I Will Teach You To Be Rich Summary

By Ramit Sethi

Does thinking about your finances make you want to bury your head in the sand? If so, you're not alone.

I Will Teach You To Be Rich is a modern money classic that provides simple wisdom on personal finance. Ramit Sethi gives us pragmatic and powerful ways to master our money, and then get back to the business of enjoying life.

Personal finance can be confusing and overwhelming, especially for students and graduates just starting their financial journeys. However, if we focus on taking small steps, one at a time, we can create a solid financial foundation.

Author Ramit Sethi, dubbed "the new finance guru" by *Fortune* magazine, is a personal finance advisor, writer, public speaker, and entrepreneur known for his irreverent style and savvy sound advice. He aims to help us cut through the noise of conflicting and overly technical financial advice, get past our money hang-ups, and take small steps toward a "rich life." And the interpretation of what constitutes a rich life is really up to us. Sethi believes that we don't need to be financial "experts" to become rich; we just need to have a plan and know a few tricks.

This book provides financial tricks to set up a financial system that fits our lifestyle and helps us bank smart, spend mindfully, save, and invest. And fear not, it's not a manual for austerity; we can still enjoy our morning coffee. Instead, we're taught how to save and spend so that we can

financially indulge in the things we love, guilt-free, and without hurting the bank balance.

This Briefer summary explores some financial basics and encourages us to come out from under the duvet, and take responsibility for our finances. And the good news is we don't need to be financial experts to live a rich life. It's not difficult to get clued up on how credit works, learn how to set the right kind of bank accounts, and how to save each month. We'll learn investment strategies and how to plan for our futures. Finally, the book explains how to engage in conscious spending so that we can balance security and enrichment.

It's Time To Get Off the Blame Train

What's the first step to becoming rich? All of us have different ideas about how we make money. Perhaps it's luck; maybe it's privilege; maybe it's hard work?

According to Sethi, the first step is taking personal responsibility for our finances.

It's only once we truly accept that we're in the driving seat of our spending, saving, and investments, that we can start being financially savvy.

How often have you heard people say, 'I should be more healthy when it comes to my diet,' or 'I should exercise more?' But when was the last time you heard someone say, 'I should really get better at handling my money?' Put simply; the answer is, "seldom."

None of us want to admit that we're bad with money, despite the fact that according to our author, most people are. Why do so many of us battle to come to terms with our lack of financial planning? Perhaps we feel guilty about not saving enough, or fear that it's too late to start taking ownership of our finances. Many of us also shift blame onto other people or factors. We could blame the media for confusing us with contradictory financial information, or maybe that our education system didn't teach us how to spend, save or let alone invest.

However, Sethi is here to set us straight and bluntly asserts, 'Excuses will always stay just that, excuses, however right they may be.' So to begin the path to riches, it's time to stop making excuses and take control.

And if you're thinking, 'But I'm not a financial expert,' then think again.

You Don't Need To Be a Financial Expert To Live a Rich Life

When it comes to weight loss, 99.9% of us intuitively know two things. Eat less and exercise more. Only elite athletes need to do more. However, instead of accepting the simple truth and acting on it, we laboriously discuss and obsess over obscure supplements, quick fixes, miracle cures, and plant-based vs. paleo diets.

We apply this same mentality to money.

Most of us fall into two camps when it comes to our money. We either ignore it, or feel guilty and obsess over it. We fret over financial details,

and we argue about interest rates and geopolitical risks. However, what we lack is taking action.

The truth is that most people don't need a financial advisor to help them get rich. We need to set up solid bank accounts, automate our day-to-day money management, focus on savings, and eliminate debt. We need to know about a few things to invest in, and then we need a little money to grow for 30 years. None of this is cool or exciting, is it? So what do we do? We read internet articles from "experts" who make endless predictions about the economy and this year's hottest stock. And the problem is these so-called "experts" aren't held accountable when they're wrong, which is 50% of the time.

Why do we fall into these traps? We do this because we love to debate minutiae, and we are distracted by information. Information overload can be paralyzing, even when some of it may be helpful. Sethi explains, 'People love to argue minor points partially because they feel that absolves them from actually having to do anything.' The advice is for us to step back and let the fools debate the details.

To be more pragmatic, our author decided to learn about money. He started by taking small steps to manage his spending. Just as we don't have to be certified nutritionists to lose weight, or automotive engineers to drive a car, we do not have to know everything about personal finance to be rich.

Getting Clued Up On Credit

Most of us need to get to grips with how we understand and relate to credit. Sethi says that one of the pivotal steps is understanding credit

and how to make it work for us. For the majority of us, credit is how we make most of our big purchases – whether it's a loan, mortgage, or credit card.

There are two fundamentals of credit, namely credit history and credit score. A credit report provides information to potential lenders about how viable it is to lend us money. And borrowing money can be less risky than we have been led to believe.

Credit is useful for a number of reasons. Firstly, if we are responsible with our credit cards and use them to pay bills timeously, and in full, they can improve our credit history. Credit history is how we get a good credit score, and a good credit score allows us to attract lenders, get better loan repayment rates, and essentially lower interest rates.

As an example, back in 2009, the differences between a good credit score and a bad credit score were as follows. If you wanted a $200,000 mortgage over 30 years, someone with a good credit rating would pay $359,867. On the other hand, a poor credit score would mean paying $70,000 more.

Then there's the issue of debt. When we look at credit scores, debt makes up 35% of the overall score. So getting out of debt is really important. A way to help with this is to arrange automatic payments to get rid of any debt; that way, there's no temptation to spend that money on something else. As we know from *The Barefoot Investor,* debt has severe effects on us, not just in terms of our financial situation, but also in terms of our state of mind.

If you're in debt, there's a way to start the process of getting debt-free. The first step is always the hardest, and in this case, it means being

honest with yourself and looking at exactly how much debt you have. Most of us avoid doing this because being in denial is more comfortable than facing the facts. Once you know where you are, decide how to begin paying off debt. The advice is to start with the card that has the highest APR rating. Then you should look at negotiating. Once you've done this, you need to assess how to make more significant monthly payments to rid yourself of debt. An excellent way to approach this is to look at all of your spending habits, and assess where you can cut costs. Finally, don't delay. You can't get out of debt if you aren't proactive about it.

Getting the Best Bank for Your Buck

Banks form the foundation of our financial system, so we need to be a lot pickier when it comes to choosing where to put our money.

When it comes to choosing the right bank, we need to look at trust, convenience, and features. It's a good idea to ask friends and family which banks they personally trust and bank with. Then look through the bank's website and see if there are excessive fees and minimum required balances. Tip two is to look at whether it's convenient. A bank should have a user-friendly website or app. If the services the bank provides don't work for us, we won't use them. Finally, in terms of features, make sure the bank offers basic features that we actually need, like competitive interest rates and free transfers to external bank accounts. It's also worth looking at online banks because they have fewer overhead costs and can often save us a lot of money as a result.

Once you've picked the best bank for your buck, it's time to decide how to set up accounts. Everyone needs at least two accounts. A cheque account is used for frequent day-to-day transactions, and a savings

account is where we park our money. The advice from Sethi is to keep a month and a half of living expenses in our cheque accounts and put everything else into savings.

Getting Investment Savvy

Investing shrewdly is how we grow our money and make it work for us. To do this, we need to understand compound interest.

On average, a stock market annual net return is about 8% (after we account for inflation). This means that our money will earn an average of 8% per year over the long term, even if this rate fluctuates in the short term. The power of compounding is that the interest we earn in a given year is added to the principal amount we've invested, and then the following year, we own interest on that *new* principal amount. So the sooner we start investing smarter, the better.

As an example, if we invest $100 in the stock market and the interest rate is 8%, after the first year, we'll have $108. After the second year, we'll earn interest on $108, so we'll have $116.64. These amounts may seem insignificant at first, but over time the interest earned gets bigger and bigger.

Where's the easiest place to start when it comes to an investment account? Sethi says that anyone in the USA should open a 401 k retirement fund, although most employees automatically offer this. A 401 k gives employees a tax break on the money they contribute, and contributions are automatically withdrawn from their paychecks and invested in funds. The great thing is a 401 k plan isn't taxed until after the employee retires. So the basic premise is that employees divert a portion

of their salary into long-term savings and get a tax break on their contributions.

We should also look into a Roth IRA, which is another retirement plan. This is an individual retirement account that allows us to choose investments and stocks that work for us. However you decide to invest your money, the key is to start as soon as possible, because compound interest works over time.

Getting Conscious About Spending

Being mindful of our spending is an integral part of being financially secure. We need to figure out how much we save, and how much we spend.

We want to hit the sweet spot where we are confident in the financial future we're building, while also having enough disposable income to spend on what we want, without experiencing guilt.

Most of us don't like the dreaded B word. Budgeting is boring and tedious, right? With this in mind, Sethi invites us to think about budgeting differently and advocates for "conscious spending." By reframing this, we're more inspired to plan our money so that we can enjoy spoiling ourselves, because we've done it in a financially responsible way.

To get started, we need to divide our take-home income into fixed costs, investments, savings, and spending.

Fixed costs are the immovable costs that constitute monthly necessities. These are things like mortgage or rent, car payments, basic groceries,

and so on. Once we add them together, we also need to add a 15% buffer. This is there to allow for unexpected costs. Ideally, this total amount should be 50-60% of your monthly income, after tax. Investments should make up the next 10%. Then it's savings. This is where we plan for things like holidays, buying a house, college funds, and so forth. Savings should account for 5-10% of our income. All of these payments should come off of our account as soon as we get paid. This reduces the temptation to spend. And the good news is that whatever is left is ours for the spending. In an ideal situation, this should be 15-25% of our total income.

Getting to Grips With a "Set It and Forget It" Investment Strategy

Experts don't always know best, and when it comes to investing, keep it simple but get started.

There are so many experts out there who provide advice on trading stock, but they don't always get it right. Take for example, *The Smartest Investment Book You Ever Read*. In this book, Daniel Solin explains that a whopping 47 out of 50 investment firms advised clients to purchase shares in companies right up until they went bust. This proves just how volatile and unknown investing can be.

It's up to us to be smart about investing, without falling prey to thinking we can predict what's going to happen. Sethi gives us the picture of an investment pyramid. At the base of the pyramid are stocks, bonds, and cash. There are index and mutual funds in the middle, and at the top, there are lifecycle funds.

We need to look at investments with a "set it and forget it" strategy. We should be looking for age-based or target-based funds where we can invest and then not have to worry about making adjustments. We can literally sit back and wait for our money to grow. These types of funds are relatively secure and are much safer than falling into the trap of investor hyperbole.

In Conclusion

Sethi gives us a straightforward and practical approach to managing our money. He removes the mystery around saving and investing so that we don't have to rely on the financial "experts," nor fear that we'll need to forgo the things we love to save for retirement and rainy days.

Sethi's take-home advice is this: 'We spend extravagantly on the things we love and cut costs mercilessly on the things we don't.' This is so valuable because everyone defines being "rich" differently, and it's not all about money. Money is just the tool we use to acquire the material possessions and experiences we want. According to our author, that's the difference between being cheap and being frugal; being cheap is trying to cut spending on everything, and being frugal is cutting costs on the things we don't care about so that we can splurge on the things we do.

So, what does a rich and prosperous life mean to you?