



# Uncovering The Wealth Creation Myth

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## Understand it's not about the money

Before you begin reading this report, you need to ask yourself one question: “Should I go into business for myself?”

The average net income for the more than 15 million sole proprietorships in America is only \$6,200 a year.

About 25 per cent of sole proprietorships do not make one cent of profit during a typical year.

It's even worse for partnerships. Forty-two per cent, on average, make no profits in a year. What about corporations? Only 55 per cent have any taxable income during a typical 12-month period.<sup>1</sup>

In Australia, the Productivity Commission estimates that up to 65,000 Australian businesses — that's 7.5 per cent of the total number of businesses — close their doors each year.<sup>2</sup>

Does this scare you?

If it only emboldens you to take a chance, then read on.

The first step to becoming independently wealthy is to recognise that money doesn't matter, despite it probably being the motivator for most people wanting to go into business. While it may be a great ride getting rich, the most important lesson you can learn is to measure your success in terms other than monetary ones. Money magazine calls it “seeking something bigger than getting rich.”<sup>3</sup>

While we all need money, and there are plenty of good uses for it, your focus needs to be on other measures of success. The need for challenge, excitement, creativity, personal satisfaction — whatever it is, you need to aim for more than just money.

Millionaires know this. That's why they are millionaires. They love what they do, and the money is just a bonus.

Let's get it straight up front. A focus on making money has kept me from generating the financial results I wanted.

Why?

Money itself is not a big enough motivator when times get tough, as they inevitably must at some point. A fixation on the cash will stop you 'seeing' the breakthrough that would transform your business and your life.

For twenty years I have put the best part of 100 hours a week into making money. I've supported others, employed superstars, contributed first and asked to be paid later and generally been a good bloke — all to no avail as far as creating wealth was concerned.

What I failed to understand was something I was fond of telling everyone else.

Your business is a personal development course on steroids.

Like all self-help programs – you learn, 'get it' and transform or the lesson repeats and repeats and repeats.

What is the lesson I was missing for 20 years?

If making money is your number one reason for going into business — get a McDonald's franchise.

## What makes a millionaire tick?

In spending more than twenty years studying how people became wealthy, authors of *The Millionaire Next Door* Thomas Stanley and William Danko discovered something very odd.

“Many people who live in expensive homes and drive luxury cars do not actually have much wealth,” they recorded in their seminal book, *The Millionaire Next Door*. “Many people who have a great deal of wealth do not even live in upscale neighbourhoods.”<sup>4</sup>

Can you imagine a millionaire settling for a \$50 watch? Stanley and Danko couldn't, until they uncovered a startling statistic. For half of those surveyed, the most they'd ever spent on a wristwatch was \$235. Ten per cent had never spent more than \$47. Just one per cent of millionaires surveyed had shelled out \$15,000 for a watch.

So, while Rolex advertises that its product is the ultimate sign of success in today's business world, the evidence doesn't stack up. In fact, the Rolex symbol “is a perfect way to jump start your career” — provided you are a high-powered lawyer, banker or stockbroker who needs to impress your clients! If you're interested in becoming a millionaire, then spend modestly and put the difference in the bank.

According to *The Millionaire Next Door*, affluent people typically follow a lifestyle advantageous to accumulating money. Stanley and Danko discovered seven common denominators among those who successfully build wealth:

1. They live well below their means.
2. They allocate their time, energy and money efficiently, in ways conducive to building wealth.
3. They believe that financial independence is more important than displaying high social status.
4. Their parents did not provide economic outpatient care (in other words, didn't financially support them once they were adults).
5. Their adult children are economically self-sufficient.
6. They are proficient in targeting market opportunities.
7. They chose the right occupation.<sup>5</sup>

Living a flashy lifestyle just isn't a priority for many of the world's billionaires. Until he gave away most of his money, Warren Buffett was the second wealthiest person on the planet. And yet he is content to drive a Cadillac. "They spend a lot of time giving away their money and their main goal in life is to solve big world problems, and that is why the car becomes less important," says Milton Pedraza, CEO of the Luxury Institute, a New York City-based research firm.

In contrast, people pursuing flashy lifestyles at the expense of financial independence are what one interviewee, a rancher from Texas, called "Big hat, no cattle."<sup>6</sup> In other words: appearance of wealth at the expense of actual wealth.

Numerous friends and acquaintances have told me over the years that investment properties are out of their league. "We just can't make the numbers work for us," they'll say, while they pull their expensive golf clubs out of their high-end SUVs, or while they polish the marble bench top in their newly installed kitchen. Thousands upon thousands of dollars spent on lifestyle, but they can't afford to take the drivers' seat when it comes to their assets.

### **Are you wealthy?**

Best-selling financial author David Bach advises that, "before you can really start setting financial goals, you need to determine where you stand financially."

Here's a simple calculation to help you determine if you are wealthy:

- Multiply your age by your realised pre-tax annual household income from all sources of wealth except inheritances.
- Divide by ten.
- This, less any inherited wealth, is what your net worth should be.<sup>7</sup>

Are you close?

If you want to be a millionaire, your assets will need to exceed your liabilities by \$1 million. Simple as that.

The next step is to spend less than you earn. Remember, wealth is not the same as income. Wealth is about what you accumulate, not what you spend. If you generate a good income each year, but it all goes on living high on the hog, you are not getting wealthier.

Don't become like Imelda Marcos and her shoes. The best pair is always the next pair — the only pair worth having. Don't buy into status objects or leading a status lifestyle. Once you're on the consumer goods treadmill, it's very hard to jump off, and all you're left with is a pile of depreciating assets. Hundreds of years ago, Benjamin Franklin warned us that "Money never made a man happy yet, nor will it. The more a man has, the more he wants. Instead of filling a vacuum, it makes one." And yet, we're still learning the lesson. So, learn your lesson today, and make your goal something greater than yourself. See it as your chance to contribute to the greater good, rather than simply funding a lavish lifestyle.

## Case study:

### **Look after the öre and kronor will look after themselves**

Ingvar Kamprad, the founder of IKEA, began his career as a money harvester by buying matches in bulk from a bazaar in Stockholm and selling them in his rural neighbourhood for a few extra öre per box. He was five years old. He soon graduated to Christmas decorations, ballpoint pens, seeds and fish, and by 17 years old he had started the small-scale retail business of IKEA.

Today, IKEA carries about 9,500 products, employs more than 118,000 staff and, in 2007, generated \$A32.6 billion from 522 million customers.

Despite his business success, it's widely reported that Kamprad drives a 15-year-old Volvo, flies economy class on budget airlines, and encourages IKEA employees to always write on both sides of a paper. Kamprad is sometimes spotted visiting IKEA for a cheap meal, and is known to buy Christmas paper and presents in the post-Christmas sales.

The joke in Sweden is that if Kamprad happens to drink an overpriced Coke from a hotel mini bar, he will go to a grocery store to buy a replacement. In 1989, he told Forbes magazine that he was no longer as tight as he once had been, saying "I seldom wash disposable plastic glasses anymore."

This frugality is a principal part of the carefully managed image presented to IKEA employees and the general public. Kamprad knows his customers don't drive Bentleys or Rolls-Royces. And besides, as he says, "How the hell can I ask the people who work for me to travel cheaply if I am travelling in luxury?"

And watching his öre has enabled him to amass enough kronor to buy a villa in an upmarket part of Switzerland, a large country estate in Sweden and a vineyard in Provence. Not to mention the US\$31 billion that Forbes magazine estimates he's now worth. In 2008, Forbes magazine named him the richest European-born person and the 7th richest person in the world.<sup>8</sup>



## Passing the marshmallow test

In a famous study conducted at Stamford University in the 1960s, researcher Walter Mischel made the following proposal to four year olds: “If you wait until after I run an errand, you can have two marshmallows for a treat. If you can’t wait until then, you can have only one — but you can have it right now!”

Some were able to wait as long as twenty minutes for the researcher to return, while others snatched the marshmallow within seconds of the researcher leaving the room.



Twelve to fourteen years later, these children were tracked down and assessed. The differences between the two groups were dramatic. Those who had resisted temptation were more socially competent as adolescents. They were self-assertive, personally effective and better able to cope with the frustrations of life. They were less likely to go to pieces under stress, or become rattled under pressure; they embraced challenges and pursued them even through difficulties. They were self-reliant and confident, trustworthy and dependable. Most importantly, they were still able to delay gratification in favour of achieving their goals.

The children who had impulsively grabbed the marshmallow were found to be more troubled as adolescents. They were more likely to be stubborn and indecisive, to be easily upset by frustrations, to think of themselves as unworthy, to become immobilised by stress, to be mistrustful and resentful about not ‘getting enough’, to be prone to jealousy and envy, to overreact to irritations with a sharp temper. After all those years, they were still unable to delay gratification.

If we were to look in on those kids now, who would be well and truly in their fifties, we’d find that some couldn’t resist buying the latest model BMW, and those who had told themselves “If I go without now, I can have all the Ferraris I want and some to spare.”

When Mary and I realised, for the first time, that we were going to make more than a million dollars in one month, we had to resist the temptation to crack open the champagne, buy an Aston Martin and book a long holiday in the sun.

Instead, we chose to look at the situation simply from how much challenge and personal growth we could get from the experience. We chose to do what we’d always done and let the money sort itself out. In fact, it took quite some time for the money to flow through to us anyway. While we sold a lot of product that month, it didn’t mean we had \$1.1 million sitting in our bank account the next day.

When a business grows rapidly, you’ll find yourself spending more than you are earning anyway. So, despite the influx of cash, we had the traditional problem we’d always had, which was that our outflow was greater than our inflow.

Why? As the money rolled in, it went out on venues that could hold larger crowds, printers for book runs, and wage costs for people to package our products and post them out. If we had sold \$1.1 million in product the next month, the cash flow would have caught up. But, of course, we grew and so all the same problems were just expanded.

Mary and I were used to the problem of having more income and not being any better off. When we were both schoolteachers, we earned about \$30,000 a year between us before tax. Like most people, we were spending more than we were earning, and we thought that an increase in income would solve that problem. So, we went into business for ourselves and were soon earning ten times our teachers' salaries. Ten times the money, ten times the income. Here we were, again, thirty years later, spending more than we were earning.

And then it dawned on me. Whether its \$30,000 a year, a month, or a minute, most of us are caught in a cycle of making money in order to fund our lifestyles. We needed to break that cycle.

The secret to breaking that cycle is simple: control your impulses. For most people, the gap between impulse and action is too small. This has certainly been my problem. In the past, having turned over a million dollars in a month, my impulse would be to splurge on an Aston Martin and justify it by saying 'why not?' My rationale would go: "I've just sold a million dollars at just one gig, and I only want to spend a third of it. I've got lots of these gigs booked over the next couple of years so why not spoil myself?"

You can see it's easy to justify anything if you want to. Whether it's a new flat-screen TV, a much-needed holiday, an extension on the house or a new one altogether, it's very easy to rationalise the expenditure, rather than invest in your future.

Most of us see the rewards for our hard work in material terms. "Once I've finished the end-of-year accounts, I'll buy myself a new dress," you might think to yourself, or say "When I get my bonus, I'm buying a new surround sound system". We trade our labour for money and then feel justified in rewarding ourselves for the effort. But imagine if you could retrain yourself so that there was a greater sense of reward in watching your bank balance grow?

If you could do that, you'd have jumped out of the rat race and no longer be looking for the big next thing you needed to buy. You'd gain your satisfaction elsewhere — from building something, from watching it grow, from planning for your future.

You may think that a bigger house is going to make your life better, spending that money on employing an offsider, investing in some new software, or buying some business books may help you to buy a dozen houses. But you would have to wait.

The trick is to place a pause between your impulse and actions. Your impulse is to buy the car (and by the way an airplane), but by taking time to pause between the impulse and the action, you'll see that your business needs the money more than you do.

So, rather than blowing ten thousand dollars a month on payments for an Aston Martin, instead, I can feed that money into training people who can start producing more results. I'm taking the money that I would otherwise spend on toys and investing it in my future. In my case, training other people who can replicate what I do so that I can effectively be in several places at once. I realised that toys were merely temporary gratification.

## Money is just a scorecard

Money needs to become nothing more than a scorecard. Money needs to be like a golf score. Without a score, you can't assess your performance and determine whether you played better today than yesterday. When you do keep score, you know that you're trying to do your best. You're not just whacking a little white ball around a golf course. Instead, you strive to become better each time you play. And if you're playing with a friend, you want them to go hard so that it can bring out the best out in you.



In the same way, keeping track of your money can provide you with a scorecard. And, like any worthwhile challenge, mastering money can help you reach your ideal potential. As Donald Trump says: “Money was never a big motivation for me, except as a way to keep score. The real excitement is playing the game.”<sup>9</sup>

Gordon Gekko, Michael Douglas' character in the 1987 movie, *Wall Street*, is wrong when he says 'greed is good'. He tells stockholders of a struggling company that “Greed is right. Greed

works. Greed clarifies and captures the essence of the evolutionary spirit. Greed in all of its forms — greed for life, for money, for love, knowledge — has marked the upward surge of mankind.” At the end of the movie, we witness his downfall which reconfirms what we've known all along: greed is not good.

While unadulterated greed is destructive, so too is believing that money is the root of all evil. Instead, it is rampant 'love of money' that has been the cause of much human suffering.

Money is merely a means of exchange — it is simply printed paper, or numbers on a screen. When I hold fifty dollars in my hand, it is nothing more than the representation of the time it took me to earn it. It is a symbol of all my effort, blood, sweat and tears, transformed into physical matter for me to barter with.

In my personal wealth seminars, I like to remind people of what happens when a population stops believing in its currency. Before World War II, for example, Germany was slumped in a depression and inflation went through the roof. From mid-1922 until mid-1923, prices increased by more than 100 times.

This rapid rise in inflation is well illustrated by the postage stamps that were issued during this period. In 1920 the highest valued stamp issued was for four marks. By 1923 the denominations were changing so rapidly that the post office could not design new stamps fast enough and resorted to using old dies and then overprinting them with new values. The highest value reached in 1923 was for 50 billion (50,000,000,000) marks.

With prices doubling over the course of a day, wages were paid daily or several times a day, and the whole family would immediately spend the money before it lost value. In *The Black Obelisk*, a novel set in 1923, Erich Maria Remarque describes this practice:



Workmen are given their pay twice a day now - in the morning and in the afternoon, with a recess of a half-hour each time so that they can rush out and buy things - for if they waited a few hours the value of their money would drop so far that their children would not get half enough food to feel satisfied.<sup>10</sup>

The currency depreciated because the German people stopped believing in its value. In other words, a fifty-dollar note is worth only as much as the value you place on it.

This is why people with lots of money can let it slip through their fingers like water. They place less value on it because so little of their own energy was required to produce it.

Can the person who charges \$10,000 for a day's work really be worth that much more than the person who can command only \$100? Of course not. The money we make is irrelevant when it comes to who we are. Income has nothing to do with good or bad, despite what many of us are taught.

And besides, if you live a comfortable, middle class life in the Western world, then guess what? You've already made it. If you have assets of more than \$61,000, then you're in the top 10 per cent of the global wealth league table. To belong to the top one per cent of the world's wealthiest adults you would need more than \$500,000, something that 37 million adults have achieved.<sup>11</sup>

## Resolve the money riddle

One of the most important lessons to learn about money is that it should never change your values. After twenty years of studying millionaires across a wide spectrum of industries, Stanley and Danko concluded that "the character of the business owner is more important in predicting his level of wealth than the classification of his business."<sup>12</sup> Making money is only a report card. It allows you to monitor your success – it should never be more than that.

It is important to divorce yourself from the idea that financial wealth will make you a better person. You'll still be the same person with the same problems, only they'll be magnified by your money - hard to believe, when we're all taught that money will solve our problems. But if your marriage is not working, or your relationship with the kids isn't great, or you are dissatisfied with your career and you have gout, the only change you'll find is that you have more money to throw at the problem. It won't make the problem go away. You'll still be the same grumpy, gouty person you were before, but you'll be living in a bigger house and driving a fancier car.

Money remains a riddle in our lives that we never solve until we learn to separate ourselves from it. As long as you need money, the money owns you. And as long as the money owns you, then you'll act according to your internal scripting.

Most people in the Western world have all sorts of strange hang-ups about money. In fact, it's often easier to talk about sex than it is to talk about money. We are overburdened with scripting we learn from our culture about money. We learn that money doesn't grow on trees. Money is hard to come by. People with money aren't nice. Only crooks make lots of money.

If you were to sit down and write down a list of all the common clichés surrounding money, you'd

rapidly find a full page. And while phrases like “money doesn’t grow on trees” seems harmless enough, when they are hammered into our subconscious they become a program that is very hard to break away from.

From early childhood, we absorb the financial lessons around us. We watch our wage slave father slump exhausted in his chair, muttering ‘another day, another dollar’ under his breath. Or perhaps we see the money slip through his fingers as he laughs ‘easy come, easy go’. Maybe we hear him scoffing at his financially successful friend who ‘throws his money around and expects everyone to be impressed’. Or perhaps we watch him spend lots of time and energy competing with others and hating anyone else who achieves success.

We observe our mother overspending at the half yearly sales and then cutting up her credit card in disgust. Perhaps we watch her battle with her weight, meanwhile insisting we eat every morsel of food on our plates. Or we hear the next door neighbour complain about the latest drama with speeding fines, smash repairs and lost licences that is costing her a fortune. Whether there’s plenty of money or not enough, we learn those lessons early and the subsequent internal programming means we repeat those same mistakes for the rest of our lives.

Let’s look at an example. Say your parents struggled to put food on the table when you were small. They never said anything overtly, but as a child you recognised their pinched expressions and the slim pickings in the refrigerator. You’d hear your father saying “Just when we seem to be getting on top of things, something else goes wrong.” What sort of impact would that have on you later on? Would you be able to see the financial opportunities as they were presented to you? If you could, would you be able to grasp them with both hands?

Probably not.

Alternatively, if you grew up in a household where the predominant message about money was that people who make lots of money are not to be trusted, then it would be no surprise to grow up thinking that the man down the street with a nice house must have underworld connections or else be falsifying the accounts at work. How else could he have that much money?

Now, I’m not saying that everyone is legitimately making their money, but the vast majority of people are. But if my life script is that “people with money can’t be trusted” then I will subconsciously search for evidence to prove my already established belief. I’ll find lots of examples of people who lie, cheat and steal for a profit.

But imagine if you were able to dismantle that program? Imagine opening your eyes to all the independently wealthy people who give up their time for good causes?

It is easy to find evidence to prove your belief system about money. If you think the world is full of crooks, you’ll get ripped off and it will reinforce your belief. If you believe the world is full of kind and helpful people, that’s how you’ll experience life.

To reprogram your life script about money, you need to examine your core beliefs and then take active steps to change the core beliefs that are not supporting you. It’s as simple as examining the messages you tell yourself over and over about money, and then changing the CD!

## Face your financial fears

We must learn to live without the emotional attachment to money. And you must learn to live without the physical need for it. To do this, there are two emotions to be mastered: the fear of loss and the greed to get.

When our children were small, Mary and I spent eighteen months living in a caravan with no running water and no electricity. After deciding to close shop in the city and head for the country, it was rather less idyllic than we'd hoped. Aside from cooking on an old stove and washing two little kids in a bucket, Mary's mother joined us too, so we had three adults and two kids cramped in an old caravan.

Now, I know that if I lost all our money and we had to live in a tent, Mary would come with me. And we'd have a great time. Sure, we'd complain about the lack of showers and the confined conditions, but I know — as does Mary — that we can be happy together anywhere.



The experience in the caravan taught us never to be afraid of being broke. We know that we'd be OK. Without that fear we are free to 'have a go'.

This is fundamental to success — the freedom to have a shot without being overly concerned about the negative consequences.

People are afraid of being broke, and so are too conservative as a consequence. Extract yourself from the fear of loss and you free yourself to be daring.

The next thing to do is to remove the opposite — the greed to have money. While these seem to be diametrically opposed feelings, they are actually different versions of loss. Greed comes when we believe we won't get another chance. When we believe there aren't enough pieces of pie to go around. The bottom line feeling is lack, or a belief that there's not enough to go around.

There's obviously more wealth in the world now than there was 100 years ago, or ten years ago, or even last week. In fact, governments around the world are famous for setting up places called mints that will print money and share it around. While that might seem like an over-simplistic economic analysis, there is essentially a never-ending flow of the stuff.

Most people ignore this and see the evidence of lack around them. They believe that hard work, or luck, or a bit of both, will make a fortune. And it's true that hard work and luck play their part — alongside belief that there's plenty out there for everyone. (In fact, relying on the recipe of hard work and good luck as the only two ingredients is the reason why most people are not wealthy. Join me at any gathering of a thousand people and I can probably find you 900 hard working, honest, reliable people who will never become independently wealthy.

Greed causes us to make poor judgements, because we make financial decisions based on our programming, rather than on logic and analysis. We need to find a balance between impulse, intuition and intellect. Instead, we run down the path of least resistance and follow our internal scripting.

## Making the world go round

While I've spent this chapter outlining why money doesn't matter, there's one reason that it does: you can change the world for the better.

Since our business skyrocketed, Mary and I have been looking at what we want to do with our money. Like most people, there are some pretty obvious things: settle the mortgage, ensure our kids are financially secure, pay off the credit card debts.

But we're also dreaming and scheming with our two girls about the things we could do to change the world: orphanages in third world countries, scholarships for underprivileged children, seeding small businesses with great ideas. In reality, we don't need another house, boat, car, plane or hovercraft. Instead, we're thinking about how to spend our money in the best way possible so that the world benefits.

Of course, using your money for good is not a new idea: by 2007, two of the world's richest men, Bill Gates and Warren Buffet, had pooled more than \$38 billion to reduce world poverty. The Rockefeller Foundation, established with money from that family's oil empire, is now considered one of the most influential charities in the world, and steel merchant Andrew Carnegie once famously said: "I'll spend the first half of my life earning a vast fortune and the second half of my life giving it away, while doing the least harm and the most good."<sup>13</sup>



## Things to think about...

- While it may be a great ride getting rich, seek out something bigger than just making money and accumulating assets. Ask yourself: what am I trying to achieve beyond becoming rich?
- Avoid pursuing a flashy lifestyle at the expense of financial independence. Remember: big hat, no cattle.
- Wealth is not the same as income, so spend less than you earn. How will you achieve this?
- Don't get caught in a cycle of making money to fund your flashy lifestyle. Break that cycle by controlling your impulses.
- Solve the money riddle by separating yourself from your financial success. Money is just a scorecard — it won't make you a better person, and it won't solve your problems.
- Reprogram your life script about money by examining your core financial beliefs. Ask yourself: what are my money programs? Listen to the messages you tell yourself, and then if you don't like them, change the CD!
- Face your financial fears. What is the worst that could possibly happen if you lost the lot?
- Use your money to make the world a better place. What will you do?

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- 4 Stanley & Danko, p. 1.
- 5 Stanley & Danko, pp. 3-4.
- 6 Stanley & Danko, p. 8.
- 7 Stanley & Danko, p. 13.
- 8 *The World's Billionaires 2008*, Forbes.com, viewed 8 July 2008 <<http://www.forbes.com/business/billionaires/>>
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- 12 Stanley & Danko, p. 228.
- 13 Hansen & Allen, p. 42.