Dr. David Eifrig Jr.'s
Retirement Millionaire

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The Rich Do Have a Secret:
Here's how to use it to secure your financial freedom

Dear *Retirement Millionaire* subscriber,

Actually, they do have a secret...

Many Americans – average folks working to build a comfortable life – assume the "rich" have a secret. It seems they know something about "how the world works" that the rest of us don't.

If these regular folks could just figure it out, they'd be wealthy, too. They'd live with less stress, more time, and more money. And money, after all, gives you the freedom to do what you'd like to do.

It turns out, the wealthy do harbor a secret – three of them, in fact.

Today, I'm going to share them with you.

The secrets we're going to show you in this month's *Retirement Millionaire* are the time-tested foundations of wealth. Everyone who has built lasting financial security has done it this way (though they may talk about it in different terms).

And these secrets not only build wealth, they allow you to use it to live the life that you want to live.

Inside This Issue

Dr. David Eifrig Jr.

Parents and schools should teach the things we're discussing this month. But that rarely happens, and it's shameful considering how central a healthy financial position is to leading a good and stress-free life.

You don't need to be rich, though. You don't need to pursue money at all costs. But having financial stability gives you freedom. Reducing stress improves your health. And understanding how to manage your income makes for better relationships with your family and loved ones.

As a former Wall Street trader and medical doctor, I've been fortunate to have experienced careers with a hearty income. But rest assured, the three secrets work for all income levels. They are even more important for those who feel like they just don't ever get ahead.

But before we start, I need to give you three warnings...

First, the secrets (or "tenets") I'm going share aren't investments. Nor do they involve any "tricks" in the tax code that make the IRS go away forever. No exotic security, sophisticated trading strategy, or convoluted legal structure is going to vault you into the upper class.

Second... *this is an all-or-nothing strategy*. You need to follow all three of these tenets together or they simply won't work.

Third, patience is essential. You will see results on Day 1, but the true power of understanding wealth only becomes apparent over time.

If you really internalize this way of thinking about things, it will change your life.

So if you're not happy with your current finances, then it should be obvious that what you've done so far hasn't worked. Your approach needs to change at a deeper level.

If you'd like to understand how to truly build wealth, and use it to live freely, here's how you need to think...

Tenet No. 1: Save Religiously

You know you should save. But it's hard. Life is expensive. Most folks think, "If I just had a little more income, I could start saving." But be honest: If you got a $10,000 raise for the year, what would you do with it?

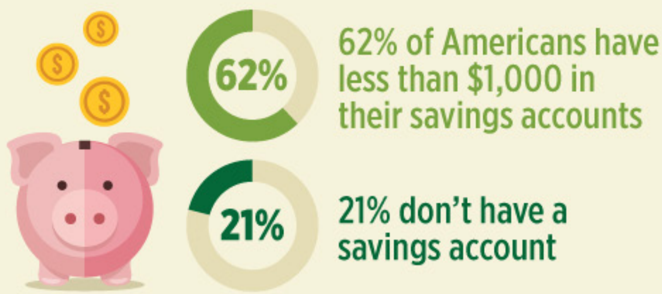
The frank answer is that you'd spend every dollar.

We inflate our lifestyles to match our income. Look at star athletes who earn more in just one year than most of us make in a lifetime. Many of them make that kind of money for 10 years and still go broke after retiring from sports. Most people do the same thing, on a more mundane scale. It's a great way to go broke, instead of creating a stress-free retirement.

The first step is to curb your spending. Outside of a few things, spending rarely brings joy. Identify the things you truly enjoy spending money on and forget the rest.

Humans are notoriously terrible at predicting what will make them happy. "We expect the next car, the next house, or the next promotion to make us happy even though the last ones didn't and even though others keep telling us that the next ones won't," Harvard psychologist Dan Gilbert explains in his book, *Stumbling on Happiness*.

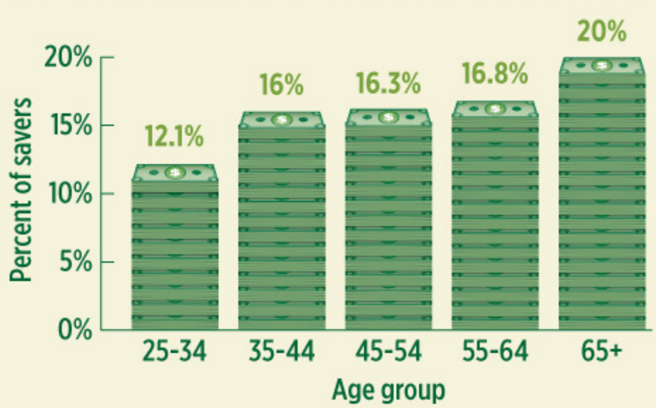
THE AVERAGE AMERICAN DOESN'T SAVE ENOUGH



Age group	Average household income	Savings needed to replace three months of income
25-34	$54,243	$13,560
35-44	$66,893	$16,723
45-54	$70,832	$17,708
55-64	$60,580	$15,145
65+	$36,895	$9,223

AND OF THOSE AGE GROUPS....

THOSE WITH $10,000 OR MORE IN THEIR SAVINGS:



www.stansberryresearch.com Sources: Bankrate.com, U.S. Census Bureau, GoBankingRates.com

Studies show "we overestimate how happy we will be on our birthdays, we underestimate how happy we will be on Monday mornings," Gilbert said, "and we make these mundane, but erroneous predictions again and again, despite their regular disconfirmation."

Nowhere does this happen more than when we consider what to spend our money on. We get a nice warm feeling when we buy a new television or pair of shoes. So we tend to search that feeling out. Retailers and advertisers have become adept at targeting it.

But it's short-lived. The thrill of these things wears off quickly. The possessions don't change our lives in any way.

But saving money and using it to increase your personal financial freedom does make lasting improvements to your well-being and quality of life. As you'll see, money saved generates future income. Income is what sets you free. And freedom is what truly makes us happy.

Worse, many people do the exact opposite of saving. They spend money they don't have in pursuit of some unachievable happiness.

Folks in America like to keep up with the Joneses. The problem is, the Joneses are financially irresponsible. They've got too much house, leased luxury cars, and credit-card debt. If you try and keep up, you'll get dragged down as well. A 2013 study showed that 47% of Americans, even many with high incomes, wouldn't be able to come up with $400 in cash to fund an emergency.

When you see someone who seems to live too well for the job he has, he doesn't have a secret skill. **He often has a secret pile of debt.**

But you don't have to become a monk. One benefit of wealth is having money to spend on a few things that bring you joy. For me, I don't hold back when spending on books or travel. It's different for each person.

A good rule of thumb is to choose one or two things you truly enjoy spending money on. Then cut back to just the basics on everything else.

For example, I still drive the same 13-year-old Hyundai. It serves me well and I don't have to make payments on it. Instead of laying out money for a new BMW that won't make me happier... Instead I can spend the money that would have gone to a car payment to treat myself to a couple of really nice dinners each month.

When you learn to stop buying things that don't make you happy, you'll have the freedom to enjoy the things that do... like time or relaxation.

All you need to do is give up the things that don't make you happy in the first place.

I think everyone should start by socking away at least 10% of your annual income. Try to bump that up to 15% as you get comfortable with your new spending habits.

The key to saving isn't about raising your income. It's not about saving a penny here and a penny there. It's about understanding yourself better and shaking all the frivolous desires from your mind.

Once you've got that down, you can set your money to work for you...

Tenet No. 2: Invest for the Long Term

Being a diligent and disciplined saver is a critical first step... But it alone isn't enough to put you on the path to wealth. You must learn to be an investor.

Think about this...

Imagine you work hard and aggressively set aside 20% of your earnings in cash for 30 years. After that Herculean effort, you've saved up... six years of income.

Not too impressive. Twenty percent is a high savings rate. But it won't do squat to set you up for retirement if it sits in cash.

If you don't invest the money, it's barely worth saving at all.

Why do you need to invest? Because real freedom comes from income. And income comes from *invested* savings.

In his book, *Money: Master the Game*, Tony Robbins gives a great description of the goal of saving and investing this way:

> The core concept of successful investing is simple: Grow your savings to a point at which the interest from your investments will generate enough income to support your lifestyle without having to work. Eventually you reach a "tipping point" at which your savings will hit a critical mass. This simply means that you don't have to work anymore – unless you choose to – because the interest and growth being gen-

> erated by your account give you the income you need for your life. This is the pinnacle we are climbing toward.

Remember, *saving and investing are about having the freedom to do what you'd like to do*.

To reach Robbins' "tipping point" and the income that comes from it, you have to invest.

"Investing" takes a lot of forms. Newsletter readers immediately associate the term with buying and selling stocks. And that is one common and effective form of investing. But the term applies to any activity that uses capital to create more capital...

If you own a small business, you can invest in advertising. Investing in education can build your skills and boost your income. Even investing time in learning on your own can help you get ahead.

Your car or a good set of boots aren't investments, though people like to use the term. Owning a home is an investment, but a particularly illiquid one.

But for many folks, the primary means of investment is through public markets – stocks and stock funds.

Lots of people let a variety of hurdles prevent them from being successful investors: the jargon, the account types, the fees, and the number of stocks and funds to choose from... It's easy to put off getting your finances in order until next year.

Whereas starting to save is often a problem of priorities, learning to invest is a problem of inaction. You need to overcome that fear and inertia and get invested today.

The good news is, the simplest and most straightforward investing plans are ideal for beginners – especially when adjusted for fees and risk.

Even if you lack a passion for learning about investing, you can still devise a simple plan out of three principles that we've covered in *Retirement Millionaire*:

Invest in index funds: There are two types of funds. Actively managed funds have a portfolio manager who tries to find the best investments and beat the market. Index funds simply track the market.

Hiring high-priced experts may sound like a good idea. But it turns out, active managers are terrible. A recent study by Morningstar found that only one in five large-cap funds beat the market over the last 10 years. Dozens of other studies have shown the same.

You don't need funds with active – and expensive – management. Index funds perform better and cost less.

Avoid fees and taxes: One of the reasons index funds work better for individual investors than "actively managed funds" is the fees involved. Fees and taxes only take a little bit of your money at a time, but add up to tens or hundreds of thousands of dollars over the years.

Investment funds charge annual management fees. For expensive funds, this can be around 2% of the account value. But index funds can charge as little as 0.16%. Use cheap index and tax-advantaged accounts like 401(k)s and IRAs when you can.

Make consistent investments at regular intervals: We've all heard to "buy low, sell high." But how do you know what's low or high? Investors have a million ways of trying to answer that question. But one simple way to take the calculations out is to invest a consistent bit of money at regular intervals, like once a month or quarter.

As a result, you'll necessarily buy more shares of a stock when markets are cheaper and fewer shares when markets are more expensive. Taking the calculations out by keeping your investments consistent lets the costs average out, which practically forces buy-low-sell-high success. (If you want to sound smart at your next cocktail party, you can call this a "dollar-cost average" strategy.)

The entire concept of building wealth and freedom requires that you earn a return on your savings. Outside of a lottery prize or other financial windfall, a working individual can't save enough to become free.

And if your spending comes out of your savings, you'll never enjoy it. It's only when you hit the crossover point when the income you generate can cover your spending that you can truly enjoy the freedom that wealth can bring.

But folks who invest too aggressively run the risk of undoing all their good work. That's why you must...

Tenet No. 3: Obsess About Risk

Many people who get started investing focus on the possibility of big returns. They're drawn to the chance (however remote) of doubling or tripling their money in a short amount of time. I could rattle off dozens of investments with the potential for a high return right now. Some readers would gobble them up.

But most successful investors pay far more attention to the other half of the risk-reward ratio... Return means nothing without considering risk.

Take a look at electric-car maker Tesla Motors (TSLA). The company could dominate the future of cars. It builds well-engineered cars – with occasional hiccups – and has sold more electric vehicles than anyone in history. It definitely has the *potential* for high returns.

That potential has made it a popular stock. People like to own it, and it gets tons of attention in financial media. The company is already valued at $33 billion.

But consider that traditional carmakers Ford and General Motors are valued at $54 billion and $49 billion, respectively. Ford sold 6.6 million vehicles in 2015, and GM sold 9.9 million. Tesla delivered 50,000. Tesla has 67% of the value of GM, but sells 0.5% as many cars.

Tesla may take over the world. But with a valuation of eight times sales and no profits, any misstep along the way will send shares straight downward. Tesla has the potential for high returns, but the risk is extraordinarily high.

It takes a lot of effort to save up $2,000 or $5,000. When you take big risks, you can wipe it out in a flash.

Risks lead to losses. Losses lead you to question the wisdom of saving and investing. You need to avoid risk by investing in quality stocks. (Owning index funds eliminates a lot of this decision-making.) But more important are the concepts of **diversification** and **asset allocation**. Here's why...

Diversify. You should never put more than 4%-5% of your portfolio into a single stock. When you invest in a basket of stocks with big upside, only a few need to go right to boost your returns. Likewise, if one stock falls quickly, your losses will be smaller. (Positions in funds can be larger because each share represents partial ownership of multiple stocks. It's another good reason to own index funds. They provide automatic diversification.)

As the stocks you invest in get riskier and more expensive, you should put a smaller percentage of your capital into them. For example, I'm not going to invest in Tesla. But if you believe in its potential, it's not crazy to have 1% or even a half percent of your capital in Tesla's stock.

Having a diversified portfolio means you're not going to double it in one year – but it means it won't get cut in half, either.

Asset Allocation. You also need to diversify across asset classes. Stocks, bonds, real estate, gold, and other investments move in different directions and are influenced by different economic factors. By holding multiple asset classes, you reduce your risk and increase the return you get per "unit" of risk you take on.

When you obsess about your risk, and not your return, you end up with a strategy that works over the long haul.

Perfect Harmony

Why don't most folks get rich? Because *they don't follow all three of these tenets at once*.

As we pointed out, savings without investment don't grow – and worse, they'll get eaten away by inflation.

However, if you try to invest but save only a little, your balance will look too puny to keep you excited about it. And if you still love to spend, you'll soon find yourself tapping into your brokerage account.

Finally, losing money will obviously wipe out your savings. But it may also discourage you from investing.

Only by following all three of these tenets can you successfully set yourself free from living paycheck to paycheck.

If you were to find folks with enough cash to live how they'd want to live, you'd find almost all of them followed these tenets...

Even folks who had all-star careers or built businesses that paid them well needed to mind these tenets to hang onto their wealth. Others saved, invested, and were careful about it. I do it... I drive a 13-year-old car.

If you haven't started down that path already, you should today. It's never too late.

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