

PART I

**TIME TO GET
REAL**

CHAPTER 1

GETTING RICH QUICK?

The impossible dream?

Many of us dream of overnight wealth. Even those who don't feel the need for much more money could, no doubt, find worthy charities if it suddenly fell in their lap.

The only trouble is that most people can't get rich quickly without putting in heaps of time and/or taking risks that can also make them poor quickly – unless they inherit or are unusually lucky in a lottery or gambling. The few exceptions are people with unusual talents, perhaps in the creative arts, sports or IT, or those with a particular ability to sell something – such as Get Rich Quick books!

When you think about it, there can't be any other ways of getting rich quickly and comfortably. If there were, we would all do them. That would rapidly push up the price of our financial input and spread the gains thinly, to the point that they could no longer be regarded as riches. We less talented folk, then, are

Get Rich Slow

left with the following four options (apart from breaking the law!):

1. Investing heavily in company start-ups, mining or hi-tech companies or other high-risk shares

It's quite possible to gain hugely – or lose all your money – by investing heavily in a single high-risk company. You can, though, reduce the chances that you will come a cropper if you spread your money over several such companies. Sure, that will also reduce the likelihood you will do enormously well. But it's a good risk/return trade-off.

While high-risk companies are more likely than others to go belly up, many don't. They struggle along, sometimes for years, and then do well. It might be a case of getting rich slowly, so patience greatly improves your chances.

Don't, however, use money you might need for other purposes. There are absolutely no guarantees.

2. Trading in shares, options, futures or similar financial investments, using a computer program or other analysis

Many people learn about these methods at seminars. And some claim to have done well with them – although usually they turn out to have been trading for a relatively short period. Their early success, which is probably simply luck, prompts them to invest more. Often they end up with substantial losses. Others are less successful from the start, but the seminar promoters claim that is because they haven't followed the system closely enough. They press on, more diligently, and might do well. But only for a while.

Many claims are made for trading shares, options and so on. I've yet to be convinced that any of them work – especially after you allow for the high brokerage costs of frequent trading and the possible tax on capital gains, to say nothing of the costs of the training, computer programs and so on.

GETTING RICH QUICK?

Ask yourself: if somebody does find a way to make money by analysing markets, why would they share their secret with strangers? Why not just stay home and get rich themselves?



3. Starting a new business with the aim of making lots of money fast

To do this you need to spot a gap in the market for a product, service, or better way of doing things – and fill it in a profitable way. You need to be confident that enough people will want what you offer – or you should at least have sound plans to convince them of that! You will probably also need lots of time and energy; a good business strategy; a competitive advantage so that others can't just copy you; and start-up capital or at least enough savings to keep you alive while you work on the business.

It's possible to get rich quickly with a business, but nobody claims it's easy.

4. Making highly geared investments, using a mortgage or other loan, with the aim of short-term gain

If you borrow to invest, you get the market return not just on your deposit but also on the borrowed money, which might be many times your deposit. For example: you put in \$10,000 and borrow \$90,000. The return is 8% a year, so the \$100,000 grows to \$108,000. The \$10,000 you have put in has grown to \$18,000 – by an impressive 80% – in one year.

‘Here is exactly how to get rich quick. Count your blessings. What? You have no blessings? Oops! Think again! Everyone can find some blessings if they but look more closely.’

– REV. LUCINDA SCHERSING

The downside: you have to pay interest on the money borrowed.

The key to getting rich with borrowed money is to make a much higher return – including both ongoing income and capital gain – than the interest you pay. Such high returns generally come only on investments whose value fluctuates, such as property and shares. It’s very important, then, to be sure you won’t be forced to sell at a time when the

market happens to be down.

Consider possible cash-flow problems: a decline in dividends or rent; loss of income from other sources; or the unexpected need to spend more on your investment, such as for property maintenance. If you would have to sell your geared investment in those circumstances, you are taking a high risk.

It’s possible, too, that the value of your investment will fall permanently below your original price – especially with shares. Spreading your money across many shares greatly reduces this risk. Still, even after diversification, you need to face the fact that returns are unforeseeable on both property and shares. And if you have to sell your investment asset at a loss, you can end up still owing money to the lender.

People who have used their home as security for a loan have sometimes been forced to sell it. Even when things aren’t that bad,

GETTING RICH QUICK?

you might still pay more in interest than you gain from gearing, leaving you worse off than if you had simply invested your own capital. (For more on geared investments, see Chapter 5.)

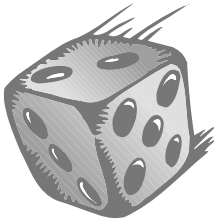
Conclusion

All Get Rich Quick ideas involve risk, sometimes lots of risk. That's not bad in and of itself, but it could leave you broke. Most also require lots of time and effort. It's a good idea to work through a worst-case scenario and know you could cope with it.

If you have what it takes, I wish you that other key ingredient: good luck! Most people, though, are happy to settle for less risk and less work. They are content to get rich – or at least wealthier – more slowly and surely. This book is for those people.

.....

Lotteries, horses & casinos



The quickest and easiest way to get rich is to win at gambling. Remember, though, that the people who run these activities need to cover their costs and make a profit before they pay out prizes. That means the average gambler will, over time, put in more money than he or she wins back.

Unless you are unusually lucky, or perhaps in some cases have more knowledge than most people, gambling won't make you rich. Still, you may be willing to lose more than you gain in exchange for the entertainment.

CHAPTER 23

YOUR ACTION PLAN

Every New Zealander can become richer by changing what they do with their money. And in many cases the changes are not all that difficult.

So how do you put into practice what you've learnt in this book? Here – for luck! – is a 13-step plan.

- 1.** Decide if you are a wise user of your credit card (Chapter 2). If not, change your ways or get rid of your card.
- 2.** Set up an automatic transfer from your bank account to a savings vehicle. Add lump sums whenever you can. Promise yourself now that whenever your income increases or your expenses decrease, you will save a portion of the extra money.

Get Rich Slow

3. Stop borrowing to buy consumer goods or services – items that won't grow in value. Make a habit of saving for these items before you purchase.
4. Think before borrowing to buy a home, investment property or any other investment. Work through a worst-case scenario and make sure you won't be forced to sell at the wrong time. If you're confident you can cope with tough times, go for it!
5. Before saving or investing, repay all high-interest debt. Also consider repaying all mortgages – although you might prefer to invest a small amount while repaying your mortgage. Weigh up the pros and cons (Chapter 7) and decide what is best for you.
6. Now you're ready to look into investment. Firstly, work out which mix of the different types of assets is best for you.
7. As you choose your investments, make sure you diversify, including having some offshore investments. For longer-term investments, such as property and shares, promise yourself you will stick with them for the long haul. Don't bail out when markets perform badly.
8. Set up a plan for when you will go into your investments. Gradual entry often works well, but if you have a lump sum, don't mess around for too long. Don't try to time markets, and don't be guided by which investments happened to perform well or badly in the last year.
9. Take note of how your emotions and your gender might affect your investments. You don't want to take steps that make you uncomfortable. But make sure you've got sound

YOUR ACTION PLAN

reasons, rather than vague feelings, to justify what you do.

- 10.** Have enough – but not too much – insurance.
- 11.** Be suspicious of anyone who offers you a really good deal. Remember: it's almost impossible to get rich quickly without taking high risks, and often also taking on lots of work.
- 12.** Introduce money concepts to children while they are still young. Then step back and let them learn from their mistakes.
- 13.** When planning for retirement, consider the possibility of continuing to work part-time after age 65. Move towards lower-risk investments, but keep some money in property or shares even in retirement. Once you retire, don't be too mean on yourself.

Throughout all of this, keep your sense of balance and your sense of humour. You will make some mistakes. Everyone who has the courage to venture beyond term deposits makes the odd mistake. There will also be times when you fear you have made mistakes but, if you stick to your 'don't bail out' commitment, things will come right.

Investors who know what they are doing and who take their time to grow their wealth will sleep much better and often end up much better off than Get Rich Quickers.