A *NEW YORK TIMES* BESTSELLER

I WILL TEACH YOU TO BE RICH

SECOND EDITION

RAMIT SETHI

"The New Finance Guru"
—FORTUNE

No Guilt.
No Excuses.
No BS.
Just a
6-Week
Program
That Works

Additional Praise for Ramit Sethi and *I Will Teach You to Be Rich*

"Ramit Sethi is a rising star in the world of personal finance writing . . . one singularly attuned to the sensibilities of his generation. . . . His style is part frat boy and part Silicon Valley geek, with a little bit of San Francisco hipster thrown in."

—*SAN FRANCISCO CHRONICLE*

". . . one of our favorite personal finance sites." —LIFEHACKER

"The easiest way to get rich is to inherit. This is the second best way—knowledge and some discipline. If you're bold enough to do the right thing, Ramit will show you how. Highly recommended."

—SETH GODIN, AUTHOR OF *THIS IS MARKETING*

"The common perception about personal finance books is that the advice is loaded with technical terms and jargon. On this front, *I Will Teach You to Be Rich* comes as a complete surprise. It is written in an extremely breezy style, but it doesn't mean that it contains frivolous advice. On the contrary, it packs useful information for beginners on how they can manage their money."

—*ECONOMIC TIMES*

". . . particularly appealing to the younger generation with its easy-to-read, no-holds-barred language."

—*BUSINESS INSIDER*

Real Reader Results

Ramit's teaching that frugality isn't about "spending nothing" but rather about spending extravagantly on the things we love changed our outlook on life. My wife and I retired from full-time work at ages 33 and 35, respectively, and adventure around the country in an Airstream RV. We wake up every morning excited and energetic because we control every minute of our day."

—STEVE ADCOCK

"When I was 30, I had no 401k and a student loan of $16,000. Now I'm 35, I have no student-loan debt, a healthy 401k, an IRA, an additional investment account, and one secured credit card which I use to pay my monthly bills. I used IWT to do all of this and now spend most of my money on what I love, which is my kids, food, and ebooks."

—ARIEL STEWART

"Since implementing a fully automated system in 2011, my net worth went from zero to close to $450k. I never have to worry about money—I have enough for bills, any indulgence, and maxing out retirement accounts (Roth and 401k)."

—ROSS FLETCHER

"I read your book in 2010 when I was a 25-year-old executive assistant at a tiny book publisher making $28,000. I'm now leading a full team of writers in San Francisco and making $155,000."

—CLAIRE PEACOCK

"After reading your book, I negotiated a $175 monthly reduction in apartment rent by offering a long-term extended lease and putting the apartment as a preferred vendor. Landlord agreed immediately, and that saved me over $3,500!"

—SAMEER DESAI

"I've got over $100,000 growing for retirement, $8,000 in the personal investment account, and have next year's Roth contribution already set aside in an interest-bearing account."

—DAVID CHAMBERS

"I used the advice from IWT to set up my Schwab IRA, a personal investment account, and a checking account prior to starting my first job when I was 24. I'm now 30 and have over $300k saved between my personal investment account, 401k, and IRA."

—HILARY BUUCK

"At first your chapter on debt freaked me out—you can't just get out of debt so fast! Then I realized making more money was not scary or daunting, but very doable. I went from making around $4,000 a month to $8,000 a month from my company. I had 4,500 in debt that is now down to $900 (soon it'll be at $0)."

—REENA BHANSALI

"I've used the IWT principles to pay down $40,000 in debt inside two years by negotiating a raise and taking on my first side-gig projects with the "1K on the Side" project. And with the automation principles, and paying ourselves first, my wife and I built close to $200,000 in savings in the last two years."

—SEAN WILKINS

"I took this book on a Caribbean cruise and couldn't put it down. It led me to getting a $20,000 salary increase in my day job and starting a side business as a career coach, earning thousands each month. It helped me negotiate down bills and fees, increase my credit limit, grow a healthy retirement fund and savings, and fundamentally change my mindset about earning money."

—MARY GRACE GARDNER

"I went from having nothing in my investment accounts to having over $55,000 to date."

—ALEX CRAIG

"I didn't have any credit card debt so I was able to implement the whole book in about three weeks. After that, I kind of forgot about it. Eight years later I was worth close to $200,000 with no debt as a retail employee."

—DANIEL LEE REIFENBERGER

"I changed my student loans from 20-year loans to 10-year loans. I had no idea the difference, and it ended up saving me over $10k. . . . Just by paying an extra $50 a month."

—LYLA NUTT

"When I was 25, I had $8,500 of credit card debt, and $3,000 of other debt. IWT gave me the manageable steps to get out of my hole, better use my credit cards, not live check to check, pay off what I owed, and start saving. At 28, I have $50,000 in savings, am debt-free, have automated my finances, and I am going to buy a house this year."

—ALLISON REYNOLDS

"In four years after I read IWT, I've saved $40,000 using dollar cost averaging to contribute to my $20,000 index tracking fund. I received one promotion and four raises, increasing my earning potential by 70 percent :)"

—BEVAN HIRST

"Without the book, I wouldn't have started my retirement account. It showed me what to open and how to use systems to automatically save my money for future purchases. So far I have $40,000+ in retirement by maxing out my Roth every year."

—JAMES MONROE ŜTEVKO

"I was 25 when I read the book. I had a crappy job, very little savings, and even less of a clue what to do with my money. I implemented IWT systems and I got a new job (with a 20 percent raise) at a company where I've flourished for the past five years. I have $100,000 in my retirement accounts and six months' salary in an emergency account, along with other savings for various goals."

—SHEILA MASTERSON

"Before, I felt guilty because at 37 I should have had my stuff together. Now everything is completely automated. I feel more confident and can spend guilt-free with the money left over. Since reading your book, I maxed out my Roth IRA, made a $7,000 emergency savings account, have a growing investment account, and have multiple accounts for special purchases."

—QUINN ZEDA

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To my wife,
Cassandra.
You're the best part
of every day.

Contents


UNITED
OF AMERICA
500
FIVE HUNDRED DOLLARS
500

AN OPEN LETTER TO NEW READERS

If you listened to all the internet influencers telling you the things you "need" to do every morning, here's what your day would look like:

4:00 a.m. wake up
4:01 a.m. meditate
5:00 a.m. drink 37 gallons of water
5:33 a.m. gratitude journal
10:45 a.m. eat (keto only)
11:00 a.m. track every penny of spending from the last 16 years
11:01 a.m. die

I dunno, guys. I prefer advice that actually works. And when I took a hard look at the advice I gave in this book a decade ago, I realized one thing: I was right.

If you bought this book ten years ago and followed the exact advice in it, here's what you would have accomplished by now.

- If you had invested just $100/month, that $12,000 would have turned into over $20,000 (The S&P 500 averaged around 13 percent annually over the last decade.)
- If you had aggressively invested $1,000/month, that $120,000 you contributed would have grown to more than $200,000.
- You would be spending less than 90 minutes per month on your money.
- You would have been able to take multiple vacations and fly business class—completely free—using credit card points.

- Money would have gone from a source of anxiety and confusion to one of calm and possibility.

As you'll see in this book, I do things differently than typical money "experts." I won't lecture you about cutting back on lattes (buy as many as you want). I won't try to convince you to keep a budget (I have a better method). And one more thing: I'm a real guy. I post on Instagram and Twitter (@ramit) and I write for millions of people on my blog and newsletter almost every day (iwillteachyoutoberich.com). So let's start off doing something different: I want to hear from you. Really! Send me an email (ramit.sethi@iwillteachyoutoberich.com, subject: new book reader) and tell me two things:

1. What made you decide to take control of your money today?
2. What does your Rich Life look like? (Please be specific!)

I read every email and I try to respond to as many as possible.

What has *I Will Teach You to Be Rich* allowed you to do?

One of my greatest joys is hearing from you about how you've applied my material to change your life. I asked some of my readers to share their results.

I paid off $10,000 in credit card debt that I accumulated while unemployed, bought a condo in San Francisco, and am now debt-free and building my retirement funds.

—JULIANA BRODSKY, 38

I have $200,000 in retirement savings and countless vacations paid for by creating specific savings accounts for them; it's hard to put a specific number on that.

—KYLE SLATTERY, 30

I travel internationally for a month 1 or 2 times a year. Last year it was South Africa; this year, Korea.

—ESLI LIGAYA, 34

The Rich Life is about freedom. In my case it allowed me to take 9 months off work and travel throughout Argentina, Colombia, and the US. And now it's allowing my wife to take a 6-month break from work to figure out what's next.

—SEAN WILKINS, 39

We were able to put three children into private school on one full-time income.

—BRYAN DILBERT, 32

All that said, I'll admit that I wasn't perfect. Ten years ago, I made three mistakes when writing the first edition of this book.

My first mistake was that I didn't cover the emotions around money. I spent time covering the nuts and bolts of personal finance—I gave you the perfect word-for-word scripts to get late fees waived (page 42), the exact asset allocation I use for investing (page 148), and even how to manage money with your partner (page 292)—but if you don't tackle your invisible money scripts, none of it matters.

Invisible scripts are the messages you've absorbed from your parents and society that guide your decisions for decades—and often without even being aware of it. Do any of these sound familiar?

- "You're throwing your money away on rent."
- "We don't talk about money in this house."
- "Credit cards are a scam."
- "Stop spending money on lattes."
- "Money changes people."
- "You don't get that level of wealth without making a few shady deals here and there."
- "The stock market is gambling."
- "Student loans are a scam."

In this edition, I'll show you what the most insidious, powerful invisible money scripts are—and how to beat them.

The second mistake I made was being too overbearing. The truth is, you can choose what your Rich Life is *and* how you get there. In the original book, I did write about the different definitions of a Rich Life, but I didn't acknowledge that we might take *different routes* to get there.

For example, your Rich Life might be to live in Manhattan. It might be to ski forty days a year in Utah, or to save and buy a house with a huge yard for your kids, or to fund an elementary school in Croatia. That's your choice.

But how you get there is *also* your choice. Some people choose the traditional route of saving 10 percent, investing 10 percent, and slowly working their way to a comfortable Rich Life. Others save 50 percent of their income and quickly reach the "crossover point" where their investments pay for their life—forever. (This is called "FIRE," or Financial Independence, Retire Early, which I cover on page 217.)

You choose your Rich Life. And in this edition, I want to show you different ways to get there. To do that, I've included lots of examples of people who took unconventional routes to create their Rich Lives.

Finally, the third mistake. Let me just say that I've messed up quite a few things in my life: I've hired and fired the wrong people. I ruined my chance at a TED talk by walking into the meeting unprepared. I was six feet and 127 pounds into my mid-twenties, looking like a hairy Indian Gumby. But nothing compares to my worst mistake of all:

Writing the actual interest rates of banks in the original edition of this book.

Here's what I wrote back then:

"Online banks pay a higher interest rate for savings accounts—about 2.5 to 5 percent, which would produce $25 to $50 interest per year on that $1,000, compared with $5 per year on the Big Bank savings account."

The information was right . . . at the time. The problem is, interest rates change, which I forgot to mention. And in the years after the first edition was published, they dropped—from 5 percent to 0.5 percent. I assumed people would run the numbers and realize that the interest rate doesn't really matter much. For example, on a $5,000 balance, that means your monthly interest dropped from $21 to $2. In the grand scheme, not that big of a deal.

But when facing lower interest rates on savings accounts, readers got mad—really mad. And they took their anger out on me. Here are a few emails I got:

- "This book is a scam. Where are the 5% interest rates you talk about??"
- "What bank has 3% interest rates??"
- "Subj: WHERE ARE THE BANKS U WROTE ABOUT"

For the last ten years, I've gotten over twenty of these emails every single day. Never again. On page 84, you'll see my favorite banks. But not their interest rates. WHICH WILL CHANGE, GUYS. In this edition, I've corrected these mistakes. And I've added new material.

1. New tools, new investment options, and new approaches to money. If you want to get more aggressive about investing, I'll show you how (page 216). What do I think about robo-advisors? I'll tell you (page 116). And what about pre-nups? I share my thoughts (page 302).

2. New money scenarios you'll confront. How do you handle relationships and money? I've added new material (page 286). Once your financial system is set up, I want you to know what to focus on next (page 260). And finally, if you know people who complain about politics and baby boomers to explain why they can't pay off their debt and get ahead, they should read my thoughts on victim culture (page 11).

3. Incredible stories from other IWT readers. I've included tons of new examples, including inspirational success stories from all different kinds of people: men and women in their twenties, thirties, forties, and fifties; people who started from nothing and people who built on success to grow even more. Plus, gut-wrenching stories about people who procrastinated on implementing the material in this book—and what it cost them.

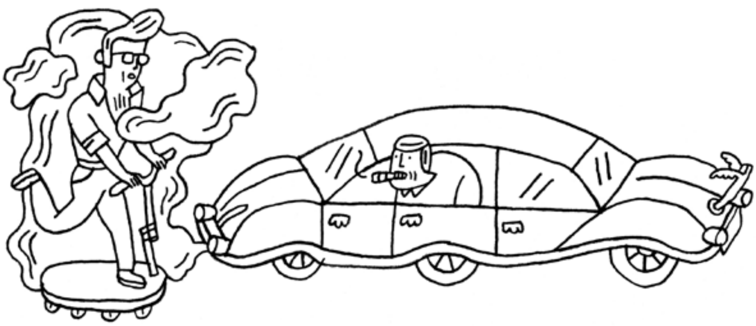
I added new material where appropriate, but I preserved techniques that continue to work. Many people want "new" advice—but the value in this book doesn't come from novelty; it comes from usefulness.

In ten years, I've also changed. I've gotten married, I've grown my business, and I've learned more about money and psychology. Now I get the chance to share what I've learned with you. Amidst the noise, the hype, the apps of the day, the IWT personal finance system *works*. Long-term, low-cost investing *works*. Automation *works*. Use this book to create your own Rich Life, just like thousands of others have.

—Ramit Sethi

INTRODUCTION

WOULD YOU RATHER BE SEXY OR RICH?



I've always wondered why so many people gain weight after college. I'm not talking about people with medical disorders, but regular people who were slim in college and vowed that they would "never, ever" let that happen to them. Yet, little by little, most Americans gain an unhealthy amount of weight.

In the ten years since I wrote my book, weight and health have become such controversial topics that I was advised to delete my references to them. But after my own journeys with nutrition, fitness, and money, I now believe even more in the connections between them—and that you can take control.

Weight gain doesn't happen overnight. If it did, it would be easy for us to see it coming—and to take steps to avoid it. Ounce by ounce, it creeps up on us as we're driving to work and then sitting behind a computer for eight to ten hours a day. It happens when we move into the real world from a college campus populated by bicyclists, runners, and varsity athletes who once inspired us to keep fit. But try talking about post-college weight loss with your friends and see if they say one of these things:

"Avoid carbs!"

"Don't eat before you go to bed, because fat doesn't burn efficiently when you're sleeping."

"Keto is the only real way to lose weight."

"Drinking apple cider vinegar speeds up your metabolism."

I always laugh when I hear these things. Maybe they're correct or maybe they're not, but that's not really the point.

The point is that we love to debate minutiae.

When it comes to weight loss, 99.99 percent of us need to know only two things: Eat less and exercise more. Only elite athletes need to do more. But instead of accepting these simple truths and acting on them, we discuss trans fats, obscure supplements, and Whole30 versus paleo.

WHY ARE MONEY AND FOOD SO SIMILAR?

When it comes to food, we . . .	When it comes to personal finance, we . . .
don't track calorie intake	don't track spending
eat more than we know	spend more than we realize—or admit
debate minutiae about calories, diets, and workouts	debate minutiae about interest rates and hot stocks
value anecdotal advice over research	listen to friends, our parents, and TV talking heads instead of reading a few good personal-finance books

Most of us fall into one of two camps regarding our money: We either ignore it and feel guilty, or we obsess over financial details by arguing interest rates and geopolitical risks without taking action. Both options yield the same results—none. The truth is that the vast majority of people don't need a financial adviser to help them get rich. We need to set up accounts at solid banks, automate our day-to-day money management (including bills, savings, and, if applicable, debt payoff). We need to know about a few things to invest in, and then we need to let our money grow for thirty years. But that's not as cool or exciting, is it? Instead, we read internet articles from "experts" who make endless predictions about the economy and "this year's hottest stock" without ever being held accountable for their picks (which are wrong more than 50 percent of the time). "It's going up!" "No, down." As long as there is something being said, we're drawn to it.

Why? Because we love to debate minutiae.

When we do, we somehow feel satisfied. We might just be spinning our wheels and failing to change anyone's mind, but we feel as if we are really expressing ourselves, and it's a good feeling. We feel like we're getting somewhere. The problem is that this feeling is totally illusory. Think back to the last time you and your friend talked about finances or fitness. Did you go for a run afterward? Did you send money to your savings account? Of course not.

People love to argue minor points, partially because they feel it absolves them from actually having to do anything. You know what? Let the fools debate the details. I decided to learn about money by taking small steps to manage my own spending. Just as you don't have to be a certified nutritionist to lose weight or an automotive engineer to drive a car, you don't have to know everything about personal finance to be rich. I'll repeat myself: You don't have to be an expert to get rich. You do have to know how to cut through all the information and get started—which, incidentally, also helps reduce the guilt.

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*I knew I should save for retirement, but I didn't really know how, besides "put some money in your 401(k)." I also thought saving was only about NOT spending money. As a result, I felt horribly guilty about spending money on *anything*, even if I had saved up for it. I had also never really thought about asking for a raise and didn't know how to approach it. I had just treated the initial wage I'd been offered as set in stone.*

—ELIZABETH SULLIVAN-BURTON, 30

Why Is Managing Money So Hard?

People have lots and lots of reasons for not managing their money, some of them valid, but most of them poorly veiled excuses for laziness or not having spent ten minutes on research. Let's look at a few:

Info Glut

The idea that there is too much information is a real and valid concern. "But Ramit," you might say, "that flies in the face of all American culture! We need more information so we can make better decisions! All the experts on TV say this all the time, so it must be true!" Sorry, nope. Look at the actual data and you'll see that an abundance of information can lead to decision paralysis, which is a fancy way of saying that with too much information, we do nothing. Barry Schwartz writes about this in *The Paradox of Choice: Why More Is Less*:

> *As the number of mutual funds in a 401(k) plan offered to employees goes up, the likelihood that they will choose a fund—any fund—goes down. For every 10 funds added to the array of options, the rate of participation drops 2 percent. And for those who do invest, added fund options increase the chances that employees will invest in ultraconservative money market funds.*

You scroll online and see ads about stocks, 401(k)s, Roth IRAs, insurance, 529s, and international investing. Where do you start? Are you already too late? What do you do? Too often, the answer is nothing—and doing nothing is the worst choice you can make. As the table on the next page shows, investing early is the best thing you can do.

Look carefully at the chart on the next page. Smart Sally actually invests less, but ends up with about $80,000 more. She invests $200/month from age thirty-five to age forty-five and then never touches that money again. Dumb Dan is too preoccupied to worry about money until he's forty-five, at which point he starts investing $100/month until he's sixty-five. In other words, Smart Sally invests for ten years and Dumb Dan for twenty years—but Smart Sally has much more money. And that's with just $200/month! The single most important thing you can do to be rich is to start early.

HOW TO MAKE $60,000 MORE THAN YOUR FRIENDS (WITH LESS WORK)		
	Smart Sally	**Dumb Dan**
When beginning to invest, the person is . . .	35 years old	45 years old
Each person invests $200/month for . . .	10 years	20 years
With an 8 percent rate of return, at age 65, their accounts are worth . . .	$181,469. Voilà—the value of starting early	$118,589. Even though he invested for twice as long, he's behind by $60,000

If you're younger, your money will grow even more. If you're older, don't get discouraged. I recently got a message from a woman in her forties who was unhappy about these numbers. "What's the point of writing that?" she asked. "It makes me feel bad that I'm already too far behind."

I understand how she feels. But we can't hide from the math—so instead of sugarcoating the facts, I believe in showing you the truth, including ways to increase your savings. Yes, the best time to start investing was ten years ago. The second best time is today.

The Media Is Partially to Blame (I Love Casting Blame)

Open the typical financial site and I bet you'll see an article called "10 No-Hassle Frugality Tips for Getting Ahead with Your Finances" or "How Today's Senate Vote Affects Estate Taxes." Reading those headlines, you intuitively know why online columnists wrote them: to get pageviews and sell ads.

We know that because reading yet another frugality article is not going to change anyone's behavior. And the estate tax affects less than 0.2 percent of people. But both of those headlines make people feel good—or angry.

Enough! I don't care about pageviews or stoking rage. If you're like me, you care about knowing where your money's going and redirecting it to go where you want it to go. We want our money to grow automatically, in accounts that don't nickel-and-dime us with fees. We don't want to have to become financial experts to get rich.

The Rise of Victim Culture

There's a group of people—mostly young, disaffected people—who have decided it's easier to be cynical than to improve themselves.

"LOL! Invest? I can't even save enough for pizza."

"LOL! Find a job? What world do you live in . . ."

"Maybe if baby boomers hadn't ruined it for all of us . . ."

People actually *compete* to see who's the bigger victim. Oh, you can't afford a four-bedroom house at the age of 26? *I can't afford to live in a cardboard box!* Oh, you like going to parties to meet new people? *That must be nice, I have social anxiety so I can't do that. (What? No, I didn't see a doctor. I diagnosed myself.)*

You know who's the real victim here?

Me. I'm offended at you being offended. And at the stupidity of this entire victim culture.

I refuse to play into the theatrics of how you can't afford to save even $20 a month. When this book was originally published, I got hundreds of angry emails accusing me of being elitist for encouraging people to save and invest even a modest amount. Those cynics were wrong. They surrounded themselves with other naysayers, bought flimsy arguments, and incurred a staggering cost for their beliefs: They missed out on hundreds of thousands of dollars of gains. Meanwhile, my readers put in the work to create their Rich Lives.

You choose. Be a cynic or carefully evaluate your options, knowing you'll probably make a mistake here or there . . . but you'll grow at each step of the way. I choose to move forward.

I understand this is a complex issue. Yes, socioeconomic policy, access to technology, and pure luck matter. For example, if you start off with two parents and you graduate from college, you're already luckier than most people on this planet.

But we play with the cards we're dealt. I believe in focusing on what I can control.

For example, by the time I entered kindergarten, it was clear I would never be in the NBA—fine. On the other hand, it was clear I would dominate the shit out of my classmates in spelling bees. Also fine.

Then there were the gray areas, like starting a business, becoming more fit, and learning to be better in dating. I had to learn those skills and work really, really hard.

This is where the victim mindset comes in. So many people complain about politicians and sociological problems without looking around at their own behavior. They give up at the first sign of failure. If you want to be a passenger in life, fine—go with the flow. I've found it's a lot more fun to be the captain of my own ship, even if I go off course sometimes.

As you can see, I don't have a lot of sympathy for people who complain about their situation in life but do nothing about it. That's why I wrote this book! I want you to be empowered to take control of your situation, no matter where in life you started from. I want you to have a level playing field against these huge Wall Street firms, mindless articles, and even your own psychology.

Here are a few examples of victim culture when it comes to money:

"I can't save any money." Years ago, when the economy crashed, I launched something called the "Save $1,000 in 30 Days Challenge," where I showed people tactical ways to save money using fresh psychological techniques. Thousands of people joined and worked to save thousands and thousands of dollars.

Except a few people.

While most people were supportive, I was surprised by how many people were actually offended by the very concept of a "Save $1,000 in 30 Days Challenge" because they didn't even earn that much each month, or they found my recommendations to be "too obvious"—even though I defined "saving" as cutting costs, earning more, and optimizing spending.

Here are some examples of their complaints:

- "Doing this is impossible for me . . . I don't make enough to try this exercise."
- "Nice idea, but the current median family income here in Ohio is $58,000/year. After taxes this means a monthly paycheck of about $3,400. Note that this is the median, so fully half of Ohio families

live on less than this! I doubt many of them could save $1,000/ month without selling off their children."

- "This'd be nice . . . If I even made $1,000 in a month, I might try it. But I'm in university . . ."

First of all, notice that crazy people have a particular way of writing—they're always trailing off at the end of a sentence. If someone writes you and says, "It must be nice . . ." or "That sounds hard . . ." odds are good that they're a serial killer who will be knocking on your door very soon, then wearing your skin as a raincoat.

Also, people love to use their particular situation—living in Ohio, or Malaysia, or not having gone to an Ivy League school—to explain why they can't get the same results others can. I used to engage and show them examples of people in their own area who got amazing results. Their response? "Well, did they have [increasingly obscure criteria: moved around three times as a kid, eleven fingers, whatever]?" As soon as I said no, they said, "See? I knew this wouldn't work for me." Cynics don't want results; they want an excuse to not take action. Ironically, even if they win their own manufactured argument, they lose overall, because they're stuck in a prison of their mind.

"The world is against me." Yes, there are lots of societal problems right now. But when it comes to personal finance, I focus on what I can control. This idea escapes whiners, whose natural reaction when asked to actually do something about their situation is to create reasons why they can't. It used to be personal excuses ("no time"). Now, with the rise of victim culture, it's more politically correct to point to some external force, like median earnings or economic policy. Yes, getting your financial life in order does require some work. But the rewards far surpass the effort.

The truth is that these whiners miss the point. While saving $1,000 in a month was eminently reasonable, it was also an aspirational goal. If you couldn't save $1,000, what about $500? Or $200? Finally, the people who complained about money a year ago are probably still complaining, while many of the people who took the challenge saved hundreds and even thousands of dollars.

Other People We Can Blame for Our Money Problems

There are other common excuses for why we don't manage our money. Most of them don't stand up to scrutiny:

- **"Our education system doesn't teach this."** It's easy for people in their twenties to wish that their colleges had offered some personal finance training. Guess what? Most colleges do offer those classes. You just didn't take them!
- **"Credit card companies and banks are out to profit off us."** Yes, they are. So stop complaining and learn how to beat the companies instead of letting them beat you.
- **"I'm afraid of losing money."** That's fair, especially after global crises where front-page articles used words like "tanked" and "lost generation." But you need to take a long-term view: The economy grows and contracts in cycles. If you withdrew your money from the stock market in 2009, you missed out on one of the longest sustained periods of growth in history. Fear is no excuse to do nothing with your money. Remember, you can choose among many different investment options—some aggressive, some conservative. It all depends on how much risk you're willing to take. In fact, by automating your money, you can put yourself in a position to excel when others are scared—by continuing to consistently save and invest. When others are scared, there are bargains to be found.
- **"What if I don't know where to get an extra $100 per month?"** You don't need to earn another penny. I'll show you how to streamline your existing spending to generate that money to invest. Follow my CEO Method: Cut costs, Earn more, and Optimize your existing spending.
- **"I don't want average returns."** Our culture stigmatizes being average. Who wants to have an average relationship? Or an average income? Financial firms have weaponized that fear of average: They suggest it's bad to be average, that it's boring, and that you can do better. There's actually an entire ad campaign based on this idea by a popular robo-advisor whose tagline reads "Be better than

average." The truth is, you likely can't beat average returns. In fact, average 8 percent returns are actually very good. Ironically, people who fear "being average" do exactly the things that make them perform *worse* than average: trade frequently, make outlandish bets, incur high taxes, and pay unnecessary fees. Remember: In relationships and work, we want to be better than average. In investing, average is great.

You're not a victim, you're in control. Once you truly internalize that, you can start to go on offense. No more being paralyzed by the thought that you have to get every single part of your personal finances perfectly organized before you can begin to manage your money.

Do you need to be the Iron Chef to cook a grilled-cheese sandwich? No, and once you make your first meal, it's easier to cook something more complicated the next time around. The single most important factor to getting rich is getting started, not being the smartest person in the room.

Put the Excuses Aside

Listen up, crybabies: This isn't your grandma's house and I'm not going to bake you cookies and coddle you. A lot of your financial problems are caused by one person: you. Instead of blaming circumstances and corporate America for your financial situation, you need to focus on what you can change yourself. Just as the diet industry has overwhelmed us with too many choices, personal finance is a confusing mess of overblown hype, myths, outright deception—and us, feeling guilty about not doing enough or not doing it right. If you're not satisfied with your finances and you're willing to take a hard look in the mirror, you'll discover one inescapable truth: The problem, and the solution, is *you*.

Let's put the excuses aside. What if you could consciously decide how to spend your money, rather than say, "I guess that's how much I spent last month"? What if you could build an automatic infrastructure that made all your accounts work together and automated your savings? What if you could invest simply and regularly without fear? Guess what? You can! I'll show you how to take the money you're making and redirect it to the places you want it to go—including substantially growing your money over the long term, no matter what the economy is like.

The Key Messages of *I Will Teach You to Be Rich*

I believe in small steps. I want to reduce the number of choices that paralyze us. It's more important to get started than to spend an exhaustive amount of time researching the best fund in the universe. *I Will Teach You to Be Rich* is about taking the first step—understanding the barriers that keep us from managing our money and then tearing them down and putting our money in the right places so we can achieve our goals. Frankly, your goal probably isn't to become a financial expert. It's to live your life and let money serve you. So instead of saying, "How much money do I need to make?" you'll say, "What do I want to do with my life—and how can I use money to do it?" And instead of being driven by fear, you'll be guided by what history has shown us about investing and growth.

I'll keep it simple: Too many books try to cover everything about money, leaving you holding a book that you "should" read but don't because it's overwhelming. I want you to know enough to get started setting up automated accounts and investing, even with just $100. So here are the essential messages of *I Will Teach You to Be Rich:*

The 85 Percent Solution: Getting started is more important than becoming an expert. Too many of us get overwhelmed thinking we need to manage our money perfectly, which leads us to do nothing at all. That's why the easiest way to manage your money is to take it one step at a time—and not worry about being perfect. I'd rather act and get it 85 percent right than do nothing. Think about it: 85 percent of the way is far better than zero percent. Once your money system is good enough—or 85 percent of the way there—you can get on with your life and go do the things you really want to do.

It's okay to make mistakes. It's better to make them now, with a little bit of money, so that when you have more, you'll know what to avoid.

Spend extravagantly on the things you love and cut costs mercilessly on the things you don't. This book isn't about telling you to stop buying lattes. Instead, it's about being able to actually spend more on the things you love by not spending money on all the knucklehead things you don't

The Best Mistake I Ever Made

When I was in high school, my parents told me that if I wanted to go to college, I'd need to pay for it with scholarships. So like a good Indian son, I started applying . . . and applying and applying. In the end, I'd applied for about sixty scholarships and had won hundreds of thousands of dollars.

But my best scholarship was the first one—an award for $2,000. The organization wrote a check directly to me. I took it and invested in the stock market—and immediately lost half my money.

Oops. That's when I decided that I really needed to learn about money. I read the personal-finance books, watched the TV shows, and bought the magazines. After a while, I also started sharing what I'd learned. I taught informal classes to friends at Stanford (even though in the early days, nobody would ever attend). Then, in 2004, I began writing a blog called "I Will Teach You to Be Rich," covering the basics of saving, banking, budgeting, and investing. The rest, as they say, is history.

care about. Look, it's easy to want the best of everything: We want to go out all the time, live in a great apartment, buy new clothes, drive a new car, and travel anytime we want. The truth is, you have to prioritize. My friend Jim once called to tell me that he'd gotten a raise at work. On the same day, he moved into a smaller apartment. Why? Because he doesn't care very much about where he lives, but he loves spending money on camping and biking. That's called conscious spending. (Learn how one of my friends consciously spends $21,000 per year going out on page 132.)

There's a difference between being sexy and being rich. When I hear people talk about the stocks they bought, sold, or shorted last week, I realize that my investment style sounds pretty boring: "Well, I bought a few good funds five years ago and haven't done anything since, except buy more on an automatic schedule." But investment isn't about being sexy—it's about making money, and when you look at investment literature, buy-and-hold investing wins over the long term, every time.

Don't live in the spreadsheet. I encourage you to pick your financial system and move on with your life, which means not "living in the spreadsheet," or obsessing over every tiny change in your spending and in the market. The idea that you could do this might seem far-fetched right now, but by the time you're done with this book you'll be extremely comfortable with your money and investing. I've known too many people who end up tracking every single fluctuation in their net worth, running different scenarios in Excel and modeling out how soon they can retire. Don't do this. You'll turn into a social weirdo and, more important, it's unnecessary. If I do my job right, you'll automate your money and live your Rich Life, which takes place outside the spreadsheet.

Play offense, not defense. Too many of us play defense with our finances. We wait until the end of the month, then look at our spending and shrug: "I guess I spent that much." We accept onerous fees. We don't question complicated advice because it's given to us in a language we don't understand. In this book, I'll teach you to go on offense with your credit cards, your banks, your investments, and even your own money psychology. My goal is for you to craft your own Rich Life by the end of Chapter 9. Get aggressive! No one's going to do it for you.

I Will Teach You to Be Rich *is about using money to design your Rich Life.* I'll teach you how to set up your accounts to create an automatic financial infrastructure that will run smoothly with minimal intervention. You'll also learn what to avoid, some surprising findings from financial literature (is real estate really a good investment?), and how to avoid common financial mistakes. And you'll start taking action instead of debating minutiae. All this will take you just six weeks—then you'll be on the road to being rich. Doesn't that sound good?

Why Do You Want to Be Rich?

I've talked to more than a million people about personal finance over the last fifteen years through my website and speaking engagements. When I do, I always ask two questions:

- *Why do you want to be rich?*
- *What does being rich mean to you?*

Most people never spend even ten minutes thinking through what "rich" means to them. Here's a hint: It's different for everyone, and money is just a small part of being rich. For example, my friends all value different things. Paul loves eating out at Michelin-starred restaurants where a meal might cost $500. Nicole loves traveling. And Nick loves buying clothes. If you don't consciously choose what "rich" means, it's easy to end up mindlessly trying to keep up with your friends. I consider myself rich now that I can do these things:

- Make career decisions because I want to, not because of money
- Help my parents with their retirement, so they don't have to work if they don't want to
- Spend extravagantly on the things I love and be relentlessly frugal about the things I don't (e.g., live in a nice apartment in New York but not own a car)

Every December, I sit down with my wife and we get intentional about the next year. Where do we want to travel? Who do we want to invite with us? What can we imagine doing in the next year that we'll remember for the next fifty years? This planning process—where we get to intentionally design our Rich Lives—is one of the most fun things we do together as a couple.

Before you go further, I encourage you to think about your Rich Life. Why do you want to be rich? What do you want to do with your wealth?

Get really specific. If your Rich Life is "I want to take a taxi instead of a bus," write it down! I realized I live in New York but I hadn't been taking advantage of all the cultural events here, so I decided that once every quarter, I'd go to a museum or Broadway show. Once I set the intention, it became a part of my Rich Life. Don't be embarrassed about how small—or big—your vision is. For example, when I first wrote down my list of a Rich Life, one of the key goals was being able to order appetizers from a restaurant menu, which I never did as a kid. As time went on, my goals got bigger.

When you picture your ideal life, what are you doing in it?

10 Rules for a Rich Life

1. A Rich Life means you can spend extravagantly on the things you love as long as you cut costs mercilessly on the things you don't.

2. Focus on the Big Wins—the five to ten things that get you disproportionate results, including automating your savings and investing, finding a job you love, and negotiating your salary. Get the Big Wins right and you can order as many lattes as you want.

3. Investing should be very boring—and very profitable—over the long term. I get more excited eating tacos than checking my investment returns.

4. There's a limit to how much you can cut, but no limit to how much you can earn. I have readers who earn $50,000/year and ones who earn $750,000/year. They both buy the same loaves of bread. Controlling spending is important, but your earnings become super-linear.

5. Your friends and family will have lots of "tips" once you begin your financial journey. Listen politely, then stick to the program.

6. Build a collection of "spending frameworks" to use when deciding on buying something. Most people default to restrictive rules ("I need to cut back on eating out . . ."), but you can flip it and decide what you'll *always* spend on, like my book-buying rule: If you're thinking about buying a book, just buy it. Don't waste even five seconds debating it. Applying even one new idea from a book is worth it. (Like this one.)

7. Beware of the endless search for "advanced" tips. So many people seek out high-level answers to avoid the real, hard work of improving step by step. It's easier to dream about winning the Boston Marathon than to go out for a ten-minute jog every morning. Sometimes the most advanced thing you can do is the basics, consistently.

8. You're in control. This isn't a Disney movie and nobody's coming to rescue you. Fortunately, you can take control of your finances and build your Rich Life.

9. Part of creating your Rich Life is the willingness to be unapologetically different. Once money isn't a primary constraint, you'll have the freedom

to design your own Rich Life, which will almost certainly be different from the average person's. Embrace it. This is the fun part!

10. Live life outside the spreadsheet. Once you automate your money using the system in this book, you'll see that the most important part of a Rich Life is outside the spreadsheet—it involves relationships, new experiences, and giving back. You earned it.

What You'll Get Out of This Book

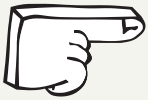
Most people think that investing means "buying stocks," as if they should buy and sell random stocks and somehow magically make a profit. Because they've started with a mistaken assumption—that investing means picking stocks—the ones who decide to learn more go down the rabbit hole of fancy terms like "hedge funds," "derivatives," and "call options."

In reality, their fundamental assumption was incorrect. Investing isn't about picking stocks. In fact, your investment plan is actually more important than any individual investment you make. Sadly, most people actually think you need this level of complexity to get rich because they see people talking about this stuff online each day. Guess what? For individual investors like you and me, these options are irrelevant.

It sounds sexy, but when individual investors talk about complicated concepts like this, it's like two elementary school tennis players arguing about the string tension of their racquets. Sure, it might matter a little, but they'd be much better tennis players if they just went outside and hit some balls for a few hours each day.

Simple, long-term investing works. This idea gets nothing but yawns and eye rolls. But you decide: Do you want to sit around impressing others with your sexy vocabulary, or do you want to join me on my gold-lined throne as we're fed grapes and fanned with palm fronds?

I Will Teach You to Be Rich will help you figure out where your money is going and redirect it to where you want it to go. Saving for a vacation to China? A wedding? Just want to make your money grow? Here's the six-week program that will let you tackle it.



SIX WEEKS OF ACTION STEPS

IN WEEK 1, you'll set up your credit cards, pay off debt (if applicable), and learn how to master your credit history and free credit rewards.

IN WEEK 2, you'll set up the right bank accounts.

IN WEEK 3, you'll open a 401(k) and an investment account (even if you have just $100 to start).

IN WEEK 4, you'll figure out how much you're spending. And then you'll figure out how to make your money go where you want it to go.

IN WEEK 5, you'll automate your new infrastructure to make your accounts play together nicely.

IN WEEK 6, you'll learn why investing isn't the same as picking stocks—and how you can get the most out of the market with very little work.

You'll also learn to choose a low-cost automatic portfolio that beats typical Wall Street portfolios, and find out how to maintain your investments by setting up a system that lets you remain as hands-off as possible while your money accumulates automatically. Plus, I provide answers to many specific money questions, including how to buy a car, pay for a wedding, and negotiate your salary.

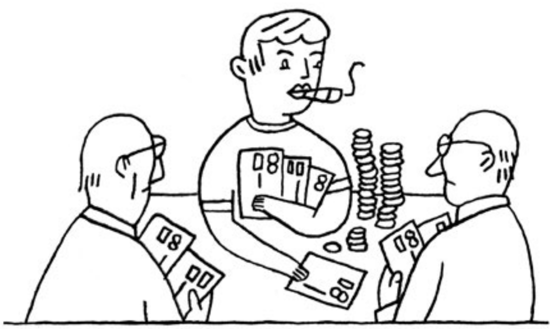
After reading this book, you'll be better prepared to manage your finances than 99 percent of other people. You'll know what accounts to open up, ways not to pay your bank extra fees, how to invest, how to think about money, and how to see through a lot of the hype that you encounter online every day.

There aren't any secrets to getting rich—it just takes small steps and some discipline, and you can do it with a little bit of work. Now let's get started.

CHAPTER 1

OPTIMIZE YOUR CREDIT CARDS

How to beat the credit card companies at their own game



You'll never see an Indian driving a two-door coupe. Really, think about it. If you have a neighborhood Indian—let's call him Raj—this guy is driving a practical four-door car, usually a Honda Accord or Toyota Camry. However, Indian people aren't just fanatical about driving sensible cars. We're absolutely nuts about hammering down the price to the last penny. Take my dad, for example. He'll bargain for five straight days just to buy one car. I've been along for the ride on these weeklong negotiating sessions with him before. Once, as he was literally about to sign the papers, he stopped, asked them to throw in free floor mats (a $50 value), and walked away when they refused. This, after he'd spent five days bargaining them down. As he dragged me from the dealership, I stared straight ahead, shell-shocked.

As you can imagine, by the time I went to buy my own car, I had been steeped in a rich tradition of negotiating. I knew how to make unreasonable demands with a straight face and never take no for an answer. I took a more modern approach, however: Instead of spending a week going from dealership to dealership, I simply invited seventeen dealers in Northern California to bid against each other for my business while I sat at home and browsed around the internet, calmly reviewing the emails and faxes (yes, really) as they came in. (For more about buying a car, see page 315.) In the end, I found a great deal in Palo Alto and walked in ready to sign the papers. Everything was going smoothly until the dealer went to check my credit. He came back smiling. "You know, you have the best credit of anyone I've ever seen at your age," he said.

"Thanks," I replied, actually wanting to say, "AWWW, YEAH, I KNEW IT." That's because I was a weird twentysomething Indian who chooses a four-door Accord for his dream car and prides himself on his credit score.

Then the dealer said, "Hmm."

"Hmm?" I asked.

"Well," he said, "it looks like you have great credit, but not enough credit sources." The bottom line, he told me, was that they couldn't offer me the low-interest option we had talked about. Instead of 1.9 percent interest, it would be 4.9 percent. That didn't sound like much, but I pulled out a notepad and did a quick calculation. The difference would be more than $2,200 over the life of my car loan. Because I was getting such a great deal on the car, I convinced myself that the higher interest rate was okay, and I signed the papers for the loan. But I was still pissed. Why should I have to pay an extra two grand when I had great credit?

Most people weren't raised like me, so I understand that you probably hate negotiating. Most Americans do. We're not sure what to say, we get nervous about looking cheap, and then we look at ourselves and say, "Is this really worth it?" In a pool of sweaty discomfort, most of us conclude "No"—and we pay full price.

I have a fresh perspective: It's not worth negotiating everything, but there are a few areas of life where negotiation is a Big Win. In this chapter, I'm going to show you how to go on offense and squeeze as many rewards and benefits out of your credit cards as possible. You're going to start winning against them. And for the first time, negotiating is going to be fun.

The Usual Credit Card Scare Tactics

Virtually every section on credit cards in every book starts with these three scare tactics.

Scary stats. According to the Prosperity Now Scorecard, the median US household credit card debt is $2,241, and the median student loan debt is $17,711. The Fed Reserve notes that "Four in 10 adults in 2017 would have to either borrow money, sell something, or simply not be able to pay if faced with a $400 emergency expense."

Scary headlines. "The looming debt crisis will hurt these Americans the most," reports CNBC. Or this one from the *Washington Post:* "A debt crisis is on the horizon." *Business Insider* reports that "America's student debt crisis is worse than we thought."

Scary emotions. Confusion, anxiety, and lies—the media knows that if they employ these, they'll sell pageviews and ads.

Reading these scare tactics, how do you feel? Most of us respond by shutting down and ignoring the problem.

> *Debt was about fear. I didn't talk about it, I didn't look at the whole picture, I avoided any conversation or thought about it.*
>
> **—WARREN KOPP, 36**

> *Debt was always at the back of my mind. I couldn't enjoy spending the money I had because it haunted me.*
>
> **—CHRIS BEHRENS, 45**

> *I remember feeling embarrassed when I would apply for a credit card and get turned down . . . When debt collectors would call, I would feel embarrassed and stressed about ignoring the call, because I owed money, but couldn't afford to pay it off.*
>
> **—ALLISON REYNOLDS, 28**

The media thrives on creating fear and anxiety around debt, as if it's inescapable and crippling. And they rarely suggest solutions—

when they do, they're along the lines of "eat out less." Thanks, guys.

The result is a tornado of negative emotions. We feel helpless. We feel outraged. Who should get the blame? I don't know, but somebody should.

Most of all, we do nothing. This is how "outrage culture" works—it makes you feel angry and exhausted . . . and then you go back to doing nothing.

I have a different approach.

The Way I See It

Credit cards give you thousands of dollars worth of perks. If you pay your bill on time, they're a free short-term loan. They can help you keep track of your spending much more easily than cash, and they let you download your transaction history for free. Most offer free warranty extensions on your purchases and free rental car insurance. Many offer rewards and points worth hundreds or even thousands of dollars.

Credit cards are also convenient enemies. Almost everyone has a bad story about late fees, unauthorized charges, or overspending. Not surprisingly, many pundits have a knee-jerk reaction to credit cards: "Using credit cards is the worst financial decision you can make," they shout. "Cut them all up!" What an easy battle cry for people who want simple solutions and don't realize the benefits of multiple sources of credit.

The truth about credit cards lies somewhere between these two extremes. As long as you manage them well, they're worth having. But if you don't completely pay off your bill at the end of the month, you'll owe an enormous amount of interest on the remainder, usually about 14 percent. This is what's known as the annual percentage rate, or APR. Credit card companies also tack on a whopping fee every time you miss a payment—usually around $35. It's also easy to overuse credit cards and find yourself in debt, as many American credit card users have done.

This isn't meant to scare you away from using credit cards. In fact, instead of playing defense by avoiding credit cards altogether, I want you to play offense by using credit cards responsibly and getting as many benefits out of them as possible. To do so, you need to optimize your credit card(s) and use them as a spearhead to improve your overall credit. By the end of this chapter, you'll know how to squeeze the credit card companies for everything they're worth—without paying unnecessary fees—and you'll know how to use your cards to boost your all-important credit score. I'll show you how to negotiate with credit card companies and reveal secret perks that nobody talks about. And I'll show you exactly how I maximize my credit cards for perks and cash back, including examples of how I use points for free flights and high-end hotel stays.

When I was traveling with my fiancée to see her family in Dubai, I surprised her with a three-night stay at a resort in the desert that could only be described as 7-star. We had a private villa in traditional bedouin style overlooking the Dubai desert with a private pool, and all meals at the resort were provided. The whole experience easily would have cost $2,000-plus a night, but I did the whole thing for free with points.

—NATHAN LACHENMYER, 29

I recently booked 2 round-trip tickets from San Francisco to Italy for a 2-week vacation this fall. The flights were completely free with credit card points!

—JANE PHILIPPS, 30

In the past year I've flown business class to Spain and stayed at luxury hotels for a week, flown round-trip business class with my girlfriend to Thailand, and flown my mother to Germany business class to visit for her father's 80th birthday. I'm also about to redeem miles to go to Budapest next spring!

—JORDAN PETIT, 27

Student loans can be a great decision. Journalists love to write about the student debt "crisis." Yet a student loan can be one of the best investments you ever make, with the average bachelor's degree holder earning over $1 million more than people with only a high school diploma. Yes, debt sucks, and yes, many predatory colleges and graduate schools actively lie to young Americans about the actual value of their degree—a problem that's completely inexcusable and supported by an educational-industrial complex. Many earnest but naive students were misled by their counselors, colleges, and even their parents about incurring student loan debt on degrees that will never pay off.

But you can pay off your debt faster than you thought possible (to see how, flip to page 284). And your college degree was almost certainly worth it—even if you're only considering the financial return on investment and not including the benefits of making lifelong friends, building priceless habits of discipline, and exposing yourself to new ideas as an educated citizen. Ignore the scare tactics of the student loan "crisis." If you have student loan debt, use the material in this book to create a repayment plan.

Most people are playing the game wrong. I've spoken to literally thousands of people who are in debt. Some of them have had tough situations—unexpected illnesses, elderly parents who need support, surprise expenses. But, candidly, some of them are simply playing the game wrong. They've never spent a weekend reading a book on personal finance. They don't even know how much they owe! Instead of doing the work to aggressively win at the game of debt, they complain. It's like watching a four-year-old trying to play Monopoly, then realizing they can't understand the rules (which they've never read), getting angry, and flipping the board over. I'll show you how to win.

Bank of America Hates Me

Bank of America, one of the world's shittiest banks, hates me because I've named them as one of the worst banks out there. Good news! Ten years later, they're still on my list for screwing over my readers repeatedly. (Wells Fargo is also on my list.) I don't cut deals with banks—I don't need their money—and I call out the best, and worst, financial companies for my readers.

As you can imagine, the worst companies don't like being named in a *New York Times* bestselling book. I discovered Bank of America hates me because one of my friends works in their corporate office. One day, she reached out to me and said, "Did you know you're on a Bank of America influencer list?" I was surprised. Me? Little old me?

Then she added: "It's a *negative* influencer list."

I have never been so proud.

When it comes to student loans and credit cards, my goal is for you to stop playing defense. I'm going to show you how to play offense instead. For student loans, make an aggressive plan and minimize the amount of interest you pay. For credit cards, I squeeze every single benefit out of them. Basically I want the credit card companies to hate you, as they hate me.

The best part is how fast you can change your financial life once you switch from playing defense to playing offense with your money.

In the 3½ years since I read the book, I paid off $14,000 in credit card debt and $8,000 in student loan debt.

—RYAN HEALEY, 27

In the past year since I started this book, I opened a 401(k) and a Roth IRA, understand how they work, and have funded $7,200 toward my retirement. I also opened 2 credit cards to build my utilization and boost my credit score and am 100 percent a deadbeat customer who pays on time every month in full.

—JEFF COLLINS, 35

I learned how to automate my credit card payments, set up flexible spending, and start investing in index funds. Today I have amassed over $40,000 in my "net worth," having been out of school for less than 2 years. Thanks for the advice!

—EMILY BAUMAN, 24

Playing Offense: Use Credit to Accelerate Your Rich Life

People love to pick sexy investments and use fancy terms like "distressed securities" and "EBITDA" when they focus on getting rich. But they often ignore something that is so simple, so basic, that it just doesn't seem important: their credit. Ironically, credit is one of the most vital factors in getting rich, but because it's hard to wrap our minds around it, we often overlook it entirely. It's time to wake up and pay attention to it, because establishing good credit is the first step in building an infrastructure for getting rich. Think about it: Our largest purchases are almost always made on credit, and people with good credit save tens of thousands of dollars on these purchases. Credit has a far greater impact on your finances than saving a few dollars a day on a cup of coffee.

There are two main components to your credit (also known as your credit history): your credit report and your credit score. These boring terms can actually save you tens of thousands of dollars over your lifetime, so listen up. This is an example of a Big Win—worth paying attention to.

Your **credit report** gives potential lenders basic information about you, your accounts, and your payment history. It tracks all credit-related activities (e.g., credit cards and loans), although recent activities are given higher weight.

Your **credit score** (often called your FICO score because it was created by the Fair Isaac Corporation) is a single, easy-to-read number between 300 and 850 that represents your credit risk to lenders. It's like an SAT score for the credit industry (higher is better). The lenders take this number and, with a few other pieces of information, such as your salary and age, decide if they'll lend you money for credit like a credit card, mortgage, or car loan. They'll charge you more or less for the loan depending on your score, which signifies how risky you are.

It's ridiculously easy to check your credit score and credit report—and you should do it right now. Once a year, by law, you're allowed to obtain your credit report for free at annualcreditreport.com. It includes basic information about all your accounts and payment history.

Lots of people use Credit Karma (creditkarma.com) to get a free credit score, but I prefer the official credit score from MyFico (myfico.com), which is more accurate even though it has a small fee.

Why are your credit report and credit score important? Because a good credit score can save you hundreds of thousands of dollars in interest charges. How? Well, if you have good credit, it makes you less risky to lenders, meaning they can offer you a better interest rate on loans. Maybe you don't need a loan today, but in three or four years, you might need to start thinking about a car or a house. So please don't scoff at or dismiss what you just read. One of the key differences

CREDIT SCORE VS. CREDIT REPORT

What your credit score is based on:	What your credit report includes:
35% payment history (How reliable you are. Late payments hurt you.)	■ Basic identification information
30% amounts owed (How much you owe and how much credit you have available, aka your credit utilization rate)	■ A list of all your credit accounts
15% length of history (How long you've had credit)	■ Your credit history,or whom you've paid, how consistently, and any late payments
10% new credit (Older accounts are better, because they show you're reliable.)	■ Amount of loans
10% types of credit (For example, credit cards, student loans. Varied is better.)	■ Credit inquiries, or who else has requested your credit info (other lenders)
Get your credit score at myfico.com for a small fee.	■ Get your free credit report once a year at annualcreditreport.com

between rich people and everyone else is that rich people plan before they need to plan.

If you doubt that a loan's interest rate really makes that much of a difference, check out the table on the next page. Look at the differences in what you'd pay for a 30-year mortgage based on your credit score.

As you can see, a high credit score can save you tens of thousands of dollars over your lifetime (or more if you live in a high-cost-of-living area). While other people spend many hours cutting coupons, agonizing over generic brands at the grocery store, or beating themselves up over a morning latte, they're failing to see the bigger picture. It's fine to keep a close eye on your expenses, but you should focus on spending time on the things that matter, the Big Wins. So let's dig into tactics for improving your credit, which is quantifiably worth much more than any advice about frugality.

HOW CREDIT SCORES AFFECT WHAT YOU PAY

On a $200,000 30-year mortgage, if your FICO score is . . .	. . . your APR* (interest rate) will be . . .	. . . with interest, you'll pay a total of . . .
760–850	4.279%	$355,420
700–759	4.501%	$364,856
680–699	4.678%	$372,468
660–679	4.892%	$381,773
640–659	5.322%	$400,804
620–639	5.868%	$425,585

*APR calculated in August 2018.

My credit mistake was I opened my account too late, I very quickly started using my card to stay out of my bank overdraft, and it got out of hand. Then I forgot I had to make a payment and missed a payment. I wish I'd understood how a credit card would help my credit score a decade ago, because then I would've already made, learned from, and recovered from my daft mistakes with it.

—JC, 29

Building Credit with Credit Cards

Credit comes in many forms (car loans, mortgages, and so on), but we're going to start with credit cards because almost all of us have one, and most important, they're the fastest and most concrete way to optimize your credit. Most people are making at least one or two major mistakes with their credit cards. The good news is that it's incredibly easy to fix this by learning a little bit about how credit cards work.

GUESS HOW MUCH AN IPHONE COSTS IF YOU FINANCE IT WITH A CREDIT CARD?

One of the biggest problems with credit cards is the hidden cost of using them. It may be incredibly convenient to swipe your card at every retailer, but if you don't pay your bill every month, you'll end up owing way more than you realize.

Let's say you buy this . . .	Paying minimum payments, it will take this long to pay it off . . .	You'll pay this much in interest
$1,000 iPhone	9 years, 2 months	$732.76
$1,500 computer	13 years, 3 months	$1,432.19
$10,000 furniture	32 years, 2 months	$13,332.06

Assumes 14% APR and 2% minimum payment

If you paid only the minimum monthly balance on your $10,000 purchase, it would take you more than 32 years and cost you more than $13,000 in interest alone, more than the purchase price itself. Remember, this doesn't even factor in your "opportunity cost": Instead of paying off a $10,000 sofa for over 30 years, if you'd invested the same amount and earned 8 percent, it would've turned into about $27,000! Try calculating how much your own purchases really cost at bankrate.com/brm/calc/minpayment.asp.

Getting a New Card

How do you choose the right credit card? I have a few simple rules that I use when choosing my own cards:

- Don't accept credit card offers that come in the mail or from retail stores like Gap or Nordstrom.
- Squeeze every reward you can out of your credit cards.
- Pick a good one, then move on with your life.

Now here's how to do it.

Get rewarded for your spending. There are different levels of rewards cards. Some are very basic, while others offer hundreds of dollars in annual benefits—or even thousands, depending on how much you spend.

First, decide what you want to get rewarded with—cash back or travel. I recommend cash back because it's straightforward, there are excellent cash back cards, and it's simpler than travel rewards, which require more sophistication to truly maximize. (For more on maximizing travel rewards, look up forums on "credit card churning.")

Once you decide on the primary reward you want, use a site like bankrate.com to sort through your options.

Most of the best rewards cards have fees. Are they worth it? You should run the numbers to decide, which takes less than 5 minutes. Here's a quick rule of thumb: If you spend thousands per month on your credit card, the rewards are usually worth it. But if you spend more modestly or you're not sure whether you want to pay a fee, spend a few minutes doing a quick analysis by searching for "credit card rewards calculator." Plug in your numbers and you'll quickly see which rewards cards are worth it for you.

Bottom line: It's almost always worth getting a rewards card. Be sure to do your homework and pick one where you value the rewards.

Don't sign up for retail store credit cards. These cards might as well have "You Screwed Yourself" written on them in thirty-six-point type. I can't count how many times I've been in line and seen someone buying $40 of socks or a cheap T-shirt or two. I just wait for the conversation I know is about to happen. "Would you like to open a credit card?" the salesperson asks, praying he meets his commission goal for the month. "You'll save ten percent."

Yup! There it is! Between clenched teeth, it's me muttering, "Shut your mouth, Ramit. Don't say anything. They don't want your unsolicit—"

Person at the register: "Hmm . . . sure, I'll open that card. Why not? It couldn't hurt."

Two points for our friend who decided to open a retail credit card:

1. As a general rule, whenever you say, "It couldn't hurt," IT VERY MUCH COULD HURT. Every single time I've said that in my life, I've proceeded to make a huge mistake.

2. This person just opened one of the most predatory cards out there to save $4. Jesus. You might as well reach into a dirty gutter to find a few

Searching for Credit Cards Online

A secret of the credit card industry: When you compare credit cards online, you're entering a murky world of SEO and affiliate fees where nearly all credit card listings are compensated. This means that virtually every site is being paid for showing you their "recommended" cards, and it's not easy to see why certain cards are being recommended. You can usually find very good cards on these sites. But if you're a high spender, be sure to take a few extra minutes searching around. For example, when I was beginning to plan my wedding, I looked for the best cash back card. Buried at the bottom of some forum post, I found a cash back credit card from Alliant Credit Union that paid 3 percent for the first year of spending, then 2 percent afterward. That was the best cash back reward on the market, but the card never showed up in my original searches.

pennies. That would be cheaper than the financial beating you're going to eventually take.

Get some standards, people. You wouldn't marry the first person who touched your elbow. Why would you sign up for a retail store card that has high fees, near-extortionate interest rates, and terrible rewards?

As for the credit card offers that come in the mail, generally you can find better options by researching online. (Sidenote: If you find yourself getting a ton of credit card offers and other junk mail, go to optoutprescreen.com to get off their marketing lists.)

I forgot to pay a stupid $25 Gap bill. It was a big PITA over 25 bucks. They dinged my credit and almost sent it to collections. I followed the process to challenge it 6 months later. Told them it was a one-time mistake. I believe the phone agent gave me an address to send a letter. I did and a couple months later the remark was gone from my account.

—PAUL FRAZIER, 30

The Exact Credit Cards I Use

Years ago, I decided to optimize my credit card rewards. I knew I was about 95 percent of the way there—I had cash back and travel cards for my business and personal spending—but I wanted to get truly dialed in for that last 5 percent. As my business had grown to dozens of employees, my spending had increased considerably. These rewards started to become meaningful and I wanted to be sure I was getting every benefit available.

For example, at a certain point, we were spending over $40,000 on ads *every month*. I know most people don't need to maximize points at this level. But I think it's fascinating, and I want to share what I learned.

I wanted to know:

- Am I squeezing out every possible reward from my spending?
- How should I handle large spending events, like a wedding or a team retreat?
- When should I use a cash back card versus a travel card?

Most important, what am I missing? What are all the cool things I *should* be asking for that I don't even know about?

Finding answers was harder than I thought. First, I posted on Facebook, asking if anyone knew an expert who could audit my spending and give me feedback on the cards I was using. Most of the people I initially talked to were focused on maximizing points for frugal traveling. That's cool, but it's not really my thing.

Then I had an unusual call with a guy named Chris.

"I had my credit cards in pretty good shape," Chris told me. "But then I wanted to get *really good*. And I know guys like you and me don't have a lot of time to play the credit card games of opening and closing cards all the time."

I was listening.

Chris told me how he set up his cards to maximize rewards to the tune of millions of points. I was interested, but I wanted to see if he really knew what he was talking about. Then he said this.

CHRIS: You want to know what I do to really squeeze the points out of my credit cards?

RAMIT: YES!

CHRIS: Some hotels will give you five hundred points for every night you waive housekeeping. So if I'm traveling alone, I get a room with two beds. I switch beds, switch towels, and I get my five hundred points.

When I heard this, I was sold.

He was so detailed, so fanatical, that he had optimized down to the level of towel usage. I had met my hero.

Chris Hutchins is the CEO of Grove (hellogrove.com), a financial planning service geared toward young professionals. He also happens to be extremely skilled in optimizing travel rewards.

My goal was to build a "playbook" of how to use credit cards to maximize rewards for my personal and business lives. My assistant, Jill, spent weeks working with Chris, analyzing my spending and upcoming expenses. The goal was to boil it down to a simplified "playbook" that Jill could use when making purchase decisions. The entire document is 15 pages long. But here is the key takeaway:

If you're booking travel or eating out, use a travel card to maximize rewards. For everything else, use a cash back card.

The card I use for travel and eating out is the Chase Sapphire Reserve. For everything else, I use an Alliant cash back card. And for business, I use a Capital One cash back business card. For extra benefits, I have an Amex Platinum card.

The result of this is thousands of dollars in cash back each year, millions of rewards points, and a new life motto: MBWOSIS.

My Body Will Only Sleep in Suites.

Don't go card crazy. Now that you're in the market, you might be tempted by any number of card offers. But don't overdo it. There's no magic number of cards you should have, but each additional card you get means added complexity for your personal finance system: more to keep track of and more places for things to go wrong. Two or three is a good rule of thumb. (The average American has four credit cards.)

*My online business profile didn't have my latest address so I never received statements. For 34 months, my bank account got charged $60. I ignored it and didn't investigate it, hoping it would go away. I was cocky I could force them to waive these charges because of the relationship. Then I finally willed myself to look into it, visited branches, called 5 different departments. No bid. Once all was said and done, I ended up paying ~$2,000 for a $3,000 initial balance. It completely smoked my confidence. I closed down all 11 of my cards except my CSP. Technically I'm still "ahead" but the thought of having paid $2,000 when I *didn't have to* and it was *100% avoidable and in my control* was too much.*

—HASSAN AHMED, 36

Remember, there are other sources of credit besides credit cards. These include installment loans (such as auto loans), personal lines of credit, home equity lines of credit, and service credit (such as utilities). Your credit score is based on your overall sources of credit. "Take it slow," Craig Watts of Fair Isaac Corporation says, cautioning against prescribing a specific number of credit sources. "It depends on how long you've been managing credit. The less information in your credit report, the higher the prominence of each new report. For example, if . . . you only have one credit card in your name, when you open another account, the weight of that action is more than it would be ten years down the line." In short, pick two or three great cards, maximize rewards sensibly, and remember that these cards are just one part of your overall financial infrastructure.

The Six Commandments of Credit Cards

Now it's time to go on offense and take full advantage of your cards. You'll improve your credit while automatically being rewarded for the purchases you're already making. Optimizing your credit is a multistep process. One of the most important factors is getting out of debt, which we'll tackle at the end of the chapter. But first, we'll set up automatic credit card payments so you never miss a payment again. Then, we'll see how to cut fees, get better rewards, and take everything you can from the credit card companies.

1. Pay off your credit card regularly. Yeah, we've all heard it, but what you may not know is that your debt payment history represents 35 percent of your credit score—the largest chunk. In fact, the single most important thing you can do to improve your credit is to pay your bills on time. Whether you're paying the full amount of your credit card bill or risking my wrath by paying just part of it, pay it on time. Lenders like prompt payers, so don't give your credit card company the opportunity to raise your rates and lower your credit score by being a few days late with your payment. This is a great example of focusing on what will get you rich, not on what's sexy. Think about your friends who search every single website to get the best deals on travel or clothes. They might be thrilled after saving $10—and they can brag to everyone about all the special deals they get—but you'll quietly save thousands by understanding the invisible importance of credit, paying your bills on time, and having a better credit score.

Today, most people pay their credit card bills online, but if you haven't set up automatic payment yet, log on to your credit card's website to do

Awful Consequences

If you miss even one payment on your credit card, here are four terrible, horrible, no good, very bad results you may face:

1. Your credit score can drop more than 100 points, which would add $227/month to an average 30-year fixed-rate mortgage.

2. Your APR can go up to 30 percent.

3. You'll be charged a late fee, usually around $35.

4. Your late payment can trigger rate increases on your other credit cards as well, even if you've never been late on them. (I find this fact amazing.)

Don't get too freaked out: You can recover from the hit to your credit score, usually within a few months. In fact, if you're just a few days late with your payment, you may incur a fee, but it generally won't be reported to the credit bureaus. See page 42 to find out what to do if you miss a payment.

so now. Note: Don't worry if you don't always have enough money in your checking account to pay off the full amount on your credit card. You'll get a statement from your card company each month before the payment goes through so that you can adjust your payment as needed.

> *I totally forgot the due date for my credit card. So not only did they charge me a late fee, but they charged me interest on that month's and the previous month's purchases. I called up the customer service line of the card and told them that I had been a good customer in the past and asked if they could do anything for me with the fees. The representative removed the late fee and refunded $20 of the interest charge back to my account. They returned a total of $59 to me with one phone call.*
>
> **—ERIC HENRY, 25**

2. Try to get fees on your cards waived. This can be a great way to optimize your credit cards, because your credit card companies will do all the work for you. Call them using the phone number on the back of the card and ask if you're paying any fees, including annual fees or service charges. It should go a little something like this:

YOU: Hi, I'd like to confirm that I'm not paying any fees on my credit card.

CREDIT CARD REP: *Well, it looks like you have an annual fee of $100. That's actually one of our better rates.*

YOU: I'd rather pay no fees. Can you waive this year's annual fee?

Earlier I mentioned that it can be worth paying annual fees for rewards cards. This is true—but why not ask? Remember, credit card companies compete ferociously with each other, which can benefit you. Call them a month before your new annual fee kicks in and ask them to waive it. Sometimes it works, sometimes not.

If you decide that your credit card fee isn't worth it, ask your credit card company what they'll do for you. If they waive your fees, great! If not, switch to a no-fee card. I suggest you do this at the same credit card company to simplify your life—and so you don't have to close one account and open another, which will temporarily affect your credit score.

3. Negotiate a lower APR. Your APR, or annual percentage rate, is the interest rate your credit card company charges you. APRs fluctuate, but in general, they hover around 13 to 16 percent. That is very high! This makes it extremely expensive if you carry a balance on your card. Put another way, since you can make an average of about 8 percent in the stock market, your credit card is getting a great deal by lending you money. If you could get a 14 percent return, you'd be thrilled. You want to avoid the black hole of credit card interest payments so you can earn money, not give it to the credit card companies.

So, call your credit card company and ask them to lower your APR. If they ask why, tell them you've been paying your bill in full on time for the last few months, and you know there are a number of credit cards offering better rates than you're currently getting. (See page 64 for a sample script.) In my experience, this works about half the time.

It's important to note that your APR doesn't technically matter if you're paying your bills in full every month—you could have a 2 percent APR or 80 percent APR and it would be irrelevant, since you don't pay interest if you pay your total bill each month. But this is a quick and easy way to pick the low-hanging fruit with one phone call.

Reading IWT, I've probably saved $15,000 to $25,000 in interest alone. I've negotiated car loans, student loans, home loans, etc.

—LYLA NUTT, 30

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4. Keep your main cards for a long time, and keep them active—but also keep them simple. Lenders like to see a long history of credit, which means that the longer you hold an account, the more valuable it is for your credit score. Don't get suckered by introductory offers and low APRs—if you're happy with your card, keep it. Some credit card companies will cancel your account after a certain period of inactivity. To avoid having a card you rarely use shut down, set up an automatic payment on it. For example, I set it up so that one of my credit cards pays a $12.95 monthly subscription through my checking account each month, which requires zero intervention on my part. But my credit report reflects that I've had the card for more than five years, which improves my credit score. Play it safe: If you have a credit card, keep it active

What to Do If You Miss a Payment

Nobody's perfect. Despite my warnings, I understand that accidents happen and you might miss a payment at some point. When this happens, I use my Indian heritage to beat the companies by negotiating with them, and you can, too:

YOU: Hi, I noticed I missed a payment, and I wanted to confirm that this won't affect my credit score.

CREDIT CARD REP: *Let me check on that. No, the late fee will be applied, but it won't affect your credit score.*

(Note: If you pay within a few days of your missed bill, it usually won't be reported to the credit agencies. But ask to be sure.)

YOU: Thank you! I'm really happy to hear that. Now, about that fee . . . I understand I was late, but I'd like to have it waived.

CREDIT CARD REP: *Why?*

YOU: It was a mistake. It won't happen again, so I'd like to have the fee removed.

(Note: Always end your sentence with strength. Don't say, "Can you remove this?" Say, "I'd like to have this removed.") At this point, you have a better-than-50-percent chance of getting the fee credited to your account. But just in case you get an especially tough rep, try this.

CREDIT CARD REP: *I'm very sorry, but we can't refund that fee. I can try to get you our latest blah blah marketing pitch blah blah . . .*

YOU: I'm sorry, but I've been a customer for four years and I'd hate for this one fee to drive me away from your service. What can you do to remove the late fee?

CREDIT CARD REP: *Hmm . . . Let me check on that . . . Yes, I was able to remove the fee this time. It's been credited to your account.*

You don't believe me that it can be so simple? It is. Anyone can do it.

using an automatic payment at least once every three months.

Now the one tricky part: If you decide to get a new card, should you close your old card? I've changed my view here over the years. The typical advice is to keep cards open for as long as possible, which is generally smart. But if you have lots of cards that you never use, reconsider this. Some of my readers have opened over twenty-plus cards to "churn" rewards, and now they can't keep track of all their cards. This is where you have to make a decision on risk versus reward and simplicity versus complexity. There's lots of advice warning against closing credit cards, but as long as you're paying your balances on time and have good credit, closing an old card will not have a major long-term impact on your credit score.

Think balance: For most people, having two or three credit cards is perfect. If you have a special reason to have more cards—for example, if you own a business or are intentionally maximizing temporary sign-up rewards—great. But if you find yourself swamped with the number of cards you have, close the inactive ones. As long as you have good credit, the long-term impact will be minimal and you'll sleep easier at night with a simple financial system you can easily keep track of.

5. Get more credit. (Warning! Do this only if you have no debt.) This one is counterintuitive, and to explain it, I have to reach into personal finance lessons of yore. Many people don't realize this, but in the classic '80s Salt-N-Pepa song "Push It," when they say that the dance isn't for everybody—"only the sexy people"—they are actually detailing a sound personal finance strategy.

Before I explain, I want to first acknowledge that, yes, I did just quote Salt-N-Pepa in an actual, published book. Anyway, when Salt-N-Pepa talk about "only the sexy people," what they really mean is "This tip is only for the financially responsible people." I'm serious about this warning: This tip is only for people who have no credit card debt and pay their bills in full each month. It's not for anyone else.

It involves getting more credit to improve something called your credit utilization rate, which is simply how much you owe divided by your available credit. This makes up 30 percent of your credit score. For example, if you owe $4,000 and have $4,000 in total available credit, your ratio is 100 percent (($4,000/$4,000) x 100), which is bad. If, however, you owe only $1,000 but have $4,000 in available credit, your credit utilization rate is a much better 25 percent (($1,000 / $4,000) x 100). Lower is preferred because lenders don't want you regularly spending all the money you have available through credit—it's too likely that you'll default and not pay them anything.

To improve your credit utilization rate, you have two choices: Stop carrying so much debt on your credit cards (even if you pay it off each month) or increase your total available credit. Because we've already established that if you're doing this, you're debt-free, all that remains for you to do is to increase your available credit.

Here's how: Call up your card company and ask for a credit increase.

YOU: Hi, I'd like to request a credit increase. I currently have five thousand dollars available, and I'd like ten thousand.

CREDIT CARD REP: *Why are you requesting a credit increase?*

YOU: I've been paying my bill in full for the last eighteen months and I have some upcoming purchases. I'd like a credit limit of ten thousand dollars. Can you approve my request?

REP: *Sure. I've put in a request for this increase. It should be activated in about seven days.*

I request a credit-limit increase every six to twelve months. Remember, 30 percent of your credit score is represented by your credit utilization rate. To improve it, the first thing you should do is pay off your debt. Only after you've already paid off your debt should you try to increase your available credit. Sorry to repeat myself, but this is important!

When my husband and I were in college, we got a free T-shirt or something and got credit cards with reasonable limits ($500). Sure, I had no income, but that didn't seem important at the time. Wouldn't you know it, I was responsible enough to have my limit raised to $2,000 after a very short period of time! Except that I wasn't actually responsible, and I paid thousands of dollars in interest and late fees and wrecked my credit rating for several years. It took many years for us to clear up this debt. I can't name one purchase that was truly necessary.

—MICHELE MILLER, 38

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6. Use your credit card's secret perks! Before I get into rewards programs, let me say this: Just like with car insurance, you can get great deals on your credit when you're a responsible customer. In fact, there are lots of tips for people who have very good credit. If you fall in this category, you should call your credit cards and lenders once a year to ask them what advantages you're eligible for. Often, they can waive fees, extend credit, and give you private promotions that others don't have access to. Call them up and use this line:

"Hi there. I checked my credit and noticed that I have a 750 credit score, which is pretty good. I've been a customer of yours for the last four years, so I'm wondering what special promotions and offers you have for me . . . I'm thinking of fee waivers and special offers that you use for customer retention."

As discussed, credit cards also offer rewards programs that give you cash back, airline tickets, and other benefits, but most people don't take advantage of all the free stuff they can get. For example, when I had to fly to a wedding in an obscure town in Wisconsin, I redeemed my credit card's travel reward to save more than $600 on the flight. That's an easy example, but there are even more rewards: Did you know that credit cards automatically give you amazing consumer protection? Here are a few examples you might not know about:

- Automatic warranty doubling: Most cards extend the warranty on your purchases. So if you buy an iPhone and it breaks after Apple's warranty expires, your credit card will still cover it up to an additional year. This is true for nearly every credit card for nearly every purchase, automatically.
- Car rental insurance: If you rent a car, don't let them sell you on getting the extra collision insurance. It's completely worthless! You already have coverage through your existing car insurance, plus your credit card will usually back you up to $50,000.
- Trip-cancellation insurance: If you book tickets for a vacation and then get sick and can't travel, your airline will charge you hefty fees to rebook your ticket. Just call your credit card and ask for the trip-cancellation insurance to kick in, and they'll cover those change fees—usually between $3,000 to $10,000 per trip.

- Concierge services: When I couldn't find LA Philharmonic tickets, I called my credit card and asked the concierge to try to find some. He called me back in two days with tickets. They charged me (a lot, actually), but he was able to get them when nobody else could.

Most important, your credit card automatically tracks your spending, making it easy for software to download and categorize your expenses. For these reasons, I put almost all my purchases on a credit card—especially the large ones.

Your key takeaway: Call your credit card company and ask them to send you a full list of all their rewards. Then use them!

We paid for our entire 3-week honeymoon using points, including first-class, round-trip direct flights from NYC to Vegas, luxury suite at the Venetian, luxury car rental and all other accommodations, attractions, and food (yeah, even food). We literally didn't spend a penny (and came home with +$200. Thanks, blackjack!).

—TE ROMEO, 34

My honey and I go to Hawaii and Italy/Europe each year almost entirely on points. It looks like we are living large and lavish, but our last 9-day trip to Italy cost us $350, and that was only because our favorite hotel in Sienna doesn't take any points.

—ROBYN GINNEY, 45

Mistakes to Avoid

Think ahead before closing accounts. If you're applying for a major loan—for a car, home, or education—don't close any accounts within six months of filing the loan application. You want as much credit as possible when you apply.

However, if you know that an open account will entice you to spend and you want to close your credit card to prevent that, you should do it. You may take a slight hit on your credit score, but over time, it will recover—and that's better than overspending.

Always Track Your Calls to Financial Companies

Unfortunately for you, credit card companies are very good at using BS late fees to increase their revenues. Unfortunately for them, I'm giving you a script for getting these fees reversed (see page 42). One of the best ways to improve your chances of having fees waived is by keeping track of every call to your financial institutions, including credit card companies, banks, and investment companies. When I call to dispute anything, I open a spreadsheet that details the last time I called them, whom I spoke with, and what was resolved. If only criminals were as diligent as I am.

Create a spreadsheet that looks like this:

The Pocket Tracker for Tracking Credit Card Calls

Call Date	Time	Name of Rep	Rep's ID#	Comments

Whenever you make a call regarding a dispute on your bill, you wouldn't believe how powerful it is to refer back to the last time you called—citing the rep's name, the date of the conversation, and your call notes. Most credit card reps you talk to will simply give in because they know you came to play in the big leagues.

When you use this to confront a credit card company or bank with data from your last calls, you'll be more prepared than 99 percent of other people—and chances are, you'll get what you want.

Disputing a Charge: How to Mobilize Your Credit Card's Army for You

Once, when I canceled my cell phone service, they told me my account had a $160 charge. "For what?" I asked. Wait for it . . .

"An early cancellation fee."

Yeah, right. I knew I didn't have a contract, and I had negotiated out of an early cancellation fee a long time before that. (Cell phone companies make a lot of money from trying these shady moves, hoping customers will get frustrated, give up, and just pay.) But I'm not the one to try this on: Ever since the company had started trying to rip me off three years before, I had kept records of every phone conversation I'd had with them. The customer service rep was very polite, but insisted she couldn't do anything to erase the charge.

Really? I'd heard this tune before, so I pulled out the notes I had taken the previous year and politely read them aloud to her.

As soon as I read them, I experienced a miraculous change in her ability to waive the fee. Within two minutes, my account was cleared and I was off the phone. Amazing!!!!! Thank you, madam!!!

Wouldn't it be great if that were the end of the story? I wish. They told me they wouldn't charge me . . . and they did it anyway. By this point, I was so fed up that I called in the big guns.

Many people don't know that credit cards offer excellent consumer protection. This is one reason I encourage everyone to make major purchases on their credit card (and not use cash or a debit card).

I called my credit card company and told them I wanted to dispute a charge. They said, "Sure, what's your address and what's the amount?" When I told them about my experience with the cell phone company, they instantly gave me a temporary credit for the amount and told me to mail in a form with my complaint, which I did.

Two weeks later, the complaint was resolved in my favor.

What happens in disputes like this is the credit card company fights the merchant for you. This works with all credit cards. Keep this in mind for future purchases that go wrong.

Manage debt to avoid damaging your credit score. "If you close an account but pay off enough debt to keep your credit utilization score the same," says Craig Watts of FICO, "your score won't be affected." For example, if you carry $1,000 debt on two credit cards with a credit limit of $2,500 on each, your credit utilization rate is 20 percent ($1,000 debt, $5,000 total credit available). If you close one of the cards, suddenly your credit utilization rate jumps to 40 percent ($1,000, $2,500). But if you pay off $500 in debt, your utilization rate would be 20 percent ($500, $2,500), and your score would not change.

Don't play the zero percent transfer game. Some people have started playing the zero percent transfer game to profit off credit cards by making balance transfers or taking cash advances. They take the introductory zero percent APR that you get when you open many credit cards (which usually only lasts for six months). Then they borrow money from the card at this low rate and stick it in a high-interest savings account, which allows them to profit off the interest. Some actually invest the money in short-term CDs or even stocks. At the end, they plan to return the money and keep the interest. I find these zero percent credit card games to be a huge waste of time. Sure, you can make a few bucks a year, or maybe even a few hundred, but the time, risk of

Oh No! My Credit Score Dropped

Some of my type A readers worry too much about their credit scores. If your credit score suddenly drops, first you should figure out why by getting a copy of your credit report and score (see page 30). Then what's important is how you deal with it going forward. Your credit score can start recovering immediately as more positive information is reported, like that you've been paying your bills on time. So work to manage your credit wisely and consistently. As FICO's Craig Watts notes, "The natural movement of these scores is to slowly grow. How do you think people end up with scores in the mid-800s? It's through years and years of consistently boring credit management."

mismanaging the process, and possibility of screwing up your credit score just aren't worth it. Most important, this is a distraction that gets you only short-term results. You're much better off building a personal finance infrastructure that focuses on long-term growth, not on getting a few bucks here or there. Dave Ramsey, a popular personal finance author and radio host, specializes in helping people get out of debt.

Rate Chasers: Wasting Time Earning $25/Month

One of my blog readers, a guy named Mike, wrote in to tell me about his rate chasing. In this case, it was savings accounts, not credit cards, but they're very similar: It's just moving money around from one account to another to eke out a few additional percentage points.

Mike admitted, "I'm one of those rate chasers, so [with $40,000 in emergency savings] I've consistently been earning anywhere between 0.65 and 0.85 percent higher than my operating money market account . . . That's an extra $300/year in interest, which is definitely worth changing banks every four to six months for me."

My response: **"Mike, if you were smart enough to sock away $40,000 in an emergency fund (which is really impressive, by the way), I bet you're smart enough to spend your time doing something better than earning $300/year—something that will let you earn much more sustainably. You're only earning $0.82/day doing that! How about spending the same time optimizing your asset allocation? (See page 226.) That step alone is probably worth thousands per year. Or starting a side business? Or even spending those few hours with your family? I don't know what you value, but in my eyes, any of those things would produce more value than $300/year . . . especially for someone who's so far ahead of everyone else, like you are. This is just my two cents . . . about 1/40th of what you earned today (sorry, couldn't resist)."**

Focus on the Big Wins to get the big results. They may not be as obvious or sexy as jumping from account to account and getting a few extra bucks, but the Big Wins will make you rich over the long term.

He says, "I have met with thousands of millionaires in my years as a financial counselor, and I have never met one who said he made it all with Discover card bonus points."

Debt, Debt, Debt

Statistically speaking, being in debt is "normal." And yet, think about it: Is it really normal to owe more than you have? Maybe for certain things, like a house or an education, but what about for random purchases on a credit card?

Some people differentiate debts by calling them "good debt" and "bad debt," depending on if the debt appreciates (education) or depreciates (car) over time. Others despise debt altogether. Whatever the case, most of us have a lot of it. And it doesn't feel good.

I want to talk about student loans and credit card debt, the two largest types of debt facing most people. To do that, let's start by tackling the obvious: We already know debt is bad. In fact, we already know what to do about it. So what's stopping us? The answer isn't just "money," it's psychology.

We Know What to Do. So Why Don't We Do It?

I can give you all the information on earth about credit, but until you master your money psychology, none of it makes a difference. That's why so many people "know" all of this information, but they're still drowning in debt or sticking with poor cards that cost them thousands in fees and lost rewards.

What's stopping them? It's not knowledge—it's something else. Dr. Brad Klontz (yourmentalwealth.com), a professor in financial psychology, coined the term "invisible money scripts" to describe "typically unconscious, trans-generational beliefs about money" that are developed in childhood and drive your behavior today.

These beliefs are incredibly powerful, and once you recognize them in yourselves, you might understand your own behavior better.

Here are some of the most common invisible money scripts around debt.

Credit Card and Debt Scripts

Invisible script	What it means
"It's not so bad. Everyone has credit card debt. At least I don't have as much debt as Michelle."	Humans are wired to compare themselves to others. Interestingly, the worse situation we're in, the more we look for others to reassure us that we're not really ***that bad.*** It doesn't change our situation, but we feel better about ourselves.
"I probably shouldn't buy this, but $100 is just a drop in the bucket compared to how much I owe. Oh well . . ."	Once the problem is sufficiently large, we rationalize any single change as "not enough" (when in reality, real change happens through small, consistent steps). There are lots of similarities here between the decision making of those in serious debt and those who are overweight.
"Paying interest is just like any other fee."	This is "normalization," or the idea that paying interest on your debt is actually not that bad. I've never met one person who says this and understands the math of 14 percent interest rates.
"These credit card companies just try to trap you."	This is the surrendering of responsibility for personal decisions. It's very common among people who are surrounded by friends and family who are also in debt. Yes, credit card companies do want you to pay lots of fees—but it's also your responsibility for making the decisions that got you into debt in the first place. Until you take responsibility, the credit card companies will be a convenient enemy.
"I don't even know how much I owe."	Notice the transition to a more hopeless script. In my estimation, over 75 percent of people in debt do not know how much they actually owe. The truth would be too painful, so they ignore it. But there is power in acknowledging the problem and making a plan.
"I'm just trying to do my best."	The most hopeless of all. This person is effectively saying, "I have no control over my finances" and "Life happens to me" rather than acknowledging their own agency. Once someone says this, it's very difficult for them to ever change.

Damn, that got depressing. But I included these examples to show you how insidious and powerful these invisible money scripts are.

These invisible money scripts turn into very peculiar behaviors. People "know" they're not handling their money the right way, but they continue doing what they've done for years on end. To the outside observer, this can seem puzzling: "You're in debt! Why are you spending $800 on that weekend trip?"

But people are not purely rational. In fact, these invisible money

People Don't Know How Much Debt They're In

"It would appear that Americans don't even know how much they owe," Binyamin Appelbaum of the *New York Times* wrote. "Only 50 percent of households reported any credit card debt, while credit card companies reported that 76 percent of households owed them money."

It seems hard to believe, but in my experience, most people have no idea how much they actually owe. I get dozens of emails every day from people in debt. When I ask them how much they owe, fewer than 25 percent know. When I ask what their debt payoff date is, 95 percent of people don't know.

I have a lot of compassion for people in debt. Some are in tough life situations. Some don't understand how credit cards work. Some people have debt spread out over multiple credit cards and student loan accounts. Almost everyone is trying to do their best.

But I have no sympathy for people who complain without a plan. And a plan means that if you're in debt, you should know how much you owe and the exact day your debt will be paid off. Almost nobody does.

A plan turns debt from a "hot" emotional topic to a "cool" math problem. As I say in the business class I teach, "It's not magic, it's math." Same for building a business, same for paying off debt.

Most of all, a plan gives you control. It might take you three months to pay off your debt. It might be ten years! But once you have a plan, and you use the rest of this book to automate your plan, you'll know you're on track to live a Rich Life. I'll show you how.

scripts explain why so many people in debt avoid opening their mail. You might say, "JUST OPEN YOUR BILLS! PAY IT OFF! It's not that hard!" But if your invisible money scripts have been honed and sharpened by the stories you tell yourself over more than twenty years ("bills = bad"), it can be hard to change. My goal with this book is to show you that you *can* change your money stories.

What are the stories you've told yourself about debt?

The Burden of Student Loans

I'm not going to lie to you: Getting rid of student loan debt is hard. The average student graduates with about $30,000 of debt, but lots of my friends have graduated with more than $100,000 in loans. Unfortunately, it's not like you can just wave a magic wand and make it disappear. In fact, even if you declare bankruptcy, you'll still have to pay your student loans. However, even if you have huge student debt, I want you to pay attention to how much money you're putting toward the monthly payments. Because the loan amounts are so large, even an extra $100/month can save you years of payments.

Let's look at an example. My friend Tony has $30,000 in student loan debt. If he pays off the loan over ten years, his monthly payment will be about $345.24/month, meaning he'll pay just over $11,428.97 in interest. But if he pays just $100 more/month, he'll have to pay only $7,897.77 in interest—and he'll pay off his loan in 7.2 years.

Most of us accept our student debt as is. We get a bill each month, we pay it, and we shrug, frustrated about the burden of our loans but not really sure if we can do anything. Guess what: You can change your student loan payments.

First, to inspire you to take action on paying off your student debt, play with the financial calculators at bankrate.com. You'll be able to see how paying different amounts changes the total amount you'll owe.

Second, I want to encourage you to put at least $50 more each month toward any debt you have. Not only is it a psychological victory to know that you're consciously working to pay off your debt, but you'll also be able to focus on investing sooner. Make sure this is automatic, drawing right out of your checking account, so you don't even see the money. (I describe automatic payments in Chapter 5.)

The Most Common Internet Comments About Saving and Debt

I've seen this conversation happen a million times on some internet forum.

Someone posts an article about how much money the average person should have saved at 35 years old, 40 years old, and 50 years old.

It gets 8,000 comments bemoaning capitalism, geopolitics, and baby boomers.

Helpful Commenter: "Well, you can save 10% and start investi—"

500 Angry Commenters: "LOL! Save? I live in a cardboard box! There's no way any of us can save." (2,000,000 likes)

Helpful Commenter: "Well, you can start with even $20/month."

Angry Commenters: "Maybe YOU can save $20/month. I can't even spare 50 cents per year."

Helpful Commenter: "I'm sorry to hear that. Anyway, when I started saving a little bit, I took some of it and invested. If you assume 8%, that means after a few year—"

Angry Commenters: "8%??? LOL! Yeah, I'd looove to get 8%. I invested in a landfill and got 0.0000023% over the last nine years. Haha, 8%, yeah right."

Helpful Commenter: "Um, the S&P 500 has returned an average of 8%, including inflation. And you can invest directly in the market with index funds."

Angry Commenters: "What? Really? Can you send me a link for where I can find out more about that?"

These people spend their time complaining on internet forums and spend *decades* paying thousands of dollars in interest. But they've never read a single book about personal finance. You can do better.

Finally, if you find that, no matter how you run the numbers, you're not going to be able to pay your loan off in any reasonable amount of time, it's time to call your lender. Look at the phone number on that monthly bill you keep ignoring. Call them up and ask them for their advice. I can't emphasize this enough: Call them. Your lenders have heard it all, from "I can't pay this month" to "I have five different loans and want to consolidate them." You'll want to ask them the following:

- "What would happen if I paid $100 more per month?" (Substitute in the right amount for you.)
- "What would happen if I changed the timeline of the loan from five years to fifteen years?"
- If you're looking for a job, you might ask, "What if I'm looking for a job and can't afford to pay for the next three months?"

Your lender has answers to all these questions—and chances are they can help you find a better way to structure your payment. Typically, they'll help you by changing the monthly payment or the timeline. Just think: With that one call, you could save thousands of dollars.

I refinanced $10,000 in private student loans, reducing the interest rates from 8% to 6%, which will save me about $2,000 over the life of the loan.

—DAN BULLMAN, 28

I called in to Navient and changed my student loans from 20-year to 10-year loans. I had no idea the difference, and it ended up saving me over $10,000 . . . just by paying an extra $50 a month.

LYLA NUTT, 30

When Credit Cards Go Bad

Most people don't get into serious credit card debt overnight. Instead, things go wrong little by little until they realize they've got a serious problem. If you've ended up in credit card debt, it can seem overwhelming. When you watch *Dr. Phil*, you wonder why those people can't figure out

"The Moment I Realized I Could Pay Off My Debt"

I asked my readers about the moment when they realized they could pay off their debt. Here's what just a handful of them said.

The major turning point for me was when I got serious with my girlfriend. She made about a third of what I made, but she had about a year's salary saved up. I was ashamed to have $40,000 in debt, so I started applying the IWT principles to pay down debt and accomplished that inside two years.

—SEAN WILKINS, 39

Debt was something I had got "used to"—my lifestyle was short-term and reactive rather than planned. I was so used to living paycheck to paycheck, I hadn't experienced the freedom of being able to make conscious financial choices. Now money is a tool, not my slave master.

—DAVE VINTON, 34

Oh man, debt absolutely SUCKED. I remember crying about it (multiple times). I had debt for all of in-state college, my $9,000 boob job, my $3,000 mattress, and my daily mall shopping spree habits. I was so unhappy and clueless. When I chose to turn my life around, your book was one of the first I bought, and it really woke me the hell up. I felt wealth coming into my life just by reading it, haha. I am now completely debt-free and started a Roth IRA.

—STEPHANIE GANOWSKI, 27

I lacked confidence and felt like it was holding me back from taking advantage of all life has to offer. After reading IWT (and now living debt-free!), I have more confidence and spend money on experiences, people, and possessions that I value.

—JUSTINE CARR, 28

how to solve their problems when the answers are so clear: “Yes, you should leave him! He hasn’t had a job for the last eight years! And he looks like a rat. Are you blind?” But when we have our own problems, the answers don’t seem so simple. What should you do? How do you manage your day-to-day finances? And why do things keep getting worse? The good news is that credit card debt is almost always manageable if you have a plan and take disciplined steps to reduce it.

Now, almost nothing makes people feel guiltier than having credit card debt. Seventy-five percent of Americans claim they don’t make major purchases on their credit card unless they can pay it off immediately. Yet from looking at actual spending behaviors, over 70 percent of Americans carry a balance, and fewer than half are willing to reveal their credit card debt to a friend. Those numbers are an indication that American consumers are ashamed of their debt levels, says Greg McBride, senior vice president, chief financial analyst at Bankrate. He told me, “They are more willing to give their name, age, and even details of their sex lives than provide the amount of their credit card debt.”

Really? Their sex lives? If this is you, let me know. I have a few single friends who’d like to meet you.

This shame means that those in debt often don’t educate themselves on how to stop the madness. Instead, they fall victim to the credit card companies’ nefarious practices, which prey on the uninformed—and the undisciplined. These companies have become very good at extracting more money from us, and we’ve become very bad at knowing enough to say no.

For instance, the number one mistake people make with their credit cards is carrying a balance, or not paying it off every month. Astonishingly, of the 125 million Americans who carry a monthly credit card balance, half of them pay only their minimum monthly payments. Sure, it’s tempting to think that you can buy something and pay it off little by little, but because of credit cards’ insanely high interest rates, that’s a critical mistake.

Let’s say it again: The key to using credit cards effectively is to pay off your credit card in full every month. I know I said that casually, in the same way someone would ask you to pass the salt, but it’s important. Ask your friend with $12,000 in credit card debt how it happened. Chances are he’ll shrug and tell you he decided to “just pay the minimum” every month.

I used my credit cards for everything and paid the monthly minimums. That plan left me with maxed-out cards. I opened new 0% balance transfers to try to pay down the debts. Since I was so far over my head and didn't have any emergency cash funds, I used the credit cards I had to pay for things I truly needed. I wound up owing pretty much every major creditor you can think of, and still do.

The interest on my debt crushed me. Just because you have room on the card doesn't mean you have room in your budget!!!!

—DAVID THOMAS, 32

I'm not going to belabor the point, but you would be shocked by how many people I talk to who charge purchases without knowing how much they'll actually end up paying once interest is figured in. Paying the minimum amount on your credit card is the grown-up equivalent of a little boy letting the school bully take his lunch money on the first day of school, then coming back with his pockets jingling every single day afterward. Not only are you going to get your ass kicked, but it's going to happen again and again. By learning how the system works, though, you can figure out how to avoid the card companies' traps and get out of debt more quickly.

Pay Your Debt Off Aggressively

If you've found yourself in credit card debt—whether it's a lot or a little—you have a triple whammy working against you:

- First, you're paying tons of high interest on the balance you're carrying.
- Second, your credit score suffers—30 percent of your credit score is based on how much debt you have—putting you into a downward spiral of trying to get credit to get a house, car, or apartment and having to pay even more because of your poor credit.
- Third, and potentially most damaging, debt can affect you emotionally. It can overwhelm you, leading you to avoid opening your bills, causing more late payments and more debt, in a vicious circle of doom.

It's time to make sacrifices to pay off your debt quickly. Otherwise, you're costing yourself more and more every day. Don't put it off, because there's not going to be a magic day when you win a million dollars or "have enough time" to figure out your finances. You said that three years ago! Managing your money has to be a priority if you ever want to be in a better situation than you are in today.

Think about it: Credit cards' high interest rates mean you're likely paying a tremendous amount of interest on any balance you're carrying. Let's assume someone has $5,000 in debt on a card with 14 percent APR. If Dumb Dan pays the 2 percent monthly minimum payment, it will take him more than twenty-five years to pay off this debt. No, that's not a typo—it's really twenty-five years! Over the entire process, he'll pay over $6,000 in interest, more than the original amount he spent. And that's assuming he doesn't rack up more debt, which you know he will.

If you're outraged, you should be: This is how people can spend their entire lives in credit card debt. You can do better.

Smart Sally, by contrast, is sick of her debt and decides to get aggressive about paying it off. She has a few options: If she pays a fixed amount of $100 per month, she'll pay about $2,500 in interest, making her debt-free in six years and 4 months. This shows why you should always pay more than the minimum on your credit card. There's also an added benefit to doing that: It fits in beautifully to your automation system, explained in Chapter 5.

Or maybe Smart Sally decides to pay a little more — let's say $200 per month. Now it takes her 2.5 years to pay off her debt, including about $950 in interest payments. All from a tweak to her payments. Or what if Smart Sally gets truly aggressive and pays $400 per month? Now she'll pay off her debt in one year and two months, totaling just over $400 in interest payments.

That's just from paying $100 or $200 more per month. Don't have $200 extra? How about $50? Or even $20? Even a tiny increase in how much you pay every month can dramatically shorten your time to being debt free.

If you set up automatic payments (which I discuss on page 39) and work your debt down, you won't pay fees anymore. You won't pay finance charges. You'll be free to grow your money by looking ahead. In the credit card companies' eyes, you'll be a "deadbeat," a curious nickname they actually use for customers who pay on time every month and therefore produce virtually no revenue. You'll be worthless in their eyes, which is perfect in mine. But to beat them, you have to prioritize paying off whatever you already owe.

I spent four years in college racking up debt that I was certain I'd pay off easily once I started working. I spring-breaked in Las Vegas, Mexico, and Miami. I bought Manolo Blahnik shoes. I went out several nights a week. I had no idea then that I'd spend five post-college years paying that debt off—five years in which I could not vacation, could not buy fancy shoes, and could not go out very much at all. So on the day when I sent my final payment to my credit card company, I decided that that payment would be my last. I promised myself that I would never go back into debt again.

—JULIE NGUYEN, 26

DUMB DAN VS. SMART SALLY: PAYING OFF $5,000 CREDIT CARD DEBT AT 14% APR

Dumb Dan pays the minimum monthly payment.		
His monthly payment starts at . . .	Time it will take to pay off . . .	Total amount of interest paid is . . .
$100*	25+ years	$6,322.22
Smart Sally pays a fixed amount.		
Her monthly payment is . . .	Time it will take to pay off . . .	Total amount of interest paid is . . .
$100**	6 years, 4 months	$2,547.85
Super Smart Sally pays double the fixed amount.		
Her monthly payment is . . .	It will take this long to pay off . . .	Total amount of interest she pays is . . .
$200**	2 years, 6 months	$946.20

*This minimum is a variable amount that decreases as your balance goes down (e.g., when your balance is $4,000, your payment will be $80). Because your minimum payment will decrease, your payments will stretch out, which costs you more. Bottom line: Always pay more than the minimum on your credit card debt.

**This is a fixed amount. As your balance decreases, you continue to pay the fixed amount, which speeds your debt payoff, costing you less.

Five Steps to Getting Rid of Credit Card Debt

Now that you see the benefits of climbing out of debt as quickly as possible, let's look at some concrete steps you can take to get started. *I Will Teach You to Be Rich* is a six-week program, but obviously paying off your loans will take longer than that. Even if you're carrying debt, you should still read the rest of the book now, because there are important lessons on automating your finances and getting conscious about your spending. Just keep in mind that you won't be able to invest as aggressively as I recommend until you pay off your debt. Yeah, it sucks, but that's a reasonable cost to pay for incurring your debt. Now, here's what to do.

1. Figure out how much debt you have. You wouldn't believe how many people don't do this and continue blindly paying off any bills that come in with no strategic plan. This is exactly what the credit card companies want, because you're essentially just dumping money into their pockets. You can't make a plan to pay off your debt until you know exactly how much you owe. It might be painful to learn the truth, but you have to bite the bullet. Then you'll see that it's not hard to end this bad habit. In fact, you can get the credit card companies to help you: Look at the back of your credit cards for their numbers, call them, and put their answers into a simple spreadsheet like this one.

HOW MUCH DO YOU OWE?

Name of credit card	Total amount of debt	APR	Minimum monthly payment

Congratulations! The first step is the hardest. Now you have a definitive list of exactly how much you owe.

2. Decide what to pay off first. Not all debts are created equal. Different cards charge you different interest rates, which can affect what you decide to pay off first. There are two schools of thought on how to go about this. In the standard method, you pay the minimums on all cards, but pay more money to the card with the highest APR, because it's costing you the most. In the Dave Ramsey snowball method, you pay the minimums on all cards, but pay more money to the card with the lowest balance first—the one that will allow you to pay it off first.

PRIORITIZING YOUR DEBT

	Snowball method: lowest balance first	Standard method: highest APR first
How it works	Pay the minimum on all cards, but pay more on the card with the lowest balance. Once you pay off the first card, repeat with the next-lowest balance.	Pay the minimum on all cards, but pay more on the card with the highest interest. Once you pay off the first card, repeat with the next-highest-APR card.
Why it works	This is all about psychology and small wins. Once you pay off the first card, you're more motivated to pay off the next one.	Mathematically, you want to pay off the credit card that's costing you the most first.

This is a source of fierce debate in credit card circles. Technically, the snowball method isn't necessarily the most efficient approach, because the card with the lowest balance doesn't necessarily have the highest APR. But on a psychological level, it's enormously rewarding to see one credit card paid off, which in turn can motivate you to pay off others more quickly. Bottom line: Don't spend more than five minutes deciding. Just pick one method and do it. The goal is not to optimize your payoff method, but to get started paying off your debt.

I've saved over $3,000 and paid off over $3,000 in credit card debt. The idea of snowballing payments from the smallest card to the largest had the greatest impact on my mentality toward paying off the debt.

—SEAN STEWART, 31

3. Negotiate down the APR. I'm a huge fan of taking fifty-fifty odds if the upside is big and it takes only five minutes of my time. Accordingly, try negotiating down your APR. It works surprisingly often, and if it doesn't, so what? Just call your card companies and follow this script:

YOU: Hi. I'm going to be paying off my credit card debt more aggressively beginning next week, and I'd like a lower APR.

CREDIT CARD REP: *Uh, why?*

YOU: I've decided to be more aggressive about paying off my debt, and that's why I'd like a lower APR. Other cards are offering me rates at half of what you're offering. Can you lower my rate by 50 percent, or only 40 percent?

CREDIT CARD REP: *Hmm . . . After reviewing your account, I'm afraid we can't offer you a lower APR. We can offer you a credit limit increase, however.*

YOU: No, that won't work for me. Like I mentioned, other credit cards are offering me zero percent introductory rates for twelve months, as well as APRs of half what you're offering. I've been a customer for X years, and I'd prefer not to switch my balance over to a low-interest card. Can you match the other credit card rates, or can you go lower?

CREDIT CARD REP: *I see . . . Hmm, let me pull something up here. Fortunately, the system is suddenly letting me offer you a reduced APR. That is effective immediately.*

It doesn't work every time, but when it does, you can save a significant amount of money with a five-minute conversation. Make the call, and if you're successful, don't forget to recalculate the figures in your debt spreadsheet.

I literally called my credit card company in the bookstore at the airport BEFORE buying the book, read the script, and was able to negotiate a better APR. And they even credited the interest for the last few years back to my account (only a few hundred bucks, but STILL). I bought the book seconds after hanging up.

—CHRIS COLETTI, 33

That first week I practiced my script, then called up my credit cards and had my rate dropped from 18 percent to 11 percent.

—CHARLOTTE S., 35

Debt was awful. It felt like a cloud over me at all times. I started contributing $100 more than the minimums and crushed that shit. I still have my 'paid in full' notices saved.

—MATT GROVES, 31

4. Decide where the money to pay off your credit cards will come from. One common barrier to paying off debt is wondering where the money should come from. Balance transfers? Should you use your 401(k) money or your savings account? How much should you be paying off every month? These questions can be daunting, but don't let them stop you.

- **Balance transfers.** Many people begin by considering a balance transfer to a card with a lower APR. I'm not a fan of these. Yes, it can help for a few months and save you some money, particularly on large balances. But this is just a Band-Aid for a larger problem (usually your spending behavior, when it comes to credit card debt), so changing the interest rate isn't going to address that. Plus, balance transfers are a confusing process fraught with tricks by credit card companies to trap you into paying more, and the people I've known who do this end up spending more time researching the best balance transfers than actually paying their debt off. As we just discussed, a better option is to call and negotiate the APR down on your current accounts.

- **Taking money from a 401(k) or home equity line of credit (heloc).** I don't recommend either of these options. You're trying to reduce complexity, not increase it, even if it costs slightly more. Again, there's the behavioral problem: People with credit card debt often find it difficult to reduce spending and end up getting back into debt after tapping their 401(k) or HELOC. If you use your HELOC money to pay off credit cards, you'll risk losing your home if you run up more debt.

- **Reducing spending and prioritizing debt.** The most sustainable way to pay off credit card debt is also the least sexy. Unlike balance transfers or HELOC borrowing, it's not very exciting to tell people you decided to spend less on other things so you could pay off your debt. But it works.

Let me ask you a question. Right now, for every $100 you earn, how much of it goes to debt? Two dollars? Maybe $5? What if you paid $10 toward your debt? You'd be surprised that many people don't even have to cut much spending to pay off debt quickly. They just have to stop spending on random items, get conscious about making debt a priority, and set up aggressive automatic transfers to pay off their credit card debt. I don't want to make this sound easy, because paying off your credit card debt is challenging. But millions of others have done it.

As you read the rest of this book, think of yourself as being on a little treasure hunt to figure out where to get the money to pay off your credit card debt. Pay special attention to these discussions:

- "The Next $100" concept on page 171.

- Figuring out how much you can afford to put toward your debt using the Conscious Spending Plan on page 139.

- The "Save $1,000 in 30 Days" Challenge on page 12.

- Setting up automatic payments on page 175.

- My bonus resources at iwillteachyoutoberich.com/bonus

You'll notice that I haven't offered you a simple secret or cute sound bite about how to pay off your debt with no work. That's because there isn't one. If there were, I would be the first to tell you. But truthfully, paying off debt just takes a plan and the patience to execute it. It may seem like pure agony for the first few weeks, but imagine the relief you'll feel when you see your debt growing smaller and smaller with each passing month. And sometime after that, you'll be debt-free! Then you can focus all your energy on getting ahead, investing, and living your Rich Life.

5. Get started. Within the coming week, you should start paying more money toward your debt. If you find yourself taking more time than that to get started, you're overthinking it. Remember the philosophy behind the 85 Percent Solution: The goal is not to research every last corner to decide where the money will come from; it's action. Figure out how much debt you have, decide how you want to pay it down, negotiate your rates, and get started. You can always fine-tune your plan and amount later. I'll cover more on your Conscious Spending Plan in Chapter 4.

Being in debt means giving up choices, means staying at a job you hate because it pays good money, means not being able to build a decent savings account. My biggest mistake was not thinking about the future and using credit cards to live beyond my means. I got myself into debt in my midtwenties by spending, spending, spending—and on stupid things like clothes, eating out, movies, etc. I learned my lesson and am now living within my means on a strict budget that will allow me to be debt-free in two years. All of my debt is now on cards with APRs between zero and 4.99 percent. I have a small but growing savings account, a 401(k), and a plan to achieve financial freedom.

—MELISSA BROWN, 28

ACTION STEPS

WEEK ONE

1 Get your credit score and credit report (one hour). Check them to make sure there are no errors and to get familiar with your credit. You can access your report and score at myfico.com. (As I mentioned, lots of people use Credit Karma to get a free credit score, but I prefer the official credit score from MyFico, which is more accurate even though it has a small fee.) In addition to your credit score, get your free credit report from annualcreditreport.com.

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2 Set up your credit card (two hours). If you already have one, call and make sure it's a no-fee card. If you want to get a new credit card, check out bankrate.com to find the best one for you.

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3 Make sure you're handling your credit cards effectively (three hours). Set up automatic payments so your credit card bill is paid off in full every month. (If you're in debt, set up an automatic payment for the largest amount you can afford.) Get your fees waived. Apply for more credit, if you're debt-free. Make sure you're getting the most out of your cards.

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4 If you have debt, start paying it off (one week to plan, then start paying more). Not tomorrow, not next week, today: Give yourself one week to figure out how much you owe, call the lender to negotiate down the APR or restructure your payments (in the case of student loans), and set up your automatic payment with more money than you're paying now. Getting out of debt quickly will be the best financial decision you ever make.

That's it! You've mastered improving your credit by using your credit card. You've waived your card fees, negotiated your rates down, and even set up automatic payments. And if you have debt, you've taken the first steps toward paying it all off. Congratulations! In the next chapter, we're going to optimize your bank accounts. You'll earn more interest, pay no fees, and upgrade to better accounts than the worthless checking and savings accounts we grew up with. Once you've tackled your credit card and bank accounts, you'll be ready to start investing—and growing your money significantly.

Thanks for Reading!

If you've gotten to this point, congratulations, you're already further along in the game of personal finance than 99% of people. If you're curious about what comes next, we'll look at how to **Beat the banks (page 69), Get ready to invest (page 94), Conscious spending (page 126) and so much more.** I've included the table of contents on the following pages. You can purchase the full I Will Teach You To Be Rich wherever books are sold. You can also find it at:

www.amazon.com

www.barnesandnoble.com

www.audible.com

And one last thing: Send me an email (ramit.sethi@iwillteachyoutoberich.com, subject: my Rich Life) to let me know one thing you learned from this book. I'd love to hear from you.

Contents

UNITED
AMERICA
500
FIVE HUNDRED DOLLARS