earner with dependent children. You can save the difference and earn compound interest on the money.

Redirect Your Education Dollars

Fifty-year-old people usually no longer have to spend money on education as the kids graduate from college. Invest the money and create a compounding cash cushion for yourself.

TAX-FREE SAVINGS

Because your plan can be aborted by taxes on your interest and other investment returns, cutting the money available to compound, you have to seriously consider putting as much of your savings as possible into a tax-exempt or tax-deferred account, such as an IRA or a 401(k). This can make a huge difference over time. Consider the following.

Stocks and Bonds

The real optimists assume there will be an average annual return of 8 percent in the stock market over time. I think that's a dubious proposition, but let's accept it for the sake of discussion. After you have paid 1.5 percentage points for taxes, your yield is down to 6.5 percent. Then knock off another 3.5 points for inflation and investment costs. You are now down to only 2 percent a year in a best case. If you dodge the taxes in an IRA, the real return is 3.5 percent. Not humongous, but still worth compounding.

With bonds, the results are more predictable because, unlike the case with stocks, the returns are guaranteed and riskless. A bond fund that owns a mix of corporate and government securities might start out with a 5 percent yield, but in a tax-exempt IRA, you will save about one-fourth of the bite from inflation, taxes, and investment costs.

The lesson is clear: Investing outside of a tax-exempt or tax-deferred account is like foolishly pouring real money down the toilet.

Tax-Deferred Retirement Accounts

Set up and max out your IRA account. The limit you can set aside now is $2,000 a year each for you and your spouse, but that will rise to $5,000 a year by 2008. If you are over 50, you can take advantage of a catch-up provision by adding another $500 a year, and as much as $1,000 a year starting in 2006.

The big savings will be found in a 401(k) account. You can currently invest $11,000 tax-exempt each year, and that will increase by $1,000 a year up to a total of $20,000 a year. Just make sure you diversify. Don't "Enronize" your retirement by putting all your eggs in one crumbling basket.

BIG OAKS FROM LITTLE ACORNS GROW

Table 3.2 can help you decide just how much you want to put away every month and for how many years. It shows you how unbelievably huge even small compounded amounts of money can grow to be at 8 percent in 15, 20, 25, and 30 years in a tax-exempt or tax-deferred account.

WHY THE POOR GET POORER

I recently saw a young mother at the supermarket with three children and a grocery cart full of beer, pop, cigarettes, frozen casseroles, and junk food that cost several times what the wholesome food in the same store would have cost them. After

Table 3.2 The Power of Compounding, Part II

Dollars Invested Monthly	15 Years	20 Years	25 Years	30 Years
$ 10	$ 3,460	$ 5,890	$ 9,510	$ 14,904
20	6,920	11,780	19,020	29,800
30	10,380	17,670	28,530	44,700
50	17,300	29,450	47,550	74,500
100	34,600	58,900	95,100	149,000
200	69,207	117,800	90,200	298,000
300	103,800	176,700	285,300	447,100

she paid for much of it with a credit card, she hauled it out to a 10-year-old jalopy and drove off.

I probably shouldn't judge her. Maybe she has an abusive, alcoholic husband. Maybe she's a divorcee or a widow or a deserted wife. The sad thing is that she doesn't have a clue about the principles we're talking about here. She's young, and in 20 or 30 years she could be very prosperous with a healthy balance sheet. The hard part would be to persuade her to change her whole perspective on money, and that is a monumental task.

We've all read the news stories of the manual laborer, maybe the janitor of the local school, who died and, to everyone's shock, left a fortune to a local church or charity—or pet cat. Where do such people get the money? They frugally and carefully saved, and usually the power of compounding took over.

This example strikes close to home. Kay's dad, Carl Felt, was the custodian at the local high school for years and managed to accumulate more than $45,000, which he was able to loan me at a time when my business needed it. (I doubled his money in a year.)

PAY YOURSELF FIRST

The biggest factor in your investment plan should be a generous savings program. Americans are saving at the lowest rate in history—just under 4 percent, up from only 3 percent in 2001. If you're serious about having a prosperous retirement, simply put aside in an interest-bearing account at least 10 percent of what you make every month! This may seem impossible to many of you, as there always seems to be too much month left at the end of your money, and expenditures tend to rise to meet income. The only way this will work is if you do it the minute you receive your paycheck. That will also discipline you to begin some of the economies I have discussed earlier in this chapter.

So what's the payoff for this kind of discipline? The average American family takes home about $3,000 a month. Saving 10 percent of that means $300 a month going into a money market fund or savings account. That's $3,600 a year. After 20 years of compounding at only 8 percent, that adds up to $176,700. In 25 years, it's $285,300. In 30 years, it's an amazing $447,100! Is that worth it?

This is pretty old-fashioned, fuddy-duddy stuff, and it's really out of style in today's live-it-up environment, but it has worked throughout history and it will work now and in the future. The math is inexorable—as sure as the rising and setting of the sun. The biggest problem is emotional: The payoff is long-term, and the sacrifices are right now. It takes maturity, a fundamental change of heart about the importance of material things in your life, a conscious decision to change your lifestyle, and a clear understanding of the value of long-term thinking as opposed to short-term thinking. It also doesn't hurt to have an attitude of gratitude for what you do have—an appreciation for the blessings that are so abundant in America. As you cultivate this attitude, you will find more contentment with less stuff, righteous pride in being increasingly debt-free, and a growing satisfaction in the security you are inexorably building for your old age. (And you won't be able to depend on Social Security to take care of you; see Chapter 6.)

As I wrote this chapter, I realized with a sinking feeling how few of the things I espouse here I have consistently applied to my own life. I have made really big bucks in my lifetime, and when the money was pouring in, it seemed endless and hard times seemed in another galaxy. But if I had saved 10 percent out of each paycheck and allowed the interest to compound, I would now have several million dollars more than I have now and would not have had to go through the financial roller coaster my life has been in recent years.

So, do as I say, not as I did. I don’t have enough time left for the full power of compounding to work for me to the max (remember, sometimes I wish I was 72 again!), but Kay and I are now implementing the suggestions in this book. With a little luck, I might have 15 or 20 years to watch my own advice pay off. I have beaten cancer and a mild heart attack, so I’m pretty tough, and you probably couldn’t kill me with an axe, and if I don’t drive too fast and avoid sharp implements, I might live forever. Don’t bet against it.

Chapter 4

The Great American Lie

Pretending to be rich by selling your future to buy the big house, the big SUV, the big home theater, the big boat, while living a life of quiet desperation when the monthly bills come in

Having a lot of consumer debt is the single most wealth-destroying mistake you can make because the compound interest you pay destroys your future even as you sleep. It's the turnpike to Financial Hell. Getting into consumer debt has demolished the futures of millions of people, because it's so easy to do. Merchants all around you will gladly loan you money to buy cars, furniture, vacation cabins, cruises, designer clothes, computers, appliances, cruises, jewelry, video cameras, home entertainment centers, motor homes, expensive dinners at fine restaurants. Anything the mind can conceive that you don't really need and can't really afford can be financed or put on a credit card; it's a kind of sweet slavery.

LIAR, LIAR, PANTS ON FIRE!

And it's a terrible threat to America! Why? Because our whole economy is built on a lie. Millions upon millions of people are big liars, only pretending to be rich. Maybe you envy them because they have two late-model cars, a big house, kids in college, a ski boat in the driveway, a home theater, two or three of the latest upgraded computers, and maybe even season tickets for major-league professional sports, at $50 to $200 per seat per game. And you can't tell the liars from the honest people by the medallions on their cars or the size of their houses. All that probably tells you is how far they are in debt. The truth is that they don't really own all that stuff; anonymous lenders own it. And sooner or later, all liars eventually get caught. In this case, they will be exposed for what they are if (or when) the economy really turns sour and they lose their jobs, their businesses fall on hard times, their investment portfolios take a dive, or their pension plans come up short. The liars' biggest enemy is a recession—or, Heaven help us all—a depression, because it rips away the facade and reveals the empty shell inside. Most of these liars are only one or two paychecks away from bankruptcy. Collectively, they have created the biggest bubble in human history—the debt bubble. Maybe we should rename it the liars' bubble.

DOES POLLYANNA HAVE A POINT?

"So what's so bad about debt?" I hear you Pollyannas say. "After all, it enables me to live as if I were rich, and it keeps the wheels of commerce turning. Without credit, I wouldn't own a nice late-model Lexus, a ski boat, a big-screen TV, and our lovely home in a nice neighborhood. Debt enables my family to have a much better life while we are young enough to enjoy it."

That's the seductive siren call of debt, and it seems to work out fine as long as the economy is moving upward so we have our jobs, our income continues to grow, our employer remains secure and solvent, there are no major health emergencies so we can't work, we don't get a divorce, and the present prosperity lasts indefinitely into the future.

But there are some growing clouds on the horizon. Millions of

Americans are beginning to worry about their debts and are calling companies that have sprung up like weeds that claim to help worried people deal with their debts. Even worse, bankruptcies have been setting new records every quarter, starting in the last two allegedly prosperous Clinton quarters, and the pace is accelerating. Millions of people are right on the edge of catastrophe, and living lives of quiet desperation.

Soaring debt has made us obscenely vulnerable if a recession or depression shatters our dreams of solvency, or if our appetites get bigger than our incomes can support. Enough people getting collectively in financial trouble will cause a debt implosion that will destroy the balance sheets of America's biggest banks and corporations that loaned them the money. And that's exactly what will happen when a recession becomes deep enough that millions of people lose their jobs, find they can't make their monthly payments, and finally file for bankruptcy. Millions of apparently prosperous families are so overextended that being out of work for only two or three months means the end of the big lie. When someone files for bankruptcy, an asset (their debt) is wiped out of some lender's balance sheet, and another chunk of America's wealth disappears as though it had never existed. A major debt implosion will be as deflationary as the Depression of the 1930s; wealth will disappear along with its purchasing power, the money supply will shrink, and lines may again be forming at Salvation Army soup kitchens.

For many years we have nurtured the delusion that the prosperous and dependable present will remain prosperous and dependable forever. As Neal A. Maxwell has said, "Too many of us seem to expect that life will flow ever smoothly, featuring an unbroken chain of green lights with empty parking places just in front of our destinations." History tells us that is an impossible dream. Every 50 to 70 years we have to live through a depression, and the last one began more than 70 years ago. All it takes to create a depression is for a recession to get deep enough to trigger mass layoffs and personal and corporate bankruptcies, taking our corporate dominoes and overextended consumers—first one by one, then by the millions. As this is written, despite apparent good times, we are flirting with such a depression, although I hope with all my heart that we can stave it off.

The bottom line? Corporate and personal consumer debt has created an increasingly vulnerable society as tens of millions of fragile balance sheets are built on an increasingly shaky foundation of consumer debt.

So why do we voluntarily rush to create and submit to such dangerous chains? Because these chains are like a tree that bears bittersweet fruit, even though the bitter usually lives on long after the sweet is history. This fruit is the by-product of a near universal human tendency—the craving for instant gratification.

RUFF'S RULES OF DEBT MANAGEMENT

Out of my own painful experience and the observed experience of others, over the years I have evolved Ruff's Rules of Debt Management to help you fight off this most seductive and carnivorous temptation and convert it into positive cash flow, earned compound interest, and a growing estate, thereby insulating yourself from the coming debt bubble implosion.

Ask yourself an honest question: If your regular paycheck was cut off for one, two, or three months, would you be in trouble? Are you really sure your monthly income would never be in danger? Do you really know your employer isn't another Enron, WorldCom, or United Airlines? Are you positive your pension plan is fully funded and earning enough money on its portfolio to stay solvent when the stock market is imploding and banks are paying 1 percent interest?

Even if there is no universal catastrophe, many of you are already sweating over your debts and considering a little of the hair of the dog that bit you. Maybe you are thinking of borrowing to the hilt against your home equity to maintain your standard of living, thereby increasing your debt total and turning an asset that should be your ultimate security into a bigger dagger aimed at your heart. Or possibly you have borrowed from relatives or friends, transferring your risks to them. Maybe you are only one or two missed paychecks away from bankruptcy.

According to government statistics, consumer spending is now exceeding income, and as the gap can only be bridged by more borrowing, total debt is growing much faster than the economy. I forecasted in early 2000, long before the bombing of the World Trade Center, that we were sliding into a deep recession or depression, which would have happened even without the New York catastrophe. Company after company was already laying off thousands of workers, and job security was slipping away at an accelerating pace. But conversely—and perhaps perversely—even in the face of that painfully obvious economic slowdown, in late 2003 Americans are still blithely borrowing to buy cars and big appliances, the Fed is pumping up the money supply and cutting interest rates to keep the credit ball rolling, and Wall Street remains mindlessly optimistic, just as it did between 1929 and 1932 as the world slid inexorably into the abyss of the Great Depression. Debt is so much a part of the national psyche that, perversely, the monetary powers that be look on rising consumer debt as a "positive indicator," and we have to run faster as a nation just to stay in place.

Let's face it, the old-fogy national philosophical and moral debate about debt is over, and instant gratification has won. In the wake of the World Trade Center bombing, we were even told that borrowing and consuming was "a patriotic duty." If we don't keep borrowing and spending, "the terrorists have won." What madness!

Let's look at some data so you can see if you have been as foolish as your neighbors.

MEASURING UP

- The average household has as many as five credit cards with an average balance of $4,000 each, at an average interest rate of 18.9 percent or more. That means that if you are that hypothetical average American, you pay at least an average of $756 in interest every year per card. If you make the minimum monthly payment, it will take you 41 years to pay it off. You will pay more than $12,000 in interest *per card,* three times your original principal balance. The typical minimum monthly payment is 90 percent interest and 10 percent principal.
- If you didn't have average credit-card payments starting at $80 per month, and instead invested that money every month in an 8 percent tax-free savings plan (such as an IRA) for 40 years, you would retire with $151,000 in the bank. At 6 percent it would total $78,000. So credit cards not only cost you thousands of dollars in interest, they also keep you from building a retirement estate earning compound interest every day, every hour, every minute. Those payments not only hurt you now, they destroy your future. Rather than giving your money to the credit-card company for the rest of your life, here is another opportunity to avoid the middleman and flush your money down the toilet.
- Americans paid out approximately $65 billion in compound interest in the year 2000, and despite the highly touted, alleged Clinton prosperity, a record 1.3 million Americans filed for bankruptcy, wiping out untold billions of dollars in lenders' balance sheets. That figure rose sharply in 2001 and 2002. If that has happened in good times, imagine what would happen in a really deep recession!
- The credit-card debt bubble may be deflating as I write, because payment delinquencies are rising. In the second

> quarter of 2001, they rose one-third above the delinquency rate for the first quarter. In fact, delinquencies are at the highest rate since the government began tracking them in 1980.

We are suffering from a national infantile inability to postpone gratification. I remember seeing a sign of the times in a roadside diner in Arkansas that read, "Lord, give me the gift of patience, and I want it right now!" It's become the American way.

Following are the seven rules I have evolved over the years to keep you out of consumer debt trouble.

1. Borrow only to buy a home and one car, and in an emergency to replace a leaky roof or a necessary appliance, such as a washer or refrigerator, or perhaps for an education. Pay cash for everything else, or do without. Most homebuyers buy the biggest house the mortgage broker says they can afford based on the mortgage payment, and it's usually a lot more house than they really need. Less is more if you are trying to accumulate an investment stake. Also, the smaller it is, the sooner it will be paid off.
2. Use cheap mortgage debt only to pay off expensive consumer debt. I express this principle like porcupines making love—very carefully! If you have 18 to 24 percent nondeductible interest credit card or charge account balances, refinancing or taking out a home equity loan with 5 percent or less tax-deductible interest and paying off the credit card balances makes a lot of sense, depending on what you do with the money. If you use it to buy big-ticket consumer items like a more expensive car or a European vacation—or even worse, as a down payment to buy something you don't really need, incurring even more debt—it's a really lousy idea. More about this later. Use mortgage debt to pay off your high-interest debt, thus slashing your monthly

outgo and freeing up money every month to add to your wealth accumulation stash and maximize the power of compounding in your life. This is one of the smartest things you can do. Paying off your home mortgage should be your ultimate goal, although it is the last debt you will liquidate. This is a very old-fashioned idea. Six decades ago when I was a kid, I remember being at my Aunt Erva and Uncle Earl's mortgage-burning party. Mortgage burners are an endangered species, and it's a lot easier to reach that goal if you have a more modest house.

3. You need one good new or late-model car that you intend to drive until you have to shoot it to put it out of its misery. Unfortunately, a luxury car can be like a boat, which is a hole in the water into which you throw money. A BMW, a Lexus, or a Mercedes is nothing but a money-eating ego trip. If you buy a new car, prepare yourself mentally and emotionally to drive it at least 5 to 10 years. It will still get you from here to there sitting down in relative air-conditioned comfort, if you baby it. I love my seven-year-old town car when I'm on the interstate. If you start craving a new car, don't yield! Buy a lovely used car that is at least two to three years old. By the third year it will be about 40 percent cheaper than when it was new. I recently bought a two-year-old Yukon Denali for cash and saved about $18,000.
4. Seriously consider trying to get along with just one car. Just the money you save on insurance, if invested in safe, interest-bearing instruments, could mean as much as several hundred thousand dollars at retirement time. If you really need a second car—which can be a necessity for a young suburban couple with children—buy an older car for Dad to drive to work, preferably one you can pay cash for or at least pay off in no more than a year, then let Mom drive the newer family car.
5. Not all debt is bad; in fact, you will discover in Chapter 15

that the Really Rich are often heavily in debt. Borrowed money is an essential tool if you want to become rich, so it's not just okay to borrow to fund a new business or to buy income-producing assets, it's an essential tool on the way to real riches. But there is one fundamental rule: Only borrow if the borrowed money when put to work will produce enough dependable cash flow to service the debt from day one, so the debt will be self-liquidating. Then, when it is paid off, you will be left with more assets and no debt. When Ted Turner was asked how rich he was, he said, "I must be really rich, because I owe a lot of money." He built CNN, TNT, and TBS with borrowed money.

6. The most urgent short-term goal of your newfound frugality is to accumulate cash equal to six months of contractual obligations and living expenses, such as mortgage payments and living expenses like food and other real necessities. That way, if you lose your income stream for any reason, you can still pay your bills.
7. Get rid of your debts as fast as possible so you can redirect your former compound-interest-paying payments into compound-interest-earning investments.

A STRATEGY TO EMULATE

There's a couple I've known for several years. (I've concealed their identity at their request to protect their privacy.) The husband is employed by a company whose stock was red-hot during the bull market, and they had both stock and options. After a lot of prayer and soul-searching discussion, they took the counsel of their church leaders, liquidated their stock holdings, and paid off their house. Free of mortgage payments, they were now liquid with money in the bank, and were able to help when a relative became unemployed. They are very secure and happy with their newfound freedom from the tyranny of debt.

Their decision to sell their stock earned them the derision of the husband's coworkers during the hot stock market of the late 1990s, but after the high-tech stock collapse of 2000, the stock they sold is now worth a fraction of what it was when they liquidated. They managed to turn a paper asset into real wealth before the fickle stock market swept away their phantom profits.

"THOU SHALT NOT COVET"

Most, if not all, of humanity's ills are because of our failure to obey the Ten Commandments. We can all agree we shouldn't lie, steal, or kill, we should honor our parents, and so on. But why is there a prohibition against coveting among God's Top Ten, and what does this have to do with debt?

In modern times, to covet means to want something you can't or shouldn't buy just because your neighbors have one, and it is the root of irresponsible borrowing. Drive down any street in an upper-middle-class or wealthy part of town and look at the boats, cars, and big houses. I'll bet you anything that not more than 1 in 25 of these households is free of consumer debt and that many of them are sweating bullets over their monthly bills. Even so, you covet what they have. The irony is that you will be judging their apparent wealth not by how much they earn, but by how much they are in debt.

It's an almost self-evident truism that expenditures rise to meet income, no matter how much money you make. Even though you are probably already worried that there will be too much month left at the end of your money, when Jones has a new boat in his driveway you want one too. Jones gets a new Mercedes, so you trade in your two-year-old Ford for an Audi or a Lexus. Jones and his wife go on a vacation to the Caribbean, so you use your credit card to cruise the Baltic or the Mediterranean or Alaska. You mortgage your future to keep up with the Joneses. You covet!

It all seems harmless as long as your income is rising or stable and you can make your payments, but servicing as much as $70,000 to $100,000 in high-interest credit-card debt, as many big fat liars do, will cost you as much as $20,000 a year in interest and many hundreds of thousands of dollars at retirement time. You are a slave to those cards and charge accounts because your future revenue stream is no longer yours.

Also, this only works as long as we remain upwardly mobile as a society. In the last 16 years, millions have benefited from steadily rising incomes, which also has meant expanding lines of credit. We have accepted the credit card offers that stuff our mailboxes and used that expensive credit (18 to 27 percent, after the low "introductory rate" that sucked us in) to maintain an artificial standard of living better than the one we would otherwise have had. In some instances, when we have eaten up all of our current income with debt payments, we use our credit cards just to buy necessities. I am appalled and astounded to see how many people at the supermarket swipe their credit cards to pay for their groceries. I can only hope they are using a debit card or will pay off the bill in full when it comes due, but that's not the way to bet.

Today most newlywed couples start their married life heavily in debt with a house that's better than the one Kay and I had after two decades of marriage. They also drive two nice cars. Debt has become their American way of life, so deeply embedded that it is a negative economic indicator when people stop borrowing. The Fed accommodates by keeping interest rates low enough that people can qualify for bigger loans and buy bigger houses, bigger cars, bigger TVs, and home theaters.

Like most sins, the bill for covetousness (the monthly payment) keeps being presented month after month, long after you have committed the sin. I would suggest you repent of your covetousness.

LIQUIDATING DEBT

What I have suggested so far may be easier said than done. How do you get off the turnpike to Financial Hell by converting debt payments into investible cash flow, short of bankruptcy? Several ways. The following strategies should become part of your family life, mutually agreed on. Include the kids in the decision making, because this financial plan will affect them.

- Don't incur any new debt. The first step is to draw a line in the sand, say, "No new debt," and mean it. At least you are not digging a bigger hole for yourself. If you can't or won't do that, all bets are off. You should do what our youngest daughter, Terri Lynn (age 20), did. She realized that her paycheck was being eaten alive by credit-card and charge-account payments, and she was becoming increasingly addicted to impulse buying because her cards made it so easy. So last Christmas when she was home for the holidays, she gave us her cards. She, like many of her contemporaries, was becoming like the alcoholic who foolishly keeps beer in the refrigerator, and a radical plastic-ectomy (or plastic splurgery) was the only sure way out.
- Look your debts in the eye. Most people don't. Add up all your credit card balances and monthly interest charges and face reality to bolster your resolve. Organize them with the highest-interest-rate debts at the top to set your debt reduction priorities.
- First pay off the debts with the highest interest rates, starting with the smallest total balance. This is almost always your credit cards. You should pay more than the minimum payment on those you're targeting. The added amount will almost always be principal, and as the principal is paid down, a smaller and smaller portion of each payment will be interest. Pay only the minimum payment

on your lowest-rate cards until the more expensive ones are paid off.

- Economize, and apply the savings to an accelerated repayment schedule. Go to cheaper restaurants, movies, and vacations. Get a cheaper car. I am not asking you to take a vow of poverty or make huge sacrifices, but $10 here and $20 there a few times a month can make a huge difference over time. Don't think of these things as sacrifices; take righteous pride in sticking with your program and glory in your shrinking debt and your growing nest egg. Resolve that you will use your credit cards only for essentials, such as travel, hotels, and business expenses, and pay them off in full as soon as you get the bill. Even get a debit card from your bank.
- As a temporary expedient, get a new credit card with a low introductory interest rate and transfer your balance from your high-interest-rate cards to the new card so you can pay off the principal balance faster. Just make sure that the introductory rate lasts long enough to pay off your balance, or that the eventual increased rate is no worse than the one for the old card.
- Consider a debt-consolidation loan, but only if you have drawn that line in the sand and the consolidation loan carries a much lower interest rate. The ones offered by finance companies never do. Home-equity loans are usually the best.
- As each debt is paid off, apply the freed-up cash to an accelerated payment schedule on your other debts. Once they are all paid off, immediately start investing the monthly cash flow savings every month to earn compound interest.
- Give yourself a few rewards along the way. You might decide to devote some part (definitely not all) of the money you are saving as you eliminate installment payments in a

modest, family-approved reward; perhaps a short vacation, or a new dog, or . . . well, I'll let you think of the possibilities. Just make sure you get right back on the program.

- Consider selling your home and buying a smaller one, preferably in a lower-cost area. That's what Kay and I did when we moved from Utah County, Utah, to Washington, Utah, where we live now. It's only a 3½-hour drive from the family and a lot more house for a lot less money. That will produce a big chunk of cash right away and some positive monthly cash flow to invest prudently and compound safely or to swing for the fences in the markets when the time is right. Smaller doesn't have to mean worse: $500,000 in capital gains on the sale of a principal residence is tax-exempt every two years ($250,000 for singles). You can buy a more modest home, pay off your credit cards, and add the remainder to your compound-interest-earning nest egg.

PROFESSIONAL HELP: YOU DON'T HAVE TO GO IT ALONE

As the tide of consumer debt and consumer bankruptcies has risen ever since the late 1990s, you may have seen and heard a flood of radio and TV ads from "non-profit" corporations offering debt relief. The headlines scream: "Reduce Your Debt Payments by up to 50 Percent," "Slash Your Interest Rates to as Low as 0 Percent," "Stop Harassing Calls from Creditors," "Eliminate Your Debts in ⅓ the Time," "Eliminate Late Fees and Over-Limit Fees," "No Loans Necessary," and "Past Credit Problems Are Not a Problem for Us." The organizations that make these claims are "credit-counseling companies," sometimes identified as such by name. They first sprang up in the 1970s, and now there are thousands of them—mostly "nonprofits," which doesn't necessarily mean they aren't designed to be profitable. It just means that profits aren't distributed to shareholders as dividends, but are paid out to managers and key employees in the form of high salaries or bonuses. Actually, these companies are immensely profitable. The term *nonprofit*, while an accurate legal description of their tax status, is really a stroke of PR genius for them, as customers flock to them, thinking they only have their best interests at heart, with no concern for profits. Not so!

The good news is that the reputable companies in this industry can usually make good on these claimed benefits, but the bad news is that much more often than not, your good credit will be seriously damaged, if it isn't already trashed. If your debt troubles are so bad that your credit score is already trash, you may have nothing to lose.

The bottom line? These plans are very helpful to some, but a big mistake for others. Let me explain.

The Good Side of the Coin

If you are already way behind on your payments, if your credit score would gag a maggot, or if bankruptcy appears to be your only other option, a good credit-counseling company can help you get out of debt much faster than you could on your own and keep you out of bankruptcy. There can be some very real benefits:

- Lower monthly payments. These companies can renegotiate your monthly payments down to about 2.2 percent of your balance owing. (If your payment is already this low, that is unlikely.)
- Reduced interest rates. In most cases a lender wouldn't even consider renegotiating your interest rate (or anything else) with you, but the credit-counseling industry has already pre-negotiated such deals with the big lenders, and can easily make deals that you couldn't that will mean huge interest savings for you.
- They can manage your "rollups." This means not reducing the total amount that you apply to your debt reduction

program as each debt is paid off, but instead applying the newly freed-up cash to one of the remaining debts to pay it off much faster. While in theory you could do this yourself, the credit-counseling company will rightly point out that nearly all of those who try this on their own fail to follow through to the end.

- They can "re-age" your accounts. This eliminates late fees and over-limit fees, which can be as much as $60 a month, until you are completely current on your originally agreed-upon schedule.

The Bad Side of the Coin

There are some very serious disadvantages to going with a credit-counseling company:

- Credit-counseling companies can only work with your unsecured creditors, such as credit cards, finance companies, old medical bills, old utility bills, or other unsecured debts that have been sent to collection. They cannot help you with mortgages, car loans, boat loans, or other secured debts.
- They will trash your credit. Most of your creditors will report to the credit bureaus that you are "not paying according to terms" or that your debt is "being paid by a third party." This will cause most, if not all, of your creditors to close your accounts. This is not necessarily all bad because it will help you make good on your commitment to stop adding new debt. But if you need a credit card for business travel for hotels and car rentals, it could pose a problem. And if you ever need to move, it will be nearly impossible to get decent terms on a mortgage for your new home.
- Their ability to legally re-age your accounts will not usually become effective until you have consistently made your payment to them for several months.

- Credit-counseling fees can vary widely. Up-front set-up fees average around $200 to $400 but range from zero (or voluntary) to over $1,000. Many require you to pay the company your next monthly payment as a set-up fee while they skip a payment to your creditors during the renegotiation month. Sometimes this is not disclosed up front. Monthly fees can be as low as $20 a month or as high as $100 a month. These companies derive some of their compensation from a commission, called *fair share,* paid by the lenders, that averages about 8 percent of each monthly payment.
- On the positive side, the credit-counseling industry has been a win-win deal for lenders and borrowers. The borrower gets out of debt, and many unsecured debts have been paid in full (with reduced interest) when they might have been discharged in bankruptcy. The debtor can also preserve his or her personal integrity in honoring his or her financial obligations.

But don't choose credit counseling unless your credit is already trashed and you have little or nothing to lose!

Debt Settlement Companies—Aggressive Debt Retirement on a Faster Track

There is another class of companies, called debt settlement companies, that help you eliminate your unsecured debt more aggressively; the only faster way is bankruptcy. They can lower your payments more than credit-counseling companies and usually promise to eliminate your unsecured debt in a short 24 to 36 months. The downside is that the damage to your credit is significantly worse than with credit counseling.

Here is how debt settlement companies operate: You send your new lower monthly payments to the debt settlement company. Instead of sending it on to your creditors, they let it accumulate for several months. Then they start negotiations to settle with your creditor for approximately 20 cents on the dollar and keep working at it until each of your debts is settled. They charge you about 40 percent of the savings that they negotiate for you. They usually keep your first two payments as a retainer against the fees they will charge you.

The downside is that your creditors will usually not cooperate with them. They will continue to press you for the full amount of your obligation and they will proceed with judgments against you, which will be devastating to your credit—sometimes worse than a bankruptcy. Avoid debt settlement companies at all costs!

Debt Plans for the Creditworthy—By Far Your Best Choice

A few companies offer comprehensive debt plans that have no negative impact on your good credit, and can get you out of debt, including your mortgage, in nine years or less! They are by far the best choice if you have a mortgage, at least $15,000 in non-mortgage debts, still have good credit, are a homeowner, and have some equity. Some of them start off with a debt consolidation loan against your home, while others simply manage your existing debts. If you have a lot of debt, these debt plans will save you tens of thousands of dollars in interest (as much as $100,000) and have you completely debt-free (including your mortgage and other secured debts) in less than 10 years. You make one monthly payment to them and they implement a roll-up plan that eliminates all of your debts in the most efficient manner possible. Set-up fees range from $3,500 to more than $9,000, which is usually not out of pocket, and monthly fees range from $20 to $100 per month. Since the typical savings on one of these plans usually exceeds $100,000, the cost turns out to be a tiny percentage of the savings. It can be well worth the fees to have professionals handle the whole program for you. This will not increase your monthly outgo.

The company I am most familiar with is No More Mortgage, founded by my son Larry. In the interest of full disclosure, I do have a financial interest. I am such a passionate believer in this concept that I loaned the company some money and serve as chairman of the board.

When you call the company, the first thing they will do for you, even before you commit to them, is give you a comprehensive, personalized seven-page debt analysis of your individual situation generated from the information you give them over the phone. You can see a specimen of a typical debt plan on their Web site at www.nomoremortgage.com, which illustrates how the plan will work, how much you will save, and when each debt will be paid off. It will also show you how to transform your debt into retirement wealth. Your personal plan will project your financial status 20 years from now compared with the results of the track you are currently on. The typical client's 20-year window can change from $100,000 in debt if they do nothing to $200,000 in the bank and growing when they take advantage of the plan.

No More Mortgage's fees are the lowest in the industry, and if you decide to proceed, you will also receive a comprehensive financial education in the form of a Money Mastery Financial Kit, complete with videotapes and workbooks and a monthly newsletter to help you stay on track. Next, the company will arrange the most advantageous financing for a debt consolidation loan to save you the maximum amount of interest and get you completely free of debt the fastest. This may be a low-interest refinancing of your home or a low-interest home equity loan. The proceeds will be applied to your debts. Set-up fees are based on a small percentage of what the company will save you and come out of the proceeds of the loan at escrow, meaning there will be no out-of-pocket costs.

Then the company will manage your payment schedule with a monthly draft from your bank account. Your funds are protected by a bonded third-party administrator who disburses the debt payments and provides a monthly statement showing the progress of the debt elimination plan and an annual summary, complete with an audit of each of your creditor statements to ensure you have not been overcharged by a creditor. (The FDIC has reported that interest miscalculation by creditors has caused debtors more than $8 billion in overcharges.)

Perhaps the greatest value to you is that No More Mortgage stays with you until you are completely debt-free, and you can call them anytime for financial advice. If you relocate, replace a vehicle, or add to or restructure your debts, they will make appropriate adjustments to your plan with no additional fees. They will also help you to take advantage of your improved credit scores by lowering your interest rate, shortening the time it will take you to be debt-free.

The best thing about the plan is that it has no bad effect on your credit because it does not involve any negotiation with creditors. There is no out-of-pocket expense or increased monthly payments. If there is such a thing as financial salvation, assuming you have some home equity and your credit is not thoroughly trashed, this is it!

BIWEEKLY MORTGAGE PLANS

Biweekly mortgage plans focus on your first mortgage only. Instead of making your usual mortgage payment of, say, $1,000 per month, you pay $500 every two weeks. This results in 26 half-payments each year, which is the equivalent of 13 full payments each year. I know this is hard to believe, but this extra payment each year usually results in the mortgage being paid off in about half of the normal time and results in savings of tens of thousands of dollars in interest, because the extra payments are applied to your principal, thus steadily reducing your interest. If you are paid biweekly, such as every other Friday, this program can be ideal. If you are paid twice a month, budgeting is a lot harder. You can do this yourself or work with a management company. Set-up fees range from $250 to $3,500. Monthly fees range from $20 to $40. These plans are also available from No More Mortgage.

DO-IT-YOURSELF DEBT PLANS

But, couldn't you do all of this on your own, eliminating the fees that the companies charge? Sure you could, but few of us have the discipline or the know-how to follow through on our own, month after month and year after year. It is too easy for the initial resolve to be honored for a while and then for the discipline to fall apart when "things come up." Things always come up—car repairs, Christmas, weddings, veterinary bills, clothes, and other non-budgeted items. If you have tried and failed before, the external discipline of a good plan with a good company is more than worth the investment. If, however, you decide to go it on your own, here are some suggestions:

- Stop adding new debt right now. A firm resolve from both you and your spouse is essential.
- Start off with a realistic budget, one that you can really live with. If it is not realistic, you will soon find a way to undermine it. Don't forget to include in your monthly budget the things that come up annually, like Christmas, tires, car repairs, car registration, birthdays, wedding gifts, family vacations, honeymoon trips, prescriptions, insurance premiums, and so on. Realistically estimate these expenses on an annual basis, divide that number by 12, add it to your monthly expenses, and then set the money aside in a savings account every month without fail.
- Apply at least the same amount to your debts every single month, adding to it as debts are eliminated, freeing up some cash flow, until you are completely debt-free. Never decrease this amount because one of your debts is paid off.
- Do not count on future windfalls to wipe out your debts.

Anytime you experience a modest windfall, apply at least half of it to your debts and enjoy the rest. Consistency wins this race, and trying to go too fast can soon undermine the discipline of consistency.

- Target smaller debts first for early payoff, even if they are not the ones with the highest interest rates. There are two reasons: First, it gives you an emotional boost every time a debt is paid off; and second, when you pay off a debt, there is more money every month to apply to other debts or to give you a bigger margin of financial safety. The bigger your margin, the more easily you can withstand an unexpected financial emergency by lowering your debt payments if you absolutely have to.
- As you pay off each debt, consistently add the newfound money to the highest-interest-rate debts first. Work from the top down—highest interest rate down to the lowest. Your shortest path to becoming debt-free is to target the highest-interest debt for early payoff.

HOME EQUITY LOANS AND REFINANCING

All of this new thinking will inevitably bring you to the question of whether or not you should take out a home-equity debt-consolidation loan or refinance your home. There are several advantages to doing so:

- This is the only kind of loan where the interest is tax-deductible. For example, if you are in the 30 percent tax bracket, you will save in taxes 30 percent of the amount you pay in interest on that loan.
- This type of loan will carry a much smaller interest rate than your credit-card balances and charge accounts, so you could use the proceeds to pay off those debts and immediately cut your monthly overhead.

But there are some avoidable booby traps here. Home-equity loans are usually stretched out over a much longer time than the old debts. You should insist on no prepayment penalty, then, as each old debt is paid off, start immediately applying the old payment to another debt and pay it off sooner. Work down from the highest interest rate to the lowest, and your mortgage(s) will be the last paid off.

A Test of Character

The biggest booby trap in home equity loans has a lot to do with character.

First, you will be sorely tempted to abandon your debt-reduction program when the home-equity loan eases the pressure of the old debts. Only do it as part of your total debt-elimination program. Second, I have a visceral fear of further encumbering my castle. It is my security blanket, and I might start thinking of it as my cash cow. Borrowing against your home should be done like porcupines making love—very carefully. Make it a critical part of your debt elimination plan, and use any cash proceeds only to pay down other higher-interest-rate debts. It's also an emotional security decision. You will have to decide that for yourself.

There is competent professional help for debtors, but this burgeoning industry is loaded with booby traps. At a minimum, check them out with the Better Business Bureau (BBB) at bbb.org. Proceed with extreme caution into your debt-free future; there is a brighter day ahead.

Many readers just don't have the mental and emotional discipline or knowledge to carry out a long-term debt reduction program, so they need some professional help to see that they really do it. Do not despair, because the professionals can help you do just that. Some are very helpful to those who are way behind in their payments with ruined credit. Others can be really helpful to those who still have good credit and are current in their obligations, but have taken my message to heart and want to get rid of their consumer debt to get off the turnpike to Financial Hell.

BANKRUPTCY

Bankruptcy is a last-resort strategy. You may have borrowed yourself into insolvency, your debts may far exceed your income and/or assets, and many of the things you bought may be depreciating faster than you are paying for them. If the recession comes to roost on your doorstep, you may lose your income and be unable to meet all of your monthly payments without a desperate juggling act, like using your high-rate MasterCard® to pay off your high-rate Visa®.

In Great Britain before our revolution, if you owed money and couldn't pay it as agreed, you would be put into debtor's prison. Finally the government figured out that people in jail couldn't make any money to pay their debts, so America created the bankruptcy laws that say if you can't pay your debts, society will give you a chance to legally get rid of them and start over. There are two types of bankruptcy for individuals:

- Chapter 13 of the Federal Bankruptcy Code allows you to work out a plan to pay your creditors because you think you can do it. These plans are more complex and require the approval of all your creditors.
- Chapter 7 of the Code is your most realistic bankruptcy option. It says that if you can't or don't want to pay your debts as agreed, you can wipe them out and start over. Another name for this is "stiffing your creditors," and it has a devastating impact on your credit rating. However, there are legitimate times, either because of past indiscretions or

> circumstances beyond your control (such as the loss of a job or the failure of a business) when you simply can't meet these obligations. As this is written, there is a bill before Congress that will change the bankruptcy laws to make it harder to cancel your consumer debts. Lobbying by lenders paid off for them big time.

What about the morality of stiffing your creditors? Bankruptcy has only one moral use: Rather than spending your life fighting off creditors and going nowhere on your comeback road, you can ethically use the bankruptcy laws as a temporary shield between you and them while you rebuild your wealth, with the goal of eventually paying them back. After all, it's hard to make forward progress with your eyes on the rearview mirror.

I filed bankruptcy back in 1968 when my speed-reading franchise was abruptly canceled and I was left with no income and a half a million dollars in business debts that I had personally guaranteed. I should not have been in debt in the first place. Kay and I were living very well indeed, taking home a lot of money and spending all of it. We gave big contributions to the Oakland Symphony. I bought Kay a $1,000 designer original dress to wear to pre- and post-concert receptions so we could get our pictures in the society pages. When my speed-reading franchise was canceled, my doors were padlocked and I had a pile of debts with no income to pay them, and we were forced to file bankruptcy.

As a practicing Mormon, I have to be interviewed every year by my stake president (the Mormon equivalent of an archbishop) to see if I am worthy to renew my Temple Recommend. This card entitles me to enjoy the additional spiritual benefits of attending the temple (for sacred ordinances during the week, as opposed to regular public Sunday services in the ward chapel). In the interview, members are always asked routine questions about our moral and ethical behavior to verify that we are worthy to enter a place kept clean and sacred by attempting to exclude all those who don't meet certain moral and ethical standards. After all the routine questions, my Stake President said to me, "I understand you have filed bankruptcy. When are you going to repay your debts?" I was stunned because I was worried about buying food for my family, and paying off half a million dollars in debts seemed totally ridiculous. I was even looking for a job, something I thought I would never do. It hadn't yet occurred to me that I could simply come back and start a new business and that my prior business success was at least partly a result of my talents. When I told my stake president that I had been legally discharged of these debts, he replied, "Well, the court may have forgiven your debts, but the Lord hasn't, and you should pay it back."

After I recounted the conversation to Kay, we decided that even though there was nothing mandatory about accepting this counsel and we might have to spend the rest of our lives paying off the debt, we would do just that. That ethics-based decision actually laid the foundation for the much bigger fortune that I created later, but the initial motivation was simply to meet the moral commitment to pay for that dead horse.

I knew that if I was going to pay off half a million dollars, I couldn't do it in installment payments out of wages. You can't cross a 10-foot ditch with six-inch jumps. I had to get rich! So I did. This was the most important money decision of my life to that point because I had made an irrevocable decision to become rich.

Bankruptcy was a shield that kept creditors off my back while I started and built my financial newsletter; it bought me time to mount a comeback. It was tough telling people I couldn't give them my first hard-earned seed money. Kay and I had to drastically alter our spending habits, and I had to reinvest the money I made into direct mail to build my business. I pyramided the subscription money as it came in and poured it back into more subscription mailings.

The end result is that we balanced the books with God and all those creditors. It took 12 years to pay back every penny with interest. I cannot tell you the satisfaction I felt as I wrote that last $12,000 check, and I won't tell you how much money I made later as a result of that simple decision to pay for a dead horse.

If you have to file bankruptcy, do it with the intent of eventually paying off your debts, even if it takes everything you have later on. I would rather die broke but even with the world, and face God blamelessly, knowing I couldn't take any of it with me anyway.

This is a plea that, if you use bankruptcy to get out from under your debts, you do so with an honest intent. You can inform your creditors that even though you are no longer legally obligated, over the coming years you will pay them back somehow, sometime, someplace. If you are not able to, at least your creditors will know you made a good effort.

Bankruptcy and Credit: The Good News

But won't bankruptcy leave a permanent stain on your credit rating? Yes it will, for 7 to 10 years. That is probably the best thing about it, because it was borrowing that got you into trouble in the first place. Bankruptcy will make it much harder to borrow again. If ethical principles are important to you, bankruptcy is just a tool to help you meet your moral obligations.

SUMMING UP

To recapitulate, start now to get out of debt. Start a whole new lifestyle. Cut your artificial standard of living so you can start rapidly accumulating a nest egg to invest. Drive an old rattletrap of a car if necessary. Live in a smaller house; perhaps even rent. Save and set aside at least 10 percent of your income every month—possibly more—to eventually pay back your debts and build a nest egg, and work your tail off to meet your moral obligation to pay for that dead horse.

This will require a total change of attitude. You must be willing to simply burn up all those mail offers that come to newly minted bankrupts from credit-card companies, department stores, and so on, offering you a chance to start "re-establishing your credit" (i.e., begin a new debt cycle). They know that because you can't file bankruptcy again for at least seven years, you are a pretty good credit risk. Don't go near that old debt trap. However, I have one word of caution: Be sure these offers are all burned or shredded, or at the least put into the trash just before the garbage collector comes. Such documents are treasure to the identity thieves who can use them to pretend they are you, and run up purchases in your name or loot your bank accounts.

Chapter 5

How to Prosper by Earning 15 Percent in a 1-Percent World

In early 2003, interest rates on riskless investments fell to 1 percent or less, torpedoing compounding programs below the waterline. Savvy investors still compounded their portfolios at 15 percent or even 20 percent in investments that were almost as riskless.

Now that you've decided to get on the right side of compound interest, it becomes obvious that the percent of return on your savings is a really big deal. There is a huge difference down the road in the results for money compounded at 2 percent as opposed to money compounded at 15 percent or 20 percent.

As this is written, too many people assume they can't get more interest than the pittance of less than 1 percent they can get currently at the bank or in a money market fund, but Safely Prosperous or even Really Rich people never surrender to this assumption because they know they don't have to. In fact, your prosperity depends on getting a decent compound return on your money. If you don't get at least 6 percent, your compounding program is aborted. There are always lots of alternatives for decent yields, sometimes as high as 20 percent with acceptable levels of risk. ("The times they are a-changing" so all of the following examples are for-instances, which may not be good choices by the time you read this, but they are a great place to start looking.)

You can start with 10-year Treasury notes, which in late 2003 are yielding 4.25 percent. Long-term T-bonds or T-bond funds are yielding 5 percent or better; however, they are exposed to greater capital risk if interest rates should turn around and head the wrong direction—as I explained in Chapter 3—which will lower the market value of all bonds. The risk is higher with the 30-year treasuries than it is with the 10-year notes, and the 10-year note returns are close enough to make them an acceptable compromise. If you invest through your IRA, there are no current taxes, as taxes are deferred and the interest is exempt from state and local taxes.

What if you want a better yield than Treasury securities offer? As yields go up, risk increases, but there are still reasonable compromises.

One of the best places to look is real-estate funds. Fidelity Mortgage Securities Funds (FMSFX) returned 7.74 percent in 2002, and is probably still in the 6-percent range as this is written. Alpine Realty Income and Growth Funds (AIGYX) has yielded 13.08 percent. The fund invests in big real estate companies, such as malls and La Quinta hotels. Then there is the Security Capital European Real Estate Fund (SEUIX), which yielded 24.02 percent in 2002 and has yielded 21.9 percent to date in 2003.

Next are international bond funds. The average year-to-date yield for mutual funds in this sector is *9.6* percent. Most of the funds are producing *double-digit returns year-to-date. Five funds* in this sector have yielded between *19.53* percent and *18.76* percent in 2002, and are very close to that in early 2003. There are lots of big-name bond funds and fund families to choose from. You probably ought to *throw a few darts at the sector* and *invest in the holes* to diversify.

Then there are long-term government bond funds. As of May 2003, the average yield year-to-date for all funds in this sector is *9.42* percent. *The top-yielding eight funds* are between *16.08* percent and *14.12* percent, all of them in the American Century Mutual Fund family. *Among the big-name funds,* Vanguard and T. Rowe Price have *good performers here in the double digits.* This again is a dartboard, but if the stock market takes off, these funds will crash and burn. I think it is a pretty good bet that *won't happen*, although there will be market *rallies.*

There is another choice you should at least look at: Stable value funds are in a category *between money market funds and bond funds* where there is more yield and lower risk. However, *these are new,* so they have a very short history.

If you choose a bond fund, look for low duration, which means low sensitivity to rising interest rates—but the trade-off for that is *lower yields.*

Real estate investment trust (REIT) Funds can give you *diversification,* but not always high yields, although some individual REITs have high yields, including Equity Office (EOPRG), Simon Property Group (SPGGRF), and Liberty Property Trust (LRY).

There are also some very interesting high-yielding preferred stocks you can look up at www.forbes.com.

You can also invest in first or second mortgages, safely secured by real estate. Most mortgage brokers will have some suggestions with yields above 6 percent. I will also monitor some of these opportunities in *The Ruff Times.*

There are really intriguing opportunities to get some unorthodox high yields, such as real estate tax liens from county tax assessors or written-off loans from lenders. These usually yield more than 15 percent and are often secured by the property. I consider them virtually riskless, but they do have some limitations.

As I am finishing my last edits for the publisher, I haven't completed my research, so you can get a current list on a one-time basis by calling *The Ruff Times* office at 1-801-224-3660 or e-mailing us at service@rufftimes.com. These opportunities are extremely interesting.

Even 20 percent yields will not make you Really Rich, as described in Book II, but they can accelerate your drive toward prosperity and cut years off your program. They are also great places for the Really Rich to put their money once they have made it.

That's what I've dug out so far in late 2003. There are always similar possibilities, and you don't have to be a Sherlock Holmes to find them. Many are listed every day in *The Wall Street Journal.* All such choices need fairly close monitoring; they are not sock-it-away-and-forget-it investments. In this market where rapid reverses are possible, you have to stay right on top of things either with your broker or on your PC.

The bottom line is that only fools will settle for near-zero yields when they don't have to. It just takes a little homework that anyone can do. I also monitor the yields in the "Investing for Income Portfolio" section of *The Ruff Times* every month.

Chapter 6

Social Security, the Ponzi Chain Letter

Why you would be much better off by not counting on Social Security, the biggest scam in the known universe

Don't be alarmed by this chapter if you are now getting Social Security benefits or are over 60. The big problems described herein will not occur until after you are gone, and it's too late to do anything about it anyway. If, however, you are under 55 and worry a lot, take this chapter very seriously.

Millions of people are betting that Social Security will be there for them when they retire and will provide enough for a comfortable life. Financial planners build this assumption into their financial plans. For millions of Americans, this is a lie, and it is a very expensive mistake to bet on it!

Every time I express my politically incorrect views on this subject, I rub a lot of people the wrong way. Social Security is a sacred cow that we are not supposed to question. It is also called the third rail of politics. But, as the saying goes, "Fools rush in where angels fear to tread." I guess I'm a fool.

I may be beating a dead horse here; many of you already know in your heart of hearts that Social Security is a big ripoff, but you still bet on it, hoping that the day of reckoning will not come until after you have gotten yours. But if you are under 50, you may never see your money, or it may be so inflation-ravaged that it won't buy much. Social Security is by far the biggest Ponzi pyramid ever conceived, and, like all Ponzi schemes, it will have its day of reckoning.

PONZI REVISITED

Social Security is a perfect reflection of a classic fraud case some years ago in which a man by the name of Ponzi raised funds from investors by promising huge payoffs as high as 40 percent a month. He did nothing productive with the money and earned no real profits for his suckers, but he paid huge "dividends" to previous investors by using the money raised from new investors. The Ponzi pyramid eventually collapsed of its own weight, and Ponzi went to prison. This type of scheme is considered a crime when private citizens do it, but it is considered compassionate social engineering when the government does it.

As long as there are enough new suckers to balance the books, the fraud holds up. But if the number of paying "marks" diminishes until they cannot or will not balance the books, then the scheme collapses spectacularly. Just understanding this truth may give you more incentive to begin preparing for a retirement that does not depend on Social Security—even if it somehow hangs together until you die. You can be far better off when you retire than if you just keep betting on Social Security. You will also learn here why Congress will never fix Social Security before it is too late to save it.

Most Americans believe that Social Security is supposed to take care of them in their old age, and they plan their lives accordingly, but Social Security wasn't even intended for that in the beginning. It was only to be an income supplement to your personal savings and other pensions. Under the most optimistic scenario, Social Security alone wouldn't allow you anything but genteel poverty when you could no longer earn a living. Here are some hard truths: In the most likely scenario, either Social Security won't even be there when you need it, or the money the government will have to print to pay you your monthly check will cause saber-toothed inflation that will so diminish the purchasing power of the money that it will be next to worthless.

So here are the rules to help you avoid a monumentally stupid mistake.

Rule #1: If you are under age 50, plan your future without Social Security. If you are over age 40, plan on progressive benefit cuts after you retire, steadily increasing FICA deductions from your paycheck, and growing inflation that shrinks the value of your benefits when (and if) you actually get them.

Rule #2: Don't retire at age 65 unless you are physically, mentally, or emotionally unable to be productive. Maintain your income stream as long as possible.

Rule #3: Accept personal responsibility for your own retirement income by becoming frugal and starting now to build a nest egg big enough to live comfortably on the interest without Social Security, following the guidelines in Chapters 3 through 5.

Let me explain the Social Security scam.

The following exchange took place 25 years ago during Senate Social Security hearings between Senator William Proxmire and a Mr. Cardwell of the Social Security Administration.

> **Proxmire:** "There are 37 million people, is that right, who get Social Security benefits?"
>
> **Cardwell:** "Today between 32 million and 34 million."
>
> **Proxmire:** "I'm a little high; 32 to 34 million people. Almost all of them or many of them are voters. In my state, I figure

there are 600,000 voters that receive Social Security. Can you imagine a senator or congressman under those circumstances saying we are going to repudiate that high a proportion of the electorate? No.

"Further, we have the capacity under the Constitution, the Congress does, 'to coin money as well as to regulate the value thereof.' Therefore, we have the power to provide that money, and we are going to do it. It may not be worth anything when the recipient gets it, but he is going to get his benefits paid."

Cardwell: "I tend to agree."

Just to bring you up to date, 49 million people received Social Security benefits in the year 2000, 25 years later.

Social Security is the most dishonest, reprehensible, deceitfully unsound scheme ever foisted by a government on a trusting public—a fraud so huge that the imagination is unable to grasp it—and the politicians have made us willing accomplices to the fraud. (Someday I will tell you what I really think!)

Try this short true/false quiz:

T F Payroll deductions for Social Security go directly into the Social Security Trust Fund "lockbox," where they are saved for your retirement.

T F Money deducted from *your* paycheck will be used to pay *your* retirement benefits.

If you marked both of these true, you score 0 percent. All your basic assumptions about the Social Security Trust Fund are probably false.

The national economy has become dependent on the Social Security system. It disburses more funds than any other governmental subdivision. FICA is the biggest single tax paid by most Americans. The impact of changes in Social Security payroll taxes or benefits is immense, and if we increase or decrease either, the effects on the economy are complex and ultimately negative.

Pensioners are trapped in the system. Many are totally dependent on it. According to the Social Security Administration, their Social Security check represents more than half the income of 64 percent of the recipients. Millions of people would be in for genuine suffering if the Social Security system were to go broke, or if benefits were to be cut, or if they were not increased to accommodate cost-of-living increases. Even worse, though, is the easily demonstrable fact that rather than saving for their retirement—a good old-fashioned, time-honored American tradition—millions have spent everything they earned (usually on debt payments) and placed a touching level of faith in Uncle Sam to take care of them.

I have a tough question for you. What would your life be like if you were forced to retire at age 65, you were heavily in debt, and your principal income was your Social Security check?

Well, I am about to make a big dent in this faith in a beneficent uncle in Washington with the unpleasant, unvarnished truth. You are about to learn why you must not make your retirement totally dependent on government promises.

THE LOCKBOX MYTH—A GRIM FAIRY TALE

Let's reexamine your true/false quiz: "Payroll deductions for Social Security go directly into a Social Security Trust Fund 'lockbox' where they are saved for your retirement." During the 2000 presidential election, Al Gore made a big deal of the lockbox into which he would put your Social Security Trust Fund. It was a crock!

If that's a crock, what is the truth?

When the government forces your employer to deduct Social Security taxes from your paycheck, all of this money, along with your employer's "contribution," goes into the General Fund. It is all used for current government expenses, and current Social Security checks are just a part of it! It is not held separate from other funds. The Treasury borrows all of it by issuing illiquid, non-negotiable IOUs to the Social Security Trust Fund, and they constitute the whole fund—just under $1 trillion as of December 31, 2000. The Trust Fund has never seen any of that money, only these pieces of paper that represent that the government has taken the money and spent it, and will print more if necessary. All there is in the Trust Fund "lockbox" is a mountain of government IOUs.

The government uses a rhetorical trick to make this palatable; they tell us that, "in the interest of safety," the Social Security Trust Fund is "invested in the safest possible instrument—U.S. Treasury Securities." These securities are a liability of the United States Treasury, secured by "the full faith and credit of the United States government," which means the printing press. When the fund disburses its monthly benefits, it merely calls on the Treasury to issue checks. The government would do this even if there were no government IOUs in the fund. The cost to the taxpayer would be the same. It is just that everyone feels more secure if there are pieces of paper saying the government promises to do this. That's what makes the scam work and the public feel secure even as they are robbed, but it really doesn't make any difference; the so-called Social Security Trust Fund is nothing more than a glorified set of bookkeeping entries.

Just for form's sake, if it should issue more money than was collected for FICA, the Treasury merely retires some of those notes and the "Trust Fund" shrinks. If it issues less money than was paid out in current benefits, the Trust Fund is in "surplus," and the pile of IOUs grows.

How valuable is a Treasury security held by the Social Security system? If you were to write yourself an IOU for $1 billion, add it to your financial statement, and take it to the bank to obtain a loan, you would be laughed out of the bank. We cannot create real wealth by giving ourselves our own IOU. The Social Security Administration is a division of the United States government holding IOUs of another division of the United States government that has spent all the money and has no assets of its own for collateral. This paper represents no value at all. It is not an asset. As a result, the political debate in the last election over whether the Social Security trust fund should be put in a "lockbox" is simply a discussion of cosmetics—the appearance of things. Already the current Social Security payments are paid from the General Fund. The so-called "depletion of the Trust Fund" or "dipping into the Trust Fund" is not the real threat to the system, nor is it new; it's the way it has always been. The real threat is the ever rising tide of pension payments supported by fewer and fewer workers.

There used to be 90 workers supporting each person in the system; now there are three. Within five years, there will be only two. You are making a monstrous bet on your children's willingness to bear that increased burden, which in a few years will have to be more than 30 percent of their paycheck, until they won't dare take any more out of people's paychecks, lest it cause a war between the generations.

The Social Security system depends on the people believing that their payroll deductions will pay for their retirement, but that's not true, and it never was. The government plays games, and we are conned. Social Security payroll deductions are simply another method of raising money to fund the government's alleged needs. Your FICA payroll deduction is a slush fund to pay for Defense, Agriculture, FTC, EPA, and the rest of the alphabet soup of federal government, as well as current Social Security benefits.

THE GOVERNMENT-CERTIFIED CHAIN LETTER

But the real fraud is the fact that the system is really a gigantic chain letter. Chain letters operate under the assumption that when you add your name to the bottom of the list and send your dollar to the top, other suckers will add their name under yours so eventually your name will rise to the top and you will get money from the bottom. It pays off only if a continual new supply of workers continues to fall for it. Sooner or later, as the number of contributors shrinks and the number of recipients grows, it sputters to a stop, and the last guys in lose out.

Everyone now receiving Social Security will get payments until the day they die, so if you are a current recipient, you have nothing to worry about. The real victims are those young workers who are paying into the system now through FICA deductions. They will pay rising and increasingly onerous FICA taxes, expecting to retire in 15, 20, 30, or 40 years. They will be ripped off when they retire, or they will be paid with inflationary funny money.

The money taken from you is also used to pay benefits to many who have paid nothing into the system, as the system is being used to achieve social benefits other than the original intent, such as Medicare and subsidized or free prescription drug benefits. Because of that, plus cost-of-living increases in benefits that have outstripped increases in payroll deductions, it is now being operated on a pay-as-you-go basis. The result? The supposed "dipping into the Trust Fund" we have already discussed, which we have always done anyway. If this were honestly labeled, the admitted federal surplus under Clinton would have been far smaller, or maybe even in deficit.

Democratic Minnesota Senator Paul Wellstone (since deceased) asserted that Social Security "will be able to pay all promised benefits until 2038 without any changes." That sounds like good news, but even if it turns out to be true, all that means is that someone entering the workforce today can look forward to paying Social Security taxes for 34 years only to find there is nothing left when he or she retires.

This Trust-Fund fantasy is worse than false—it is dangerous, because it creates a huge political obstacle to sensible, fiscal policy, and lends itself to demagoguery. It has turned Social Security into the third rail of politics—touch it and your re-election hopes die a sudden death.

Meanwhile, you hope the system will hang together long enough that when you reach retirement age, others entering the system will be willing to pay enough in FICA taxes that you can be paid when you get to the top of the chain letter. You are totally dependent on a continuous flow of new money from those new workers entering the Social Security system.

GOOD MEDICINE: THE ENEMY OF THE SYSTEM

More people are living longer into their golden years, and they vote in disproportionate numbers; and this great voting bloc is treated very carefully by our legislators, who continue to increase their benefits faster than payroll deductions. The irony is that medical advances that prolong life are actually an enemy of the system. An effective, widely accepted cancer cure or an end to heart disease would devastate it, because as people live longer than expected, each unanticipated recipient is a financial threat to the system. Even without them, too few will soon be paying for too many.

The baby boom of the 1940s and 1950s, which brought a large number of workers into the system in the 1960s and 1970s, is about over, and fewer worker bees will enter the hive, while the number of recipients will increase enormously. If the government continues to increase the payroll deductions to maintain the appearance of solvency, the economy will grind to a halt because of this terrible drag on the spending power of the American worker.

Our senators and congressmen are pretty smart, however. They know how unsound the Social Security system is, so they have their own sound, healthy, fully funded pension program with generous cost-of-living escalators. Let me give you an example: When they retire, no matter how long they have been in office, they continue to draw their regular pay (unless increased by cost-of-living adjustments) until the day they die. Former Senator Bill Bradley (D, New Jersey) and his wife can expect to draw $7.9 million over their lives, assuming they live out a normal life span. It costs them nothing! You and I pick up the tab. We would have to collect Social Security benefits for more than 46.5 years to do as well.

This leads to a suggestion that would trigger some honest changes—cancel Congress's wonderful plan and put them on Social Security, then watch them rush to fix the system! However, on second thought, they might just increase the payoff on the scam and place demands on it that would topple it sooner. Then they can continue to cynically vote for spending programs and more Social Security taxes and bigger monthly checks to buy votes because they are insulated from the problem they have caused. Just remember that the next time you vote for a big-spending "defender of the Social Security system."

I'm not so much worried that the Social Security system will collapse but that the Social Security system will be the cause of the nation's bankruptcy, because it is the single largest obligation of government and the debt defies description. According to *Business Week,* the Social Security system's unfunded obligations (the excess promised to future recipients over the amount to be collected) amount to an almost unimaginable $20.6 *trillion* over the next 75 years. That's twice the expected output of the entire U.S. economy this year. The amount of unfunded obligation grew in excess of $1 trillion in 2000, and is accelerating.

Put another way, it's now a rotten deal getting worse every year. Workers who earned average wages and retired in 1980 at age 65 recovered the value of the retirement portion of their and their employer's contribution, plus interest, in only 2.8 years. Every month they lived beyond that was pure gravy. It was a pretty good deal for them, even if the return was only 2 percent per annum. However, those who retired at age 65 in 2000 will need 16.7 years to recover their money. If they die before age 81, they are shortchanged. And younger Americans who don't retire until 2025 will really take it in the shorts. It will take 27.4 years to get your contribution back. Just be sure not to die before age 93!

And that, of course, assumes that the system will still be alive and well then.

WHY SOCIAL SECURITY WILL NEVER BE REFORMED

During the 2000 presidential campaign and the first few months of his administration, President Bush proposed that two percentage points of your FICA contribution be yours to invest in market securities at your option. Historically, that money would produce a return double the 2 percent yield you now get from Social Security, and the principal would be yours at retirement. This proposal was immediately attacked by Gore and other Democrats as "a risky scheme" allegedly opened up to market risks, such as the bear market we are in as I write.

Do you want to know the real reason they oppose this fresh idea? It's because Social Security is a huge slush fund for government, and the big spenders will never let it out of their hands. Can you imagine what would happen to federal spending if all of a sudden the Congress could not borrow the Social Security Trust Fund and spend it on their favorite programs? They'd be about $175 billion short every year! And what would happen if you could invest 2 percent of your FICA as you choose? There would simply be that much less money in the slush fund.

And how "risky" is the scheme? That depends on what you invested the money in. If you invested it in Treasury securities or a T-bond fund, that is riskless.

SELF-FULFILLING PROPHECY?

I have been accused of destroying the very confidence in the system that keeps it alive by telling you this, but I trust the truth.

What choice do I have? The present Social Security System is the real risky scheme. Sooner or later the problems will be recognized and the jury-rigged, dishonest system will collapse of its own weight, whether or not I talk about it. My concern is for you. You must plan your life on the sure premise that Social Security will be of very little help to you, and may have done a lot of harm. It has discouraged saving, because it takes money away from you that you might have saved for yourself and gotten a return at least twice as high while continuing to own the principal. Also, most people believe that Social Security will take care of them. That's what the AARP tells its members as it lobbies for more benefits, and that's what our national legislators and political candidates tell us ad nauseum. They have made Social Security junkies out of us because even the most sophisticated financial planners seldom seriously question that Social Security will be there when needed.

Those who will be hurt most are those who were promised the most. The system is immoral, dishonest, and unethical, and we have bought the big lie and become hooked on it. The only honest way to save the system and the economy would be to slash benefits, which would not only be cruel at this point, but politically impossible. But the greater cruelty is yet to come when the system collapses under its own weight.

Section II

Blowing Your Money in the Investment Markets: The Turnpike to Financial Hell

The next four chapters assume you have accumulated some money to invest, perhaps because you took the advice in Chapters 3 through 6, perhaps because you are a high earner, perhaps because you have had a windfall. Millions of Americans have laboriously accumulated a nest egg over the years and then decided to invest in something—maybe the stock market, perhaps real estate, perhaps a business started by one of their offspring—and they have blown all or part of the money.

All of this pain could have been avoided if they had understood and practiced the few simple principles in this section.

Chapter 7

Listening to Wall Street

Wall Street's conventional wisdom has been 180° wrong almost forever. Here's why, and how to tell.

For four years back in the late 1950s, I was the soloist and announcer with the Air Force Band and Singing Sergeants. That was government work, however, so we only worked two hours a day when we weren't touring about a quarter of the time. So I got a job with a New York stock exchange brokerage. I learned some enduring lessons:

- The firm made recommendations for us to sell to our clients that were in the best interest of the brokers; sometimes the trading department had stocks in inventory and had higher-than-normal profit margins, and promised higher commissions.
- We were under constant pressure to sell higher-margined financial products, such as front-load mutual funds, tax shelters, and other financial-planning instruments.
- The firm's more mainstream recommendations were always aligned with the consensus of Wall Street, which turned out to be pretty darn wrong more often than not.

- No customer would buy a stock if you weren't bullish on it, so it was easy to convince yourself that you were bullish because you were a commissioned salesman. No bullish recommendations would mean no buy orders and no commissions.

After I finished my four years with the Air Force, I tried to continue in that business, but I determined to become more discriminating and use my best judgment. Until then, I had just been a loyal employee and I trusted the house, believed their recommendations and sold them. But when I started exercising my own judgment, there were a lot of high-profit items I couldn't make myself sell, so I didn't sell much, and I didn't make many commissions, and my family was near starving. That's when I decided to get out of the business.

Since I became a financial newsletter editor 25 years ago, my respect for Wall Street has sagged year after year, until now it is nearly nil. The worst thing you can do is blindly accept the consensus of opinion on Wall Street and follow their advice. Most of the brokers' recommendations are—sometimes subtly, sometimes not so subtly—in line with their self-interest.

THE DINES SAGA

Back in the 1960s, James Dines was one of the stars on Wall Street. He was a gifted technical analyst, and, in fact, he wrote books that are still classics of technical analysis. He was everyone's fair-haired boy.

During that time, however, his technical analysis told him that gold was headed for a bull market in the not-too-distant future, so he began recommending gold and became bearish on the stock market. This did not sit well with his employers or his colleagues on Wall Street who didn't sell gold, so he became a pariah and eventually lost his job.

I've known Jim for many years, and you just can't intimidate him that way, so he created a new career for himself as "The Original Gold Bug," and founded and wrote a very successful financial newsletter. He was dead right during the gold bull market of the 1970s (and so was I, by the way), making a lot of money for a lot of people.

Despite his Gold Bug status, Dines has also been bullish on the stock market when it was appropriate, and he was usually right. He is a financial newsletter legend.

The lesson I learned from Jim Dines' history is: If you want to get along with Wall Street, you go along, and it doesn't matter if they're right or not. And there is very big money for talented people who go along.

If you were watching the financial channels, like Bloomberg or CNBC, during the late lamented bull market bubble of the 1990s, you heard many bullish stock recommendations, all assuming that the bull market would continue and that trees grow to the sky. In fact, the bullish recommendations peaked on the day before the market peaked. On that watershed day, 90 percent of the recommendations were "buy" and 8 percent were "hold." Only 2 percent were "sell." The next day the bubble started to deflate and the panic began that has lasted more than three years—the biggest bear market in the history of the New York Stock Exchange. We have since found that Wall Street had been recommending stocks that not only were not profitable, but that contained nothing in their pro-formas to indicate they ever would be profitable. They were stock promotions pure and simple. Many of those companies are now gone, simply because they needed continuing rounds of new capital just to stay alive, and the venture capital markets dried up as panic-driven capital investors ran for the hills.

I had become bearish in November of 1999 when I spoke to a major investment conference and told the audience we were in the middle of a bubble and it was time to start averaging out and soon be completely out of the market. I was laughed at, and there were a few boos and hisses as everyone in that audience was caught up in the bull market mania. Of note, I haven't since had any calls from people telling me how right I was when the market peaked in March of the next year and began its long downhill slide.

So, do I watch CNBC or Bloomberg? Sure I do, but I only want to track market performance and to see what Wall Street believes, so I can consider whether or not to be a contrarian that day.

What's the bottom line of all this? Wall Street is no different from you; we all act in our own self-interest and Wall Street needs to be bullish whether it is appropriate or not because bears don't sell stock, produce commissions for salesmen, or accumulate profits for the company. The bullish attitude is essential to the very life of Wall Street brokers, so like a stopped clock that is right twice a day, there are periods when they are right on, but only when it aligns with their self-interest or they get lucky. Wall Street is not the place to look for objective or accurate financial advice.

When you attempt to make money on Wall Street, you are competing against cold-blooded professionals, and they really are a separate breed. Most are short-term traders; very few are long-term investors like Warren Buffett. They tend to be in early in upswings in individual stocks, and out before the top—just about when you're excited that that tree will grow to the sky and you start to buy. The average investor can't make any money in the stock market competing with those hard-nosed professionals. Because of the emotions described elsewhere in this book, most investors lose money even in bull markets.

To top it all off, in my lifelong experience with wealthy people, I have only found one who became rich in trading the stock market, and thousands who have lost a lot of money in the market.

We were once on a cruise ship with a group of my subscribers. As always, they would ask me to look at their portfolios and make recommendations. One gentleman, whom I believe was 90 at the time, showed me his portfolio, and I gasped. He had averaged more than 30 percent a year for two decades, which was better than I had done—a heck of a lot better! The interesting thing is that his portfolio consisted almost entirely of disasters. When Wall Street was bearish on something because a calamity had occurred and the stock had nosedived until no one wanted it, that's when he bought. He bought Union Carbide when its Bhopal, India chemical plant blew up and killed hundreds of Indians, and Wall Street was heading for the hills. My friend bought it cheap, hand over fist. It was basically a sound company and when the inevitable comeback materialized, he quadrupled his money. And just about every stock in his portfolio had a similar story. In other words, he made a fortune going the opposite way of Wall Street, and he's the only person I have ever met who had the ego strength to consistently do that.

Wall Street is also subject to some malign influences within management. We now know that many of their recommendations were fraudulent simply because the financial consulting arm of the firm wanted a fat consulting contract with the company under discussion. So their analysts became bullish on that stock, which pleased their employer, and the brokerage house was rewarded with a fat consulting contract. I'm not saying that some of this was not sincere, but a lot of it was just flat-out crooked. Again Wall Street operated in its own self-interest, and now some of those people are going to prison along with some accounting firms, and there are a lot of them walking the streets that should be in the pokey.

In addition, brokers are as human as you and I. They are as prone as you to get caught up in manias and in their personal self-interest.

In the final analysis, is Wall Street the place to get your financial advice? With their track record? Where should you get such advice? Is there such a place? Should you even be in the market? I will deal with those questions later.

Chapter 8

The Bigger-Fool Theory of Investing

The stock-market bubble of the late 1990s inflated because investors (speculators?) assumed that if they paid a foolish price for a stock, they would be able to sell it to a bigger fool.

Ignoring the importance of intrinsic value in picking stocks to invest in during the 1990s is by far the most foolish thing done by the most investors during my quarter century as a financial publisher. It was a universal epidemic! It worked for awhile as the market soared to unsustainable heights, driven by investors (speculators?) who assumed that even if they paid a foolish price for a stock, a bigger fool would come along and pay them an even more foolish price. Understanding the importance of real value made fortunes for a few investors who were lucky enough or smart enough to sell at or before the peak of the bull market in March or April of 2000. They understood that at those prices, most stocks were worse than lousy values, and they would go higher only if investors were willing to pay ridiculously higher prices. But most Americans who bet on the biggest stock bubble since 1929 when it was full of lousy values still own their deflated stocks and mutual funds in individual investment accounts as well as in their 401(k)s, and have been hurt big time. As this is written, the carnage is far from over, and millions of investors are still holding onto their big losers like grim death, emotionally incapable of admitting they made a terrible value judgment, and hoping to just break even.

Sooner or later, stocks always "regress to the mean." If they get too far out of line, either up or down, sooner or later they go back within the historic range of traditional measurements of value. The further they go above intrinsic value to the upside in an investment mania, the further they will overreact to a level well below intrinsic value on the downside near the bottom of a secular bear market. I will teach you how to measure these values so you know whether you are really investing or just counting on the bigger-fool theory to bail you out. I will also share my strategies for determining when the values are real and not illusory, and the world is truly on the bargain table.

For most of the 150-year history of the New York stock market, investing was a matter of selecting the shares of the companies that had the best management and business prospects for sales and earnings. It was assumed that if management took good care of the business, the price of the stock would do fine, and the investors would share in the profits through dividends and capital gains. Yes, speculators and traders would bet strictly on stock movements, using charts and other technical tools, and these speculating traders served the useful function of creating the short-term, in-and-out trading volume which created the necessary good liquidity for everyone else. But the speculators were a tough and hard-bitten bunch who knew exactly what they were doing and got an exciting emotional high from the potentially profitable risk. The vast majority of shareholders were conservative investors trying to make a good return from owning a piece of a successful business over the long term.

Sometime in the last two decades, however, investment slipped away from the Wall Street center stage, and speculation became the order of the day. Most people didn't sense the sea change, because they still called it "investment." Actually, it was insanity, a mania that was near to a mass psychosis. Millions were subscribing to the bigger-fool theory. Those who should have been investors were really speculators and didn't know it. The Nasdaq bubble was created by this mentality. The hottest high-tech stocks had zero chance of profits in the foreseeable future; profits weren't even in their projections, but if they were, the underlying assumptions would make Pollyanna blush. If speculators' price expectations were met, those prices were way beyond levels that could have been supported by even the most wildly optimistic business scenarios. Buying stocks had nothing to do with investing in a company's drive toward a healthy bottom line; it only had to do with a soaring stock price, totally disconnected from the reality of true business success. Stock prices were totally detached from any objective measurement of business success. It had nothing to do with value. It was mass stupidity, speculating on price movement.

For some lucky ones, the road to financial heaven seemed to be paved with initial public offerings (IPOs) that only a few favored wealthy clients were able to buy as the companies apportioned them out to the brokers who used their allotments to reward their biggest clients. Money was doubled and tripled overnight, based on an airy foundation of dreams, hopes, and speculation, unfounded in any kind of reality. Some people got in at the start and sold out before the bubble burst. A few of the companies would become real businesses, but most of them started out as dot-coms, and now they are dot-gone!

During the late, lamented bull market of the 1990s, the term *value* was a hiss and a byword to most investors, and especially to analysts on Wall Street. It was a quaint, fuddy-duddy word that had no relevance to the market. Stocks were going up just because they were going up, and "momentum investing" was the new catchword of the day. Traditional measures of value, such as price/sales, price/earnings, and price/dividend ratios and profits were simply ignored. Many of the hot stocks of the last few years didn't even have a profitable bottom line built into their spreadsheets and projections; they would worry about that in the sweet by and by. All management wanted now was share of market and a soaring stock price at any cost, as they would only make their killing with their options if prices soared. Dividends now or in the future weren't even being talked about. If they ran out of cash, they assumed they just had to go into the hot venture capital market and get more. Then, when the market started its death spiral in April 2000 and the portfolios of the venture capitalists were devastated, the capital gravy train jumped the tracks, stung venture capitalists pulled in their horns, and company after company went under, starved for lack of cash, or became a mortally wounded, crippled basket case. People like me who refused to participate in the mania looked like fools for a long time; we seemed to be the stupid ones.

A lot of this phenomenon was created by our dysfunctional tax structure. For example, dividends are taxed twice at the highest rates—first by the corporate tax and second by the personal income tax when you get your dividend checks. Corporate executives did not want dividends; they wanted the company to retain its earnings (if there ever were any) and reward them with options, because that would result in more favorable tax treatment when they took their profits as capital gains. And with the hot market, they could make fortunes with their options, even if there were no business profits. That made the stock price the sole measurement of their personal wealth. This also led to the endemic fraud where deceptive accounting methods were chosen that would inflate the apparent profits, and thus the value of the stock, simply because the stock price was where the executive's bread was buttered, not the company's real bottom line.

Also, millions of Americans had no idea that they were pouring their money into an inflated bubble and a fragile stock market when they poured their money into stocks, mutual funds, and their 401(k)s, thinking they were simply buying into a safe savings program that would go up 20 percent a year. The ignorance was appalling, even bizarre. I can't tell you how many *Ruff Times* subscribers, knowing I was bearish, would assure me, "I'm not in the stock market, I'm in mutual funds," or a 401(k), or whatever. Wall Street propaganda reinforced these dysfunctional attitudes, telling everyone to "buy on dips" and assuring them that the stock market always went up over "the long term," whatever that was. They were burying the fact that even in many companies' published projections, there was no chance of enough profit to justify even current stock prices, let alone the higher prices bigger-fool theorists were betting on. Wall Street's institutional memory had poured down the memory hole the fact that past secular bear markets (long-lasting broad declines) had in some cases lasted as long as 15 to 20 years. If you bought near the top of the previous bull market, it could take that long to simply break even. There is an old Bible-derived adage which I have adapted to make my point: "There is a time to sow and a time to reap" . . . and a time to run like hell, and it was now running time.

Optimism was the word of the day at the peak of the market in March and April of 2000. As I told you in Chapter 7, 98 percent of the recommendations coming from Wall Street analysts and investment advisors were "buy," or "hold," and less than 2 percent were "sell." At that pivotal time, 98 percent "sells" would have been a much sounder strategy, as the falling tide lowered even the sounder boats, even as a bear market was still unthinkable on Wall Street. Most of the "analysts" making these calls were obsessed with the commissions they earned when people bought stocks, including the special deals the brokers got for selling an IPO to a customer. Most of these decisions were made by young whippersnappers who weren't even brokers during the last bear market and had no idea what happened historically during bear markets. To them, the traditional valuations of sales, earnings, and dividends were old-fogy ideas that weren't even in their vocabularies.

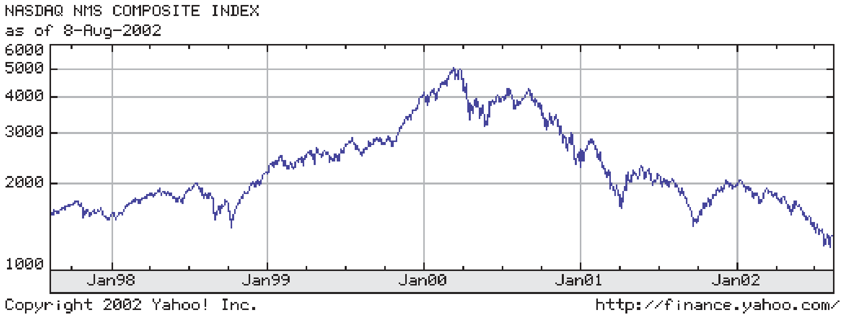
I recently had dinner with a very bright young man who told me he had put money in the stock market and his portfolio had fallen big time while he kept hoping for a rebound. He asked me what he should do. I told him to sell and put the money into Treasury Bonds because interest rates were going to fall even lower, and bonds always go up when interest rates go down. He said, "I can't do that. I would take a 50 percent loss."

I said, "You have already taken your loss. I'm just asking you to face up to it and do something about it. There is only one legitimate question to ask yourself: 'Given that I have a portfolio worth $XXXX, would I buy the stocks I own today? I have to avoid further losses and gain some profits.' The paper losses you have now are history. The beginning of wisdom is to face reality."

He then said, "Well, I'm just going to wait and see if I can get it back," which told me that now the total purpose of his investing was to break even, which is not a really smart attitude for an investor when a stock has to double just to break even. You can break even with a lot less risk by putting the money in your mattress. The market dropped another 10 percent while the T-bonds rose 12 percent while yielding 6 percent interest or more!

The out-of-sight traditional market measurements of valuation drove me to recommend in February and March of 2000 that everyone should sell all their stocks, even the "good companies," because the falling tide would lower even the sound boats. I was laughed at by a thousand investors who thought I was a fool when I said this at a major investment conference, and frankly, I felt pretty stupid at the time, even though I knew it was the right thing to do. I told them that the Nasdaq was headed for 1,500 or less. It was about 5,000 at the time, and investors were betting that trees would grow to the sky (see Figure 8.1). Meanwhile, the

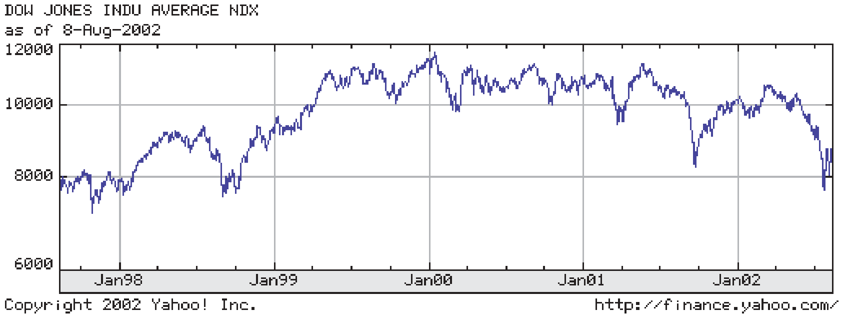
Figure 8.1 Nasdaq NMS Composite Index as of August 8, 2002. (Copyright 2002 Yahoo! Inc., http://finance.yahoo.com)



Dow Industrials had peaked at 11,219 in January (see Figure 8.2) and had begun the slide that I believed would not end until it reached 4,500—possibly as low as 2,000, which was where it would go if the market returned to average historical valuations as measured by price/earnings, price/dividend, and price/sales ratios—which history said it would.

The Nasdaq has met my initial target, which I have now lowered to 1,000. The Dow hasn't hit my target yet as this is written, but has been down to just above 8,000, nearly 30 percent below where it was when I made my forecast. (See Figure 8.2.) (Late

Figure 8.2 Dow Jones Industrials Average Index as of August 8, 2002. (Copyright 2002 Yahoo! Inc., http://finance.yahoo.com)



note: during 1983 the Dow rallied over 10,000. Even during secular bear markets, half the years are up years. The bear was just hibernating.)

We were way above the average valuations over the history of the market and a heck of a lot further away from the values that prevailed at the bottom of past bear markets. History taught me that this bear market would not end until it bottomed out at or below traditional valuations when pessimism was universal and it became irresistible to long-term investors because it was nearly riskless measured by price alone. If it bottomed well short of these levels, it would be the first bear market that ever ended without returning to real sanity.

WHY BUY STOCKS?

The purpose of buying stocks has changed dramatically in the last few years. Historically, you bought a stock to benefit from the growth of sales and profits. You were betting on the company and its management, not the market. Now investors (I hesitate to call them investors—they're really speculators) weren't investing in a company or a group of companies to participate in increased sales, and above all, profits. They weren't investing in companies, they were speculating on stock prices, assuming that trees would continue to grow to the sky and that the current psychology of investors would continue into the indefinite future, despite surreal valuations.

When the Nasdaq market started to collapse, some money managers started looking for "value." At least most of the companies in the Dow Jones Industrial Average had some profits, whereas very few of the companies in the red-hot Nasdaq index had any or even the prospect of having any. So "sophisticated" money began to migrate from the Nasdaq to the Dow. But there was one hitch: Even though there was some value in the Dow stocks because they had real sales and earnings, they were also grossly overvalued by traditional measures. The bottom was a long way away, and the market would crash either in one fell swoop or in a slow-motion decline over the next months or even years, like being nibbled to death by ducks.

In the old fuddy-duddy days, if you invested in a company, you assumed the price would take care of itself if sales and earnings grew, so you bet on a management team that knew something more than financial engineering and were interested in something more than today's market value of their options. Wal-Mart is a great example of a company that treasures its bottom line. As this book is written, it is still overvalued, so I wouldn't buy it now, but they have the right idea—market effectively, make money, and eventually the market will reward you. Wal-Mart is on my list of future prospects when the price is right. The only thing wrong with Wal-Mart at the moment is the price.

What does all this boil down to? *Be an investor, not a speculator,* and especially not a "momentum investor"—or at least know what you really are. The odds are against the speculators, especially those who think they are investors but aren't. Don't buy stocks unless there are genuine values as measured by historical standards in the market as a whole, as well as the stock you are buying.

What are those standards and how do you measure them? When the market is finally fairly valued, the world will be on the bargain table. You will be able to tack *The Wall Street Journal* to the wall, throw darts at it, invest in the holes, and make money. Just be patient!

I would suggest that the price/earnings ratio (PE) for the whole New York Stock Exchange at historic bottoms is around 7/1. As this is written, the PE is about 32/1. At the bottoms, dividends yielded around 4 percent. As this is written, the yield is closer to 1 percent. When the market approaches these traditional historical bottoms, I'll report it in *The Ruff Times* (www.rufftimes.com). (See Appendix A.)

Chapter 9

Worshipping the Golden Calf

Too many investors become Gold Bugs and fall in love with their investment. Sometimes it's a great investment, and sometimes it's a sure loser; here's how to tell the difference, when to buy it, and, more important, when not *to.*

In Chapter 2 I discussed the folly of worshipping the false and deceptive god Mammon. Now I want to persuade you that it is an expensive mistake to worship any investment, but especially the Golden Calf. This is one of the rare times I learned something important by getting it right!

When I first came onto the investing landscape in 1975, I saw nothing but inflation ahead of us for several years at least, and became a vocal advocate for gold and silver as inflation hedges. My best-selling book, *How to Prosper During the Coming Bad Years*, was the first popular best-seller to alert the public at large to gold and silver as an inflation hedge. Gold subsequently soared to more than $850 an ounce in 1980, up from $120 an ounce in 1975 when I first recommended it. I have been told that because the book sold more than 3 million copies, it was a major factor in creating that spectacular gold and silver bull market and legitimatizing gold and silver as popular mainstream investments.

I thought of gold as an appropriate investment for the times, but I soon found out that for millions of Americans (not to mention Germans, Swiss, etc.) it was a near religion, with its own dogma. Massive investment conferences attended by thousands of true believers were built around gold, such as the annual National Committee for Monetary Reform (NCMR) conference in New Orleans, and dozens of my newsletter colleagues jumped on the golden bandwagon for reasons of their own—some well thought out and some out of mob psychology. I was nearly canonized as a high priest of the Gold Bug Church by the media, which made me a mite uncomfortable. (Actually, I didn't protest as loudly as I should have because I enjoyed the attention, and it was good for my newsletter business.)

But in 1980, gold soared to irrational heights of over $750 an ounce (it eventually shot up to $850, but only for a day or two) and silver shot up from its low of $1.80 to $35 (it soared to $50, but only for one day). I had temporarily lost faith in gold for a little while in 1978, but had gotten back in and ridden it to the top. But now I decided this was really time to sell; inflation had peaked at 18 percent, and I believed that the combination of Ronald Reagan's tax cuts and Paul Volcker, the tough-minded, inflation-fighting chairman of the Federal Reserve, meant that inflation would be under a serious assault. So I put out a sell recommendation to my more than 150,000 newsletter subscribers, suggesting that gold would come back down to $400 and silver below $10. And all hell broke loose. It was as if the Pope had committed apostasy and become a Southern Baptist. (I exaggerate, but not much; my apologies to John Paul II.) Of course, the rest is history. When gold finally broke $400, I was invited to appear on *Nightline* with Ted Koppel and explain why I was so smart—which, of course, I thought I was.

But this was when I learned that gold was a religion with millions of devotees, and I was castigated as an apostate by the believers. I was denounced in print in no uncertain terms by many of my colleagues, and suddenly was in much less demand on the investment conference circuit, which was not much fun. But I have had the last laugh—gold has done hardly anything for investors for more than two decades, and hasn't been in the headlines for years and years, with only occasional trading rallies.

So why was I so smart? Although I had been a passionate advocate of gold as an investment, I was never a passionate Gold Bug, and therein is the lesson I would like to teach you.

Philosophically, I looked at gold in three different ways:

1. I believed, and still do, that gold should be the centerpiece of the world's monetary system, because if the currency was backed by a finite amount of gold, national treasuries and monetary authorities would have to be very cautious about how much money they printed if it was redeemable in gold, for fear of losing it to redemptions. In a world where inflation was a serious threat to the stability of our personal wealth, we needed the discipline only gold would provide. On this subject I was passionate, and still am, but that had nothing to do with gold as an investment.
2. I recommended some gold and silver coins, no matter what the gold and silver markets are doing, and still do, as a part of my calamity-insurance core holdings, along with cash savings and an emergency supply of vital commodities, including a food storage program. This is not an investment program, but an insurance program explained in more depth in Chapter 12. That has not changed in 25 years.
3. Gold is a potentially valuable investment if bought and held when certain economic conditions create a gold-friendly environment, and gold stocks are even better.

Confusing these three reasons for owning gold can lead to ill-timed purchases and market losses, and that has been the case most of the time for two decades. A love affair with gold was a big loser, or at least a going-nowhere investment for most of that time.

So, when is the right time to invest in gold? There are three conditions that are favorable for gold. At least two of them must be present for gold to have a chance, and three is better:

1. *Rising inflation:* Inflation to classically trained economists, especially those of the Austrian School, is not rising prices; it is an increase in the money supply that dilutes the value of each dollar and creates an instinctive flight by investors, especially abroad, to the stability of gold as an inflation hedge. Rising prices are an indicator of inflation, but calling rising prices inflation would be like calling a hurricane falling trees. All during these two lackluster decades for gold, inflation has been stable but slightly positive, or falling slightly, a condition called *disinflation,* which means there is still some price inflation, but at a lesser rate. So what could cause a new outburst of inflation?

   - Exploding government spending because of a war, or more social spending to buy votes for the politicians to stimulate the economy out of an incipient deflation/depression, creating a need to fund rising deficits without paying the political price of raising taxes, causing the Fed to increase the money supply in excess of increases in productivity.

   - Failure of the government to face the inevitable consequences of a shrinking Social Security Trust Fund (even though it is phony), and the burden of fewer and fewer workers to support more and more retirees. The choices are stark: Increase payroll taxes to as high as 40 percent, causing a war between the generations, or print the money (which is the option the government will choose), which will be immensely inflationary.

2. *Repeated big-time terrorism and/or war:* A series of cataclysmic events that throw a serious cloud over the potential survivability of the U.S. economy will revive gold's classic role as a calamity hedge.
3. *A falling dollar in relation to foreign currencies, especially the euro and the yen:* This is the indispensable condition that must be met along with at least one of the preceding events to trigger a true gold bull market. The dollar can fall as soon as foreign investors lose confidence in dollar-denominated investments (stocks, U.S. Treasury securities) as a safe haven against troubles with their own monetary system, or lose confidence in the stability of the American political and economic system. It can also be the consequence of low U.S. interest rates, making dollar investments less attractive to foreign investors.

BUYING GOLD

There are several easy ways to buy gold:

Gold Bullion Coins

The most acceptable and widely owned and most liquid coins are the South African krugerrand, the Canadian maple leaf, the Australian nugget, and the American gold eagle. They are all available in one-ounce coins, and there is little to choose between them, although the gold eagle has one advantage. When Congress authorized IRAs, they made it illegal to buy gold bullion or coins in an IRA, probably as a sop to the antigold forces in the banking system. But when they later authorized the production of the eagle, they specifically authorized it for IRAs and other retirement accounts, because eagles were minted from the U.S. gold reserves, and they wanted the sale to be successful.

These coins can be bought from coin dealers in any quantity, and there will be a modest premium above the price of the ounce of gold, so shop around and compare prices and premiums. You will get it back when you sell the coins.

You should have $2,000 to $3,000 worth of gold and silver coins of a variety of sizes and denominations for each family member as part of your core financial calamity hedge right now, regardless of the current gold market, but don't think of this insurance stash as part of your investment program.

Gold Bullion Bars

These are useful for bigger investors, and you will usually leave them in the depository from which you bought them so that when they are eventually sold, they do not have to be authenticated or assayed. It's a very convenient way to buy gold, if the depository is honest and has a history of dependability. There were several big frauds in the early 1980s, including one I exposed where the gold that was allegedly stored for the customers did not exist, and they lost a lot of millions.

Gold in the Ground

Perhaps the most convenient way to buy gold is while it's still in the ground, by buying the shares of gold-mining companies. This is a good idea when we are in a true gold bull market, and it introduces several variables that you don't have when you buy bullion or gold coins, such as cost of production, management skills, and so on. One of the biggest advantages is that the law allows any securities in an IRA, so the way to make an IRA bet on gold is to buy gold-mining shares. Also, you don't have to store them like coins or insure them.

There is much more risk and more potential profit or loss in a gold-mining stock than in coins or bullion. You are investing in a business enterprise that should be weighed like any other industrial company. As the price of gold rises and falls, the value of their reserves in the ground rises and falls accordingly, and so do their profits per ounce of gold mined, as their costs remain fairly constant as the price rises.

For example, let's say you bought gold at $400, and it went to $500. You would have a 25 percent profit. But if at the same time you bought stock in a company that had a cost of production of $350, and gold was selling at $400, the mine would have a $50 an ounce profit. If gold then went to $500, the profit per ounce would triple to $150, and it is likely the stock would triple also. So gold stocks are leveraged to the price of gold, are much more volatile up and down, and in a gold bull market are much more profitable than bullion or coins.

In a gold bull market, the lowest-cost producers rise first, followed by the higher-cost producers, followed by the exploration companies with proven reserves but no production yet, followed finally by the holes in the ground surrounded by liars, often called *penny golds.*

A rising gold tide truly raises all boats. I have listed my preferred mining stocks by category in Appendix B.

WILL GOLD RISE AGAIN?

Yes, it will. My best guess is that if deflation or economic downturn gets serious—which is a possibility as this is written—to stave off deflation and recession/depression, the Fed will expand the money supply to stimulate the economy and Congress will also step up spending to alleviate financial distress. Consequently, inflation will soar, the dollar will fall further, and gold will rise again. There is a great future for gold, but not until the forces that will drive it are all in place.

How far will it go, and when? It's like what you get when you combine an elephant and a rhino, "Elephino!" These events could happen at any time, maybe before you read this book. I track gold closely in my newsletter, *The Ruff Times.* You can get subscription information from Appendix A or on my Web site at www.rufftimes.com. I will put out a buy or hold signal when my indicators say so, which may have happened even before you read this. Don't buy gold or gold stocks until you check out my recommendations in *The Ruff Times,* as the world is always in a state of flux.

So don't fall in love with gold or worship it when you invest in it. Buy some coins now as a calamity hedge against sudden surprises, and root for a return to the gold standard, but only invest in gold when the preceding investment conditions are right, and include silver in the same calculations. Any other gold strategy can be an expensive mistake.

Late Note (January 2004):

It's happened. Just before I passed the deadline for completing my page proofs, we got a firm buy signal. We are now officially in a gold bull market that will last for some years, driven by the imploding dollar, among other things. Gold bought now at around \$400–\$450 per ounce and held for two to five years will earn you several times your money if you are patient and hang on. Silver will be several times more profitable, and mining stocks will do even better. See Appendix B, and *The Ruff Times* (Appendix A), for current gold stock recommendations.

Chapter 10

The Financial Death Wish

Buying high and selling low is like a universal plague—most everyone does it. Here are the surprising reasons why you do it, and how to stop.

I doubt that anyone will consider "buy low, sell high" to be a brilliantly controversial idea. It's self-evident, isn't it? Who would do otherwise? Most investors, that's who, because most stock market investors lose money in the markets, even in bull markets. It's an almost universal phenomenon. Most investors have done it at least some of the time. What they don't know is why they did such a dumb thing. There are several definable and avoidable reasons:

- *Ignorant timing:* Investors usually have no clue as to real intrinsic value, so they do the stupid thing described in Chapter 8—they pay too much for an overvalued stock because it's "hot" or in the news (which means the pros have already bought), and then when it inevitably returns to a more realistic valuation, they get discouraged and sell out for less than what they paid for it, so they bought high and sold low. They don't realize that profit is predetermined at the time you buy, much more than when you sell. If you don't buy right, the odds are you will sell low.

- *Emotions:* Emotions are usually a huge factor in stock losses. Investors who make unemotional decisions are rare (if they do, they're usually hardened professionals), and the emotions that can distort judgment are legion: enthusiasm, the desire to not be left out (otherwise known as *herd mentality*), ego, and the ever popular fear and greed.
- *Bad luck:* Sometimes you buy just before some unforeseen piece of bad news hits and the stock tanks. That's not your fault, but it can be an opportunity in disguise that you will probably miss.

Let's look at these mistakes one at a time.

IGNORANT TIMING

I called this *ignorant* rather than *bad* for a reason. It usually happens because you haven't taken the time and trouble to do your homework, starting with a study of the price history of the company and a careful examination of historical valuation ratios (price/earnings, price/sales, etc.), both for the company and its industry group. Even a good company is a lousy investment if it costs too much, as is even the strongest company in a weak industry group. If the price is out of whack with historical values, you are just about to buy high, sell low.

Emotions are the investor's worst enemy, because they skew judgment, often in ways that you aren't even aware of. Let's look at a few reasons why:

- *Love.* I don't know how many times I have had an investor defend a decision to hold onto a losing stock position by saying, "But I love this company!" I can assure you that the company doesn't return your affection. A stock is not a spouse, a child, or a puppy, it's an inanimate thing, and you should be as unemotional and impersonal toward it as it is to you. Go back and read Chapter 9 again.

- *Ego.* This usually manifests when all the objective data say it's time to sell, but you hang on while the losses mount, not willing to admit you made a mistake. Sometimes selling at a small loss seems like a personal insult: "I'll be damned if I'm going to let this stock tell me what to do." Ruff's First Law of Limiting Losses is, "He who refuses to take small losses will take big losses," and ego is the main reason why you don't face unpleasant reality and cut your losses. This principle really won't prevent a loss, but it will avoid big losses.
- *Fear and greed.* We will talk about these two emotions together because they are the two sides of the problem that go together. We fear we will be left out, so we buy after a run-up. We fear we won't think of ourselves as smart if we don't get on board. Greed causes us to hang on too long and ride a stock over the top and down the far slope, for we fear we will leave some money on the table. Fear of loss will also cause us to unload before a promising company has had a chance to prove itself, even if the fundamentals are still promising.
- *Enthusiasm.* This admirable quality is one emotion no investor can afford to indulge when making buy, sell, or hold decisions. It's usually what sucks you into the herd mentality. During the late, lamented dot-com bubble, I heard enthusiasm from individual investors, from stock analysts on CNBC, and from economists touting the new economy and telling us how the old standards no longer apply. Enthusiasm sucks unsophisticated investors into doomed start-ups because they are excited about a new widget that will revolutionize something or other. Enthusiasts emotionally buy into the story, but objective realists

ignore the enthusiasts. They want to know if the management team has the skills, knowledge, and balance to turn a great idea into a real company. They want to know if the company will have enough cash to make the necessary capital expenditures, do the market research, and then drive the company to success. They want to see the business plan to determine if the founders and management have really thought through the process of turning a great idea into a great company (see Chapters 17 and 18).

BAD LUCK

We all experience some bad luck from time to time, but smart investors insulate themselves from potential bad breaks so they are minimized. How?

- *They diversify broadly.* I had very little sympathy for the Enron employees who were caught in the sudden collapse of their employer. I watched a parade of them on the TV news as they told their sad stories about how their entire 401(k)s were invested in Enron stock, so their whole future retirement was wiped out overnight. If they had diversified, they would have been hurt but they wouldn't have been wiped out. Investors should look at their portfolio like the portfolio manager of a mutual fund looks at his or hers. Even the best are wrong about 30 percent of the time, and the managers know it. They prune out the losers without a backward glance, unlike a lot of investors who watch a stock more closely after they sell it than they did when they owned it, just to see if they made a mistake. It is unlikely that bad luck will sink your whole portfolio at once if you are broadly diversified. But broad diversification is more than meets the eye. If your diversification is across a narrow spectrum of related investments, like industry groups that will be affected by the same forces in the same direction, that is not diversification, it's what Robert Kiyosaki calls *"de-worsification."* Real diversification might look like this: some income-producing real estate, some gold and silver or gold-mining stocks, some commodities, some land, some undervalued, dividend-producing stocks, a few promising start-ups using the guidelines in Chapter 18, and some T-bonds or foreign bonds and stocks. It is unlikely that they would all go south in a bear market or be crushed by the reprehensible actions of the management of one company, such as Enron.

- *They buy shares of only a single mutual fund.* This is one way to de-worsify. You should divvy up your money between several different types of mutual funds, such as a growth fund, a financial institutions fund, an oil fund, a real estate investment trust (REIT), and a gold fund. That might work and spread the risk.
- *They turn lemons into lemonade.* If bad luck hits one of their investments and it crashes and burns overnight, they reevaluate it and see if they haven't been presented with a chance to buy real value at a big discount. The only reason stocks are cheap is because potential buyers are pessimistic about the future of the company or the market and are selling. The only cheap stocks are out-of-favor stocks, so your piece of bad luck can be a new opportunity in disguise. As Baron Rothschild said, "The time to buy is when the blood is running in the streets." That's a great concept as long as you can determine whether or not the blood is flowing from a mortal wound. But if you diversify over several companies, the odds are that the bad decisions will be more than balanced out by the good ones, especially if you quickly prune the bad decisions from your portfolio as things become clearer.

Chapter 11

Buying on Margin

Buying on margin is a highly leveraged way to buy stocks, but it's just as leveraged on the way down as it is on the way up. It's not for amateur investors, but for sophisticated professionals with nerves of steel. My dad thought he was one, and it wiped him out.

My dad was a gambler at heart, so he sold the stock in the company he had helped to build and went to New York to *really* get rich speculating on stocks on margin. Unfortunately, it was 1929, and on that historic black day in October when the market crashed and Wall Street became a falling-body zone, he lost every penny.

Buying stocks on margin means you borrow money to buy stocks. In 1929, margin buying was the big reason the market had soared. All you needed was 10 percent margin money, which meant you could open a margin account with a broker and buy stocks by only putting up 10 percent of the cost of the stock in cash, with the broker loaning you 90 percent. This multiplied the investor's buying power by 10, driving the market ever higher. Fortunes were made overnight—sometimes in minutes—as a 10 percent move upward would double your money.

That meant that if you wanted to buy 1000 shares of ABC Widgets at $10 a share ($10,000), you only had to put up $1 a share

($1,000), and the broker would put up $9 a share ($9,000). If the stock went up $1 to $11, you doubled your money, because you could sell for $11,000, pay the broker his $9,000 loan, and pocket $2,000. That worked great only when the market was going up. The problem was that the market crashed by more than 10 percent in that one black day in 1929, so margin investors got the only piece of unsolicited advice they were sure to get from their broker—a "margin call." To protect the loan, the broker would require you to put up more margin money. If you didn't "meet the margin call," the broker would sell your stock and liquidate your position. This put the investor in an agonizing position—put more money at risk in a falling market, or sell and take the losses on the chin.

On that fateful day my dad met his margin calls, and as the crash gained momentum, he was wiped out again. This happened to uncounted numbers of investors, as the market powers that be (brokers) kept issuing optimistic statements about the overall health of the economy and the market in an attempt to forestall the selling and suck more margin money out of the hands of their clients. They were wrong big time, and bodies began to fall out of tall buildings as speculators lost their life savings and the panic gained momentum, triggering more selling, and the market continued to plunge.

I don't know how many margin calls my dad met; all I know is that Mom said there were margin calls, and she didn't even know what the term meant. Because she was honorably released from life some years ago, I can't ask her.

With that debacle in mind, the Securities and Exchange Commission (SEC) now sets margin requirements much higher than 10 percent: It's currently 50 percent, which makes another 1929 less likely but still means you can lose money twice as fast on margin than you would if you owned the stock with 100 percent of your own money. So even though buying on margin is less risky than in 1929 with its 10 percent margin requirements, it will still double your risk. If the stock falls 25 percent, wiping out half your margin, you will get a margin call. If you don't meet it, the broker will "sell you out," a term that now has the generic meaning of *betrayal*—which is exactly what it feels like.

When the market started its implosion in March 2000, margin selling was a factor in the continuing slow-motion crash. A lot of margin calls were met, a strategy that had worked in the previous few years when declines were brief and corrected themselves quickly; but this time the market had risen so high that it was just too vulnerable.

Buying on margin is not for amateurs; it doubles the volatility, and it doubles the impact of market moves, either up or down. Don't do it. I may change that advice when the stock market has finally bottomed out at near-riskless levels a lot lower than it is now, but until that day, it's a no-no.

MEET A MARGIN CALL?

One of my basic rules of investing is, Never meet a margin call. Jim Dines has said wisely, "A trend in motion will remain in motion until it ends," which means that you should never buy in a falling market. He also said, "Never try to catch a falling safe," which means essentially the same thing. These maxims sound simplistic and self-evident, but these basic principles will limit your losses, which leads me to one of my wiser maxims: *Avoiding losses is the first rule of investing*.

Chapter 12

Thinking the Unthinkable

You have life insurance, homeowner's insurance, medical insurance, and so on to compensate you in case of common but unforeseen events. But there are other worst-case events no traditional insurance can protect us against, for which we have to create our own insurance. The prosperity or wealth strategies in this book can be endangered or totally aborted by such unexpected events. Here is the insurance you need, and why you need it.

America has never been more vulnerable to such unthinkable surprises, nor have they ever been more likely, and they are always to the downside. Here's a list:

- Unexpected loss of income. You can lose your income and your retirement if you are laid off because your employer is threatened by a recession or depression, sudden interest-rate changes, supply problems, war, unexpected changes in regulations or tax laws, the death of a founder, a hostile takeover, sudden foreign competition, corporate misjudgments, wildcat strikes, hurricanes or earthquakes, power-grid failures, terrorist attacks, or an underfunded pension plan. Your employer might sell out to another company, and your department might be wiped out or transferred to Saskatchewan. You may have gone to work for a big company for safety and security, only to find out there is no security when other people can make unilateral decisions about you unrelated to your competence.

- An attack by terrorist-inspired and -financed hackers that disrupts the economy and normal distribution of goods and services, and can cause a breakdown or even the disappearance of the dollar and the world's monetary system. More about this later.
- Disabling health problems that abort your prosperity or wealth program, such as a heart attack, accidents, cancer, or other serious disease.

To protect yourself and your family in case of any of these unexpected troubles, there are three insurance steps you should take:

1. Accumulate approximately six months of cash (dollars) in reserve, sufficient to pay the mortgage, installment payments, and operating expenses for a car, as well as fresh food.
2. Have an emergency commodity stash, including a six-month supply of food.
3. Own roughly $2,000 to $3,000 worth of gold and silver coins per family member.

Let's discuss these one at a time.

WHY SIX MONTHS OF CASH?

If your income is cut off for any reason, you need enough to cover your essential needs for about six months, which would probably be enough to pay the bills until you were able to right your financial boat. This can be in a local bank, unless a banking collapse is threatened.

WHY AN EMERGENCY COMMODITY STASH?

What if the August 2003 power blackout wasn't over in two or three days? What if it had been caused by a strategic terrorist hacker attack and you couldn't buy common goods because the electronic cash registers wouldn't work? You would wish you had a supply of nonspoilable, canned, dehydrated, and freeze-dried food, water for drinking and cooking, flashlights and batteries, diapers, prescription drugs, first-aid supplies, toilet paper and paper towels, motor oil, soap and laundry detergent, battery chargers, 5- and 10-gallon cans of gas, warm clothes, candles, charcoal and a grill, a battery-operated radio, and so on.

But why? Back in the Introduction I told you about my 1968 bankruptcy when I went to work rich and came home broke, which ruined my whole day. Some months prior to that calamity, a cousin had come through town looking for work, so Kay hired him to build some shelves in the garage for the food-storage program we were going to start. It was a standard principle for Mormons to have at least a six-month supply of food on hand, but I had always pooh-poohed the idea to Kay, telling her, "When you have money, you can always go down to the store and buy food." I felt we were at least very prosperous with my booming speed-reading school. But then my franchise was canceled overnight, my office doors were locked, and my bank accounts were frozen, and I had less than $20 in my pocket. We went out to the garage and stood by the shelves that were stocked with food items Kay had squirreled away using money squeezed out of the food budget, and as we embraced in the garage, we shed tears of gratitude.

I had always thought that food storage was for some possible future time when there might be big, generalized problems for society at large and everyone was in trouble. It had never occurred to me that there might be much more personal and close-to-home reasons for a food storage program. There was no generalized economic problem in our town, nor was there any on the horizon, but there was a potential famine at 27 Arroyo Drive in Moraga, California, and we used our food storage for several months until I got my cash flow rolling again.

Ever since then, I have been a passionate advocate for food-storage programs for America, and never has there been a time when this prudent, riskless, conservative idea made more sense than it does today. There are some serious vulnerabilities and some very credible threats to our smoothly functioning society and no shortage of motivated and well-financed enemies willing and eager to exploit them.

Even without external threats, we live in an age where layoffs and business failures are more and more common. There is also a rising tide of bankruptcies, as described in Chapter 4, and many find themselves in need of charitable help because they can't help themselves. The Mormon idea of personal food storage is at least in part a moral decision that if you are prepared for financial trouble before it materializes, you will not have to dip into other people's pockets through the taxing power of government when trouble actually shows up.

VULNERABILITIES

What if hackers, paid and motivated by America-hating terrorists, launched a virus or other electronic gremlin that disabled the nation's computer systems for even a week or two? What if the ATM machines weren't working for a week or two, as happened for only two or three days in New York, Buffalo, Toronto, Detroit, and places in between in the 2003 power blackout? What if the cash registers at your local supermarket didn't work and you couldn't buy anything? What if your credit and debit cards couldn't be accepted and cash prices tripled? What if terrorists contaminated your local water supply? (We know they have been exploring that possibility.)

Distribution of food and other commodities is becoming more and more computerized and interdependent, and just-in-time purchasing and delivery are common business practices. If the trucks don't roll as scheduled, there will be instant shortages, aggravated and accelerated by panic buying.

The number of Muslims who have been radicalized into becoming America haters has been growing by the millions. They call us the Great Satan, and we seem to be doing everything we can to affirm their perceptions. Did you know that the most-watched TV reruns in the Muslim countries are *Baywatch* and *Jerry Springer?* Millions of Muslims think that these shows are honest representations of the real America. Millions of young Muslims believe that when they kill Americans, they are doing God a favor. And their technological expertise is growing by leaps and bounds. What if they launched a virus that spread to most of America's computers and servers, and they brought down the power grid?

OASES OF STABILITY

The August 2003 blackout is a cautionary tale. While millions of people were scrambling to buy food, water, and flashlights, there were tens of thousands of oases of stability everywhere—the Mormons! I promised that I wouldn't turn this book into a religious tract, but one Mormon practice spills over into the broader social arena—food storage—and you don't have to agree with our theology or join us to benefit from this principle. For Mormons, this is not an apocalyptic thing; it's just the natural outgrowth of the nineteenth-century self-sufficiency attitude that is a part of the Mormon cultural heritage. And we love to share the idea with neighbors and friends, because if this practice became universal, the communities our families live in would be safer and more stable.

Let me tell you what happened for two or three days in August 2003.

The blackout across the Northeast and Midwest was a great test of personal and family preparedness for the Mormons, as several days without electricity or water came unexpectedly and in many forms, and the Mormons have been advised for several years by church leaders to have a personal preparedness program. Whatever else you may think of Mormonism (The Church of Jesus Christ of Latter-Day Saints), it is an eminently practical church. As a result, Mormons from Connecticut to Michigan and Toronto to Ohio generally fared well when the lights went out and all power failed. Reported one bishop (the functional equivalent of a pastor), "A few minutes after the blackout began, I implemented our 72-hour emergency plan, which includes verbal communication with each family, paying particular attention to widows, children, and the disabled . . . various members offered to assist needy families with electricity from backup generators."

A common observation among local church leaders was that there was a sense of calm, much of which had to do with being prepared. Said one bishop, "Being fairly well prepared certainly made a big difference in how we reacted." Another bishop echoed what others had learned—that cordless phones don't work when the power is out.

Many church members who worked in Manhattan and lived 20 or 30 miles away spent the night in the Manhattan Stake Center (a Stake is the Mormon equivalent of a diocese), as did visitors to the city whose electronic hotel keys no longer worked. In Grand Rapids, Michigan, a single mother with two children offered to bring widows to her home where she could feed and care for them. She walked to her non-Mormon neighbors to offer food and assistance. When the blackout hit, the Mormons watched calmly as others scurried to grocery stores. Some areas were without power for up to three days.

Some years ago, one of my subscribers, in a lame attempt at humor, said, “I will have a food storage program; I will just buy a gun and move next door to a Mormon.” Ha ha! There is a better way; do it yourself!

WHY GOLD AND SILVER?

This is a much more complex question and answer. Gold and silver are your protection against runaway inflation, war, international currency exchange problems, a devastating hacker attack on the world’s monetary system (which is a real threat, and very likely) and a collapse or devaluation of the dollar through inflation, which we saw less than three decades ago. In the inflation of the late seventies and early eighties, gold went up more than 700 percent, and silver more than 2,500 percent.

In almost all ages, these metals have been real money. All paper currencies eventually die; and the world is littered with dead paper currencies; but there has never been a time when gold and silver were not valuable, either as a means of exchange or as a store of value, or both. They would replace or substitute for all paper currencies if the dollar were to take its place alongside the defunct deutschmark. If the dollar survives all these potential assaults and you need some dollars, there is a ready market for your coins at any neighborhood coin dealer, probably at a profit, as gold is in the early stages of a long bull market even as I write.

You need a variety of gold and silver coins in various weights and denominations, which I will elaborate on later. I have also discussed gold in Chapter 9. Look there for more details.

TERRORISM AND GOLD

The terrorist attack on the World Trade Center was really more than just an attempt to spread terror: It was an assault on the monetary system of America and the rest of the Western World. Ten years ago, the consequences worldwide would have been beyond imagination. In order to understand why, you have to understand the nature of money.

The dollar is mostly in cyberspace; less than 5 percent of all dollars are minted, printed, or coined. All those trillions of dollars (no one knows exactly how many) exist only as computer entries and can be sent around the world with a computer keystroke. A decade ago, nearly all of these computers were in New York, a lot of them in the World Trade Center. Then, a few years ago, the powerful institutions that operate most of the computers that are the heart of the New York Stock Exchange, the Nasdaq, currency trading, and the Treasury- and municipal-bond markets began to decentralize their computer operations. Many of them were moved across the Hudson River to New Jersey, so even as the world watched the World Trade Center collapse, the world's markets hardly missed a beat. One of the world's largest bond traders lost 85 percent of its employees when the buildings crumbled, but trading went on worldwide.

The world's top terrorists are not fools, and they have learned from experience. I believe they now know that America could be brought to its knees if they could contaminate or destroy the software and hardware that runs the Western World.

Much of the multinational banks' international operations are run in Panama in the former Canal Zone without oversight or regulation. How did this happen? America's chief negotiator during the Jimmy Carter canal giveaway, Sol Linowitz, a member of the board of Chemical Bank, was given an interim appointment of one day less than six months so he would not need Senate confirmation. Not only was the deal with Panama signed just one day short of the end of Linowitz's term, but bank buildings were already springing up like mushrooms all over the Canal Zone for months in anticipation of the Canal Zone becoming a free banking zone, which it is now. Three billion dollars in American bank loans to Panama were made good as Panama seized control of the canal revenues.

I'm not a computer expert, but I have been given reason to believe by people who are experts that the computer systems in Panama are much more vulnerable to attack than those in America, and even more important.

But what does this have to do with gold and silver?

Until quite recently in the history of money, gold was the ultimate money—a means of exchange and a store of value. We still say "as good as gold," one of our sports heroes might still be called "the Golden Boy"; retirement is called "the Golden Years." Until Nixon closed the gold window, our money was backed by gold. Now we take a worthless piece of paper and try to make it valuable by merely applying ink. But what happens when the computers go down and we can't get the ink-engraved paper or use our credit or debit cards? Gold and silver coins will be considered real money everywhere in the world. The Germans still remember the inflation that devastated them after World War I, when a wheelbarrow full of money wouldn't buy a loaf of bread, but an American dime would. The Swiss still have a gold-backed currency. In India, people wear much of their wealth around their necks in the form of gold chains. Gold is part of the monetary holdings of nearly all of the world's central banks. The Chinese are still big fans of gold, and in America we are only two decades away from the days when a gold rush drove the price of gold from $120 an ounce to $850, and silver from $2 to $50.

This chapter is not about gold and silver as investments, although that may be a darn good idea, as explained in Chapter 9. I am arguing for each family to have $2,000 to $3,000 in gold and silver coins as a hedge against the possible day when dollars are not available and you need a means of exchange.

I have asked Jim Cook, president of Investment Rarities (www.investmentrarities.com, 800-828-1860), to suggest a coin portfolio of about $3,000 for your consideration for each family member. Jim has served tens of thousands of my subscribers over the years. I have also asked him to create a Howard Ruff Core

Package. I have no financial interest of any kind in this recommendation. Jim suggests ¼ bag ($250 face value) of pre-1965 silver dimes or quarters, worth about $1,000), three rolls (200 coins per roll) of U.S. silver eagles (worth about $450), and four 1-ounce gold coins (krugerrands, eagles, or maple leafs) worth about $1,600. You should have one such portfolio for each family member.

I believe America's biggest terrorist threat is not airplane hijacking but terrorist-inspired computer hacking. If I wanted to disable America, I would simultaneously detonate dirty nuclear devices in Northern New Jersey and the Canal Zone to make them uninhabitable and all those computers inaccessible because of nuclear contamination, and launch a nightmare horde of viruses at the Internet and the servers and computers that manage the world's money supply.

Is this a prophecy? Not at all; I'm no prophet. It's merely a statement of growing possibilities, and an argument to be prepared with a stash of cash, gold and silver coins, and essential commodities. Then relax and sleep well again.

But what if none of these worst cases ever materializes? Well, unlike the money you spend on premiums for term insurance or health insurance, you can eat or otherwise use the stored commodities, or liquidate the gold and silver for dollars—most likely at a profit, as gold responds to war, inflation, and other calamities, and I believe that at least some of these things are likely in our future. In the meantime, proceed with your prosperity or wealth program, knowing you are prepared in case everything else goes to hell for awhile. And don't use the fears I may have aroused as an excuse to ignore everything I may have taught you about how to become Safely Prosperous or Really Rich. If you just stand pat with your life as it is now, you are far more vulnerable to these fearsome theoretical possibilities than you would be if you were out of debt.

Book II

The Secrets of the Rich—The Most Important Things Rich People Always Do

The easy way to get rich is to choose your parents very carefully, but it's too late for that now. This section is about how to leap the gulf between the Safely Prosperous and the Really Rich. For the Really Rich, the rules are different from the ones followed by the Safely Prosperous as described in the preceding chapters. Sometimes they are the exact opposite. For the Safely Prosperous, borrowing is usually bad; for the Really Rich, borrowing is essential. For the Safely Prosperous, mistakes are to be avoided at all costs; for the Really Rich, mistakes and failures aren't stumbling blocks, they are essential stepping stones on the way to wealth.

The Really Rich are really different in other ways, and it's not just how much money they have. Their attitude toward risk is one big factor. The Safely Prosperous are disciplined and make few mistakes with their money, but they take no chances. They live well within their means, and are very comfortable with a riskless lifestyle—and that's OK, God bless 'em. But the Really Rich usually got rich by taking risks all the time and making mistakes they learned from. They aren't gamblers, except with a small part of their fortune, just for the fun and excitement of gambling. They are comfortable with risk, but it is always calculated risk, usually where they can determine the outcome, and it has to return far more than market rates. They are often driven, sometimes by greed, sometimes by grand ideas, sometimes to show someone they are someone too. But most of all, they see risk as measurable and controllable, and they enjoy the game. They also use leverage, sometimes without labeling it as such. They use money leverage, people leverage, and alliance leverage. Without it, they wouldn't get rich.

In the parable of the talents, Jesus told about three servants who were given some money to care for by their master. One was given five talents (more money than most men could earn in a lifetime), one two talents, and one was given only one talent. When the master returned and asked for an accounting, the men who had been given five and two talents had both doubled their money, and were praised and promised great rewards. However, the man with one talent, knowing his master was a hard man, had buried it in the ground, and had no increase. The reward for his no-risk strategy? The master gave his talent to the man who had had five. The Really Rich go even farther than the first two servants; they want returns of 5-fold or 10-fold.

The following chapters tell you the things rich people have always done with their money that you don't do. In good times or bad—no matter how bad—smart people still get rich, and these are their secrets. I will not only tell you how to get rich, I will teach you how to stay rich. Some of the strategies can also be adopted by the Safely Prosperous. The irony is that anyone can get rich if they know how, and I will teach you how.

Chapter 13

Surprising Ways Rich People Get Rich with Leverage

All Really Rich people I know use several kinds of leverage, including some you never heard of. Unlike buying stocks on margin, the way they do it lowers their risk.

Archimedes the Greek, usually given credit for the discovery of the principle of the lever, once said, "Give me a big enough lever and a place to stand, and I could move the world." He understood that a lever was a tool for multiplying your strength beyond its natural limits. He also knew that the bigger the lever, the greater the increase in strength.

Unfortunately for the uninformed, the lever can be another cliché, a two-edged sword. Used unwisely, the wrong kind of leverage not only can multiply your upside, it can work with equal efficiency on the downside and can increase your risk.

Most people who think they understand leverage think it applies only to the use of borrowed money to buy stocks on margin (dangerous) or using a mortgage to buy a home or investment real estate (safe). My father is my Exhibit Number One on the dangerous side of leverage (see Chapter 11), but his story doesn't invalidate my premise that if you want to be Really Rich, leverage is critical to your get-rich program.

Remember, a lever is only a way to multiply your strength. There are three forms of leverage that count, and you should use all of them wisely: money leverage, people leverage, and time leverage. I defy you to show me a rich person who didn't use at least one of them. (I am ignoring movie stars who get $20 million a picture and athletes who make millions of dollars a year for a few years. They don't count, because you aren't one of them.)

NO LEVERAGE?

Most people have no leverage in their earning picture, and that is the probable reason they are not rich. Is there a difference between a $6-an-hour McDonald's counter clerk and a $300-an-hour lawyer? Not as much as you think. In both cases, if they don't work, they don't get paid. Their income is limited by how many hours they work.

And it's even worse than it looks; personal income is taxed at the highest tax rate imposed on any kind of income. If you depend on personal income from your own labors only, you are like a salmon swimming upstream carrying a barbell on its back. One facet of the get-rich strategy is to be personally poor or in modest circumstances, making the smallest amount possible of highly taxed personal income, while controlling enterprises that produce fat profits at much lower tax rates.

If you employ leverage wisely, you will work less and earn more. You will make money even if you can't work, because your money will work for you, your employees will work for you, your partners will work for you, and your money will do double-, triple-, and more duty for you.

Now let's look at the various forms of leverage.

Money Leverage

The old cliché says that it takes money to make money, and that's true, but it doesn't mean it has to be your money. Everyone uses leverage when they take out a mortgage to buy a much nicer home than they could buy out of their savings. Rich real-estate investors couldn't get rich unless they could borrow money to buy properties. Banks are not just in the money business, they also manufacture levers, and the government is your friend in this case. Unlike buying stocks on margin, no government agency enforces real-estate margin-call rules against you. If real estate hits a soft spot and the appraised value of your home falls below the balance owing on your mortgage, you don't have to put up more money to protect the lender. Make your payments, and it remains yours. This is because of effective lobbying by the real-estate industry.

And how about rich businessmen like Bill Gates? He used lots of leverage, increasing his earnings and the safety of his business and the value of his assets. He raised a lot of investor money by selling some of his stock, and used that leverage to grow his company. His corporate stock is the vast majority of his $60 billion wealth. That's leverage. When Ted Turner was asked how rich he was, he said, "I must be really rich; I owe a lot of money."

There is good debt and bad debt. Consumer debt is always bad debt. Business debt is good debt if you use it properly. Way back in Chapter 4 I said it was OK to borrow money to buy assets that produced enough cash flow to service the debt and then some. So let me elaborate on the rules for deciding whether a debt is a good debt or a bad debt.

Bad Debt

- Money borrowed to buy something that flits out of existence as soon as you use it—such as a vacation—leaving only the debt.
- Money borrowed to buy a money-eating alligator. It could be a vacation or a motor home, or even the bigger, better

home you live in (which is the best argument for buying a smaller home than your credit score would qualify you for, because it means lower mortgage payments, property taxes, and utility and repair bills). If you redefine an asset as something that produces positive cash flow, then your home is not an asset, as it is a negative-cash-flowing alligator.

- Money borrowed to buy a generally depreciating item, such as a car or boat. I'm talking about real depreciation here, meaning true loss of market value, not phantom depreciation, like the tax deductions you can take on an investment property when it is really appreciating.

Good Debt

I won't make a list, because there is only one kind of good debt—borrowed money that goes to work for you to build income-producing assets and that produces enough cash flow to pay the interest and systematically reduce the principal. Rich people always use debt as a business tool.

More Money Leverage

Borrowed money is not the only kind of money leverage. When entrepreneurs sell some equity to finance the company by selling some corporate stock in a private placement or going public in one of the ways I describe in Chapter 18, they are using money leverage, but that's always a financial calculation. If they can sell 10 percent of their companies and thereby produce cash that will double the sales and/or profits, it's a good deal, and they would be fools not to do it. They are then richer, because the value of their remaining stock becomes greater than it was when they owned 100 percent of the stock, and they have working cash to invest in their companies. Such cash is a lever that increases their strength.

People Leverage

I have met businesspeople who still work 12 to 15 hours a day because they don't trust other people to do their job right. That probably reflects more on the entrepreneur than it does on the staff. If staff members are competent, let them do their jobs; if they aren't, get rid of them and hire those who are. Such entrepreneurs don't understand the principle of people leverage. Smart entrepreneurs will hire people to do all the things that they can do better than they or that wouldn't get done if they didn't have the time to do it, so they can spend all their working hours doing only the things that they can do better than their staff, plus providing the leadership and strategic direction for companies that only they can provide.

Not only is people leverage profitable, but the lack of it can sign the death warrant of a company. No one can do everything. If they try, they will burn out, drop a ball they didn't have time to secure, miss something that will slip through the cracks and ruin the company, or be so bogged down in detail they can't stay up to date with developments in their industry and thereby miss opportunities.

THE CEO MENTALITY

Businesspeople who use people leverage by assembling a complementary team of real executives who know their stuff in their specialties and are allowed to use their skills can become very rich in short order. A real chief executive officer (CEO) will tell his or her team what the business objectives will be, set the policies and the battle plan, and get their concurrence with the plan. Then he or she will let the team go to work within the guidelines and budget he or she approved, while monitoring their performance very carefully and helping them make course corrections as necessary. The CEO's monitoring tools are budgets and financial reports.

One reason I liked George W. Bush in the 2000 election is that he has shown he knows how to act as a CEO. The president of the United States is the CEO of the biggest enterprise the world has ever known. Bush had been the CEO of an oil company and a major-league baseball team. I knew he would pick a blue-chip cabinet and team of gifted advisors, get their agreement on the policy objectives of his administration, set up the monitoring systems, and then let them do the jobs for which they were better qualified than him. His political philosophy is not the issue here; it's his management style. Only time will prove if he is an effective CEO, and the intractable issues he has tackled may infuriate enough people to sink his presidency, but, as this is written, so far, so good.

Compare this with the failed presidency of Jimmy Carter. He was a fine Christian gentleman with a good heart, and was very bright. He could immerse himself in the smallest details of government and policy as well as anyone, but he forgot that he had been hired by the electorate to be the CEO of the biggest enterprise the world has ever known. The big picture got away from him and created the worst combination of high interest rates, inflation, and unemployment in our history, and that sank his presidency. To his credit, he has been a pretty good ex-president, with his Habitat for Humanity program. He can hammer a nail with the best of them, as the media have never tired of showing us, but we hired him to be our CEO, not our building contractor.

I have been the founder and CEO of one network marketing company and the top distributor of another. That's where I learned this principle of people leverage. If you built a team of distributors who were always building their teams, you were making money you didn't have to earn with your own sales. You had passive income whether or not you worked yourself or made sales. I personally don't like doing multilevel marketing. It takes a kind of temperament that I don't have, but it's great for the right kind of person and a great way to learn to apply people leverage. But I believe in the principle of people leverage with a passion. It's an essential strategy you must use if you ever want to be rich and secure, especially if you want to earn more and work less.

LEVERAGE IN A NUTSHELL

Let's sum up the principal of leverage. Leverage means making money from the use of money contributed by others or loaned to you, and also making money from the efforts of employees, partners, and business associates. It means making money you did not have to earn by the sweat of your own brow, earning money by the sweat of other people's brows as they work hard to make you rich.

Chapter 14

Getting Rich by Banishing Fear

There are a lot of great products and great business ideas that never become great fortunes. Why? Usually fear. Yielding to fear cost me two fortunes. Here's how to get rich by facing your fears.

A few years ago, after some years of adopting a lower profile, I accepted an invitation to speak at the giant Blanchard investment conference in New Orleans, which I hadn't done for several years. As I rode in the elevator at the hotel that was housing the conference, a woman looked at me and said, "You look just like Howard Ruff." I responded, "You're the fourth person who has told me that today." She replied, "That must be a real drag. Whatever happened to Howard Ruff?" I had no answer, but I realized that day how fleeting fame can be. Now I'd like to answer that woman, and hope she reads this embarrassing story.

I have lost two fortunes and ruined my businesses twice by taking counsel of my fears. Back in the early eighties, I was riding high. My newsletter, *The Ruff Times,* was the biggest, most influential newsletter in the known universe. My book, *How to Prosper During the Coming Bad Years,* had been solidly ensconced at the top of the best-seller list for two years. My cash flow was terrific. I had great political influence in Washington and in Utah because of Ruff PAC and Free the Eagle. We had bought a 10,000-square-foot mansion in Mapleton, Utah, and added 10,000 more feet to contain a near-Olympic-size pool, a racquetball court, a huge garage to house my boat and motor home, and a spare apartment. We were also spending money like water. I was on top of the world, and even bragged to my wife how we were in the top one-half of one percent of wealthy Americans. We had a million-dollar turboprop aircraft and a professional pilot on a generous full-time salary in case I needed to fly to my California office or just wanted to go fishing.

This is exactly the time I allowed my fear to make the fateful decision that began the years-long downslide that eventually cost me my business and my fortune.

Let me share the most embarrassing thing I could ever admit—embarrassing because it shatters the carefully nurtured image I had created (and believed) that I was a wise, successful businessman and a great marketer.

THE WAGES OF FEAR

Direct mail was the tool that had made me rich. I had written a very successful piece to sell *The Ruff Times* and was mailing to about 200,000 rented mailing list names every month. The mailing consisted of an eight-page sales piece, a business reply envelope (BRE), and an order form in a number 10 envelope. We would test a list by mailing to a few thousand names. Then, if it broke even, producing enough revenue to pay for the printing, postage, list rentals, and the "fulfillment cost," we would roll it out, mailing to the list as many times as we could until it failed to break even. Obviously, printing and mailing costs were a big factor in this decision. The only limitation was the number of names I could rent that would break even or better.

Then one day I learned about the web press. Using this new technology, we could produce a "self-mailer" that incorporated the BRE and order form and eliminated the need for a number 10 envelope. Because this reduced the cost of the package by almost half, the break-even cost came way down. This meant that the universe of mailing lists that could produce a break-even or better was hugely expanded. I could get even better list rental prices because of the huge volume and use even more lists if I was willing to print 2 million pieces at a time. The only problem was, I hadn't set aside enough capital to print and mail 2 million pieces. Because of this, I had to do the printing on credit so I would have enough cash to pay the postage, because Uncle Sam didn't offer any credit. The risk was huge, and the upside was hard to quantify exactly, although my gut told me it was acceptable. My decision to do this terrified my staff, who all advised against doing it because if it failed, the company would be broke and they would all lose their jobs. I ignored their fears and plunged ahead.

So far, so good! It worked like a charm. For years America's mailboxes were flooded with self-mailers that asked on the front page, "Can You Afford to Be without This Man's Advice?" and the money rolled in. I mailed 1 to 2 million pieces every month for several years. Then, in the late 1980s, suddenly results started falling off. We were no longer breaking even, and the universe of mailing lists that would produce at break-even or better was shrinking. I soon figured out why; every competitive newsletter publisher had figured out what I was doing and was doing the same thing. Mailboxes all over America were stuffed with self-mailer newsletter solicitations, and mine was getting lost in the general clutter. Also, the competitors were hiring a new breed of talented marketing writers who were writing more compelling copy than mine, and paying them huge amounts of money, which I was unwilling to do. After all, wasn't I the greatest direct-mail copywriter in the world? This is when I made a fateful stupid decision. I decided to cancel my direct mail campaign and concentrate on marketing other products and services to my subscribers.

In other words, out of fear of losing money, I abandoned the business idea that had made me rich—direct mail—and I never got back to it. I didn't use the experience and marketing smarts I had developed in my own head and heart to come up with new marketing methods as I had done in the past. Instead, I was stuck in the past and afraid to bet the company and take a chance. Once the epitome of business courage, now I had become risk-averse—or, in other words, gutless.

In the meantime, my competitors, instead of pulling in their horns like I did, were exploring new methods, such as the "magalog," a sales piece that looked like a magazine but was only a poorly disguised sales pitch. The concept worked like crazy. But it was so expensive to develop, print, and mail that I was too scared to try it.

During the years-long downhill slide that followed, I lost my subscribers at the rate of 25 percent a year, by far the lowest attrition rate in the industry—but the ultimate sure road to failure, given the inexorable math and the nature of time—while some of my tougher and more savvy competitors are still in business with varying degrees of success. Some of them are very rich now: One lives most of the year in his restored chateau in France, while my wealth became a mere shadow of what it once was. As the list of followers shrank, so did the sales of the other products and services I offered them that I was counting on, until in 2002 my list had shrunk to only about 3,000 faithful followers. And how about my glorious Mapleton mansion? I lost it to foreclosure, as I became unable to pay the $8,000-a-month mortgage and the $2,000-a-month maintenance and utilities costs. Yielding to my fears had destroyed my business and personal finances. As I relate this story, I can't even begin to tell you how stupid I feel. Because of fear of loss, the world's greatest direct-mail marketer could no longer market himself out of a wet paper sack.

I can see in retrospect that there was a time when I could have decided to make a few bold moves and end the attrition, but about then (1991) I discovered I had cancer—a slow-growing but incurable non-Hodgkin's lymphoma—and it demoralized me still further as it dominated my thinking, paralyzed me, and fed my fears. (I am cancer-free and in good health now, but how I achieved that is another story for another time.)

DOING IT RIGHT

My story is a horrible example of what not to do, but there are contrasting stories that tell you what you can accomplish if you refuse to take counsel of your fears. As this is written, we've been in a recession for three years, and still may be when you read this. In any recession, hundreds and thousands of companies fail. But hundreds of their competitors do just fine in exactly the same businesses, because, for them, a recession is the chance of a lifetime. They always do well in good times or bad, whichever the economy dumps on their doorstep. If they don't take counsel of their fears, that attitude opens up avenues of thought and creativity that make them successful in good times or bad.

The examples that follow don't only apply to businesspeople. The principle also applies to investors, college graduates making a career decision, and so on.

So what's the difference? What separates the winning sheep from the losing goats in uncertain times (and the times are usually uncertain)? Guts and optimism! They don't make fear-driven mistakes. In business, the failed competitors may have equally good products—sometimes even better. They may have more capital and more skilled financial management. But when times get tough and the goats have pulled in their horns, the winning sheep will have courageously outmarketed the losing goats! They will have made louder noises in a quieter environment, and they will have made money when their competitors were just sitting there paralyzed by fear and being nibbled to death by ducks, year after year.

Procter & Gamble is a classic example. P&G was a small seller of soap when the Depression of the early thirties hit. All of P&G's competitors, driven by fear of loss, cut their marketing budgets and hunkered down to wait for better times, and that's what most of Procter & Gamble's shareholders wanted them to do. After all, financially strapped customers were defecting to cheaper brands. P&G's sales dropped 28 percent in 1933, and their stock fell more than 70 percent.

But P&G was blessed with one of the most gifted presidents in American business history, Richard Deupree. Deupree noted that despite the Depression, some companies were prospering, and consumers were even buying luxury items like radios—and they still needed soap. To make a long story short, Deupree decided to ride the crest of this new wave—the radio—and use it as a new advertising medium. He knew that in that day, before the invention of all of our labor-saving devices, housewives had hours of backbreaking and tedious work, with little to break the boredom—until radio. He decided to use it to pitch soap, and, after a series of experiments, hit on the serial soap opera, which captured a growing army of hardworking housewives who had to know what was happening to Ma Perkins, Our Gal Sunday, or Mary Noble, Backstage Wife. The characters used Oxydol and Ivory and Rinso White, listeners bought it by the carloads in preference to cheaper generic brands, and Procter & Gamble became one of the giants of American industry. The company is still an icon of marketing to be studied at MBA schools.

The point is, all of P&G's cheap competitors are gone, and P&G owns the cleaning products industry—all because one man decided to not take counsel of his fears and marketed aggressively and creatively in the face of the worst depression in American history.

A cat that has been burned on a hot stove won't get on another one, but it won't get on a cold one either. But what about you? You aren't Procter & Gamble, or even Howard Ruff. How does this lesson apply to you? Here are a few examples.

Let's assume you were one of the new stock investors that got burned in the recent and still ongoing stock market collapse. This may have been your first venture into the stock market. You followed the advice of your stockbroker. And why not? He's a professional, isn't he? He was following the advice of the analysts working for his employer, and they were uniformly dead wrong. In fact, just as the market was peaking in March 2000, 98 percent of the recommendations of Wall Street analysts were bullish. Then we found that some of these positive recommendations were for the stocks of companies that were big consulting clients of the broker. Then, to add insult to injury, we found that hundreds of companies were fudging—to put it mildly—their earning reports with accounting methods way beyond the abilities of the typical investor to even understand, let alone analyze. TV scenes of handcuffed Wall Street executives on their way to jail were not exactly confidence-building. It was a big shock to find out that the executives of the companies we invested in were really crooks.

So, will you ever get back into the market again? After your losses, will you even have the money to do it if you wanted to? Should you? Most people won't. They are too scarred and scared by their experience. They are afraid. But should they be?

Markets go up and markets go down, and money is made by savvy people no matter what, but you shouldn't jump in unless you are willing to burn the midnight oil to become self-educated. The stock market is no place for people who don't know what they are doing, and sometimes the right thing to do is to wait on the sidelines until the risk/reward ratio is right. That takes patience. Every bear market is followed by the opportunities of a lifetime. But will you be on the sidelines because you are patiently waiting for an opportunity or because you are scared? If it's just fear, when the opportunity comes you won't even see it. Those whose vision isn't dimmed by fear will make fortunes.

OTHER VICTIMS OF FEAR

Let's assume you are the typical middle-class American with the typical $150,000 house and to-the-hilt mortgage, a secure job (you hope) at a big company, and the typical 2.2 kids. The odds are that you are ridden with fears. What are you afraid of? Getting laid off in hard times? Not getting that raise? Worried about your pension plan and its big investments in the stock market? Worried about your debts? (See Chapter 4.) How will you pay for 2.2 college educations starting in 8 or 10 years?

Those fears may have chained you to your own job treadmill like a hamster on a wheel, which runs and runs and never gets anywhere. You think you are only prudent, that starting a business is too risky. You choose security above all. You are afraid of losing money. Yet, every rich man or woman I know, without exception, was willing to cast off the golden handcuffs and launch out into the unknown, armed only with a desire to be rich, faith in God and themselves, and the belief that the world needed what they had to offer that was apparently of no interest to their employer. They believed, as does best-selling author Robert Kiyosaki, that they shouldn't work for money; their money should work for them. Besides, how secure are you if you put your present and future in the hands of a heartless, downsizing corporation that decides you must be sacrificed in the interests of preserving their profits or shrinking their losses?

The ones who will survive hard times are those who realize there is no security when your destiny is in the hands of other people. There is no security when J.O.B. stands for "Just Over Broke."

If you won't stop listening to your fears, you will never be rich. Your only hope is to have a good job and work hard enough to be indispensable to your employer. You pretend to work hard, and your employer pretends to pay you a lot, while you pretend to be rich while piling up consumer debt. Maybe if that's good enough for you, that's what you should do. There's nothing immoral about it; after all, we're not talking about right and wrong here, just about professional and financial choices. If it wasn't for the fact that most people have made that decision, I wouldn't be able to hire the workers I need for my business. If you follow the counsel in the first four chapters, you can be prosperous and much more secure, even if you decide not to take a chance by leaping the gulf that separates the Safely Prosperous and the Really Rich. That's OK. You can stop reading here and go back to Book I.

YOUNG CHOICES

Let's assume you're in college deciding what course your life will take from here on. Will you prepare for a good job with a big, safe corporation—like, say, Enron—or will you be laying the foundation for an independent life in business? Will you prepare for security and possible prosperity, or do you want to be rich and truly independent?

Here's what I would do if I were in college. It's a darn good idea to go to college and learn the academic lessons of discipline and hard work necessary to get good grades. Just bear in mind that most of us end up doing something quite different from what our degrees prepared us for. I majored in music education, but the classes that helped me the most were those that dealt with written communication and research, like freshman English. Just make sure you acquire the skills you will need wherever you find yourself: basic accounting (if only to help you analyze and keep track of your own personal financial progress), computer skills, and communications (English literature, creative writing—the most valuable skills and disciplines will be acquired when you write a term paper). You will need all these skills whether or not you offer yourself in the job market or plunge into the maelstrom of entrepreneurial life.

Take a job with a company that will give you the experience you will need to draw on when you decide to become an independent businessperson, and learn everything you can from them. Then stay out of debt. Live a lifestyle below that which you could achieve with the liberal exercise of credit, and accumulate a stake that will give you the independence to choose the life you really want and support yourself while a new venture finds its legs. Above all, don't take counsel of your fears. Independence and calculated risks can be exhilarating fun and immensely profitable.

My favorite character in all of literature and musical theater is Don Quixote. He saw virtue where others only saw vice. He wasn't afraid to follow his impossible dream, despite the ignorance and criticism of those who were "only thinking of him." He was even willing "to march into Hell for a Heavenly cause." He marched to music others could not hear. And above all, he was courageous. There was no place in his heart for fear, as he pursued his single-minded quest of virtue. And that mad quest changed all the lives he touched as people found in themselves deep wells of goodness and courage they and all who knew them didn't know they had—even the common slut, Aldonza, who literally became the Lady Dulcinea.

I repeat: No rich person I know of took counsel of his or her fears.

THE GODS MUST BE CRAZY

One of my favorite movies of all time is *The Gods Must Be Crazy.* A game biologist in Africa is studying elephant dung to analyze the animals' diets. One night as the biologist is camped out in the jungle around a small fire, a rhino runs into the camp, destroying the tent, then stamps out the fire and runs off. According to the script, rhinos are Africa's self-appointed fire control officers, stamping out little fires before they can become big fires. (I can't vouch for the truth of this, but it helps make my point, so let's not be too critical here.)

The world is full of rhinos willing to stamp out your creative fires when they are still small. If you have big dreams, stay away from the rhinos in your life when the fire is still small. Don't listen to the naysayers who are always willing to feed your fears and tell you why you are a fool to abandon the allegedly safe, well-traveled rut you are in. Only share your fire with those who can contribute real insights that can help you correct course, and only when necessary.

Don't be afraid of failure; the road to wealth is paved with failures. J. C. Penney failed in business five times before he finally made it. Abraham Lincoln lost every elective race he entered before he was elected President. When, after testing 1,000 substances as filaments for his electric light bulb without success, Edison was asked about his project, he said, "It's wonderful. I now know a thousand things that won't work." It's a very rare and lucky guy who strikes oil in his first well. Remember the Linkletter Principle: "I never learned a thing from my successes. Everything I know I learned from my failures." (See Chapter 15 for the Linkletter story.)

So where am I now? I have written this book. I am the board chairman of a company started by my son Larry, which helps people get out of debt, including their mortgage, in nine years or less. I have launched a company that sells a natural product called Hi-Q that has been the result of an almost obsessive interest in nutrition to stave off mental decline in the golden years. By the time you read this, it may have made me rich again. Each one of those things involved taking a calculated risk when I could have just sat on what I had and nursed it until I died. But if I hadn't done those things, I am convinced I would die a few years sooner, and my final years would be ones of mental, emotional, and physical decline and terminal (literally) boredom. I am not interested in a comfortable but penurious retirement, always counting my pennies. If any of these ventures fails, I will just pick myself up and try again, and find joy in the trying, as long as God gives me breath.

We are all vulnerable to fear when we are exploring the unknown, and well-meaning but lesser humans are pointing out all the dangers that might be lurking in the darkness. Don't listen to them! I was approaching an airport the other day and saw a sign with an arrow that read, "Terminal." I wonder if that's why people are often afraid to fly!

Chapter 15

The Rich Person's Mind-set

The Really Rich think differently. While the Safely Prosperous get that way by avoiding mistakes and debt, the rich are heavily in debt, and cheerfully make a lot of mistakes. The Safely Prosperous avoid risk like the plague, but the Really Rich take carefully calculated risks by the carload. The difference? The mind-set!

Art Linkletter is one of my most treasured friends. He is undoubtedly the best investor in start-ups in the world, and he is one of Hollywood's richest men. Once when he was on a cruise with us, he told me something that has changed my life.

"Howard," he said, "I have invested in a lot of deals. Some worked out, and some didn't. When we had a good one and we got together with other investors to get our payoff, we toasted each other and congratulated ourselves for being so smart. To tell the truth, I can't even remember what most of them were. For sure, I never learned anything.

"But if the deal failed, we would get together for as much as two weeks for a postmortem and try to find out why it didn't work out for us. Sometimes it was the entrepreneur we were betting on who failed. Sometimes it was just bad luck. Sometimes it was an idea whose time had not yet come. Sometimes it was poorly executed or a bad idea. But as we dissected the corpse, we learned and learned.

"Howard, I never learned a thing from a success. Everything I know I learned from my failures."

RICH PEOPLE'S MIND-SETS #1 AND #2

Don't Be Afraid to Fail, and, if You Do, Treat It as a Learning Experience

I'm not talking about the stupid, common mistakes with money discussed in Book I, such as letting compound interest eat your income. I'm talking about errors in judgment when taking carefully calculated risks, an entirely different matter. In our society, we penalize people for their mistakes, starting in the first grade. Our wrong answers were not treated as learning experiences, but as reasons to give out bad grades, and we were punished for them. Business is different; mistakes and failures are your best teachers, and real entrepreneurs aren't afraid to venture, because they know a temporary failure—even a spectacular one—is a chance to learn something they would never have known otherwise. Every Really Rich person I know has left a trail of failures behind him or her before he or she made it big.

I think the best classroom for me was my two years spent as a Mormon missionary. It was there I learned to live with rejection. It was truly the school of hard knocks on tens of thousands of doors. Day after day we had to endure dozens of rejections, sometimes with courtesy, but often with hostility and profanity. I even had a German Shepherd sicced on me. The acceptances were infrequent, but all the sweeter for the rejections we had experienced, even next door. Two years, tens of thousands of doors, and only 25 convert baptisms, representing only eight families! So what kept me going into the teeth of rejection? The money? No, my mother sent me $50 a month to live on. It was passion, the unshakable conviction that their lives would be enriched if they allowed me to share with them what I knew.

This same kind of passion drives all business pioneers onward into the teeth of skepticism, rejection, and failures. Without it, they would probably quit just short of the promised land of success when things got tough or even hopeless—and most every rich man I know had a time when all seemed hopeless, his back was to the wall, and the wolves were circling. Without that passion, sooner or later, he was dead meat. And even if that project failed, he was ready to attack another one with even more passion.

I remember the day when my speed-reading school franchise was canceled. I had gone to work rich and I came home broke. I told Kay, "I've just had a bad day; Tomorrow will be better." And if you will allow me a rather loose definition of "tomorrow," it actually took me two years until I was clearly on the comeback trail.

Resilience is a part of the rich people's makeup. When they fail, they mourn what could have been for a day or two, then they bounce back, armed with undented confidence and new lessons learned.

RICH PEOPLE'S MIND-SET #3

You Can't Leap a Deep 10-Foot Ditch in 1-Foot Jumps

Business success requires grand efforts. Successful businessmen have dared greatly, unlike the "timid souls" Teddy Roosevelt told us about, "who know neither victory nor defeat."

RICH PEOPLE'S MIND-SET #4

They Pride Themselves on Providing Good Jobs for Good People

When the rich hire people who are willing to work very hard to make them rich, they reward those people well when success arrives on the doorstep. It would be a difficult world for me if everyone bought the rich people's mind-set, as where would I get the worker bees I have to have to make things work? Only a few of the people who read this book will be clear enough on the concept and determined enough to apply these principles to make themselves rich, instead of their employer. But if one of them does catch the spirit of the rich people's mind-set, you might want to consider investing some of your money in his or her start-up, as described in Chapter 18.

RICH PEOPLE'S MIND-SET #5

They Are Willing to Endure Deprivation along the Road to Riches

The rich don't take a big salary at the cost of business success. I remember when I was trying to build *The Ruff Times* in the early years, and in order to succeed we had to pour every penny back into marketing, even when we were behind on the family bills. When Kay would ask me when we would have the money to pay the back bills, I would tell her that if we would take care of the business, eventually the business would take care of us, and that's exactly what happened. Because the rich believe passionately in their future, they are rich even before they get rich.

RICH PEOPLE'S MIND-SET #6

They Are by Nature and Inclination Futurists

These people are not building a business for today, but for tomorrow. They see a future that others cannot see. In my discussions with such rich people, I used to ask them what they read. After the usual and expected *Wall Street Journal,* the daily local paper, the newsmagazines, the newsletters, the professional journals, and other financial publications, in an amazingly high percentage of cases, they loved and read science fiction.

When I was three years old, my brother, Jim, became enamored of a radio show called "The Quiz Kids." These were little kid geniuses who would answer hard questions that even the adults couldn't answer. Jim decided to make me a quiz kid and taught me how to read. Even before I started the first grade, I was already way beyond the usual smart-kid books, and was tackling the daily newspaper and adult-level books with an all-consuming passion. I don't remember how it happened, but I stumbled across *Twenty Thousand Leagues under the Sea* by Jules Verne, and the science fiction pulp magazines of the day. This was the start of a lifelong love of science fiction. By the time I was eight, I had read all the works of Jules Verne and H. G. Wells and many other pioneers of the genre. I believe that was the basis of my success as a financial forecaster and entrepreneur. Science fiction trained me to instinctively extrapolate the present trends into the future, to think outside the box, just as those authors did.

Even a moment's consideration will convince you that successful businesspeople must be somewhat prophetic. If they aren't, their competitors will eat their lunch. Even the near future will be different from today. In the modern age of information, a trend that in the last century would have taken decades to develop will now show up in months, if not weeks. The rich person must be emotionally able to change all of his or her basic premises in the blink of an eye, and the science-fiction view of "the future that can be" is a big help. It was for me.

RICH PEOPLE'S MIND-SET #7

They Have Burned Their Bridges behind Them

If Columbus had had an easy way out, would he have discovered the New World? What if he was not willing to lose sight of the Azores before he was willing to venture into the trackless sea? The Really Rich will not ask other people to invest in their ventures until they have all their own chips on the table and have closed a backdoor exit. Smart investors will demand just that.

RICH PEOPLE'S MIND-SET #8

They Are Passionate Believers in Their Ventures

Until they have this passion, they are just dilettantes playing around with an idea, and not committed. And their passion has to be more than money. Thomas Edison became one of the richest men in the world when he founded General Electric. His biographers tell us he loved money and enjoyed being rich, but that was not what drove him. It was his passion for his projects and inventions that made him work ungodly hours.

RICH PEOPLE'S MIND-SET #9

They Happily Take Carefully Calculated Risks

They risk their own money and other people's money. But they are not gamblers, relying on chance or forces beyond their control, unless their reading of the future is very compelling. They need a favorable risk/reward ratio. My benchmark for that is 1 to 10 in your favor.

Perhaps the simplest form of risk/reward analysis is to compare the money that could be lost (usually all of the start-up capital) against the potential upside profit. If I am going to put $10,000 into a venture, there has to be a high-probability upside for me of at least $100,000. When I am looking at deals to invest in, I know that despite everyone's best efforts, at least a few of them will fail. That means I have to have a high enough upside to make up for the losers. I then look at the principles I will enumerate in Chapter 18 to see how many of the desirable qualities in that particular venture outnumber the missing elements of success by at least 2 to 1.

The following is an updated article I wrote for *The Ruff Times* a few years ago. It applies here.

NO BACKDOORS

> The successful entrepreneur is truly another breed of cat. He or she has a compulsion for growth and success. He or she happily takes risks and is undefeatable.

Here's my list of the things you must have to become Really Rich, roughly in descending order of importance. Without most of them, you won't make it. You might still make it without one or two of them, but I doubt it.

- *A supportive spouse.* Nothing is more destructive to a marriage or a business than a spouse who is not willing to endure years of deprivation, chronic cash shortages, and fear (the sky-is-falling feeling when you wake up to worry at 4:00 A.M.). Needed is an almost Christlike willingness to refrain from nagging or criticism when success takes longer than expected. Without that attitude, the emotional price to be paid will cause either the marriage or the business to fail.

  If your spouse adds unnecessary emotional burdens to the already intolerable new-business pressures, you will be less effective. Or, in your desire to please your spouse, you cannot, or will not, make the sacrifices necessary for success.

  Kay was always totally supportive. She believed in me with all her heart, and did her best to make home a heaven on Earth. Without the support of your spouse, starting a new business is next to impossible. More than once, Kay offered some advice that I ignored, but I have since learned that she has good instincts and that more than once I should have listened.

  Remember the lessons of Chapter 2: A good marriage is worth a lot more than being Really Rich. If push comes to shove, settling for Safely Prosperous might be just fine.
- *No backdoors.* Starting a small business is an all-consuming, frustrating, exhausting effort. If you have an easy out—a terrific job to go back to, a lot of cash, or a rich dad to fall back on—you probably won't hang in there when it is tempting to give up.

Almost every successful business has had occasions when all seemed lost. Those who refused to give up made it. If you have a backdoor, you are much more likely to quit when things seem hopeless. If you really want to succeed in business, burn your bridges so there is only one way to go—forward. The Japanese learned early in World War II that a kamikaze was more likely to complete his mission if the wheels of his plane fell off as he took off.

- *Incurable optimism.* Small businesses rarely succeed when the founder is a pessimist or overly cautious with an "accountant-like mentality." I'm not knocking accountants; any business needs good ones as part of a successful team to help you understand the tax or profit possibilities of proposed courses of action, and to provide the financial statements that will tell you how things are really going. Not all of them have accountant-like mentalities. I mean the timid souls who see only problems where the entrepreneur sees opportunities.

  When real entrepreneurs see an opportunity, they pounce on it. If they keep their eye on their objective, obstacles are merely exciting challenges. They believe in themselves, their products, and their mission, despite everyone else's pessimism.

  Napoleon Hill's great book, *Think and Grow Rich,* says, "No great enterprise will ever begin if all obstacles must first be overcome." That is the entrepreneur's creed. Optimism ultimately prevails because skepticism eventually crumbles under the relentless pressure of an incurable optimist. Nobody will follow a skeptic very far. The optimists sweep others away with their enthusiasm and spur them to greater performance heights by giving them a sense of mission. Optimists have to hire some pessimists to keep the books and deal with the banker, but they should keep the pessimists out of their lives as much as possible because they will stifle the entrepreneur's dream. A start-up business without incurable optimism is dead meat.

- *The ability to postpone gratification.* Budding entrepreneurs must be willing to deprive themselves now to get the big rewards later. If they insist on taking a big salary out of the budding business, they will suck it dry before it matures.

  When my sons bring me a new business plan with a big salary for themselves, I toss it back. They won't have the sense of desperation that forces them to land that contract now, to make that sale now, to rush that project to completion now!

  Postponement of gratification is the surest sign of maturity. Many (not most) successful entrepreneurs live high lifestyles—big cars, big houses, flashy rings, and so on—as the postponed payoff for years of deprivation when they hardly knew what they were going to eat, let alone which car to buy. They enjoy it to the fullest when rewards come, because they paid the price first. Perhaps this satisfies some subconscious, deep need to flaunt their success before the cynics who said it couldn't be done—rubbing their noses in it as a sort of delicious revenge. The conspicuous consumption is understandable after the years of self-denial—and very common.
- *Intellectual honesty.* Real entrepreneurs maintain a delicate balance between rampant optimism and realism. They admit it when their product falls short of expectations and needs to be improved. When they look at accounting numbers, they don't allow their optimism to cloud their good judgment. They face their problems and deal with them, while never allowing problems to convince them that "it ain't gonna work." Because they are honest with themselves, they are also honest with others. When they hire people, they candidly lay out the risks and rewards, but their optimism still shines through.

They rely on their accountants for real numbers, but don't allow those numbers to destroy their dream when they look bleak, because they believe that through hard work and ingenuity, they can change the numbers. But they face the truth as it is.

If an entrepreneur isn't intellectually honest, sooner or later some fact he or she refused to face will rise up and bite him or her. Optimism won't save him or her if it is built on the sand of unfaced facts. Pessimists distort this principle to justify their pessimism. They say, "Here are the facts. It's terrible. There's nothing you can do about it. Give up." The intellectually honest optimist says, "Here are the facts as they are. I acknowledge that, but I can change them, and I will."

- *A friend or partner.* Usually entrepreneurs have skills in one or two areas, but are woefully lacking in others. They might be great salespeople, but know nothing about production or accounting. They might be an electronics genius or inventor who couldn't sell worms to fishermen, and to them, accounting is witchcraft. They need a business associate who shares their dream and supplies the skills they do not have. All my major successes have been shared with such a partner.

  When I started my Reading Dynamics school, which, despite my subsequent failure, was very successful for several years, I shared my dreams with John Manson, who believed in them and helped me execute them. When I founded *The Ruff Times* in 1975, I had Terry Jeffers, an administrator and computer expert from IBM. I concentrated on reading, writing, and marketing, and Terry ran the business. I could dump my dreams all over Terry and John, and they reinforced and supported them. They weren't fire-control rhinos and they believed in me. They supplied skills that enabled me to concentrate on what I do best.

One of my most important business strategies is to assess my deficiencies and my strengths, then spend my time doing only the things I do best. That takes intellectual honesty. I either hire or affiliate with people who can do the things I do not do well. Once you honestly acknowledge that you don't do some things well, and turn those things over to competent people who can share your dream, you are unleashed. It's people leverage.

Some people have a strong enough ego to stand alone, but most of us do a heck of a lot better with someone shoulder to shoulder with us, to plug the holes in our defenses.

- *A strong ego.* I don't know any successful businessman who isn't an egotist, although some are better than others at concealing it. There is a crucial difference between a big, strong ego and a big, fragile one. I know some very talented people in my business who get offended easily and are constantly on the alert for slights and insults, real or imagined. People with strong egos simply shrug off most criticism and only counterattack when good business judgment says they must. They usually just sail serenely on their self-confident way.

  My ego is at least as big as that of anyone in my business. Without it, I never would have believed that my deathless prose or unorthodox economic views were worth charging for, but whenever I would let my ego affect my business judgment, disaster lay dead ahead.

  The clearest sign of a strong, secure ego is the ability to laugh when the joke is on you, to take a lot of kidding without pain, and to never doubt yourself despite the ridicule of the majority. I know my ego rubs some people the wrong way, but being 73 years old, I seriously doubt if my personality will change much. My family helps me keep my ego under some control. If Dad gets too pompous, my kids are wonderfully creative at bringing me down to earth. Around the Ruff house, the joke is usually on me.

Only a person with a secure ego will face reality, admit mistakes, cut losses, and change directions. A strong ego reflects itself in many ways, some of them rather obnoxious; but usually the braggart or the temperamental artist has a fragile ego, not a strong one. A wise person once taught me the true definition of temperamental: 9⁄10 temper and 1⁄10 mental.

Secondary, But Still Important

Here are a few more points that may not be as fundamental as the preceding ones, but can increase the success odds of a small business.

- *You need a business plan.* A business plan isn't just an idea or a narrative. It's a concept reduced to numbers on a month-by-month projection. It realistically projects expenditures and income monthly for two years and quarterly after that. It's usually done on a computer spreadsheet. You can also play "what if" business "war games." Sometimes these exercises will tell you that an idea isn't worth it, even if it comes out as expected.

  Without a business plan and spreadsheet, you don't have the slightest idea whether or not your project is even worth doing. You don't know how much capital you need or where your potential pitfalls are.

  A good computerized business plan can be revised constantly with a few keystrokes as the real numbers come in and become more and more accurate. Without a business plan and spreadsheet, you need a lot more dumb luck. I'd rather be lucky than smart, but I'd hate to have to bet on it.
- *You need a position.* A position is a simple concept that

focuses on a relatively narrow segment of the market. When people bring me business deals, they often emphasize how their concept is for everyone. Successful businesses usually have found a relatively narrow market segment and have had a relatively simple product or service to offer it. The right name or advertising slogan can automatically define that position.

One example of positioning was Free the Eagle's fight against the IMF funding several years ago. Our position was simple: "They're bailing out the big banks with your tax money." Not only was it true, even though the issue was more complicated than that, but it clicked into place in people's heads and it was very difficult to drive out. That simple position won the battle of public opinion. We killed the bill.

The more specific and specialized your product or service, the more likely it is to be successful. In this great nation, even a narrowly focused concept should be big enough to make you rich. A concept that tries to be all things to all people is a 100-pound marshmallow; no one knows where to start eating. It generally does not cause people to flock to your door.

You can broaden your concept later, but only within your position. (More about this in Chapter 19.)

Chapter 16

Financial Winners in Bad Times

Hard times are loaded with opportunities for the Really Rich. That's when they find bargains in the stock market, good but cheap companies to buy, and talented people to hire at reasonable wages. It's also when competitors are pulling the bedclothes over their heads, so they don't even see you as you steal their market share.

It was in the depths of the Depression of the thirties that Joe Kennedy laid the foundations of the fortune that created a political dynasty and elected a president. He is a perfect example of how wealth can be created when the rest of the world is bemoaning hard times.

Joe Kennedy was a big-time stock-market speculator who had a big pile of paper profits in the margin-buying stock mania of the late 1920s. He had liquidated his stock holdings in 1928, lived at the estate he had bought with his profits, and was thinking of getting back into the market in 1929. One day he walked out of the New York Stock Exchange and stopped for a shoeshine, and the shoeshine boy started giving him stock tips and bragging about how much money he had made speculating on 10 percent margin. Joe paid the boy, went back into the exchange, and canceled his buy orders; if even the shoeshine boys had become expert stock pickers, the market had become irrational, and the top was near.

To understand how gutsy this was, you have to understand the times. We had just gone through The Roaring Twenties, and the Crash of 1929 and the Depression of the 1930s were still in the future. People were prosperous and there wasn't a pessimist in sight, and amateurs were making paper fortunes every day. But even so, Joe stayed out. For weeks he was a laughingstock as the market kept going up and up, but then came the historic crash that would traumatize America for decades. In one week the market was lower than where it was when he had walked away, and Wall Street became a falling-body zone, and they stopped laughing at Joe.

As the subsequent depression deepened, Joe patiently bided his time for three years, waiting out false market rallies. Then, as the depression deepened, real estate crashed and foreclosures were everywhere. But Joe had cash, and he waited for the right deal. His patience was finally rewarded when opportunity pounded on his door.

The Merchandise Mart in Chicago was a huge, mausoleum-like building with a rabbit warren of rooms where manufacturers and wholesalers displayed their goods and retailers went to buy. But business had crashed, and so had the tenants and their customers. As the building could be bought for pennies on the dollar, the risk/reward ratio was right. In 1932, three years after the market crash and at the bottom of the subsequent real estate depression, Joe bought the Merchandise Mart dirt cheap from its distressed owners for cash. In the inevitable economic recovery that followed, the building again filled up, and Joe became richer than he had ever dreamed of being. And that was just the beginning of his fortune. (For our purposes, a discussion of his bootlegging career is not relevant.)

So what did Joe have that his colleagues didn't? Three things: lots of patience, lots of guts, and cash—and cash was king. Sometime in the not-too-distant future, we will see a similar time; the stock market will be full of historic bargains, even for the little guy, and cash will again be king. That will be a historic opportunity for the Safely Prosperous to make the leap to becoming Really Rich.

But can you prosper or even get rich like Joe Kennedy did in hard or uncertain times, like now when we are in a recession that might get a lot worse? Hundreds of thousands of people have become rich in any financial climate. They don't seem to be any different from the Safely Prosperous—no smarter, no more famous—but something sets them apart, and it was worthy of study. Fortunately I had a ready-made laboratory and database with *The Ruff Times,* and out of that study, I have identified the not-so-obvious intangible things that made these people rich. It was a rich mix of personal attitudes, hard work, calculated risk taking, lots of study, and a firm grasp of the leverage and capitalist principles that have made people rich throughout the centuries. They understood the mystique of capitalism, the rules of people and money leverage, marketing, and the role that character, resilience, tenacity, and patience had to play.

They all understood that adversity was just another disguise for opportunity. Sometimes they had to wait awhile for the right opportunity, like the cat that patiently crouches by the mouse hole for hours, ready and waiting for the chance to pounce. Sometimes opportunity was wrapped in uncertainty and scare headlines in *The Wall Street Journal.* Sometimes it was hidden in a sudden event that dropped out of nowhere, and they acted when everyone else was struggling to get their bearings.

First, let's look at the different kinds of hard times you may have to face.

RISING INFLATION

The inflation hedge choices for investors are obvious: gold and silver, plus gold and silver mining stocks. Real estate is another obvious choice—all kinds of real estate, even though in normal times it varies a lot by locality or region. You remember the mantra, "Location, location, location." But rising inflation will usually bail you out of your mistakes in choosing properties.

Generally speaking, I lean toward income-producing properties (rentals), and residential properties are best in hard times. Commercial properties have one big vulnerability; when times get tough, many small companies have to shut down, and many big companies will slash expenses, sometimes by closing branch offices, leaving the landlord holding the bag. But people have to live somewhere, and rent is one of the last things they will fail to pay.

When inflation is raging, collectibles seem to do well, although they require specialized knowledge and experience that I don't have; I seem to always buy antiques and sell junk, and there are lots of pitfalls. Inflation seems to bring out the rare coin hucksters; however, grading, which determines value and price, is so subjective, you shouldn't mess with this unless you have a dependable, stable, years-in-business vendor you can trust. If so, this can be part of your inflation hedge portfolio. In the past when inflation was raging, the Swiss franc was a very profitable investment, because Swiss currency is gold-backed and the Swiss are very inflation-conscious.

At times like this, business debt, if the money is wisely deployed, makes a lot of sense. After all, as the dollar diminishes in value, it is in effect helping you to pay off your debts in shrinking dollars.

DEFLATION AND DEPRESSION/RECESSION

These three terms are almost synonymous, and the rules on debt become the exact opposite. You should avoid either side of the creditor/debtor relationship. As Shakespeare said, "Neither a borrower nor a lender be." Borrowers have trouble servicing their debts and creditors have trouble collecting their money.

As prices fall, the purchasing power of cash rises, and it is a fine investment holding. When the economy is slowing down dramatically, businessmen have trouble maintaining their prices, let alone raising them. More and more talented people are out of work, making this a buyer's market for employers. This is a great time for solvent companies to raise the quality of their talent pools.

Here are a few good deflation choices:

- *Residential rental property.* This is the only kind to even consider and that very carefully.
- *Government bonds and notes.* Remember the discussion of how bond and note prices go up when interest rates are falling? Interest rates always fall when deflation, recession, or depression hits, so bond prices go up (see Chapter 3). In the 1930s, rates fell so low that for a short time, T-bonds had negative yields to maturity. This is why I had my subscribers in T-bonds and notes from March 2000 to June 2003. We made a lot of money, even as the stock market was in a free-fall.

FOR BUSINESSPEOPLE ONLY

Recession/depression is the time for gutsy businesspeople to make a big leap forward. Go back and reread the story of Procter & Gamble in Chapter 14. It is a classic tale of how to make hay in hard times. Also read my personal cautionary tale in the same chapter. It will tell you how fear turns hay into manure.

Stock Bear Markets

There are a lot of ways to make money when you are caught up in a bear market. Some are pretty sophisticated, like "going short." Others are pretty easy, like buying shares of the Prudent Bear Fund, which takes the short side of the market and tends to go up as the general market goes down. Just be careful you are sure the market will be falling before you buy.

Chapter 17

The Capitalist Manifesto: Creating Wealth Out of Thin Air

Capitalists aren't just rich plutocrats on Wall Street. America has millions of them, and you can become one too. The strategies I will teach you in this chapter have created more millionaires than any other get-rich strategy.

The year was 1990, during the Gorbachev era and the days of glasnost and perestroika. Gorbachev was engaged in his ill-fated and naive attempt to save the unsavable Communist empire by reforming what he perceived to be the worst evils of the Communist system. Among other things, he thought he could improve the Communist state by introducing a whiff of the free market and a little bit of political freedom to a society that was ignorant of the barest rudiments of the genius of capitalism. Unfortunately for Gorbachev, that whiff of freedom was just enough to eventually destroy the Soviet system, which was held together only by terror and total oppression. The syndicated columnist Jack Anderson and I took 140 of my newsletter subscribers on a three-week tour of Russia and Ukraine to observe this dramatic and unprecedented history in the making.

Jack and I had dinner in an ill-lit room in one of the first privately owned restaurants in Moscow with a small group of men who were in the vanguard of the new, emerging Russia, including two who had just been elected to the Soviet parliament. They were bursting with enthusiasm for the new world being created around them as they told us of their dreams for their country. As we huddled around the table in the candlelit restaurant, I felt like we were in a bad B movie, portraying revolutionaries plotting the overthrow of the government. Six months earlier, we would have been in serious danger of being picked up by the KGB.

Productivity had just plummeted as millions of Russians were watching with incredulous wonder the all-night rebroadcasts of the sessions of the new, freely elected parliament and were too tired to go to work the next day. They had seen with their own eyes a newly elected representative, a colonel in the army, tear into a KGB general in a hearing on state oppression. The general had no choice but to sit there and take it while the nation watched with amazement and wonder.

It quickly became obvious that these enthusiastic, newly minted revolutionaries at our dinner table had no clue about the American free-enterprise capitalist system. They had been taught all their lives that capitalism only meant the rich grinding the faces of the poor as they exploited them, and they had not been given any reason to doubt that this was so. There wasn't a single basic accounting class in any high school or college in all of the Soviet Union. There was no body of commercial law to protect businesses from a predatory government or organized crime, and there was no patent law to be enforced by a system of independent courts. There was a solid wall of ignorance and inertia in a society that had been hostile to its fictitious version of these ideas for many decades. The Soviet people still believed that the only way to get rich was through graft by government officials or by being a member of the rapidly expanding, vicious Russian Mafia—and at that moment of history, in that place, they were probably right.

As an example of their enthusiastic naiveté, they enthusiastically proposed to Jack and me the revolutionary (to them) idea that Russian farmers should be allowed to own their own farms as private property. That sounded at first like a great leap forward—until they explained that, of course, farmers wouldn't be allowed to sell or transfer their property except by inheritance to their offspring. That meant that if Boris had a farm, he would have to leave it to his kids when he died. "But," I asked, "what if Boris had only one daughter and she was a ballerina with the Kirov ballet company and had no interest in farming? What then?" That hadn't occurred to them. They had no clue!

As I listened to these very sincere men who expected us to be blown away by their revolutionary embrace of "capitalism," I realized that not only didn't they know a thing about the genius of capitalism, but Americans don't either, even as they dine at the bounteous capitalist table.

I was to conduct a seminar for a bunch of Russians in a few days. I knew that my monumental task was to explain to them just exactly what capitalism was, and I had to think it through myself. I was like a goldfish that swims in its tank, never thinking of the chemistry of the water it breathes that keeps it alive; it just breathes. And now I had to teach a water chemistry lesson to a bunch of Russian air breathers. I had to think it through.

I remembered a question I asked my dinner companions: "What does Russia need most from the West?" Their quick answer was, "Capital," meaning loans from Western banks. I responded, "If you need capital, why don't you create your own?" Not only was this statement met with looks of incomprehension, I realized I would have gotten the same looks if I had said the same thing to a group of Americans.

CAPITALIZING INCOME

Something dawned on me that I already knew, but didn't know why I knew it. And that's what this chapter is about: *Capitalism is the act of creating real wealth out of nothing by capitalizing income.* It is by far the most productive route to becoming Really Rich, creating more millionaires than any other route. It's the magic yellow brick road to wealth followed by those who become rich in business and real estate. It's the ultimate leverage. It is the most important lesson I can teach you if you want to get rich comparatively quickly. It's why Bill Gates is the richest man in the world, worth $60 billion! He doesn't have $60 billion in cash in the bank, he has $60 billion worth of Microsoft stock in his portfolio, and he created that $60 billion value out of nothing by capitalizing his income! He simply sold some of his corporate stock to the public and let the marketplace determine its value and the prospects for the company. As investors got more and more impressed with the growth prospects of Microsoft, the stock sold at a higher and higher multiple of its prospective earnings per share. Not only did Bill Gates make a ton of capital gains at low tax rates by selling some of his stock to the public, but his portfolio of Microsoft stock on his balance sheet, where his real wealth is, soared in market value. So did the portfolios of his early investors and employees who accepted stock and options as part of their compensation: hundreds of them are now millionaires. Gates did as capitalists do and used his stock to attract a world-class management team.

Neither you nor I will ever be as rich as Bill Gates, but you can become rich beyond your wildest dreams in the same way Bill Gates did, by creating income and capitalizing it, which means letting investors determine what your stock is worth on the free market by going public. If you do it right, you can be rich by anyone's measurements in 2, 3, 5, or 10 years. Then you can have passive income as you get your money to work for you, instead of you working for your money. Not only is capitalism not exploitation of the poor by the rich, it is a cornucopia of wealth that feeds everyone, rich and poor alike. And it can create real millionaires in a hurry. This great capitalist secret has created more Really Rich people than any other get-rich strategy.

CAPITALISM 101

The day for my seminar had finally come, and I was standing in front of a group of skeptical Russians and some equally skeptical Americans from our tour group. Here is what I taught them:

> The essence of capitalism is creating income and then capitalizing that income, thus creating capital out of thin air. You want capital? You want the Western banks to loan you money? Then you must become loanworthy the capitalist way. Here's how. Let's use real estate as an example.
>
> You can create capital with real estate, but not until you make it fully transferable at a price dictated by the free market. You need an army of Red Carpet real-estate salespeople [that needed explaining] freely buying, brokering, and selling real estate, with the free market deciding how much it's worth. No bank will loan you capital if they can't assume ownership of the property you borrow against if you don't repay them, then recapture their loan by selling it. [These commonplace American ideas blew their minds. Moving right along . . .]
>
> Let's look at the story of Boris and Ivan. They have adjoining farms of about the same size. Boris works hard all day on his farm, while Ivan drinks a liter of vodka a day [there was a ripple of recognition in the crowd] and only produces half as much wheat or corn or pigs as Boris.
>
> Because real estate is not transferable, Boris's financial stake is doomed to remain small because he can't buy Ivan's farm and expand his operations and turn Ivan's unproductive land into a profitable piece of his farm.

But if real estate were transferable in a truly free and widely recognized market, some bank would loan Boris the money to buy Ivan's farm (cheaply, because of its low profitability) and make it productive with the efficiencies he could introduce by working hard and buying better and newer machinery, plus the economies of scale he could achieve by buying seed and feed and fertilizer cheaper in bigger quantities. The bank would loan him the money to buy it, based on the property's potential income. And what would the value (price) of Ivan's farm be? Under capitalism, the farm would be valued at some multiple of its profits. Maybe five times, maybe more. So if Ivan's farm was making 1,000 rubles a year in profits, the farm would have a fair market value of at least 5,000 rubles. And if Boris could double the productivity and profits to 2,000 rubles a year, Ivan's former land would be worth 10,000 rubles now, and Boris could borrow even more money to buy Alexei's farm across the road.

Boris would have become a capitalist. Did he exploit anyone? No, everyone benefited. Ivan can now take his 5,000 rubles and drink his liver into mush if he wants too, and Boris would have a more efficient and profitable and growing farm on his balance sheet, which is where he would measure and keep track of his growing wealth, because the fair market value of his farm would be a multiple of his farming profits. He would have capitalized his income. This wouldn't work unless there was some way to measure the value of his property. This requires a free market—a capitalist market.

I then explained how Americans create profitable businesses, sell some of their stock to the public, and become wealthy based on the fair market value of the stock they still hold. Instead of making $100,000 a year from their 100 percent privately held business, they could own perhaps 75 percent of it, but this asset would be worth 10 or 20 times as much as they were earning every year. If they needed some cash, they could sell some or all of their stock and pay capital gains taxes at about half the rate of their former ordinary income.

AMERICAN APPLICATIONS

I have no recollection of anyone at my seminar coming up to me and telling me I had revolutionized their thinking, but I hope I can revolutionize yours. (Actually, I vividly remember the looks of incomprehension. It must have been due to an incompetent translation, right?) The big question is, How can you create and capitalize your income and get rich fast?

Here is a simplified listing of the steps to real wealth:

1. Start a business enterprise.
2. Raise some capital by selling some of your equity (a portion of the company's stock) in a private placement to investors.
3. Use capital to build the business into a profitable venture, on a small scale at first, but with a healthy growth curve.
4. As the profits grow, capitalize them by becoming a publicly owned entity in any one of several ways, listed either over the counter or on a stock exchange, with the free market determining the price of your stock. It will probably be worth 10 times (more or less) your share of the earnings (profits), or even more if your growth-rate curve is very steep.
5. This can be done in several ways: (a) doing an initial public offering (IPO); (b) selling your company to an existing bigger company for its fair market value in cash; (c) merging with a larger existing public company by exchanging your private stock for their public stock in a tax-free exchange; or (d) doing a "reverse merger." Each of these alternatives has its pluses and minuses. To go public by

any of these approaches, your private company must also have audited financial statements going back three years, so you need good accounting from day one.

6. Your personal stock then goes on your balance sheet as an asset at the fair market price, which then produces passive income for you through dividends and corporate pretax personal benefits. (There are many things your corporation can do for you with pretax dollars that are not taxable income for you.)
7. As the years go by, every dollar of increased earnings per share will add $10 or more to your balance sheet. That's leverage!
8. As your balance sheet net worth grows, you are able to borrow more money to buy assets that produce more for you than the loan costs you in interest, adding to your income and wealth until you don't have to work for money any more, as your money works for you instead.

Voilà! You are Really Rich.

Is it really this easy? No. It's that *simple,* but not that *easy.* There are many things you need to learn to make it work that don't require an MBA or PhD, just a lot of hard study and reading on your own. The hardest part is building a profitable business, as described in Chapter 18, but that has been done by millions of people, so it must be achievable, and you must believe it is achievable by you as well.

The one thing that separates the Really Rich from the poor or Safely Prosperous is knowledge. The Really Rich must know more to do the things they do, but this is not rocket science. I would be a liar if I told you that you can get rich knowing only what you know now, but it is within the capacity of anyone who is smart enough to read this book, understand these concepts, and go on from there. The amazing thing about the Really Rich is how few of them have college degrees. Most people are born with the inherent ability to be successful if they are willing to pay the price in self-discipline and study to learn the techniques and acquire the attitudes and mind-sets that create wealth and then apply them. If you are trying to build a business that requires highly specialized skills, as many high-tech companies do, a college degree can be necessary, but in this world of millions of pedestrian, successful businesses, the knowledge necessary to be successful is not always found in the Ivy League, but more often in the school of hard knocks, and it's also for sale or rent. In fact, most of what an MBA will teach you is how to climb the ladder in an already-established Fortune 500 company.

You will have to know how to run a computer spreadsheet and to read a profit and loss statement and a balance sheet. You will have to grasp the basics of leadership to forge an effective business team. You will have to understand the essential elements of marketing, or hire those who do, and learn enough to understand what your team is telling you. There is nothing here that you can't learn in commercial seminars or night school classes at the local junior college, or by working for two or three years for a successful company in the field you wish to attack.

Is there a less tiring and more painless way to accomplish the same thing, or close to it? Yes, there is. It's not as good, but still OK. You can find a promising entrepreneur, apply the standards in Chapter 18 to evaluate him or her, invest in the company at a cheap price in a private placement (wholesale) before it goes public, and ride it to wealth when it does go public at a higher price. The real money is not made by those who buy in the public offering (retail) or on the public market after the IPO; it is made by those who buy the stock cheap *before* the company goes public.

This is not a handbook on the tactics of how to build a successful business. There are plenty of fine books to teach you that. This is a handbook on the strategy of real wealth. Just make sure you don't try this without understanding the principles in Chapter 18 as they apply to you, the entrepreneur.

HOW TO BECOME A PUBLIC COMPANY

First, your business must become a corporation. Then you must register with the state and federal SEC and the National Association of Securities Dealers (NASD). There are several ways to do this.

Starting a corporation is a simple matter of registering with the state in which your corporation will be a legal resident. Nevada corporations have several legal advantages:

- There is no corporate income tax.
- There are no taxes on corporate shares.
- There is no franchise tax.
- There is no personal income tax.
- There is no information-sharing agreement with the IRS.
- There is no public record of shareholders.
- There are minimal reporting and disclosure advantages.
- Stockholders, directors, and officers need not live in or hold meetings in Nevada, although a trip to Las Vegas for "corporate meetings" is tax-deductible.
- Officers and directors can be protected from personal liability for lawful acts of the corporation.
- Nevada corporations may issue stock for capital, services, personal property, or real estate, including leases and options. The directors may determine the value of any of these transactions, and their decisions are final.
- Best of all, this can be set up for under $1,000.

For more specific information about the companies and law firms that can provide all these setup services, go to Google.com and type in "Nevada Corporation." There are a zillion Web sites there to help you.

Then you have to issue shares to the potential shareholders, based on the money they contribute or the talent they bring to the party. Corporate stock is an incomparably valuable tool for attracting executives and investors. It will be a temptation to try to borrow the money instead and pay high interest and save the equity for yourself, but that is usually a mistake. The debt is a drag on the balance sheet and a burden on the cash flow. Equity money never has to be paid back, and is more attractive to more sophisticated investors who know that having an equity stake in a successful start-up is many times more profitable than interest, even with a very high interest rate. They also understand the leverage inherent in being a shareholder. You should be able to develop the team and raise the capital and still keep control of the majority of the voting stock, anything from 51 percent to 80 percent. Bill Gates owns less than 5 percent of Microsoft.

FOR BUSINESS OWNERS ONLY

The world is full of small-business owners who have never gone public and seem to be satisfied. I have heard all their reasons: "I don't know how to go public," "I don't want to be answerable to other stockholders who might meddle with my management decisions," "I don't want to do all the legally required reporting because I treasure my privacy," "My business is profitable enough that I am satisfied with my level of wealth," "I love my business so much that I would never want to turn loose of even a little of it to a stranger or even a friend." And the biggest one: "I don't want to have to deal with SEC bureaucrats!"

These are all perfectly good reasons to stay private, and you might be happier doing just that, but compared to what? These negatives must all be measured against the financial leverage inherent in going public. We're talking here about getting Really Rich. If you wish to be Safely Prosperous, stay private—your choice—but first consider the following example.

Let's say you have a small business that earns you $100,000 a year in dividends after paying you a decent salary. You will have

$100,000 plus your salary to live on or spend each year, and that's better than a poke in the eye with a sharp stick.

Then let's say you decide to go public by selling 20 percent of the stock to investors in a public offering, pocketing a few hundred thousand dollars in proceeds from the sale but reducing your annual dividend to $80,000 a year (80 percent ownership). But because the market quotes your stock at a price/earnings ratio (PE) of 10 (10 times earnings), your stock is worth $800,000. If your company is growing fast, you might realize 20 times earnings, making your stock worth $1.6 million. You have become much richer by owning less, instead of remaining Safely Prosperous.

Although Bill Gates only owns a tiny percentage of Microsoft, his $60 billion is almost all in the value of his stock. Being rich doesn't consist of how much cash you have in the bank; it consists of how much in assets you have on your balance sheet, and how much passive cash income those assets throw off.

ONE WAY TO SKIN A CAT: AN IPO

Most people think that to go public you have to have an IPO through a Wall Street underwriter, and that it always has to take hundreds of thousands of dollars and a year or two of preparation. Not so. There are other ways to do it at nominal cost that are also a lot faster. First let's look at the pluses and minuses of a traditional IPO.

The Pluses

- You raise money in the underwriting, either to add to the company's capital or to put in your own pocket if you sell some of your personal stock.
- There is usually publicity, which can be good for the stock price and for business.
- Participating Wall Street brokers will sell some of the IPO

to their clients, so the broker will have to follow the company and "make a market" in the stock. This increases the odds of higher trading volume and increases the price.

The Minuses

- It is costly. Even a small offering can cost upward of $250,000, possibly as high as $1 million. There are underwriting fees, sales commissions to the selling brokers, legal fees (a lot), and accounting fees.
- It is a slow process. Plan on at least a year, and lots of time-consuming and expensive exchanges between your lawyers and accountants and the SEC and NASD.
- You could work on an IPO for a year and spend a lot of money on it, then run into a bad market environment when IPOs are hard to sell and have the underwriter back out.
- Your IPO could be a "best-efforts" deal, and the offering might not sell out.

A SECOND WAY TO SKIN A CAT: A MERGER

You can sell your company to an already existing public company. If you pick your merger partner carefully, you can receive a combination of cash and your new partner's stock. If you get all cash, it is all taxable income at the much lower capital gains rate, but if you accept stock, you can do a tax-free exchange, postponing any tax consequences until you sell your stock for cash. You are then a minority shareholder of the surviving company, usually worth a multiple of several times your old company's earnings per share. This, of course, is a balance sheet item, which makes you supremely bankable, meaning you can borrow money at near prime rates to make other investments, using some of your stock as collateral. You can also sell some of your stock if you decide you want or need cash, and you will pay the lower capital gains rate rather than the ordinary income rate, which is as much as double.

There are many pluses in going the merger route; however, in most mergers you generally must give up control of your business, and your new partners can now tell you how they want your company to be run. You could even be fired if you haven't protected yourself in the merger contract. If you can see the new partners might want to get rid of you, you can usually negotiate a golden parachute and take comfort that the transaction has made you rich, even if you no longer have a job. You will have to consider these factors when you are weighing the trade-offs for increasing your wealth.

A CHEAPER, FASTER WAY TO SKIN A CAT: A REVERSE MERGER

There is a less-known way to go public that gets the job done in a fraction of the time and at a fraction of the cost but makes you every bit as much a public company as an IPO. It's called a *reverse merger.* This is the low-rent district of underwriting, and has not enjoyed the best of press; but it is cheap, and if done right, it happens fast and provides you most of the benefits of being public. It can also be full of pitfalls if you choose the wrong people to manage the merger for you, but I will have suggestions on what the pitfalls are and how to avoid them.

A reverse merger combines your private company with an already existing, usually small but viable public company already being quoted on one of the Nasdaq quotation systems. The company will have a small operating business going nowhere fast and the management has decided to give up majority control of the public company, usually 80 percent or more, to a larger operating private business in pursuit of growth. It doesn't have to be in the same industry as your business.

Previously, reverse mergers were done with a *corporate shell*—a public company that has no operating business, but once did.

The company is still registered with the SEC and the NASD and may or may not be currently trading.

Recently, however, the NASD has upgraded the rules for trading on its Nasdaq stock quotation system and will only allow viable operating companies to be quoted. I would strongly suggest that you not consider merging with a nontrading or nonoperating public shell; the costs and the risks are just too great.

Mechanically, here is how a reverse merger works. First, you find a small public company being quoted on the Nasdaq that is looking for a larger private company to acquire. You can put feelers out through your broker or securities attorney or place a small ad in *The Wall Street Journal.* There are also promoters who specialize in putting together reverse mergers. (One competent professional I trust is Gary McAdam of Denver, Colorado, 303-791-1188). They usually know of public companies looking for a merger partner. Once you find one, a dating game ensues. To still be trading, the small public company must maintain audited financial statements and current quarterly and annual registration statements with the SEC. Having access to these SEC filings will also provide you with both the historical and financial information you need to decide whether this is a company you'd like to have your private company merge with. It is much like a marriage. First you want to get to know each other to see if you both want the same things out of life.

The next step is to negotiate the percentage of dilution your private company is willing to give up in order for you to go public through this backdoor process. It usually requires you to leave between 5 and 10 percent with the public company's shareholders. It will depend somewhat on your negotiating skills as well as on how large your private company is and how much the management of the public company believes in your company's potential future growth.

Once the managements of both companies agree on the ownership percentages for both companies' shareholders after the merger is consummated, attorneys prepare summaries of a merger agreement, including financials for the approval of shareholders of both corporations. The type of registration the company used to go public will determine whether the merger will require the companies to wait for comments back from the SEC to complete the merger; most do not. Your SEC attorney will guide you. You should hunt for a 15 D reporting public company, which does not require the SEC's involvement for approval. You simply file a report telling the SEC what the two companies have agreed to. An honest promoter like Gary McAdam will walk you through the whole process.

The End Result

In a reverse merger, there is not actually a complete merger. Once the merger agreement is approved by both sets of shareholders, an exchange of stock takes place between both companies as follows.

Let's suppose the agreement was that postmerger, your private company's shareholders (you) would own 90 percent of their outstanding shares and all the public company's shareholders would own 10 percent. Let's further suppose the public company had 1 million shares authorized. In this scenario, the public company would issue the private company 9 million shares to be divided proportionally with the existing private company's shareholders (you) in exchange for 100 percent of the outstanding shares in the private company. This is called a "tax-free stock-for-stock exchange." Instead of an actual merger, the private operating company has become a wholly owned subsidiary of the public company. You wind up maintaining two separate but united corporations. It is like a married couple's joint tax return; their financial records are merged or consolidated and reported as one. The management team and directors of the public company usually simultaneously resign and are replaced with the private company's management team and/or directors, and the shareholders change the corporate name to be more consistent with the company's new business—probably the old private company's name. The new public/private entity is now run by the private company's management team.

The Pluses

- You can go public quickly—usually in 30 days or less, as opposed to a year or more.
- You can go public inexpensively, generally for $25,000 to $50,000 in total legal, accounting, and mailing costs, as opposed to hundreds of thousands of dollars.
- You immediately have a public trading market value for your shares to provide you with currency for acquisitions or key-employee recruiting.
- You can raise money privately or publicly based on your stock's trading value, not on negotiations with a brokerage firm that would try to keep your company evaluation down in an IPO for the benefit of its customers. The private money source for a private company will usually try to price the stock based on book value. If you are public, negotiations begin at market value, which, if the private company has a good growth curve, will be a whole lot higher.

The Minuses

- You will be giving up dilution (5 to 10 percent) without receiving new capital, as in an IPO, although raising money is now much easier and on better terms than when you were private.
- You will not have a brokerage firm or syndicate of brokers who would have raised your IPO money to make markets in your company's shares or to tell your story to the public on an ongoing basis.
- There is some credibility temporarily lost in the securities

> industry by going public through a reverse merger—but a bit of time cures that completely, and it doesn't matter anyway.

One key is who you choose to guide you through the process and what added services they will provide, such as raising capital, developing the trading syndicate, and so on, all of which can be managed by competent professional promoters.

I can't caution you enough to work with experienced professionals—accountants, lawyers, promoters—who specialize in reverse mergers. Their mainstream equivalents will either not understand the process or will pooh-pooh it in favor of a time-consuming, expensive IPO and the handsome professional fees it generates.

In summary, creating a public company is the most lucrative of all the routes to wealth, but it requires guts, a creative and venturesome spirit, a drive to succeed, and a healthy helping of tenacity.

Chapter 18

Getting Rich by Investing in Start-ups

If you don't want to go through the trouble and worry of becoming a capitalist yourself, there are ways to invest in those who do. Most start-ups fail, but you can separate the sheep from the goats. I will show you how and when to jump in, and when to run like hell.

Investing in start-ups is one path to real wealth. The problem is that if you don't know how to sort out the sheep from the goats, it can be a freeway to the poorhouse. It's usually an all-or-nothing proposition: You either make a lot of money or lose your whole investment. Capital investing has serious risks, but if you know what you're doing, they are acceptable calculated risks.

Wouldn't you like to have been one of the hundreds of millionaires created by Microsoft? Sure, Microsoft is one in a million, but there are little Microsofts being created every day. Other than starting your own business, investing in start-ups has more upside potential than any other get-rich strategy. It can be as much a part of your get-rich plan as the stock market or real estate, but only if you do it right—and because there are a zillion ways to do it wrong, they can all make you poor if you don't know what you're doing.

Where did I learn this stuff? First, I have watched hundreds of start-ups and invested in some of them, including some losers. Second, I have started several new business ventures myself; some were winners, some were losers. Much of what I know about the subject I learned by stepping in it; my failed ventures and start-up investments have been my real teachers. The most important lesson I have learned is that all successful start-ups have some things in common, no matter how different the businesses seem to be. And there are other things the failures all have in common.

THE ONE INFALLIBLE RULE OF START-UP INVESTING

Let's get the most important rule of start-up investing out of the way up front: *Don't lose your money in start-ups that really never had a chance.* These are a lot easier to identify than you might think. Ignoring the rules in this chapter gives you odds that are far worse than the slots at Vegas. In my experience, 9 out of 10 start-ups either fail completely, taking the investors' money with them, or they never amount to anything. However, once you have eliminated the sure losers, the odds improve to better than 50-50.

On the other hand, because successful start-ups can return as much as $10 to $100 for each dollar invested, if you spread your choices over at least 10 new companies you can absorb the five losers and still be ahead of the game. Even with careful adherence to the rules in this chapter, you will be doing a really good job if as many as half of your choices survive.

Don't put all of your eggs in one start-up basket; set up a start-up portfolio. It's a numbers game, pure and simple. Even with a 50 percent success ratio, you can average more than 100 percent per year return on your total investment and change raw gambling into calculated risk-taking with a great risk/reward ratio.

Now let's look at the "never-do's" of start-up investing. Avoiding these pitfalls can save you a fortune.

THE SEVEN NEVER-DO'S

Never-do #1: Never invest in a start-up that doesn't have a carefully thought-out, written business plan, complete with pro-forma projections. If they don't have one, that's a clear sign that they lack the sophistication and know-how to create a real company. And you must challenge the assumptions in the spreadsheet to see if they can hold up under assault. I've discussed this in more detail in Chapter 15.

Never-do #2: Never invest in a "good idea" that is "for everyone." If it's for everyone, it's usually for no one. Successful start-ups almost always focus on a narrow market that can be exploited on a cost-efficient basis.

Never-do #3: Never invest in a one-man gang. Although most successful start-ups are the result of the drive and leadership skills of one intrepid entrepreneur, successful new companies have a well-balanced, talented support team to provide all the necessary skills and experience the entrepreneur doesn't have.

Never-do #4: Never put your money into an undercapitalized company. Invariably, it costs more and takes longer. Without enough capital—and then some—the company will fail, but not before sucking you into more and more investment in a vain effort to save it before it goes down the tubes.

Never-do #5: Never invest money you can't afford to lose, because some of your picks *will* fail.

Never-do #6: Never invest without an exit strategy. How will you get your money back or realize your profits? If the entrepreneur does not envision a future IPO or a merger, or a possible sale of the company to a larger company, and tells you how you will double or triple your money with profits and dividends, run, because that never happens.

Never-do #7: Never invest in a start-up without a well-conceived marketing plan focused on a narrow market, with a predetermined, cost-efficient path to the potential customers.

Just by never doing these seven things, you've already increased the odds from 1 in 10 to about 5 in 10!

THE PERFECT START-UP

The perfect start-up, which probably doesn't exist in nature, will look a lot like the following. (Where I use the masculine *he* in the generic sense, it could very well be a *she*.)

1. The Entrepreneur

The entrepreneur's character and personality is the major limiting factor in start-up success. Ideally, he will have all or most of the following characteristics:

- He will have had experience working for a company that required the same skills he will need this time.
- He will understand that he is not just developing a hot idea; he is starting a business that must be built from scratch like any other business, with all the standard, routine business functions needed by any company, such as accounting, sales, marketing, collections, information technologies, and so on.
- He will have strong skills in one of the critical areas needed by this and any other business, such as communications, marketing, sales, relevant technology, accounting, capital raising, and so on.
- He will have leadership skills, and will build a team of talented people who share his dream, respect him, and supply

the essential skills he doesn't have. At a minimum, he must have a computer-savvy controller to produce the financial statements needed to analyze the start-up's progress, a marketing VP, a sales manager, and an office or operations manager.

- He must have a supportive spouse, or no spouse at all, and to a great extent that's up to him. No one can be at his best on the job when he is being hassled at home. Start-ups require so much time and dedication that the spouse must understand the pressures the entrepreneur is under and provide a safe harbor so that if he comes home, his emotional batteries will be recharged instead of further drained. To earn that support, despite the long hours he must work, he must not become a compulsive workaholic. He must set aside dedicated, predictable time for spouse and family and never fail to keep his family commitments. If a wife knows that she can have Friday night as a date night, she will not hassle her husband during the week, and if the kids know that Dad will always be there for recitals and games, they will feel supported.
- He must have a big, strong ego, as opposed to a big weak one, so he doesn't feel threatened when it turns out he has made a bad mistake and needs to change course. Big, weak egos make people so defensive about the inevitable mistakes made in new businesses that they won't make essential course corrections, and they will lead the company down the hole that leads to business hell.
- He will be a reader, keeping up with relevant information in his industry and the marketplace as a whole. I hesitate to invest in an entrepreneur who doesn't read *The Wall Street Journal,* including the editorial and opinion pages.
- He will be a realistic optimist (or an optimistic realist, if you prefer). That means he can face the facts as they are, and if they are negative, he will believe he can change them.

- He will be intellectually honest, which is different from just being honest. An honest person won't lie to you, but an intellectually honest person will never lie to himself. Self-deception is the cause of countless business failures. Self-liars always fail, because they will not admit it when they are wrong and change course in time.
- He will have clear, well-articulated long-term goals. Course changes and refined and altered objectives are fine as the company gains experience in the real world, but without a clear objective in mind, the entrepreneur will be at best a tactician, not a strategist—and tacticians don't build successful companies.
- He will not drain the company's capital to support himself. He will have independent income, or some savings, or a willingness to live on short rations so he is an asset, not a liability, for the company. He and his family must be willing to live modestly and not care about the dishonest facade of success. There will be time to show off when the company has really made it and there is plenty of money.
- He probably will have failed at least once, and is a lot smarter for it and has demonstrated his resilience and stubborn persistence. That's good!
- He must not be greedy. He must be willing to share the equity to attract and build a top-flight management team, and that must be their focus, not just a salary. Also, managers who are willing to work for equity in the form of stock, convertible bonds, and options have the right motivation to build a real company so they can get rich too.

2. The Product

The best products and services to bet on usually aren't revolutionary; they are simple improvements on an already accepted product or service—a better, faster, or cheaper way of doing old things or providing useful services. It doesn't have to be a hot consumer product; sometimes it is sold to businesses. It needs to be the solution to a problem, and it is a lot easier if you don't have to convince people they have a problem, just that you have a simple-to-grasp solution to a problem they already know they have. The best, safest, and also most profitable start-up companies don't have to be dramatic or in the hot market du jour. They are usually dull and prosaic, and often very low-profile.

3. The Marketing

Marketing is an essential skill for a start-up. Marketing isn't just advertising, direct mail, or selling; it's an amalgam of a lot of disciplines. When I launched Hi-Q, a brain-food supplement, we had to figure out how to sell it. We tested direct mail, and it worked OK but not well enough, so we are testing direct-mail appeals. We are testing a 30-minute radio infomercial, preceded by numerous 10-second promos to draw listeners to the show, a personal talk-show appearance on the same station, one-minute radio spots, and a simultaneous major direct mail campaign. We are also looking at point-of-sale display racks in health-food stores and a book on nutrition and the brain. We'll test everything in a small retirement community, throw out what doesn't work, and then pour money into everything that does work in city after city. Now that's marketing!

PICKING LOSERS

Most potential investors who come to me to excite me about some venture don't have the slightest idea how or whether the entrepreneur meets the preceding requirements. They haven't asked these questions, and they probably don't even know what questions to ask. They are just excited about a product or idea, and believe the company will make them rich because "everyone needs (or will want) one" or "there is no competition." It is rare that these enthusiasts really know whether or not they are investing in a real business—and much more often than not, they aren't.

THE PROFILE OF A SUCCESSFUL START-UP INVESTOR

If you as an investor don't have most of the following attitudes, you should probably put your money into T-bonds.

- You must think long term. If you think there will or must be a quick profit, you will be wrong. This is a dysfunctional attitude. It also means that you must be a patient, long-term investor, with no fixed deadline when you will need your money. You must be willing to look at least five years ahead.
- You must demand monthly financial statements and be willing to read every number. I am amazed at how many start-up investors don't insist on this rudimentary requirement, or wouldn't even understand the statements if they got them. If the company won't give you statements every month, it tells you that either the company doesn't know how it is doing, or it is doing badly and doesn't want you to know. If all you get is optimistic reports from management, not backed up by good financials, you know that they aren't being honest with you, or maybe even with themselves. If the plan is to go public or sell to a bigger company someday, the buyer or underwriter will require statements going back to day one. Trying to reconstruct accurate financial statements going back to the beginning is a nightmare, and you can forget about an IPO.
- You must get the stars out of your eyes. They obstruct your vision. You don't have to become a money-grubbing Scrooge, but you must know not just the upside but also the downside of the company. You must treat this as an investment, not an exciting romance. Money will not love you, but you must at least care about it, and you must be objective and realistic about it.
- Have a piece of the real action. Don't just loan money to the start-up because it is your son or daughter or cousin Bob, or a pewmate from church, or a product that excites

you. Insist on making any loans convertible to common stock, or at least on options to buy common stock as a kicker that are exercisable at a very cheap price. Remember, start-ups are usually an all-or-nothing proposition. If the company fails, you will lose everything. If it succeeds, it could be worth a lot of money, so you should have an upside commensurate with the risk. This is called the risk/reward ratio, and it should be at least 10 to 1—that is, the potential profit should be at least 10 times the potential loss. This is the only way I know to buy stock wholesale and someday sell retail. Successful venture capitalists always do this.

- Get collateral if possible. This may not be as good as it sounds. If the entrepreneur is someone you love, such as one of your offspring, and the collateral is a mortgage on their home, it is of no value if when push came to shove you wouldn't be willing to foreclose.
- Be sure the company is raising enough money. Optimism is an essential characteristic of an entrepreneur, but it can kill a company if optimism causes the entrepreneur to believe his own starry-eyed projections and grossly underestimate how long he will have to be paying the overhead until the cash flow turns positive. Look at his estimated cash needs, double them, then double them again, and it might be just enough.
- Check out the entrepreneur for previous failures. If he has failed once or twice, that can be a positive if he learned from it. Ask him what he learned from his failures. If he failed because of a lack of intellectual honesty and won't admit it, run!

FOCUS

What is the primary focus of the company? Is it on a product or idea, or is it on building a real business with a high-probability, well-thought-out plan for becoming a wealth vehicle? If it isn't the latter, it is doomed to fail. The founder's eyes must be firmly fixed on the long-range goal, which is to maximize the value of the stock for the stockholders. If that's not the goal, you don't want to be a stockholder.

It all comes back to where we started: Avoid the obvious losers, and that's not hard to do.

Chapter 19

Marketing

The last great reason the Really Rich got that way

In good times and bad, hundreds and thousands of companies fail, especially young ones. But hundreds of their competitors get rich in exactly the same businesses, because for them a recession is cherry-picking time, and good times mean an endless assembly line of hot fudge sundaes. They do well no matter what the economy dumps on their doorstep. How do they do it? Marketing!

Great entrepreneurs create their own capital through marketing, and the better they are at it, the less capital they need. I should know, because when I started *The Ruff Times,* I was broke, and successful marketing, along with some gutsy, calculated risk-taking, turned us profitable in short order. When I became rich and famous in the late 1970s and early 1980s, it wasn't because I had a monopoly on good newsletters. There were some very competent competitors. Some were very talented writers, and some had just as good a track record of successful market calls, or even better, but I was a better marketer. Because of that, I dominated the financial newsletter industry for many years.

In the Introduction I told you that in the late 1970s and early

1980s I became rich and famous, but I didn't tell you how I got that way. Then, in Chapter 14, I told you how I lost my fortune—by failure to market aggressively when times turned bad in my industry. Now I'm going to give my failure a postmortem and share the inside story with you.

With the help of my partner, Terry Jeffers, *The Ruff Times* was the first publication in our industry to turn direct mail marketing from a shot in the dark into a by-the-numbers science, and now that's the way everyone does it. We first made the calculated decision that it was easier to sell a personality than a publication, so we made my name into a household word by the sheer volume of direct mail, supplemented by an aggressive publicity campaign conducted by Michael Baybak (4515 Ocean View Boulevard, Suite 305, La Canada, CA 91011, 818-542-6880) and a very carefully crafted TV show called *Ruffhou$e,* an interview and financial commentary show featuring yours truly as the host. We bought the air time for it in the markets we wanted and sold the advertising to offset the costs, but it was never profitable—in fact, it lost a lot of money. But we carefully tracked the direct mail results in the zip codes where the show was airing, and the increased mail results justified the losses on the TV show and then some.

Exploiting Terry's IBM background, we were the first in our industry to lease an IBM mainframe and track the results of our test mailings by lists. We also tested headlines on the mailing pieces, offers, and various prices, and carefully measured, quantified, and compared the results. If our tests showed the results of a partial list to be break-even or better, we rolled out the whole list and repeated the mailings until the results dropped below break-even, assuming that the profits would show up at renewal time. It was a numbers game, pure and simple. It was scientific marketing.

My job was to make sure *The Ruff Times* gave real value in financial education and good forecasting and market calls and was fun to read, because good marketing of an inferior product, or one that was not an honest representation of the product (me), would implode with high cancellation rates and low renewal rates. It had to also be honest marketing, which is the only kind that has staying power. We didn't promise anything I wasn't sure we could honestly deliver.

So it's time to admit that, although I am a real person, and what you see is what you get, the public Howard Ruff is a marketing creation, and you will have to decide from my writing whether I can justify the hype. If I hadn't spent a lot of productive money on marketing, you would never have heard of me.

I've gone into this detail to show you that, when it comes to marketing, I know what I'm talking about. Marketing is a science, but most attempts at marketing don't work because they are run by amateurs who don't understand the science. If you take the trouble to learn the science, you dramatically raise the odds of business success.

Marketing separates the winning sheep from the losing goats in any environment. Marketing is the last remaining great secret of the Really Rich who got that way in business. Without this secret, they either are among the majority of new ventures that fail, or they just limp along in the business twilight called "muddling through."

I saved this chapter for last because until you have made the decision to become rich through capitalism—starting your own business and taking it public—it probably won't be of any value to you. A real education on marketing would take several books and audio tapes, so I have a limited objective here—to stimulate you either to learn all you can about the subject or to bring into your company someone who really knows the subject. I also want to guide you to the sources that can teach you the most about this pivotal subject, and not just academically; most academic marketing courses are useless, even MBA-level courses, unless you just want to be trained to work in the bowels of the marketing department of a Fortune 500 company.

If you decide to hire that marketing talent, be sure it is someone with a real-world track record in small-company marketing. Sometimes there is a good marketing class at your local junior college. Often these are taught by real-world businesspeople or marketers. The experience of the real-world instructor is all-important. Maybe you can hire him or her.

WHAT MARKETING IS SUPPOSED TO DO

Marketing has several objectives, such as sales, differentiating yourself from your competitors, and finding hidden corporate assets that can make money. Marketing includes public relations and publicity, labeling, finding cost-efficient ways to penetrate market segments, pricing, sales, product bundling, product design, advertising, direct mail, image making, positioning, franchising and licensing, customer development (back-end sales), and a host of other factors. Marketing also includes joint ventures, risk reversal, and underexploited asset deployment strategic alliances, unique selling propositions (USPs), and dozens of other mind-blowing concepts that will seem ridiculously obvious only after you hear them. In effect, marketing will teach you how to reshape your business as you see it through the eyes of the public and potential customers to produce several times the results, and it will all be called "Marketing."

Your competitors may have equally good products—sometimes even better. They may have more capital and more skilled financial management. But when times get tough, the winning sheep will outmarket the losing goats! They will have made louder noises in a quieter environment as other marketers foolishly pulled in their horns—and they will have made money when their competitors are losing theirs.

A PATH TO YOUR DOOR?

If I had a dollar for every time an enthusiastic new entrepreneur, or a *Ruff Times* subscriber who has just invested in one or is related to one, has told me, "This product (or service, or idea) will sell itself." That is nonsense; nothing sells itself. The old cliché says, "If you create a better mousetrap, the world will beat a path to your door." That alleged mousetrap is claptrap! That attitude will kill a new company faster than anything I can think of. Marketing is the only way to get the world to beat a path to your door. The world won't even know you exist until you tell them about your gee-whiz product or service, and that requires marketing.

I seriously doubt that you will become a successful capitalist until you can convince customers to come into your establishment (advertising), pick out your product from the shelf in preference to your competitors' products right next to it (packaging), or overcome their skepticism enough to try out a new product they've never heard of risk-free (risk reversal), without one or more of the many forms of marketing.

For example, I was able to pioneer the no-risk guarantee using the risk reversal principles I learned from my friend, marketing genius Jay Abraham. Subscribers could get all their money back at any time they decided they did not like *The Ruff Times* for any reason. At that time, hardly anyone had even heard of me. Sales soared, and, strangely enough, cancellations dropped. Using the same principle, we offered my latest book as a premium, and subscribers could keep the book if they asked for a refund. These were revolutionary methods in the late 1970s and early 1980s, and they still work today.

Here are a few great examples of creative marketing I learned about from Jay, who is the best marketing educator of them all:

- He taught a dry cleaner how to license his very effective ads to thousands of other dry cleaners in other towns. The dry cleaner made more on licensing fees than on dry cleaning—hundreds of thousands of dollars every year.

- One of Jay's clients had a local lumberyard doing a modest amount of business and a unique kiln-drying process for his own lumber. Jay taught the client how to teach 200 other lumberyards how to use this process and then license them to use it. The client made $1.8 million a year in license fees.
- Another client had a car wash and an effective system for increasing the number of customers who asked for a hot wax. Jay convinced him to license his methods to 2,000 other car washes, and he made more from the licenses than from his own car wash.

You can design irresistible sales offers where you assume the risk, not the customer, and prospects see that it is obvious they will be worse off if they don't respond to your offer.

You can develop your own unique selling proposition (USP) that can be expressed in a few words to ring a bell in the potential customer's mind ("We're Number Two—We Try Harder"). Nothing is more important in establishing you and your product or service—not just in the marketplace, but especially in the customer's mind—as the only viable solution, not just a better one.

You can package complementary products together to get a bigger unit of sale and much bigger profits per transaction.

You can raise your prices, even in a weak market, and increase the market's perception of your product's value to them and increase your sales.

You can develop a back end of profitable sales of other products to your existing or inactive customers. You spent a lot of money to get them, and now you can "monetize" them for life. Your business can generate additional multiple income streams year after year from those same customers. It doesn't matter what you sell, the principle will work.

You can make money by joint-venturing, endorsing, recommending, introducing, or representing other products and services that you don't usually sell that might be attractive to your customers. You may have built up a good name and reputation and a list of customers who know who you are and have a good opinion of you. There is a huge pile of cash for you in understanding and exploiting this unrecognized asset.

CREATIVE MARKETING CASE STUDIES

Here are a few case studies gleaned from Jay Abraham's files.

Case #1: David Beal took a single office-suite leasing company, figured out what other products and services he could sell, lease, or rent to his tenants, and obtained the right to be their commercial broker when they grew and moved out. Beal's operation grew to 480 locations in 17 countries with gross annual revenues of more than $600 million.

Case #2: Mark Victor Hansen and Jack Canfield got the idea for the many spin-offs of the *Chicken Soup For the Soul* books and built a $40 million publishing empire with *Chicken Soup* for just about everything and anyone.

Case #3: An Australian software company was selling very expensive software ($15,000 to $250,000) and only converting about 1 out of every 200 leads. But they realized that fully 75 percent of the leads needed the software—they just couldn't afford it. They found another piece of software that did the same basic job, acquired it on a royalty basis, and offered it for between $2,000 and $5,000. They were able to close one-third of the people they couldn't close at the higher price and made as much money on the ancillary product as they did on the main one.

SEND ME A MAN WHO READS

You need to read two books to start on your marketing education: *Positioning*, by Al Ries and Jack Trout (Warner, 1928; available in paperback at any good bookstore, and the best marketing book ever written), and *How to Get the Most Out of Everything You've*

Got, by Jay Abraham (St. Martin's Press, 2001). Jay also has audio tapes and special marketing reports that are loaded with mind-blowing concepts and well worth a lot of hours of study.

Jay's advice is ordinarily very expensive. People pay him $5,000 an hour ($40,000 a day) for his personal help. His seminars go for $25,000 a person. His tape sets run as high as $5,000 per set. But at my request he has prepared a complete marketing education of extraordinary audio tapes, expensive books, and special reports for a modest $500 for readers of this book. They are easily worth 10 times that amount. It includes a live audio tape of a seminar for which the attendees paid $5,000, a book worth $400, and a series of special reports.

If you phone my office (801-224-3660) or e-mail me (howard@rufftimes.com), I will forward your order on to Jay.

THE END OF THE ROAD

As the preacher said, "Thus endeth the lesson." In this book, I haven't told you everything I know, just the essence of what I thought was important to get you started. If I have only helped you to choose which path you want to take, and you are happy with it, I'm pleased. If I haven't, I still wish you well.

Chapter 20

Was It Worth It?

Now that you have read the whole book, it's time to make a decision. Do you want to be Safely Prosperous or Really Rich? There are several things you ought to consider seriously.

Way back in Chapter 2 I told you about my ethical trepidation over writing about how to get rich, because of the real risk of worshipping Mammon and losing things that are more important than money in the headlong pursuit of riches. Now that you understand that you have a real choice of two achievable objectives—Safely Prosperous or Really Rich—it's time to consider some soul-searching questions.

1. Can you really resist the temptations that the pursuit of money always brings and that always lead to unhappiness amid wealth—especially if you are on the Really Rich track? These temptations are always easier to resist on the Safely Prosperous track, as you can usually get the cooperation of your spouse, and it becomes a family joint venture that can help you to build a successful marriage.
2. If you decide to become Really Rich, ask yourself why. Do you just want riches to feed your ego, to compete with the

Joneses, to have more toys, or so you can climb the social ladder as we did in the 1960s? Those are not only dubious motives, but can be truly soul destroying. If your answer is yes, seriously reconsider the Safely Prosperous route.

3. I'm a big fan of entrepreneurs who are driven to start and build businesses. There is a big difference between an entrepreneur and a small-business owner. The latter just wants to be his or her own boss and own a bar, a beauty salon, or a fast-food franchise. But one who has caught the real entrepreneurial spirit and has invented a widget wants to become McWidgets. However, if the entrepreneur is solely money-driven, rather than a passionate believer in what the product or service can do to bless lives or change the world, I don't like that person much. Nothing will test your character and spirituality like the pursuit of money. And when you do have a lot of it, will you love it? It won't love you back.
4. When you succeed, are you truly willing to be generous and give thanks to God, who has blessed you abundantly, by helping His children when they need that help? As mentioned before, our family used to pray to God to "bless the poor, the sick, and the afflicted." One day a question struck me: Why were we throwing back to God the assignment He gave us, especially when He has given us the means to be very generous? Ever since that epiphany, my family has prayed for God to help us to find those who need our help so *we* can bless the poor, the sick, and the afflicted. Since then, it is truly amazing how many people with real needs I have stumbled over, and how good we felt when we have blessed their lives. Remember my account of my great-grandfather Mayberry, who learned he couldn't give it away faster than God would bless him with it. I truly believe in the law of compensating returns. It has been said that at the time of death, you can't take it

with you. So what can you take with you? I believe you can only take with you what you have become and the character that you have achieved by giving it away.

5. We are also setting up a family-help fund to aid those who really need and deserve temporary help. I and some of the more affluent family members are providing the start-up capital for the fund, and we are asking all the family to contribute something every month according to their ability, even if it's only a tiny amount.
6. Kay and I try to live modestly, following the principles in Book I. We are comfortably well off, and someday I might be half as rich as everyone thinks I am. If that happens, nothing in our lives will change, except our ability to be generous. We have no consumer debt. I only use my credit cards for necessary travel, and pay them off in full every month. Our cars are all paid for. One of them is three years old with 80,000 miles on it, and the other is seven years old with 200,000 miles, but they're both in great shape, and I will drive one of them until we have to shoot it to put it out of its misery. We owned a 20,000-square-foot mansion in the past, but we have found we are just as happy in our lovely 3,000-square-foot home; and the small mortgage is the only personal debt we have. I do have a small bass boat that is fully paid for, and it's my only indulgence except for dinner out at a modest but nice restaurant two or three times a week with Kay. We live very comfortably on no more than $3,000 a month, although we could afford a lot more. What's more, we have learned to like our lifestyle, and are comfortable with it, so we are trying to practice what I have preached in these pages.
7. Do you want to be rich so you can leave your kids a lot of money to prove you love them? Serious studies have demonstrated that the first generation after you will start to dissipate inherited fortunes, and the next generation will

finish the job. I intend to leave my kids everything I had as a child—including poverty. If you truly love them, you want them to be happy, and real happiness is always hard-earned. Struggle and surmounted obstacles are the real happiness builders, and inherited wealth is a happiness destroyer. No matter how rich you become, don't spoil your kids with unearned things. One of the great lessons of life that can bless your kids is learning how to work hard for the things they want. We tried to do this by having our kids work hard in the family businesses for the same wages as any other laborer. It seems to have paid off, and the lessons seem to have been passed on to our grandchildren.

8. I intend to set up a trust fund for the grandchildren's college education. It will pay for tuition, fees, books, and lodging if it's away from home. I will require their parents to match as much of the funds as they are able.

In essence, you need to make a family decision about exactly what you really want out of life. What would make you truly happy? I have been both rich and poor—each more than once—and I can honestly say we have been happy no matter what the bank balance when we have kept our eyes fixed on the things that lead inexorably to happiness. Much of the misery we have experienced has been the direct result of the violation of the principles taught in this book. If you have learned nothing else from my scribblings, I hope you learn this. God bless!

Appendix A

The Ruff Times Newsletter

Do not run out and execute the market recommendations in this book as soon as you read it. We have a very dynamic economy, and time can change things. Some recommendations may be good ideas for which the right time has come and gone or the propitious time has not yet arrived. Throughout 2004 I will provide a brief, free update of any recommendations that may have changed since this book was written. You can get this update by calling 1-801-224-3660 between 8:00 A.M. and 5:00 P.M. MST (e-mail howard@rufftimes.com).

The best way to keep up with things is to subscribe to *The Ruff Times,* which is written every three weeks, as I track all these recommendations very closely.

WHAT YOU GET

The Ruff Times has several specific departments.

The Markets

I track the stock market, looking for that elusive day when you can throw darts at *The Wall Street Journal* and invest in the holes and make money. I also follow gold and silver very closely because I believe their time is coming again—perhaps soon, if it is not here already. I also track very carefully the trends in interest rates, as this affects your total return on safe, interest-bearing investments such as bonds. Actually, despite my reputation as a gold prognosticator, my track record on interest rates is better.

Investing for Income

There are lots of above-average returns just waiting to be discovered. I will dig them out for you. This will help you take the compounding route to prosperity, as described in *Safely Prosperous or Really Rich.* For older Americans, this is crucial information to help them enjoy their golden years, knowing that Social Security is a Ponzi scheme that may not be there when they really need it.

Ruffonomics 101

Most of the economics you hear from Wall Street is just swill. Not only will I teach you *real* economics, I won't go down deep and come up dry. If you don't understand the economics of a market call, you shouldn't do it.

Disneyland on the Potomac

I have a free-market, libertarian political philosophy: I love my country, but sometimes I fear and distrust my government. Rarely does it meet or exceed expectations. Everything Washington does will inevitably affect your financial life. They spend 45 percent (and counting) of the gross national product and taxes are an avoidable fact of American life. They don't spend money like a drunken sailor—a drunken sailor spends his own money. I track proposed legislation on Social Security and Medicare. The political content is rarely partisan. I have a lot of respect for George W. Bush—he has been a tower of strength in defending our security against those who hate us, and as commander in chief that is his primary responsibility—but I am not a blind, partisan worshipper. Bush has also caved in to the big spenders, and this has given us the largest deficits in the history of the known universe. However, if Teddy Kennedy or Tom

Daschle are your kind of guys, and you believe Bill Clinton and Jimmy Carter were great presidents, you probably won't like me. If you believe government must do more for us, rather than get out of our way and leave us alone, you will be uncomfortable here. If you believe we are undertaxed, you might as well go away now. Government is a terrible threat to all of us who aspire to be something more than a lockstep dependent of Uncle Nanny. I am an aggressive advocate of lower taxes and a smaller government.

How, and How Much?

You can sign up for **one year for $139,** or for **two years for $230.** You will receive another copy of this book to give to a friend or relative for each year. In either case, it is riskless, as I will refund your money in full if you ask for it within 90 days of the start of your subscription, and you may keep the issues you've received and the book.

How to Save Some Real Money

If you are willing to receive your subscription via the worldwide Web or e-mail, You can subscribe for only **$99 a year,** because we save a lot of money on postage and printing. This method of delivery has one big advantage for you—time! If you get *The Ruff Times* in the regular mail, it will arrive in your mailbox as many as 10 days after it is written, because of the time involved in printing, addressing, and mailing—to say nothing of delays caused by Uncle Sam's snail mail. If you get *The Ruff Times* electronically, it will come the day after it is written. Also, if I have an urgent bulletin between regular issues, you will get it immediately, *but only electronically.*

How to Subscribe

You can subscribe by telephone (1-801-224-3660), via e-mail (service@rufftimes.com), or via regular mail (P.O. Box 41, Orem, UT, 84059).

THE PRINCIPLES OF A MAVERICK

What I write grows out of deeply held principles, and here they are:

- I am a passionate believer in and defender of the capitalist free-market system.
- I believe that when government passes laws or regulations, it expands into space formerly occupied by freedom. Thomas Jefferson called government "a singularly dangerous beast, and it must be chained; and we have chosen to chain it with the Constitution." I believe the beast is bursting its chains.
- I believe you should prepare for an independent life that does not depend on a government check, and I will help you do just that.
- I believe that God rules in the universe, and that his laws are eternal, and there is an appropriate place for him in the public square.
- I believe that our children are the hope of the future. We must neutralize the perverse doctrines taught them in the public schools and teach them about the founding and history of this great democratic republic and the virtues of the free-market capitalist system. If we don't, we are only one generation away from losing history's greatest experiment in human freedom.
- I believe that the real heroes of our society are the entrepreneurs who, like Columbus, are willing to lose sight of the safe, known shore to search for better solutions to life's problems; and that government should not penalize their success by taxing it. The rule is simple: If you want less of something, tax it, and that's just what you'll get. I am an entrepreneur and so are several of our children. I have started six companies; three of them failed, and three worked out just fine. I believe that success is rooted in the

stubborn failures of this world who are willing to pick themselves up, brush off the dust, and dive back into the business fray with undiminished enthusiasm. That is the *real* America.

- I am a student of Austrian economics, which tells us how the real world works and touts gold as the appropriate centerpiece of the world's monetary system. I will teach you about this in terms that any reasonably bright high school graduate can understand.

Welcome aboard!

Appendix B

Recommended Vendors

ADVISORY NEWSLETTERS

DELIBERATIONS on World Markets by Ian McAvity, Deliberations Research Inc., P.O. Box 182, Adelaide Station, Toronto, Ontario, M5C 2J1 Canada; phone 416-964-1359; e-mail www.chartguy.com/deliberations.htm.

Forecast & Strategies by Mark Skousen, One Massachusetts Avenue N.W., Washington, DC 20001; phone 800-777-5005; www.mskousen.com.

Gold Mining Stock Report by Bob Bishop, P.O. Box 1217, Lafayette, CA 94549; phone 925-284-1165; fax 925-891-9188; www.goldminingstockreport.com.

The McAlvany Intelligence Advisor Publishers Management Corp., P.O. Box 84900, Phoenix, AZ 85071; phone 800-528-0559 or 602-252-4477; fax 602-943-2363; www.publishers-management.com.

Remnant Review by Gary North, Publishers' Management Corp., P.O. Box 84900, Phoenix, AZ 85071; phone 800-528-0559 or 602-252-4477; fax 602-943-2363; www.publishers-management.com.

Richard Russell's Dow Theory Letters, P.O. Box 1759, La Jolla, CA 92038; www.dowtheoryletters.com. (One of my favorites, written by a wise old pro. An excellent source of market information.

The Ruff Times, P.O. Box 441, Orem, UT 84059; phone 877-665-6818 or 801-491-4075; www.rufftimes.com. (See Appendix A.)

Safe Money Report by Martin Weiss, P.O. Box 31689, Palm Beach Gardens, FL 33420-9905, e-mail safemoneyreport.com.

WORLD WIDE WEB SITES

www.beprepared.com Emergency Essentials, a leader in providing prepackaged dehydrated and freeze-dried food-storage units.

www.drudgereport.com Site of the infamous cyberjournalist Matt Drudge. I check it out at least twice a day, as it is constantly updated.

www.economist.com *The Economist* magazine.

www.opinionjournal.com From *The Wall Street Journal.* I love the editorial page and the marketing section.

www.rufftimes.com *The Ruff Times* newsletter.

www.washtimes.com *The Washington Times.*

INFORMATION ON HOW TO PREPARE YOUR OWN SURVIVAL PROGRAM

http:/bekkal.tripod.com/food/ Personal Web site by a Mormon woman who really knows about food storage.

www.nat.usdaq.gov/fnic/ The Food and Nutrition Center. Links to several government information sites, with the usual establishment nutritional bias, but useful.

www.survival-center.com/food Most frequently asked questions about food storage.

DEBT REDUCTION COMPANIES

No More Mortgage. 365 East 1200 South, Orem, UT 84058; phone 888-239-3765; e-mail info.nomoremortage.com. I am chairman of the board and have a financial interest. My son Larry Ruff is president.

PRECIOUS METALS DEALERS

Investment Rarities Inc., 7850 Metro Parkway, Minneapolis, MN 55425; phone 800-328-1860 or 612-853-0700; www.investmentrarities.com. (They have helped my subscribers for 25 years.)

Camino Coin, 851 Burlway Road # 202, Burlingame, CA 94010; phone 800-348-8001 or 650-348-3000; www.caminocoin.com. (Very dependable and competitive.)

BOOKS

The Boy Scout Handbook (Boy Scouts of America). Great reference material on basic survival skills. Available from any local store that sells Boy Scout supplies.

Don't Get Caught with Your Pantry Down by James Talmage Stevens (Historical Publications, 1998; $29.95). Includes the most complete directory of preparedness vendors. Available in most bookstores and at 888-925-2555.

Getting Everything You Can out of All You've Got by Jay Abraham (Griffin, 2001). Jay is an authentic marketing genius. Available at bookstores.

Making the Best of Basics: Family Preparedness Handbook by James Talmage Stevens (Origin Books, 1997; $19.95). This is the best-selling book ever on basic storage programs for everyday necessities. Available in most bookstores, and at 888-925-2555.

Multiple Streams of Income by Robert G. Allen (Wiley, 2000). A terrific book by one of my favorite authors and best friends.

The One Minute Millionaire by Robert G. Allen (author of *Nothing Down* and *Multiple Streams of Income*) and Mark Victor Hansen (author of the fabulous *Chicken Soup* series) (Harmony Books, 2002).

Positioning by Al Ries and Jack Trout (McGraw-Hill, 2000). One of the best books ever written on marketing. It's an idea-packed thin paperback available at any bookstore.

NUTRITIONAL PRODUCTS

Hi-Q Nutrition (Howard Ruff), 877-665-6818; www.hiqnutrition.com. I have created a revolutionary brain food that is also a complete multi-supplement. Contains 58 vitamins, chelated minerals, trace minerals, herbs, and other botanicals that are known to nourish the brain, and especially stave off brain aging.

Meleleuca (Tim Ruff), 888-846-7833. Tim is my son, but I have no financial interest. They have a complete line of fine natural supplements.

Neo Life (Norvel and Joann Martens), 800-824-7861. Neo Life manufactures a line of high-quality supplements. I've done business with them for more than 30 years.

Usana (Aaron Allen), 801-376-6508. Aaron represents this fine supplement company. I especially like their vitamin C.

GOLD MINING STOCKBROKERS

National Securities 800-532-7574.

GOLD MINING AND SILVER STOCKS

Gold stocks fall into several categories. We have only listed a few of my favorites as of February 1, 2004, with many thanks to two newsletter writers I have known for almost a quarter of a century. They are Ian McAvity, who writes the *DELIBERATIONS on World Markets* newsletter (Deliberations Research Inc., P.O. Box 182, Adelaide Station, Toronto, Ontario, M5C 2J1 Canada; phone 416-964-1359; www.chartguy.com/deliberations.htm) and Bob Bishop, who writes the *Gold Mining Stock Report* (P.O. Box 1217, Lafayette, CA 94549; phone 925-284-1165; fax 925-891-9188; www.goldminingstockreport.com). For a one-time-only free updated list, visit our Web site at www.rufftimes.com or call *The Ruff Times* at 801-491-4075.

Closed-end mutual funds are traded like stocks (often on an exchange) at a price that is rarely the same as the value of its portfolio, but usually close:

ASA LTD (ASA). Mostly invested in South African shares.

Central Fund of Canada Ltd. (CEF). Listed on the American stock exchange, it is a pure bullion fund owning gold and silver at a fixed ratio of 50 ounces of silver to 1 ounce of gold, held in a Canadian bank. It is a useful proxy for gold whose shares can be held in an IRA, Keogh, or other tax-protected plan where bullion ownership is prohibited.

No-load, open-end mutual funds, which are structured like orthodox mutual funds, are priced daily at the real market value of the portfolio. I recommend only the no-load variety, where no sales commission is paid to the broker (these commissions can be as much as 8 percent). These are usually best for less active investors:

Tocqueville Gold (TDLDX)
American Century Global Gold (BGEIX). Probably has the lowest expense ratios.
Fidelity Select Gold (FSAGX)

The majors are the big gold producers, usually exchange-traded:

Newmont Mining (NEM-NYSE). If you own only one gold stock, this is the one.
Barrick Gold (ABX). Has sold a lot of future production forward in the futures market, which is a good idea if you expect lower gold prices. A fine company, but they have lost the futures bet. Not my favorite, but a fine company.
Placer Dome (PDG). Half of their reserves are in South Africa, with some political risk.

Second-tier companies include **Buenaventura, Harmony, Goldcorp, Kinross Gold, Glamis,** and a raft of others, including many exploration companies that are not yet into production but have proven reserves in the ground just waiting for higher gold prices to start digging. Some of Bob Bishop's preferred exploration companies are **Nevsun Resources (NSU.T), Orezone Resources (ORZ.T), Almaden Minerals (AMM.T),** and **Northern Lion Resources (NL).** I also like **Madison Resources (CDNX:MNP.V),** which I have recommended for some time.

Pure silver mines may be the best performers of all the mining stocks because of the greater potential of silver over gold. You should probably divide your silver-mining money among at least three of them. They are **Pan American Silver (PAAS), Apex Silver (SIL), Silver Standard (SSRI),** and **Western Silver (WPZ).**

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