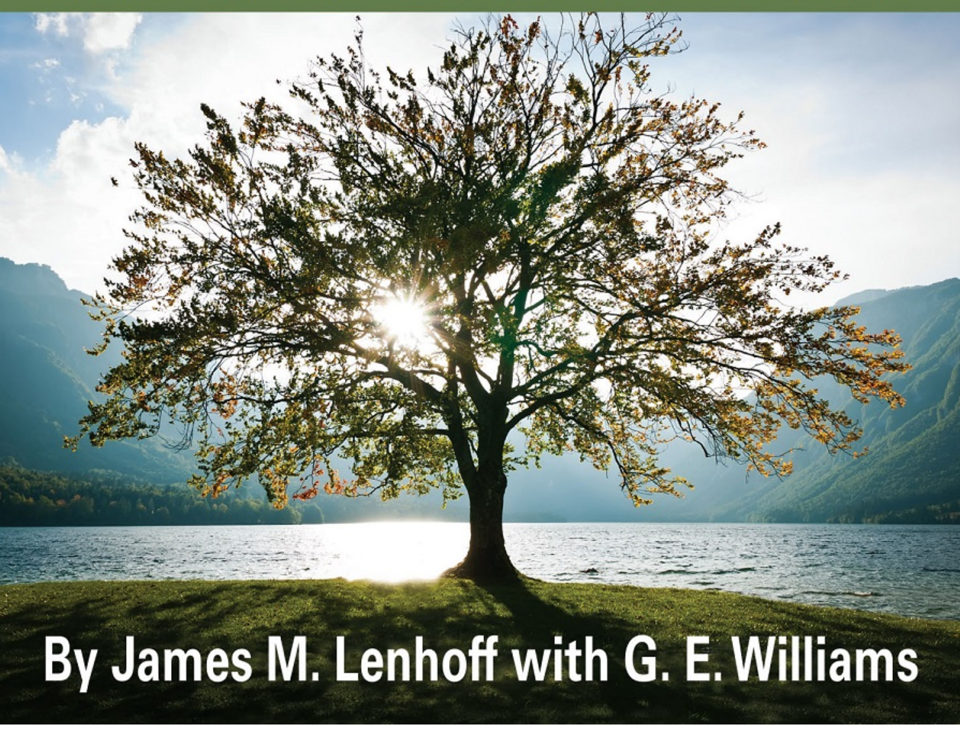
LIVING A RICH LIFE

The No-Regrets Guide to Building and Spending Wealth.



By James M. Lenhoff with G. E. Williams

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Introduction

When I began writing this book, the working title was simply Money and Regret. My marketing-savvy friends told me that the title felt a bit negative, and didn't really capture all that I wanted to accomplish in the book. I agree, but there is a central truth in that working title that I want you to get before reading this book: Over time, both money and regret compound exponentially.

Let me give you an example of what I mean. One day, I was meeting with a client who was 83 years old. He was worth multiple millions of dollars, simply because when he got his first job, he had developed the habit of putting a small amount of money aside from each paycheck. There is a trajectory of building wealth that is pretty easy to map out when someone does that. Just a little bit of money put aside every month, over time, can create a fortune far out of proportion to each individual investment. It's the power of compounding interest. Money creates more money all by itself. It's breathtaking.

But do you know what we talked about in that meeting? We talked about regret. We talked about how always chasing the next bonus and the next raise and the next promotion had replaced the time he wished he'd spent with his wife and children. We talked about vacations that they went on without him, because he couldn't possibly miss work. We talked about how he now felt like a stranger in his own family, and how he would give up his entire fortune if he could go back and make different decisions.

A few days later, I was talking with another client. This one was in his early 30s. He told me how disappointed he was that he had to miss his daughter's first ballet recital, but he was leading a major project at work that was going to put him in line for the next promotion. And that was when I realized that regret has its own trajectory. I had clients who were making the same sorts of decisions at every age and stage of life, and I could see the slow, steady arc of progression from this young man just starting out to the heartbroken 83-year-old man I'd met with a few days earlier. Over time, decisions that seem small can create a mass of regret way out of proportion to each individual decision. It's the power of compounding regret. Regret creates more regret all by itself. It's heartbreaking.

That was the day I decided it wasn't my job just to help people build big fortunes. My real job was to help people accumulate wealth without accumulating regret.

I didn't just want to help people get rich; I wanted to help them lead rich lives. So I became a student of regret and all that it had to teach me about what matters in life. I want to share what I've learned with you in this book, not so that you can just build wealth, but so that you can build wealth while living a rich life.

Each chapter in this book represents one major theme of regret that I've seen play out throughout the stages of people's lives. I want to help you navigate a list of places where money and the human condition intersect. As humans, we all have our blind spots. We all justify choices that will ultimately lead to regret.

You are probably not going to be susceptible to every regret that I talk about in this book. But if you're like most people I've worked with, you will be susceptible to a few of them. And it only takes one area of regret to do major damage in your life. In the chapters that follow, I want to make you aware of each of these major sources of regret, and give you effective strategies to keep regret from building in your life.

One last word before we start: Both money and regret are deeply personal topics. There's a chance that you might discover that you have already started to accumulate some regret, and the temptation is to think, "Well, that's just another thing I've screwed up."

This isn't just a book about preventing regret. It's also a book about redeeming regret. It's about learning from and getting freedom from past regret, while preventing more of it in the future. The good news is that it's never too late to recognize and begin to undo the regret we've created. It's never too late to change our perspective on money and life, so that we can not only build wealth, but also live truly rich lives.

Let's start now.

Chapter 1

Don't Make Decisions out of Worry

You should be worried. Very worried.

At least, that's the impression you'll get if you pay attention to the network financial news. And here is why: Fear is the most powerful marketing tool that exists. It is the surest way to get people's attention, at least in the short-term. It is the most reliable method to get viewers to stay tuned or get website visitors to click-through. And since the news giants depend on viewers and visits to drive their advertising dollars, many of them shamelessly and ceaselessly use fear to hook you.

Here's how it works. Tune into most of the higher rated financial news shows, and you will see talking heads telling you how dreadful things are about to get. Their message is this:

> *Everything is going to fall apart, and you should be worried that you are going to go down with the ship. Get out now before it's too late!*

The details of the story will change from one expert to another. One will tell you that everything is about to fall apart because the Fed lowered (or raised) the interest rate too much, and the next expert will say everything is about to go south because the Fed didn't lower (or raise) the interest rate enough. Keep watching and more experts follow, each with their own insight as to why you should be worried: A rise (or decrease) in unemployment, an increase (or decrease) in new housing construction, or the weakening (or strengthening) of the dollar all have hidden ripple effects that could wipe out your retirement account. Political problems in South America, military problems in Asia, or banking problems in Europe are all trotted out as potential triggers for a worldwide economic catastrophe. The dominoes are falling, and they are headed straight towards your bank and your money. You should be worried. Very worried.

But here's the fun part. The networks also get to play the opposite side of the fear coin to get your attention. In between the talking heads telling you how bad things are about to get are other talking heads telling you how good things are about to get. Their message is this:

> *Something is about to explode with growth, and you should be worried that you are going to miss out on the opportunity of a lifetime. Get in now before it's too late!*

These experts can sound just as convincing as the experts who tell you that everything is falling apart. Sometimes they will use the exact same circumstances as doomsday experts, but will portray them instead as opportunities to amass a great fortune if you invest heavily in gold, or foreign markets, or clean energy.

The unemployment rate that is the signal for implosion to one analyst is the signal for tremendous upside to another analyst. Sometimes, they will talk about a new technology, or a medical innovation, or a new shift in the way consumers are making purchasing decisions, with the promise that if you are one of the discerning few who understand how revolutionary this is, you could become rich beyond your wildest imaginations. But if you blink, the opportunity will evaporate, and you will be left with dreams of what could have been. You should be worried. Very worried.

And here's where the fear factory really kicks into high gear. Not only are we told how things are going to fall apart, or how we might miss our only chance to get rich, we are told this all day, every day. There was a time when you could get everything you needed to know to be well-informed by spending 30 minutes with Walter Cronkite. That 30 minutes included domestic and international news, politics, science and technology, updates on the war, and perhaps a minute or two on the economy. After 30 minutes, you could lay your head on the pillow that night with the confidence that you were a well-informed adult. Not anymore.

Today, there is a non-stop torrent of news coming your way. What about the stories you didn't read? What about the experts you didn't get a chance to listen to? You could be missing vital information. And how does all this information fit together? Which stories are the most important? Isn't it ironic that one of the results of the explosion of news is that we feel less capable of making informed decisions?

And our anxiety about making informed decisions is only increased by how exaggerated the news has become. To get our attention, they speak in the superlative. The market wasn't just down—it was the worst day in three weeks. The market wasn't up – it was the best two-day run since last month. This reporting of everyday, mundane news in extreme language is designed to amplify our anxiety and arrest our attention.

The supposed importance of these news items is further inflated by the way they are over-reported. What Walter Cronkite spent five minutes on, today's news shows spend five days on. Five days! Walter Cronkite didn't spend five days on the moon landing! But today we always seem to be in the middle of some historic crisis, with a barrage of coverage, the same video clip from every angle and every talking head's expert opinion—inflating and exaggerating the importance of this one news item. Then, suddenly, this item that was so critical is dropped and forgotten when the next historic event happens, and we go through the same cycle.

Make no mistake: The networks know that their greatest tool in getting your attention is anxiety, and they have become experts at creating and sustaining this anxiety. I'm convinced that when historians look back at this period of time, they will call it The Age of Worry.

Imagine, for just a moment, if they told the truth:

> *Tonight's headline: Everything is fluctuating up and down just about the same way it always has and always will, and while it is all very interesting for those of us who like that sort of thing, over the long run it will have little impact on you and your financial security.*

If you saw that headline, you probably wouldn't be compelled to keep watching, or to click and read the article. So, we can understand why the news outlets use fear to get our attention. It's good for business. But it doesn't mean we have to fall for it. It doesn't mean we have to park ourselves curbside for the unending parade of fear. And yet, sadly, many do just that. I've noticed that the people who are most fixated on watching the financial news channels are also the ones who have the most anxiety about their money. I often joke with clients that the 24-hour news cycle could be the beginning of the downfall of civilization.

Keep Calm and Carry On

The economic world is very complex, and that's a good thing. In fact, one of the reasons why we don't have to overreact to any new bump in the financial road is because it's so complex. In technical terms, we would refer to this by saying the economy has high causal density. Let me explain what that means, because it's very helpful in reducing anxiety.

Imagine a head of a pin that has a thousand different forces acting on it from every direction, and suddenly it moves slightly to the right. Now imagine you had to diagnose why it moved that way. It would be impossible, because there are too many forces to account for, all interacting on one another and on the head of the pin. That is what our economy is like. Every day, there are thousands of economic forces pushing and pulling, squeezing, and twisting, lifting, and restraining to get the end result of the Dow Jones closing 15 points higher or 40 points lower. That's high causal density.

Now, here is why knowing this can protect you from worry. The next time you hear an expert predicting a financial doomsday, notice what they are doing. They will take one factor out of the thousands of factors impacting the economy, and will say, in effect, "I know without a shadow of a doubt which force on the head of the pin is making it move. In fact, this one force is so important it is going to move the pin all by itself." The next time you hear something like that, you will know that for what they say to be true, every other economic force would have to literally disappear—and that's not going to happen.

So here is the situation we find ourselves in. We live in a time when many of our sources for financial news use anxiety to draw us in and keep us hooked, even though making financial decisions based on worry will lead to some of the biggest regrets of our lives. To understand why this is so, let's think about how worrying works.

The Nature of Worry

Imagine that you are driving down a beautiful country road. You glance at your dashboard and the fuel gauge needle is on empty. Yikes! You are about to run out of gas. You do a search on your phone and discover that the closest gas station is ten miles ahead. You don't know how long your gauge has been on empty, so you're not sure how far you can go before the car sputters to a stop. Now you have two choices. You can relax and enjoy the beautiful country scenery until you reach the gas station or run out of gas; or, you can worry, imagining all the terrible things that could happen, until you reach the gas station or run out of gas. So here's the question: How much farther will the remaining gas take you if you choose to worry instead of choosing to relax and enjoy the ride?

Not an inch farther. The only thing worrying will do is steal away the time you could have spent enjoying the ride. And let's say just for the sake of argument that you do run out of gas after nine miles. After all, sometimes things go wrong in life. Now you're stuck on the side of the road, and you will either have to call for help or hike the mile to the gas station. So here's the question: How much easier will it be to dial that number or hike that mile if you spent the last nine miles worrying instead of enjoying the ride? *Not a bit easier.*

But what if you are an expert worrier, the kind of worrier who believes that avoiding problems is the most important thing in life? If you are an expert worrier, you know exactly what to do: Pull off the road and turn off the engine! Problem solved. There's no way you're going to run out of gas now! But there is also no way you are going to get where you want to go. And, again, here's the question: When, after ten minutes or ten hours or ten years, you finally get tired of being stuck and decide to get back on the road, how much farther will the remaining gas take you because you spent that time frozen in fear? *Not a bit further.*

There have been many things that people have said in history about the nature of worry. One of my favorites is from the Bible, where Jesus says: "Who of you by worrying can add a single hour to your life?"

The answer, of course, is none of us can. Not a single hour. And this is the nature of worry. It can be all-consuming, but in the end it accomplishes nothing. It steals our time, it steals our enjoyment of life, and it causes us to make really bad financial decisions.

Let's consider Lloyd and Jane, who were very worried about their money. Of course they were worried; they had one of the major financial news channels running in their home almost non-stop. Every time they called me, I could hear it in the background. One day, they came in to see me, telling me that they had some major concerns that they needed to discuss. It turned out that they had been listening to one of the doomsday scenarios and were convinced that they needed to move all of their investments into cash to escape the looming stock market crash.

I tried to talk them off the ledge. I knew their decision was coming out of a place of worry, and that worry always leads to regret. I let them know that, yes, sometimes the stock market goes down in the short term, and sometimes the stock market goes up in the short term. But they could still have confidence in their financial plan. I reminded them that they were invested in a balanced portfolio that would serve to smooth out the market's volatility over time and help them accomplish their goals. The best thing they could do was to continue to stay the course. But they wouldn't be persuaded and still insisted that I move all of their investments into cash. So what else could I do? After all, I worked for them.

So I refused.

I must admit that was a bit of a shock to them, and they demanded an explanation. I walked them through the alternatives.

"Look," I said, "to achieve your current goals, you need a 6% return on your investment. With the investments you have now, you have an extremely high likelihood of success. Over the long term, you can have confidence that this will be the case no matter what happens in the short term. Now, what happens if you move everything to cash? You guarantee a 0% rate of return. Why would you choose the alternative that is guaranteed to fail?"

In the end, they couldn't be dissuaded, and I resigned as their advisor. They hired someone who was happy to follow their anxiety-produced strategy. Over the next two years, the crash they had prophesied never occurred. The stock market continued to climb slowly but surely. By the time they admitted their mistake, they had lost the opportunity to add hundreds of thousands of dollars to their net worth.

Here is the worst part about worry. It not only leads us to make bad decisions, but the impact of those decisions compound over time. When we allow worry to become a part of our lives, panicked decisions lead to even more panicked decisions.

The Nature of Worry: Part Two

Imagine for a moment that you are at the grocery store and there are three long lines. You get in the shortest line, but soon notice that the line next to you is moving faster. You're worried that you might have chosen the wrong line, so you get out of your line and go to the back of the faster line.

Two customers ahead of you are served pretty quickly, but then the third customer argues about the price of the cottage cheese. The cashier calls the manager over and they look through this week's circular and can't find the sale price the customer swears is there. They call a bagger over and ask him to run to the dairy section to see what the price of the cottage cheese is there. You've already lost three minutes, and realize it's going to take another few minutes for the bagger to complete his quest. Once again, you are worried that you chose the wrong line, so you get out of that line, and move towards the back of the first line, which is now moving faster.

Now, a woman with two full carts of groceries and a box full of coupons slides into the line just before you and you can only imagine how long she will take to check out, so you opt for line number three.

Line three is humming, so you begin to calm down. After a few customers, it's shift change time for the cashiers, so it takes about a minute for the outgoing cashier to get her drawer and paperwork together and for the new cashier to get logged in. A minute is not that bad, so you stay where you are. Then you notice that the new cashier is a talker. She likes to talk to her customers. A lot. And she is in no hurry to ring up orders. As you think about changing lines yet again, you notice that the person who was behind you when you first entered line one has just finished paying and is walking out the door.

Panicked decisions lead to more panicked decisions.

Remember Lloyd and Jane? After two years of losing out on growing their wealth they began to panic again, and decided to re-enter the stock market – just as it was about to crest and enter a downturn. This was a very natural cycle for the stock market, but Lloyd and Jane were getting in at the back of the line.

This is another way that decisions based on worry compound over time. By the time we are willing to admit our mistakes we are simply setting ourselves up for a brand-new mistake, and the new mistake only confirms the thinking that led to the first mistake. When Lloyd and Jane watched the market go up and up and up and finally admitted they had made a mistake by going to cash, they got back into the market just as it was about to go down. What was their response? Did they see how one decision based on worry led to another decision based on worry? No. Their response was, "See! We were right all along! We knew the market was going to go down!" The second mistake just confirmed their bias that they should be very worried about their money.

That's what worry does. It causes us to make panicked decisions to solve problems that don't exist and then learn the wrong lesson. When I first started out as a financial advisor, I noticed that whenever there was a bump in the economy, I would get calls from lots of worried clients: What does this bump mean? Do I need to completely change my investment strategy? Am I in danger of losing everything? Here was the interesting part: Though I would get lots of calls from lots of worried clients, I wouldn't get any calls from my wealthiest clients. I reached a conclusion:

The people with the biggest fortunes don't have to worry.

Now I know I was wrong. After years of watching the interaction between worry and wealth-building, I know that the converse is true:

The people who don't worry build the biggest fortunes.

Big worry means big regrets.

I once had a client named Henry, though I usually think of him as Used-to-Be Henry. That's because Henry always talked about his life in the past tense. He used to be a huge Shakespeare fan. He used to love classic Corvettes. He used to really be into protecting the environment. He used to be fanatical about Major League Baseball. He used to be passionate about reversing urban decay and helping the poor.

Whenever we got together to go over his finances, I would assure Henry that he was on track with all of his financial goals. I wanted to know what he planned on doing with his extra money. How about a trip to England to see Hamlet at the Globe Theatre? What about taking a couple of weeks and doing a baseball road trip, visiting five or six different ball parks? What about looking for your dream Corvette? What about making a contribution to the World Wildlife Fund or donating computers to an inner-city school? I was interested in learning how he was going to use his extra money in a way that made his life more meaningful and enjoyable.

But Henry was a worrier. For Henry, there was always a potential crisis around the next corner. He wasn't exactly sure when or how it would come, but he was always on high alert. He convinced himself that he couldn't afford to do anything in life that he loved, because he would probably need that money to survive the coming calamity. I began to realize that the reason he spoke about his life in the past tense is because Henry was no longer living; he was merely surviving. When Henry retired and was no longer bringing home a paycheck, he went into survival mode. His only goal was to protect the assets he had accumulated.

I scaled back my suggestions, hoping to fan into flames any spark that was left of the person who used to be Henry. Instead of going to England, how about buying a season subscription to the local Shakespeare Company? Instead of taking a baseball road trip, what about taking your family to see a game when your favorite team comes to town? What about making a small donation to a cause you care about? How about spending a day at the Corvette Museum?

But Henry wasn't biting. He was sure that even these small expenditures would ruin him.

Redeeming Worry

Then something happened that changed Henry. His wife was diagnosed with an aggressive cancer and died a short time later. Henry realized that of all the things that he was worried about, this wasn't even on the list—he never saw it coming. He also realized that, even if he had seen it coming, he couldn't have stopped it. He began to see how useless his worry had been. Henry decided it was time to get out of survival mode and start living again, while he still had the chance.

Henry came back to life. He took his son and grandson on a baseball road trip, a trip that his grandson still talks about as one of the highlights of his life. He bought an old Corvette and enjoyed hours upon hours in the garage restoring it. He thought about going to London, but decided he would be just as happy with a season subscription to the local Shakespeare Company. He started making regular contributions to the causes that he cared about, which led to getting more involved in those causes. And, since he was still following a sound financial plan, he didn't run out of money. There was more than enough.

Guarding against worry

It would be nice to never worry, but for most of us, worry is a common reaction to life's uncertainties and complexities. If we want to ensure that we are not going to make financial decisions based on worry, we need a way to deal with our worry when it arises. I help my clients guard against worry by asking two simple questions.

The first question is: What is the thought that is behind the worry? Beneath the emotional experience of worry is always a thought. Often, these thoughts are vague and undefined. We get so caught up in the emotional experience of worrying that we don't take the time to surface the belief that lies beneath the worry. When we surface the thought, it will sound something like this:

I'm worried because if I let this opportunity pass me by, I will never have another opportunity like it.

I'm worried because the market has gone down 3%, and I'm probably going to lose all my money.

I'm worried because I'll never have enough for retirement.

Once we have surfaced and clarified the thought that is causing us to worry, we can ask the question that we almost never ask when worry controls our decisions: Is that thought true?

Is it true that I will never have another opportunity?

Is it true that I am going to lose all my money?

Is it true that I will never have enough for retirement?

This is one of the most powerful things about having a financial plan. It helps you to answer the "Is that thought true?" question, which keeps you from wasting time worrying. If you don't have a financial plan, then it can be difficult to answer whether you will have enough for retirement, so the worry attached to that belief is hard to escape. But if you have a plan, it's much simpler. When I meet a client who is worried about running out of money, I ask a couple simple questions.

"Are you spending more money than what we planned?"

"No."

"Are you making less money than what we planned?" "No."

"Well then, according to the math, is the thought, 'I'm going to run out of money, true?' "No."

A solid financial plan makes answering the "Is that thought true?" question quick and easy, and allows you to get back to enjoying life. Perhaps you have been worried about your financial situation. Maybe you are worried that you have already made too many poor financial decisions and that your current financial situation is so bad you'll never be able to turn it around. Maybe you are worried that you have waited too long to start investing for retirement. Maybe you have been doing fairly well, but you still worry about whether or not you have enough to feel secure and start enjoying life.

If that sounds like you, I've got some good news. You don't have to be a slave to worry.

Time and time again, I meet with clients for the first time, and the emotions that they are experiencing at the beginning of the meeting are worry, fear, confusion, anxiety, and a sense of being overwhelmed. We'll spend that first meeting getting a clear picture of their current financial reality, get clarity about where they are trying to get to in life, and begin designing a path to help them get there. Despite how good or how bad their current situation is, when they leave at the end of the meeting, their emotions towards their financial world have transformed. Instead of fear and anxiety, they are experiencing confidence, hope, clarity, and a sense of comfort in their current financial reality.

That's in one meeting.

When that first meeting ends, here is the sentence I hear almost every time:

I wish we would have done this sooner!

Why? Because, it is a life-transforming experience to learn that you don’t have to worry about your money.

My hope is that as you read this book, you will experience that transformation from worrying about your finances to becoming confident in your ability to build and spend wealth in ways that create a great life for you and the people you love. Perhaps, like the driver with the gas gauge on empty, you pulled over to the side of the road and turned off your engine a long time ago. I want to help you get back on the road to where you want to get in life, and I want to help you enjoy every mile of the journey.