

# The Wealthy Barber Summary Notes

A summary of "The Wealthy Barber Returns" by David Chilton

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## **The Painful Truth and a Positive Spin**

- All it takes is a little common sense and discipline
- A little means a lot. By cutting back on spending we can increase our savings exponentially.
- Do we want to spend less for part of our lives or forever? The time to save is now.

## **Your Opponents**

- Why is it so hard to save? Because no one else wants you to! Kids, neighbors, friends, banks, stores. And of course the person who hates to save, you.

## **Consumed with Consumption**

- Since most people in Canada have all their basic needs met, we start to move on to "wants". And the problem with "wants" is you can never be truly satisfied. Possessions will not make your life truly fulfilled. In fact, it will take away from the things that really matter.

## **Status Update**

- Because status is such a big part of our culture, often the reason we buy nice things is for other people. I need to prove that I'm successful so I'll drive a really nice car.

## **Faulty Wiring**

- Biologically we are wired to not resist temptation. The part of the brain responsible for "fun" (the lizard) when around temptation can overpower the part of the brain that is responsible for reason (the executive.)
- The trick is to avoid temptation as much as possible and to make it a hassle to get at your money. Example: leave credit cards at home more often than not.

### **Infatuation**

- Infatuation can cloud our judgment of a good bargain. Next time you are making a larger purchase step back and ask if you will still be as excited about this item years down the road.
- “The lovely toy so fiercely sought will lose its charm by being caught”  
–Lord Byron

### **Choose your friends wisely.**

- Rich friends will always tempt you to live within their means. However, avoiding people because of their financial portfolio is not very practical, but I’m just saying.

### **The Power of Perspective**

- Learn to appreciate what you already have and if you live in Canada that is a whole heck of a lot. When buying items ask yourself, is having a car that can parallel park itself necessary?

### **Four Liberating Words**

- Learn to say no. Next time some one asks you to do something out of your price range, simply say “I can’t afford it.” By saying this you are not admitting failure but accepting reality. Friends will still call, spouses will stay and your retirement plan will thank you.

### **Ditto Diderot**

- New things go with new things! It seems that once we buy something that is new everything else around it seems old and worthless. Ex: buy one new golf club, now we feel we need to replace the whole set.

### **Plastic Surgery**

- Credit cards are evil because they are the greatest enabler of spending. Pretending you are rich now makes it impossible to be rich later. And at ridiculous interest rates.
- It’s simple: only spend the cash you have and don’t bring your credit cards. The cash system doesn’t let you over spend.

### **Taking Too Much Credit**

- Line of credits (LOC) can be just as dangerous. They do have smaller interest rates but they are basically big credit cards that you will have to pay back one day.
- Now they can be beneficial in some cases like investing or refinancing debt. But just remember it is not your money but the bank’s.

### **All Too Willing to Lend a Hand**

- Don’t be fooled by the banks to open lines of credit. They are a business and are more than happy to set you up with huge LOC in order to make money.

### **A Borrowed Approach to Borrowing**

- Borrowing doesn't have to be awful as long as you exercise some discipline. Instead of borrowing \$70 000 only take \$7000 and promise to not borrow again until it's completely paid off.

### **A Story Break**

- This chapter was a story about two women who made it big in the health food industry. The moral was to be persistent, passionate, and mainly; which people tend to forget in business, be nice!

### **Owe No!**

- Good debt and bad debt.
  - Bad debt is using your credit card for a trip to Vegas. Good debt is establishing a mortgage to buy a house. Good debt will eventually increase your net worth. But be careful with good debt as well. Don't use your gross income to judge how much debt you can go into. Think in terms of your after-tax income, after proper savings income.

### **Under House Arrest**

- Only buy a house you can truly afford.
- New word "Cashtration" – The act of buying a home, which renders the subject financially impotent for an indefinite period of time
- Also a big home means new furniture etc. (see Ditto Diderot section)

### **My Frustration**

- Pay yourself first. Save and then spend what's left over. Not the other way round.

### **Pennies from Heaven**

- Getting an inheritance is a bonus not an excuse to stop saving.

### **A Worthwhile Hassle**

- Keeping track of our money makes us more conscious of our spending habits. If we are not ignorant of our spending we will spend more wisely.

### **And Furthermore**

- Keeping track can be useful and there are easy ways to do it: computer programs, apps. But it's amazing how the little things can add up.
- "don't ignore the little things, one leak can sink even the biggest of ships" - Ben Franklin

### **The \$64,000 Question**

- People are always asking what the perfect amount is to set aside for savings. Unfortunately there is no exact answer because everyone is different. But the general rule is 10-15% of your gross income is recommended. But the more the merrier!

### **When You Assume**

- Never wait to save, do it now! If you have waited you must save more to play catch up.

### **That Doesn't Apply to Me**

- You will need 60-70% of your total income to have an enjoyable retirement.
- Defined Benefit Pension (DBP) plans guarantee retirement payout and reduce saving needs
- If moving from job to job be careful of premature evacuation. Leaving too early before vesting could cost you. Review your DBP plan and see if sticking it out for a couple more months is worth it.

### **Emergency Fun(ds)**

- Emergency funds are never really used for emergencies. The best emergency fund is living within your means and keeping debt levels minimal.

### **Money is Time**

- One way to look at money is time. When thinking of a purchase think "I am willing to work X no. of hours to get this"

### **Some Experience Required**

- When spending try to do it by experiences and not things. It will increase your happiness and give you a bigger bang for your buck.

### **A Final Reminder**

- People think that if you live within your means you won't be as happy because you will miss out on all the fun things but in fact you will live happier because you won't be stressed about money and you will appreciate the things you have a lot more.

### **KISS**

- "Keep it Simple Stupid"
- Make your plan simple to stick to it

### **An Easy Choice**

- Don't guess! No one knows what the market will look like in 6 months. Ignore the noise, avoid watching BNN, focus on the long term and maintain a balanced portfolio.

### **A Cool Rule**

- Formula 72:
  - The years it will take to double your money =  $72 / \text{rate of return compounded annually}$ .
  - If you grow your money 8% compound annually it will take you 9 years to double your money:  $72/8=9$

### **The Illusion of Wealth**

- Houses are costly. If you don't plan to downsize after retirement then you are not as wealthy as you think.
- Possible Solution:
  - Take out a reverse mortgage. It is a loan that the borrower doesn't have to pay back until the house is sold. It's a way to tap into your equity without moving. However they are expensive and have high interest rates.

### **Dashed Hopes**

- This chapter was a personal story. The moral? Invest safely and never invest in something that eats like a horse.

### **A Misunderstood Shortcut**

- Indexes: a way to follow the stock market. If x company has a value of three times as much as y, x receives three times the weighting in the determined index. You may think you are diversified but you may have a significant amount of money in few companies.

### **When Average Isn't**

- To outperform the index (market) you have to outperform all the other investors, many of whom are professional money managers

### **Extra Caution Advised**

- Unless you fully understand the potential downside it is not advised to borrow for investment purposes

### **Up and Down and All Around**

- Slow and steady may win the race
- Most of the time, if an investment sounds too good to be true (get rich quick), it is.

### **Oblivious**

- Market timing doesn't work

### **A Tough Call**

- Kid's education or retirement first?
  - I say go with registered education saving plan (RESP) first until you've taken full advantage then what ever is left put into retirement.
- Kids first.

### **Simple Idea**

- An investor wants to invest 3000 into an RSP. Invest 5000 instead, 40% of his marginal tax bracket will guarantee a refund of 2000. The 3000 will take care of the rest.

### **The Battle of Abbreviations**

- Unless an investor reinvests his RSP refund there may be an advantage of maxing the contribution to TFSA's then concentrate on RSP's.

### **Are You Sure?**

- After paying off your mortgage put the previous mortgage payment amount into the TFSA, in addition to previous monthly TFSA (RSP) savings.

### **The Eternal Question**

- Pay off debt or save for retirement? Both great options
  - Never a mistake to pay down a personal mortgage. No investment risk.
  - If you think you can withdraw in the future at a rate lower than your current tax rate then save for retirement using RSP's

### **Key Points**

- Live within your means
- Use forced savings
- Take advantage of RRSP's and compounding
- Keep costs down
- And always take the long term view