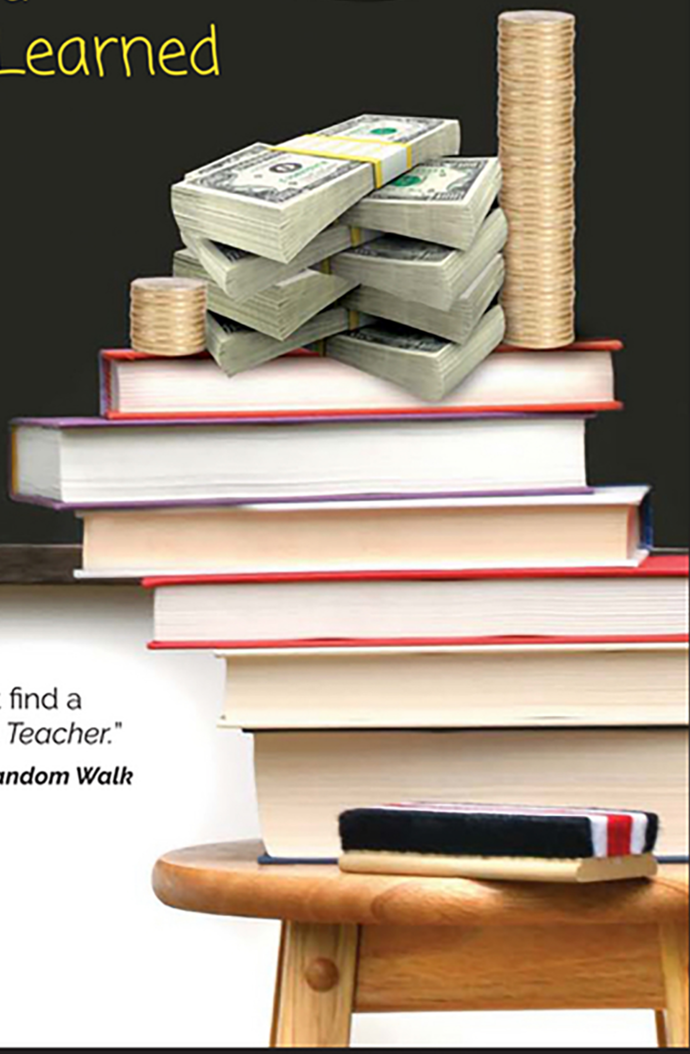
International Best Seller

Millionaire Teacher

Second Edition

The Nine Rules of Wealth You Should Have Learned in School

Andrew Hallam



"The newbie investor will not find a better guide than *Millionaire Teacher.*"

—Burton G. Malkiel, author of *A Random Walk Down Wall Street, 10th Edition*

Praise for *Millionaire Teacher, Second Edition*

"The first edition of *Millionaire Teacher* had a huge readership because Andrew Hallam writes with such passion and conviction. This new edition deserves to reach an even larger audience. Andrew brings years of wisdom to his discussion of smart saving and simple, low-cost investing. Readers who follow this teacher's advice will retire at the top of their class."

—**Dan Bortolotti,** CFP, CIM, associate portfolio manager at PWL Capital, and creator of the *Canadian Couch Potato* blog

"*Millionaire Teacher*, *Second Edition* is packed with humor, solid evidence, and advice. It might be the clearest and most engaging investment book that has ever been written!"

—**Sam Instone,** founder and chief executive of AES International

"While there are scads of fine books on passive investing for US residents, until Andrew Hallam came along, non–US investors were left to the tender mercies of local brokers, advisors, and investment companies that serviced their clients in the same way that John Dillinger serviced banks. If you're in that boat and you've just come across *Millionaire Teacher*, *Second Edition*, consider yourself lucky: read, enjoy, and fatten up your portfolio!"

—**William J. Bernstein,** author of *A Splendid Exchange* and *The Investor's Manifesto*

"Andrew Hallam's second edition of *Millionaire Teacher* is perfect for novice investors. He recommends the right kind of investment products. He also demonstrates a strong awareness of how human emotions can sabotage even the best-laid plan. Hallam does a great job showing how to avoid this trap, whether you choose to invest on your own or you hire an advisory firm to build you a portfolio of index funds."

—**Larry Swedroe,** author of *Your Complete Guide to Factor-Based Investing*, and principal and director of research, The Buckingham Family of Financial Services

"Billionaire teacher Warren Buffett and millionaire teacher Andrew Hallam offer you the same advice and guarantee: invest in low-fee and low-tax index funds on a regular basis over your lifetime, and you too will be financially independent."

—**Robert P. Miles,** Warren Buffett scholar, and author of *Warren Buffett Wealth* and *The Warren Buffett CEO*

"If investing were a religion, the second edition of *Millionaire Teacher* would be the Holy Grail. Everyone with a pulse should read this book! I'm confident your time and effort will be rewarded."

—**Sonny Wadera,** MBA financial security advisor, Kelson Financial

"This is a must-read book for any first-time investor. Andrew Hallam helps build the framework for those looking to build real wealth. Hallam's simple, yet powerful, lessons of 'start young, spend less, do your homework, and keep costs low' cannot be overstated."

—**Ryan A. Hughes,** founder and portfolio manager, Bull Oak Capital

"This book provides some great and simple guidelines for people who are serious about building and protecting their wealth. The principles provided are an excellent roadmap to financial security and peace of mind."

—**Richard E. Reyes,** CFP, The Financial Quarterback™, Wealth and Business Planning Group, LLC, Maitland, FL

"*Millionaire Teacher, Second Edition* is one of those must-read books for both novice and experienced investors. Through experience and humor, the author identifies an approach that's in the best interest of investors, and he provides the evidence to back it up. Understand what you spend. Save and invest monthly into a well-diversified portfolio of index funds. Ignore the investment industry 'noise,' and manage your own emotions. This book offers the reader a clear path to prosperity!"

—**Chris Turnbull,** portfolio manager, Index House

"Managing one's financial life doesn't have to be rocket science. We have been living below our means and investing simply long before it became popular. Retired almost three decades now, we have been traveling the world, taking advantage of great weather, food, culture, and lifestyle. Andrew Hallam hits upon understandable and basic points that can make you wealthy too, and uses plain English, not fancy jargon, to get his message across."

—**Billy and Akaisha Kaderli,** RetireEarlyLifestyle.com (Free Newsletter)

"As an industry veteran of more than 20 years, I know all too well how the financial services industry exploits people. But if you read Andrew's enjoyable book and follow his straightforward suggestions, you can simplify your life and save an amazing amount of money for you and your family!"

—**Mark Zoril,** AIF, and founder of PlanVisio

"Mr. Hallam teaches what you don't learn in school—how to be rich. He built a $1 million portfolio before he was 40 years old. With his nine rules of wealth he shows how you can, too. I recommend *Millionaire Teacher, Second Edition*. Class is in session."

—**Robin Speziale,** author of *Market Masters*

"*Millionaire Teacher, Second Edition* provides such smart and simple investing advice that it should be required reading for every investor. Using analogies and humor mixed with hard data, Andrew Hallam spells out an investing strategy that will outperform the vast majority of professional money managers—and with less than an hour a year of portfolio maintenance. How brilliant is that?!"

—**Joe Snyder,** CIM®, and product analyst, Tangerine Investments

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The Nine Rules of Wealth You Should Have Learned in School

Second Edition

ANDREW HALLAM

WILEY

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For Adam, Tyler, Matthias, Anna Claire,
Niklas, Abby, and Jeremy

Contents

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Introduction

"Don't Stay In School." That's the title of a rap song on YouTube. More than 11 million people have viewed it. It was created by David Brown, a young twenty-something rapper with long, dyed red hair. He walks along a path in the trees and rants about the education system. Despite the provocative title, however, he isn't against school.

When I first saw the video, I shared it on Facebook. I'm not the sort of guy who posts pictures of his food. But if I decided to post a hamburger, about a dozen of my friends would politely click "like." So what do you think happened when I posted "Don't Stay In School"? In a popularity contest among my friends, a burger would have crushed it.

You see, I'm a schoolteacher. Most of my friends are teachers. The title, "Don't Stay In School," was a fly in a glass of wine. But those who watched the video saw the wisdom of its message.

The young rapper's beef is with the absence of real-world learning. Higher-level mathematics, for example, is mandatory in most schools. Everybody also learns some Shakespeare. But learning about laws, human rights, voting procedures, mortgages, how to get a job, and how to invest aren't mandatory.

I think most schools let us down. I first started to learn about money from a wealthy mentor. From there, I read more than 400 personal finance books before I turned 35. I boiled my learning down to nine rules of wealth that I should have learned in school. By applying them, I became a debt-free millionaire in my late 30s.

No, I didn't inherit money, nor did I take big risks.

I became a high school personal finance teacher. I worked at a school that viewed the subject as important.

Kids want to know about money. So do their parents. But most people run straight into adulthood with no more knowledge about building wealth than the typical eighth grader. Money is taboo.

Yes, I can hear your Aunt Matilda. "Talking about money really isn't polite." But that kind of thinking leads to huge personal debts, financial exploitation, and leveraged lifestyles on the edge. These problems are a lot like toenail fungus. They're tough to clear up. Mr. and Mrs. Jones didn't sign up for this.

But the Jones's spend most (or all) of their income. They don't know how to invest. They hire the wrong kinds of financial planners who usually rob them blind. They're at the whim of big mortgages, credit card companies, and a consumption-based treadmill. They make such huge mistakes because, in school, nobody taught them otherwise. That's why I wrote *Millionaire Teacher: The Nine Rules of Wealth You Should Have Learned in School.* Such rules are timeless.

So why did I write a second edition?

I wanted to update my examples. The investment landscape is also changing for the better. In the past, virtually every financial adviser stuffed their clients' portfolios with actively managed mutual funds. Such products layer the pockets of advisers and their firms. But they're bad for investors. Fortunately, people have demanded something better.

Enter the firms that many call Robo Advisers. Such firms have said, "Hey, people won't be conned forever. Let's offer something better." These firms follow the rules I outline in this book. They're companies worth knowing. Unlike most banks and investment firms, they don't play their clients for fools.

Other great investment products have also come on the market for DIY investors. They're simplifying the process. Vanguard, a fabulous US-based investment firm, has also spread its wings. Today, people around the world can use their products. This book explains how.

But why should you bother with my book when hundreds of others distill similar themes? To explain, I need to tell you why I wrote *Millionaire Teacher* in the first place. I used to teach at a private school. None of us were eligible for defined benefit pensions. For that reason, our money had to hum.

When I first arrived at the school, many of my colleagues knew that I was also a personal finance writer. They asked me questions about investing, so I volunteered to give after-school seminars. They were more popular than I had imagined.

But I wanted to deliver more than a handful of seminars. I wanted to find the simplest investment books I could and gift them to my colleagues. So I did just that. I bought 80 investment books that represented 12 different titles.

The next day, I posted an "all school" e-mail. "I have free investment books in my classroom," I wrote. "Please come and take one." They got gobbled up faster than cookies in a staffroom. Then, as if I were teaching a group of English students, I met the readers in small groups to discuss what they had learned.

But there was a problem. Many of the terms used by the financial authors were as decipherable as Egyptian hieroglyphics to my colleagues. Too many financial writers don't realize that much of what they write flies over the heads of the average person.

I told Ian McGugan. At the time, he was my editor at *MoneySense* magazine. "Write your own book," he said. But I couldn't do it alone. I asked for help. More than 100 of my friends and colleagues contributed to the book. Continuing to hold free financial seminars, I probably did more questioning than lecturing to find out what the average person understood about money so I could reach the broadest possible audience.

I shared my early drafts with non-financially minded friends. They all gave feedback, which I used to eliminate jargon and make things clear.

The result is this book: written by a millionaire teacher who listened closely to his students. In it, I share the nine rules of wealth you should have learned in school. You'll learn how to spend like a millionaire and invest with the very best, while avoiding the trappings of fear, greed, and the manipulations of those who want their hands on your hard-earned money.

I followed these timeless principles and became a debt-free millionaire in my 30s. Now let me pass them on to you.

RULE 1

Spend Like You Want to Grow Rich

I wasn't rich as a 30-year-old. Yet if I wanted to, I could have leased a Porsche, borrowed loads of money for an expensive, flashy home, and taken five-star holidays around the world. I would have looked rich, but instead, I would have been living on an umbilical cord of bank loans and credit cards. Things aren't always what they appear to be.

In 2004, I was tutoring an American boy in Singapore. His mom dropped him off at my house every Saturday. She drove the latest Jaguar, which in Singapore would have cost well over $250,000 (cars in Singapore are very expensive). They lived in a huge house, and she wore an elegant Rolex watch. I thought they were rich.

After a series of tutoring sessions the woman gave me a check. Smiling, she gushed about her family's latest overseas holiday and expressed how happy she was that I was helping her son.

The check she wrote was for $150. Climbing on my bicycle after she left, I pedaled down the street and deposited the check in the bank.

But here's the thing: the check bounced—she didn't have enough money in her account. This could, of course, happen to anyone. With this family, however, it happened with as much regularity as a Kathmandu power outage. Dreading the phone calls where she would implore me to wait a week before cashing the latest check finally took its toll. I eventually told her that I wouldn't be able to tutor her son anymore.

Was this supposed to be happening? After all, this woman had to be rich. She drove a Jaguar. She lived in a massive house. She wore a Rolex. Her husband was an investment banker. He should have been doing the backstroke in the pools of money he made.

It dawned on me that she might not have been rich at all. Just because someone collects a large paycheck and lives like Persian royalty doesn't necessarily mean he or she is rich.

The Hippocratic Rule of Wealth

If we're interested in building wealth, we should all make a pledge to ourselves much like a doctor's Hippocratic oath: above all, DO NO HARM. We're living in an era of instant gratification. If we want to communicate with someone half a world away, we can do that immediately with a text message or a phone call. If we want to purchase something and have it delivered to our door, it's possible to do that with a smartphone and a credit-card number—even if we don't have the money to pay for it.

Just like that seemingly wealthy American family in Singapore, it's easy to sabotage our future by blowing money we don't even have. The story of living beyond one's means can be heard around the world.

To stay out of harm's way financially, we need to build assets, not debts. One of the surest ways to build wealth over a lifetime is to spend far less than you make and intelligently invest the difference. But too many people hurt their financial health by failing to differentiate between their "wants" and their "needs."

Many of us know people who landed great jobs right out of college and started down a path of hyperconsumption. It usually began innocently. Perhaps, with their handy credit cards they bought a new dining room table. But then their plates and cutlery didn't match so they felt the pull to upgrade.

Then there's the couch, which now doesn't jibe with the fine dining room table. Thank God for Visa—time for a sofa upgrade. It doesn't take long, however, before our friends notice that the carpet doesn't match the new couch, so they scour advertisements for a deal on a Persian beauty. Next, they're dreaming about a new entertainment system, then a home renovation, followed by the well-deserved trip to Hawaii.

Rather than living the American Dream, they're stuck in a mythological Greek nightmare. Zeus punished Sisyphus by forcing him to continually roll a boulder up a mountain. It then rolled back down every time it neared the summit. Many consumers face the same relentless treadmill with their consumption habits. When they get close to paying off their debts, they reward themselves by adding weight to their Sisyphean stone. It knocks them back to the base of their own daunting mountain.

Buying something after saving for it (instead of buying it with a credit card) is so 1950s—at least, that's how many consumers see it. As a result, the twenty-first century has brought mountains of personal debt that often gets pushed under the rug.

Before we learn to invest to build wealth, we have to learn how to save. If we want to grow rich on a middle-class salary, we can't be average. We have to sidestep the consumption habits to which so many others have fallen victim.

The US Federal Reserve compiles annual credit card debt levels. Cardhub.com publishes those results. In 2015, the average US household owed $7,879 in outstanding credit card debt.[1] In 2015, *MarketWatch* news editor Quentin Fottrell reported that 15.4 percent of US homeowners have mortgage debt that is higher than their homes are actually worth.[2] That's surprising, considering that the United States may be the fourth cheapest place to buy a home in the world.

Numbeo.com compares global home costs relative to income. In 2016, it compared 102 countries. US homes were among the four cheapest. Only those in South Africa, Oman, and Saudi Arabia cost less, relative to income.[3]

Now here's where things get interesting. You might assume it's mostly low-salaried workers who overextend themselves. But that isn't true.

The late US author and wealth researcher, Thomas Stanley, had been surveying America's affluent since 1973. He found that most US homes valued at a million dollars or more (as of 2009) were not owned by millionaires. Instead, the majority of million-dollar homes were owned by nonmillionaires with large mortgages and very expensive tastes.[4] In sharp contrast, 90 percent of millionaires lived in homes valued at less than a million dollars.[5]

If there were such a thing as a financial Hippocratic oath, self-induced malpractice would be rampant. It's fine to spend extravagantly if you're truly wealthy. But regardless of how high people's salaries are, if they can't live well without their job, then they aren't truly rich.

How Would I Define Wealth?

It's important to make the distinction between real wealth and a wealthy pretense so that you don't get sucked into a lifestyle led by the wealthy pretenders of the world. Wealth itself is always relative. But for people to be considered wealthy, they should meet the following two criteria:

1. They should have enough money to never have to work again, if that's their choice.
2. They should have investments, a pension, or a trust fund that can provide them with twice the level of their country's median household income over a lifetime.

According to the US Census Bureau, the median US household income in 2014 was $53,657.[6] Based on my definition of wealth, if an American's investments can annually generate twice that amount ($107,314 or more), then that person is rich.

Earning double the median household in your home country—without having to work—is a dream worth attaining.

How Do Investments Generate Enough Cash?

Because this book will focus on building investments using the stock and bond markets, let's use a relative example. If John builds an investment portfolio of $2.5 million, then he could feasibly sell 4 percent of that portfolio each year, equating to roughly $100,000 annually, and never run out of money. (See, "Retiring Early Using The 4 Percent Rule.") If his investments are able to continue growing by 6 to 7 percent a year, he could likely afford, over time, to sell slightly more of his investment portfolio each year to cover the rising costs of living.

Retiring Early Using The 4 Percent Rule

Billy and Akaisha Kaderli retired when they were just 38 years old. They have been retired for more than 25 years. They live off their investments. In fact, they have pulled more money out of their investment portfolio than their portfolio was worth when they first retired.

Does that mean they're almost broke? Not even close. Compound interest worked its magic. When they retired in 1991, they had $500,000. Today, they have a lot more money. How did they do it? They live frugally, in low-cost locations. They also followed the 4 percent rule.

In 2010, Philip L. Cooley, Carl M. Hubbard and Daniel T. Walz published a research paper in the *Journal of Financial Planning.*[7] They back-tested a variety of portfolio allocations between January 1926 and December 2009. They found that if investors withdrew an inflation-adjusted 4 percent per year, their money stood an excellent chance of lasting more than 30 years.

I wanted to see how it would have worked for Billy and Akaisha. They own an S&P 500 index. That means they invest the way that I describe in this book. They withdraw less than 4 percent from their investments in a year. But let's see what would have happened if they had taken out exactly 4 percent annually.

Over the past 25 years, their money would have kept growing. So if they took out 4 percent of their portfolio every year, they would have taken a total of $1,325,394 from their initial $500,000 portfolio. Yes, you read that right. They would also have plenty left. By April 30, 2016, despite those annual withdrawals, their portfolio would be valued at $1,855,686.

Frugal living, compound interest, and the 4 percent rule are powerful combinations.[8]

If John were in this position, I would consider him wealthy. If he also owned a Ferrari and a million-dollar home, then I'd consider him extremely wealthy.

But if John had an investment portfolio of $400,000, owned a million-dollar home with the help of a large mortgage, and leased a Ferrari, then John wouldn't be rich—even if his take-home pay exceeded $600,000 a year.

I'm not suggesting that we live like misers and save every penny we earn. I've tried that already (as I'll share with you) and it's not much fun. But if we want to grow rich we need a purposeful plan. Watching what we spend, so we can invest our money, is an important first step. If wealth building were a course that everyone took and if we were graded on it every year (even after high school), do you know who would fail? Professional basketball players.

Most National Basketball Association (NBA) players make millions of dollars a year. But are they rich? Most seem to be. But it's not how much money you make that counts: it's what you do with what you make. According to a 2008 *Toronto Star* article, a NBA Players' Association representative visiting the Toronto Raptors team once warned the players to temper their spending. He reminded them that 60 percent of retired NBA players go broke five years after they stop collecting their enormous NBA paychecks.[9] How can that happen? Sadly, the average NBA basketball player has very little (if any) financial common sense. Why would he? High schools don't prepare us for the financial world.

By following the concepts of wealth in this book, you can work your way toward financial independence. With a strong commitment to the rules, you could even grow wealthy—truly wealthy. This starts by following the first of my nine wealth rules: spend like you want to be rich. By minimizing the purchases that you don't really need, you can maximize your money for investment purposes.

Of course, that's easier said than done when you see so many others purchasing things that you would like to have as well. Instead of looking where you think the grass is greener, admire your own yard, and compare it, if you must, to my father's old car. Doing so can build a foundation of wealth. Let me explain how it worked for me.

Can You See the Road When You're Driving?

Riding shotgun as a 15-year-old in my dad's 1975 Datsun, I thought we were traveling a bit fast. I leaned over to look