



Four things we should all learn from the wealthy

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15 COMMENTS

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We Canadians have this love-hate relationship with our 1 per cent, the really wealthy individuals that we see on television or read about. We celebrate their successes publicly, but privately we can be resentful, wonder what lucky genetic lottery they won, or ask: Do they deserve their wealth?

In more than 25 years of working with wealthy individuals in Canada, Europe and Asia, I've seen evidence suggesting that the overnight success stories we read about actually took decades. I remember working with one Canadian billionaire, a household name; he told me that he had mortgaged his family home many times, was unable to pay his bills and flirted with bankruptcy for the first 20 years of his company. So much for overnight success.

So, what can we learn from the wealthy?

SAVE

Duh! This sounds easy in theory, but hard to do in practice. Or is it? Research suggests otherwise. In one study, moviegoers were provided free popcorn in a medium or large bucket to see how much they ate. The popcorn was old and stale. But people ate 30 per cent more bad popcorn when they were given the large buckets. Just like we eat mindlessly, we also spend mindlessly. A smaller bucket meant less popcorn was eaten. Similarly, automatically saving \$50 or \$100 from each paycheck is easier than it sounds for most of us, and pretty soon you adjust your lifestyle to the lower spending. New apps are on the market that allow individuals to round up their spending and put the difference into savings accounts. Most of the wealthy I know have had the discipline to manage their spending to focus on what they really wanted. One billionaire I worked with only flew economy on long-haul flights, even though she could have easily afforded first class – she had better uses for her money.

INVEST IN YOURSELF

Warren Buffett, Mark Cuban and other billionaires have one thing in common. They each read more than three hours a day. This investment in themselves has paid off handsomely. In his book *Outliers*, Malcolm Gladwell wrote about the 10,000 hours of practice needed to develop expertise and the success that follows. The wealthy Canadians I worked with invested in themselves – whether in going to school, learning their craft from the ground up, or plowing all of their free time into their product or company. Our personal human capital is still the greatest source of wealth for each and every one of us.

IGNORE THE NOISE

We all remember the children’s story of Chicken Little and how a little acorn falling on her head made her think the sky was falling. She then spread the panic among her friends. This happens all the time when it comes to investors’ savings and investing habits. When the results of the Brexit referendum were announced in June, 2016, the British stock market quickly fell 8 per cent. But the same market still generated 14-per-cent returns in 2016 and 16-per-cent returns in 2017. When Donald Trump defied the pundits and was elected president of the United States in 2016, many predicted a long U.S. bear market. However, the U.S. stock market is up more than 30 per cent since election day. Wealthy Canadians have a long-term plan – whether it is with respect to their businesses or their investment portfolios – and they simply ignore the daily noise.

THE POWER OF COMPOUNDING

Albert Einstein once said, “Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn’t ... pays it.” Wealthy Canadians understand it, and that is one source of their wealth. Look at this example of an individual hoping to accumulate \$480,000 in retirement savings by the age of 65. If she starts at 25, saving \$250 a month, she could achieve her goal with an investment portfolio that generates 6 per cent a year. Wait 10 years, however, and she would either have to double her monthly savings (to \$490) or invest more aggressively (and seek 9.6-per-cent return a year). If she waits until 45 to start saving, the amount she needs to save every month would double again (to \$1,052) or she would need to be even more aggressive (and need a 12.5-per-cent return a year). If you use the power of compounding to your advantage, you can afford to save less money and invest more conservatively.

There really is no magic bullet or lottery that most wealthy Canadians have used to achieve their wealth – just some simple rules that they follow with consistency and discipline. The good news for the rest of us? Those same rules will work just as well, and just as easily, for each of us.