The Automatic Millionaire

Author: David Bach
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Are your clients having difficulty finding money to repay debts or invest for their future? If so, they might want to consider some of the ideas described by financial author, David Bach, in his latest book, *The Automatic Millionaire.* The basic premise of the book is that you only need to take action- once- to automate various aspects of your finances, such as investment deposits and mortgage principal pre-payments. Then the system works for you without the need for continuous thought and discipline.

The book begins with a lively exchange between Bach and a prosperous 50-ish couple. The wife had attended one of his *Smart Women Finish Rich* seminars, the title of one of Bach's other books. The couple describes how they practiced many of the principles that Bach taught his students. Ultimately, however, the couple was able to teach Bach a thing or two because they actually "walked his talk."

Virtually every major financial decision the couple made was automated: from the 10% of their paychecks placed in retirement savings plans to mutual fund "automatic investment plan" deposits to an automated bi-weekly mortgage principal prepayment system that Bach says can save an average homeowner $100,000 or more in interest. The key to their success, the couple explained, was "to set yourself up for success."

A frequently used term in *The Automatic Millionaire* is "The Latte Factor," a trademarked phrase that uses fancy $4 coffees as a metaphor for all types of frivolous, discretionary spending. In Chapter Two of the book, Bach describes a former student, Kim, with a $5 a day double nonfat latte and nonfat muffin habit. Figuring a 10% annual return on this money, if it were invested instead in a 401(k) with a 50% employer match, Kim could have about $1.7 million at age 65; she was 23.

The remainder of *The Automatic Millionaire* describes specific ways to automate your finances. Chapter Three describes the "pay yourself first" principle and advises readers to save the equivalent of one hour's worth of income each day. Another good benchmark to shoot for is saving between 10% and 15% of your gross income. Chapter Four describes how to make investment deposits automatic, including funding a retirement plan at work and "maxing it out," if possible, and automating brokerage firm deposits for either an individual retirement account (IRA), or taxable accounts, or both.

Chapter Five suggests automating an emergency fund of at least 3 months expenses. Because cash assets have low rates of return, shop around for the highest possible interest rate. Bach also advises automation for purchasing U.S. savings bonds, either EE bonds or inflation-adjusted I bonds. U.S. savings bonds can be purchased automatically through the U.S. government's EasySaver plan (see www.savingsbonds.gov for details).

Chapter 6 advises readers to buy a home, take out a 30-year mortgage, and make the equivalent of 13 mortgage payments annually, instead of 12, using a bi-weekly payment system. In Chapter 7, Bach suggests strategies to accelerate consumer debt (e.g., credit card) repayment to free up money to invest. For example, renegotiating interest rates with lenders and debt consolidation at a lower interest rate.

In Chapter 8, Bach concludes the book with a social conscience focus by discussing how to "give back" to others and to society via automatic tithing. "Take a percentage of your income and start donating it to some worthy cause," he advises. Bach further explains that the word "tithe" comes from an old Anglo Saxon word for "tenth." The original idea was that farmers were supposed to donate 10% of their annual harvest. He urges readers to become "givers" as well as "savers" and to "use the same tools that can enable you to become an automatic millionaire to make the world a better place."

Many financial planning and investment books describe automated money management strategies. Financial counselors and educators have taught concepts like "pay yourself first" for decades. *The Automatic Millionaire's* unique contribution is that it pulls all of these ideas, most of which are not new, together in one publication. According to Bach, if a financial plan is not automatic, it will most likely fail. Most people are simply too undisciplined, or too busy, or both, to routinely tend to all of the above-mentioned financial tasks every day, week, or month. Further information about automating financial planning tasks can be found on the author's Web site www.finishrich.com/automaticmillionaire.

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