

# [Comparison of financial self-help books](https://assignbuster.com/comparison-of-financial-self-help-books/)

Culminating Activity

-Part B

The Automatic Millionaire

Throughout his book The Automatic Millionaire, David Bach outlines his philosophy regarding an actionable, step-by-step plan to build wealth by relying on savings accounts, small wages, and automated transactions. Furthermore, the concept of “ Automatic” in the title refers to the method of achieving the “ Millionaire” status by automating all of one’s bills and earnings to save money.

Concrete Strategies

Throughout the book, David outlines five critical strategies on how to automate one’s finance.

1. Pay yourself first: save 10 – 20% of the Gross income into a retirement account.
2. Have your own home and paying the debts early: Forced saving, leverage, ownership, significant investment, and tax breaks.
3. The “ Latte Factor”: save small amounts of money that are wasted on little things.
4. Have an “ Emergency Basket of Cash”: have six months of expenses put aside, not tied to your account, for emergency
5. Automated financial plan: the financials are automatically taken care of, and the individual does not need to think about them any longer.

The goal of following these strategies/tips are retiring at the age of 50-55, debt free and owning a net worth of one to two million dollars that may include real-estate, investment, and cash.

Principles

Throughout the book, Bach explains that one of the essential principles for becoming an “ automatic millionaire” is compounding of retirement funds. He makes it clear that in addition to being proactive in saving on the income, individuals have to learn how to save and manage their small expenditure to “ save a fortune.”. He further explains that if an individual compound their savings by modifying their lifestyle, they could accumulate a large amount of money over a long period of time. As an example, he states that if someone saves 10 dollars per day, by bringing homemade coffee and snacks to work instead of buying it, that individual can save a compound amount of $1, 897, 224 in 40 years. Besides, by decreasing the frequency of purchasing clothes and reducing transportation costs by using the subway or bus rather than taxi, one can save enormous amounts of money through time.

Questionable Content

There were some questionable assumptions involved throughout the book, that may seem unrealistic or ineffective to the audience.

While talking about the “ automatic” portion of “ The Automatic Millionaire,” Bach advocates that by paying the mortgage every two weeks instead of monthly, one can make an extra payment each year and therefore pay the mortgage earlier. Unfortunately, this process often costs the individual a little fee each time that, when added up, removes the benefit of doing this. However, by opening an account and automatically saving 7-10%  of a payment each month, one can save money for an extra payment on the mortgage by the end of the year. In this way, not only they use the “ automate it” philosophy to pay off their debts, they have also removed the “ nonessential” fees to save more money.

Another questionable assumption is the “ 10 % return on all investments” concept. Throughout the book, Bach explains that “ If you invested $A a month and earned 10% annual return, after A years, you’d wind up with being a millionaire.” However, what may be problematic for the audience, is that a brokerage account that nets 10% a year on average is not easily found in reality. In terms of returns, this concept is said to be better than the smoke market long-term average which happens to be arguably the best long-term investment.

Summary

Increased income and reduced expenditure seem to be the emphasis on finance management. Although it may be risky or troublesome, in order to increase income one has to have mastery, hard and soft skills, and expeditious. Besides, although reducing expenses and expenditures to save may seem easy to do, it is, in fact, a vigorous and robust action to persevere and form a habit of doing so. Those who emphasize earning more income, often neglect retrenches and therefore diminish their chances of achieving financial independence.

“ We could work all our lives for money and live month to month, paycheck to paycheck, like most people. Or we could make our money work for us and really enjoy our lives.”

Although money and wealth are one of the critical factors of happiness, freedom and free will are even more valuable and important in one’s life. By reducing expenses in order to save money while young, one can begin to build a comfortable and free of debt future for his/ her self and those around them.

Warren Buffett – How to Stay Out of Debt

Warren Edward Buffett is an American investor, business magnate, and philanthropist who is considered to be one of the most successful investors in the world. All through his lecture at the Financial Future of American Youth , he gives many important tips and advice to the younger generation based on his personal experiences. Through the speech, he talks about various paths to successfully manage personal finance by answering the audience’s questions.

Break Your Bad Habits or Characteristics Early

As Mr. Buffett states through his speech it is important for youth to distinguish their “ good and bad habits” at a young age. He explains that since “ behaviour becomes a habit”, by recognising strengths and weaknesses one can begin to build their path towards success. To do so, he suggest listing the “ admirable and repulsive” behaviours and habits of those who surround us and working towards “ becoming someone you admire.” For instance, many people have bad spending habits where they spend their money on non essential products. By recognizing their “ bad habit” and that the sole purpose of commercials is to make someone believe that buying a product or service will make them happier, wealthier or better looking, one can begin to train his or herself to eliminate that habit. By doing so, the individual can begin to pay off their debts, save money and build a better and brighter future.

Avoid Credit Cards

Buffett suggests that the younger generation should avoid credit cards due to the high interest rate and lack of self-control amongst youth. He simply states “ if you cannot afford it do not buy it.” Indeed it is important, for everyone, to develop self-regulation and self-discipline skills early in life as they have great impacts on one’s personal finance. By learning how to effectively borrow money from credit cards and paying them in time anyone can successfully build great credit and wealth for his or her self.

Follow your heart and be grateful for what you have

Warren Buffett strongly believes that “ It is not necessary to have a large amount of money to enjoy yourself” since him and someone with a “ decent income” will have very similar living styles. He also explains “ To trade a decent income and something you like doing and something you feel worthwhile doing it for huge wealth where you trade off a lot of your principals would be a terrible mistake”. In the now day society, most students and young adults see their ideal job as a tool to provide a considerable income. This mindset may be initiating from parental expectations or the student’s unrealistic view towards the world and workplace.

Throughout the document Mr. Buffett explains that he has always been grateful for the things he’s had by saying “ I was very lucky and I’ve really been that way all my life.” Besides, he states that although he is extremely grateful for what he has achieved in his life, he believes that “ what [he does] is not as important as what a teacher does or what a nurse does. It pays off enormously well in the economy of United States but that’s an accident it didn’t have anything to with an ability of [his].” This can be great reminder to all the people around the world to be grateful for what they have achieved. Besides, this is an important lesson for young adults as he explains that We have no control over many of the “ accidents” in our lives; however, by controlling our reactions towards different events, and taking advantage of different situations to learns, we can improve and train ourselves to achieve excellence.

Protect your time

Near the end of the document, Buffett advises the new generation to start saving money and investing early in life since “ There’s no better way of learning better than experiencing”. He explains that he made his first investment in the stock market at the age of 11 and even though he did not receive financial rewards back as a teen, he gathered many important and useful experiences that helped him throughout his life. He also states “ Part of life is getting prepared so that when something does happen that’s significant , you can grasp the significance of it and know what to do with it”. By understanding the value of time and youth, students can manage their time and energy more efficiently so when an opportunity comes their way, they have the required abilities to take advantage of the event and build a secure path towards a brighter future for themselves.

Work Cited Page

* Bach, David. Automatic Millionaire: a Powerful One-Step Plan to Live and Finish Rich . Crown, 2016.
* “ Warren Buffett – How to Stay Out of Debt Forever.” Warren Buffett – How to Stay Out of Debt Forever, Youtube, 7 June. 2018, https://www. youtube. com/watch? v= UWzNsxRyvew