

How to Get Rich in America

8 Sane & Sensible Steps to Wealth

Despite pundits' claims that only a lucky few can get rich, retiring wealthy is a matter of choice for most Americans. Getting rich requires taking seriously Ben Franklin's observation, "The way to wealth is as plain as the way to the market. ... Without industry and frugality, nothing will do, and with them, everything." In our book, *Getting Rich in America: 8 Simple Rules for Building a Fortune and a Satisfying Life*, we stress that building a fortune is far easier today than in Franklin's time, because most of us have opportunities that were unavailable two centuries ago. Our incomes, even after adjusting for inflation, are far greater today, making it easier to invest. And we can invest with less risk by diversifying over most of the economy through mutual funds tied to the Standard & Poor's Index of 500 major firms. Historically, these index funds have yielded an 8% annual return - after inflation - routinely beating most managed funds.

How can ordinary Americans get rich by retirement - that is, have a net worth of more than \$1 million in today's purchasing power? The rules are straightforward, though it takes discipline and patience to stick with them.

1. Recognize how lucky you are to be an American. America's vast opportunities are a form of "wealth" that can be converted into financial wealth. Countless people on this planet would risk their lives to have the opportunities on your doorstep, even if your doorstep is in a neglected neighborhood.

2. Recognize the power of compound interest. Few people can get rich from their wages alone. But by taking advantage of compound interest, which means earning interest on your interest by letting your investment returns accumulate and build on themselves, almost anyone can get rich. Consider a college graduate who, at 22, begins earning \$30,000 a year and gets annual raises of 1% (after inflation) over her career. If she saved only 10% of her income and invested the savings in an S&P index fund, she'd have a net worth of \$1.4 million on retirement at age 67, in today's dollars. And she would have had to save only \$169,500.

Even a high school graduate who earns only \$18,000 a year (or \$9 an hour) and never gets a raise can be worth more than \$1 million on retirement. How? By working an extra 10 hours a week at the same wage until age 40 and investing only half the additional income in an S&P Index fund.

3. Resist some small temptations today for big payoffs tomorrow. A popular book tells Americans, "Don't sweat the small stuff." There's some wisdom in that advice. Americans can do well, however, by pondering the financial consequences of at least some of the small stuff. Small temptations - unnecessary expenditures and bad habits - have a way of adding up to a sizable lost fortune when seen in terms of lost investment potential. Consider: Buying a cafe latte instead of a less expensive tall drip every morning at Starbucks for 10 years, from age 22 to age 32, can reduce your net worth at

retirement by close to \$90,000. Wagering \$200 a year on the state lotto from age 18 to age 67 can leave you with \$115,000 less at retirement.

4. Realize the fortune to be had by taking care of yourself. Regular exercise and a good diet can make you healthier and wealthier. Good health can increase your earnings and lower your medical bills, which means you can save more. You also can expect to live longer, which means you can work and save longer and allow your fortune to compound for a longer time. Exercising an hour a day can add at least \$250,000 to the retirement net worth of the college graduate we mentioned above. By not smoking, you improve your health and increase your life expectancy, and, with the saving of a pack a day, you can increase your net worth at retirement by more than \$700,000.

5. Get a good education. It pays big dividends in higher earnings. The average college graduate makes about \$30,000 a year more than the average high school graduate. Get a professional degree on top of your bachelor's degree and you add \$40,000 more. Saving just 10% of the extra \$70,000 a year will add more than \$2 million to your retirement wealth. A good education also opens up windows on the wonders of the world that will enrich your life no matter how much money you have.

6. Consider the financial benefits of marriage. Married people earn more and have more wealth on average than unmarried people living separately or together. This is understandable, given that married people can economize on expenses with one household and often have the advantage of two incomes. Also, the discipline of marriage, and the longer time horizon that comes from a shared future, makes it more likely that married couples will save and invest. Married people also tend to be healthier, so they can save the money that would otherwise go to medical bills. And because married people tend to live longer, they can work, save and invest longer - and let their wealth compound longer.

Divorce, on the other hand, can devastate your wealth and personal well-being. Of course, if you're in a bad marriage, it can pay to cut your losses by giving yourself as much time as possible to recover physically, emotionally and financially.

7. Don't try to beat the market. Small investors often dream of beating the market, of finding those few stocks - Microsoft in 1986, Amazon.com three years ago - that yield much higher rates of return than the average of all stocks. But small investors face two daunting problems: They don't have time to do the research necessary to find those few stocks that will be big-time winners without, at the same time, picking a few big-time losers. And their funds are so limited that their portfolios can have only a few stocks. Small investors run a terrific risk of major losses by picking one or two stocks that unexpectedly lose big.

Most small investors should not expect to be able to beat the market for one good reason: 9 in 10 financial gurus did not beat the market last year. For the ordinary investor, we recommend a brainless, painless strategy: "Buy the market" by investing in a mutual fund that buys the Standard and Poor's Index of 500 companies. Such a strategy offers

immediate diversification and provides a significant rate of return that, over the long run, will allow the kind of results we have illustrated.

8. Strive for balance in life. Moderation is an admirable objective when it comes to alcohol and exercise. It's also a worthy goal when it comes to saving. There's no point in building a fortune without regard for enjoying life as it is lived. The true value of a fortune will, in the end, depend on how it is amassed. We recommend striving to live a principled life of integrity and responsibility; it adds value beyond the buying power of dollars that are accumulated.

At the same time, principled behavior pays. Temptations to cheat and shirk abound at work. Employers want to work with, and pay premiums to, people who can be counted on to do what they say they will do. A reputation for integrity can contribute to your wealth by raising your pay, which can increase your saving.

There's no big secret to becoming wealthy. All you have to do is remember Ben Franklin's advice and make responsible choices. Be willing to work hard, get a college education, save 10% of your income as a matter of course and deny yourself a few nice but unnecessary things. This doesn't mean you have to live like a monk or that money should be your only goal. Building a fortune is consistent with building a satisfying life of discipline, responsibility and service to your community and those you love.

Dwight Lee and Richard McKenzie are the authors of *Getting Rich in America* (HarperBusiness, \$25). Lee is a professor in the University of Georgia's Terry College of Business; McKenzie, in the Graduate School of Management at the University of California, Irvine.