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YOUR WAY TO THE TOP

**Pick-Up Podcast with
Jordan and AJ Harbinger
Transcript**

BY RAMIT SETHI

PICK-UP PODCAST

Jordan Harbinger: We are here with Ramit Sethi, founder of IWillTeachYouToBeRich.Com and author of the book, I Will Teach You to Be Rich, available on our website at: www.pickup-podcast.com. Now from what I understand this is actually a New York Times best seller at this point, so congratulations on that.

Ramit Sethi: Thanks, and thanks for having me.

Jordan Harbinger: And you're a young a young dude, so why should I listen to you? I mean you're 25, so why should I listen to you about how you're going to teach me to be rich?

Ramit Sethi: Yes, yes, I'm 26. I think when it comes to expertise you can't measure someone by how many fancy words they use, right?

Jordan Harbinger: Mm-hmm.

Ramit Sethi: And what kind of fancy suit do they wear. It's all about results, especially when it comes to personal finance. So the best way to see if you like it, and if you think I'm credible, is pick up a copy of my book, or better yet, get a free chapter from, you know, my website. Go look at some of the blog comments on there and see; people are saving hundreds of thousands of dollars using these techniques. They are not the same old boring personal tips you read everywhere else.

Jordan Harbinger: Yeah, I mean, that makes sense. I've read most of the book since you

guys had it sent over to me. I really like it because actually I hate managing my money so much that I will actually stick my head in the ground and just kind of ignore it. My dad is going to cringe when he hears this, but it was scary. So when I read this and it was normal and it was down to earth, I was really happy.

I've actually got a bookmark here that is...'it's an overdue bill' that I have bookmarked here inside the book...

Ramit Sethi: I love that.

Jordan Harbinger: But I want to explain, and I want you...or I'd rather have you explain why managing your money doesn't have to be scary and why it actually is just kind of...All these money management myths that scare people away, and why they feel like they should be watching Bloomberg all the time is kind of uncanny.

Ramit Sethi: [LAUGHS] The worst thing you could do. You know, I think you wake up every day, you have a million things you could do with your money. You could pay off debt, you can go out with your friends, whatever it may be. You could even go a new iPhone, and inevitably we end up doing nothing.

Jordan Harbinger: Mm-hmm.

Ramit Sethi: We, kind of, just say: man there's too much, forget it, I'm just going to go on autopilot as I've been doing, and by the way, there's a lot of similarities between what you guys do and money. Most guys go on autopilot; they go up to a girl and say: hey, my name

is Ramit...

Jordan Harbinger: Mm-hmm.

Ramit Sethi: Boom, shut down.

Jordan Harbinger: Right.

Ramit Sethi: The same thing with money. The problem is, with girls, you just get rejected, with money you're going to lose tens of thousands of dollars over your lifetime. So what I try to do in the book is say: look, first of all personal finance is mostly about saying, no, no, no. And that's why people hate it. You think I'm going to come in here and say: hey guys, no you can't spend money on lattes, no you can't get, you know, those shoes you want, whatever—whatever you guys want to buy.

Jordan Harbinger: Right.

Ramit Sethi: That would last about two minutes, you'd laugh at me and I'd be out of here, and that's what personal finance, you know, experts have told us.

Jordan Harbinger: Yeah.

Ramit Sethi: What I say instead is: look, you can spend extravagantly on the things you love, but you have to cut cost mercilessly on the things that you don't. And so what I do in the book is show you tactics and strategies to do exactly that.

Jordan Harbinger: Because it looks like whenever I'm in the gym this dude Cramer is

on Mad Money...

Ramit Sethi: [LAUGHS]

Jordan Harbinger: And I'm like: this guy, one: is obnoxious and I don't even like listening to him at all, or watching him even if it's on mute. And the Bloomberg channel is always on back when I worked on Wall Street, and so it always seemed like finances for all the white dudes and 20-somethings who had no interest whatsoever in the Wall Street drama. We have both kind of...pushes all that aside, but what is the most important step people should take if they are our age because what I did is I sort of dive into this book, mostly because I thought: alright, maybe this will be interesting, if it's about time I confronted my deepest fear, which is, you know, being broke and living a crappy lifestyle.

So what do you think guys should do to get started, besides, of course, buying a copy of your book, which is an easy, shameless self plug.

Ramit Sethi: Thank you very much. I think the first thing that they should ask themselves is: what does rich mean to them, right. The book is called: I Will Teach You to Be Rich, it sounds like a big fat scam but it's not, it's about: what does rich mean to you. So if it means, you know: I want to drive a Ferrari, or drive a Mercedes, that's fine, you don't have to feel guilty about that. You can do that.

If it means that you want to travel, fine. If it means...you know, whatever it means, you can do that, the thing is you need to get off your

ass and start actually managing your money. Getting rich doesn't just happen to you, alright. And, again, whatever that means, you have to take action. Just like, you know, meeting a lot of beautiful women doesn't just happen to you, you've got to take action.

Jordan Harbinger: Yeah, that's true. I guess, just getting started, essentially, you talk about the 85 percent, what the 85 percent...

Ramit Sethi: So important. You know a lot of times you...Alright, if I were to just tell the average person: hey, I want you to start investing. Do you know what they say? Oh, my god, I've got to get all my accounts lined up. Oh, my god, I have to learn how to read a prospectus. Oh, my god, I need to learn accounting. And of course the truth is you don't need to do any of those things.

You need to get 85 percent of the way there, and then get on with your life. Because nobody wants to be a personal finance expert, we want to get the benefits of personal finance and then...but we actually want to just live our lives. So if you get 85 percent of the way there, that's good enough. Get on with your life.

Jordan Harbinger: Well one of the great things that I like about your book is it focuses on streamlining things and making it easy.

Ramit Sethi: Yeah, yeah.

Jordan Harbinger: So you don't even have to think about it, and that's really big for our generation. A lot of older people think of, you

know, managing your money, is you're constantly checking in on it, you know where every penny is at all times, and you're worried it, but us, like we want to have our fun, we want to have that lifestyle. We want to just be there at the end of the day without thinking about it.

Ramit Sethi: I completely agree. There are things that we like to check a lot. If I want to check my email, that's fine because it's fun for me.

Jordan Harbinger: Right.

Ramit Sethi: But I want the big things in my life handled. I want my bills to be paid. I want my investments to be handled, I don't want to have to think about that day-to-day, so what I do is, and I think...and I'll tell you, I think guys like you and me, we love this stuff because it's a system, right?

Jordan Harbinger: Right, yeah.

Ramit Sethi: And it's automated. So you have to set it up once. You do have to get off your ass and do it, but once it's automated, it's like a beautiful system that just fuels itself. And here is how it works. Let's pretend your paycheck is 100 bucks. So if I were to say: hey guys, the next \$100 you earn, where does it go? Most people will be like: shit I don't know.

Jordan Harbinger: I have no idea.

Ramit Sethi: I have no idea, right. At the end of the month they look at it, they shrug, they say: ah, I guess I spent that much, screw it. And then they keep doing that for the next 20

years.

Jordan Harbinger: Yeah.

Ramit Sethi: And then they wonder: man, why I don't have any money, let me complain about fiscal policy.

Jordan Harbinger: Right, right.

Ramit Sethi: Just because you didn't get off your ass when you were in your 20s and 30s. So what I do is...

Jordan Harbinger: You can set your own fiscal policy, right?

Ramit Sethi: Exactly! And that's so important, it's funny because Bloomberg and the newspapers have very little to do with your own personal finances, right?

Jordan Harbinger: Right.

Ramit Sethi: That's macro economics, this is personal finance. This is about getting rich. So what I say is: the next \$100-principle. The next \$100 that come in to your bank account, what I teach you how to do is split it up instantly and automatically. Let's just make up some numbers: \$5 go to your retirement account; \$10 go to a savings account. Now that sounds like: why would I want to save money in a savings account. Because within a savings account I set up sub-savings accounts, so one might be you know: I'm think about I may need a down payment in a few years, so I'm just going to put 3 percent in there, but I actually want to go on a vacation to Brazil later this

year.

So I'm going to put \$3 in there as well. Like I'm saying, rich, if that means going to Brazil, right, for vacation, or whatever, that's fine, that's a perfectly fine goal. So now you're taking money and automating your life so you can live that rich life.

Jordan Harbinger: Nice, so basically you just have a plan of where your dollars go and then suddenly, after a while, once you stick to that, stuff is in place for you to actually do what you want to do.

Ramit Sethi: Yeah, and let me just give you a great example of how this is not just made up, right. I want to give you some actual background. So I graduated from Stanford, I studied technology and psychology, a lot of social psychology in persuasion, and there's some great research on how...you can cause behavioral change. One of the most powerful ways is by using automatic behavior.

Jordan Harbinger: Okay.

Ramit Sethi: So, there's a great book called Nudge, which I would recommend everybody reads. What it is, it basically suggests how people act irrationally all the time. If we can just nudge them in the right direction, they will do the right thing, because by default we are very lazy.

Jordan Harbinger: Sure.

Ramit Sethi: And we take what's given to us. Just think about the last time you opened

up an application on your computer, you just click, click, click, I just want to get to the point. I don't want to deal with all these other options. So, in a great study they did on automatic enrolment test, they said...you know when you start working somewhere they say: hey, would you like to enroll on your 401(k), here is the form. Of course, many companies give you a match, so that's literally free money. You're making over 100 percent over time.

Jordan Harbinger: Right.

Ramit Sethi: So you would think: oh, of course, rationally people would take this and enroll and fill out this form which takes ten minutes.

Jordan Harbinger: Sure...

Ramit Sethi: What percentage of people did it? It was about 40 in this study, so that means 60 percent of people were opting not to get free money. What they did was, they changed it. Instead of opt-in they made it opt-out.

Jordan Harbinger: Opt-out.

Ramit Sethi: In other words, yes, you were automatically enrolled—numbers, the compliance rate, or how many people contributed skyrocketed to about 97 percent.

Jordan Harbinger: That's insane, even when I was in Wall Street people were not funding their 401(k), which is ridiculous, yeah.

Ramit Sethi: That's another great finding which is: just because you know something

doesn't mean that you are impervious to it.

Jordan Harbinger: Sure.

Ramit Sethi: So you guys, who are listening, don't be lazy. Just because you now feel like you're really smart and you can go brag to other people about this, you need to get off your ass to make sure that you are actually contributing to your 401(k), or more importantly, setting up an automatic infrastructure like I talk about in Chapter 5, so that your money is being handled for you.

Jordan Harbinger: Right. And the great part about that is, and I don't know about this for other guys, but for me, you know, in trying to set budgets that's always been the hardest part. Each month, you try to set a budget, and then you go over budget some months, and you're like: ah. But this cuts it off right away, so it's just automated.

Ramit Sethi: That's right.

Jordan Harbinger: You've stuck to the budget, you make the choice once and then it automates it from there.

Ramit Sethi: Yeah, and let me say this, as you...first of all I hate budgets just like you. Everybody hates budgets because they don't work. We've got to be brutally realistic, that's one thing we fail to do in personal finance. You know, for 50 years people have been telling us: don't spend money on lattes.

Jordan Harbinger: Yeah.

Ramit Sethi: And of course we buy more than ever. Keep a budget—nobody keeps a budget, it's like a diet, we always fail. So instead, you've got to start off by saying...you know, one of the techniques they use is called the think, want, do technique. It's very simple, and I'll go through some tactics today. This one, get three pieces of paper and just create a few major categories, maybe rent, going out, eating out, whatever, pick a few, and on the first page put how much you think you spend, okay, each month.

Then on the second page, put how much you want to spend, and then on the third page, and this is going to take a couple weeks—how do you actually spend.

Jordan Harbinger: Yeah.

Ramit Sethi: Okay, to get to third step, you can just download your applications into like www.mint.com. The key is, there's a vast difference between those three.

Jordan Harbinger: Yeah, that makes sense, I can imagine what [Crosstalk 12:23]

Ramit Sethi: Everyone looks horrified right now, in the room.

Jordan Harbinger: Yeah, I can imagine. So one of the keys...I just wanted to get back to this—you don't have to be scared of learning this stuff. You don't have to be a financial expert to get rich and just like you don't have to be the Iron Chef to make a grilled cheese sandwich.

Ramit Sethi: Yeah, yeah.

Jordan Harbinger: And the experts are usually wrong, which for all these guys out there are like: well if I study this I can get this, and I can actually get an even better result, but as you've shown us in your book, these guys are usually wrong, not just often, but they are actually more than 50 percent wrong. So no matter how much of the stuff learn, unless you turn into Trump or one of these other amazing Warren Buffet-style investors, you're actually going to be wrong more than you're right, so you might as well just play it safe. Especially if you don't love this stuff, like I certainly don't.

Ramit Sethi: Yeah, you know, a couple things, and to unpack what you just said. First of all, portfolio experts, the fancy people in New York who wear suits and make millions of dollars, they can't even beat the market, they fail to beat the market over 70 percent of the time. Now people on Wall Street hate the statistic and they've created many, many techniques so that you don't know about it.

There are techniques like Survivorship Bias, there are all kinds of different techniques they use, and I show you all of them in the book, but the key is that they will distract you with words like alpha and all these things about how you should try to beat the market, and that's it's unsexy to index. The fact of the matter is, you want to get the big things in your life really stable, so that you can focus on being ultra aggressive in other things.

Like, for example, the other day my friend was like—she was suggesting that I should move

to a different place because there are newer apartments and stuff, and I really didn't like it, and I kind of thought about why. What's the pattern? Why am I resisting to this? And I think the reason is I want my car to be really stable in my life. I want my house to be really stable. That way I can afford to be super aggressive on my website...

Jordan Harbinger: Right.

Ramit Sethi: On my marketing, right, because the big things in my life are handled.

Jordan Harbinger: Handled, yes. So you're not walking on thin ice hoping that—

Ramit Sethi: Exactly!

Jordan Harbinger: Alright, I'm blindfolded; I'm trying to get to that next step. You've already got the handle, so if you fail like epically in some form of marketing or some form of other venture, it doesn't even mater, because you've already got your...your risk has totally been mitigated by the fact that you have this big cushy safety.

Ramit Sethi: Yeah, you've mitigated your risk, yes, exactly.

Jordan Harbinger: And one of the big things for me, before this, was I was always too busy, you know, to sit down and crunch the numbers. Because you know you've got a couple of credit cards, you've got your paycheck, you know you've got money going into your 401(k), you've got health insurance, you're just like: uh, whatever, you know, as long as my bills

are paid on time, and that gives me time to do my other stuff, then I just sat down and I did Mint on a whim. And I'm like: well, just check it out, and when I checked Mint I actually started to see instantly, like where I'm spending my money, where I thought I was spending my money and I'm not, and where I was way over-spending money. And it was instantly, it wasn't very hard, it was painless.

Ramit Sethi: I love what you just said, and it just raises one question for me: if not now, then when?

Jordan Harbinger: When?

Ramit Sethi: Right—it's not going to be tomorrow, it's not going to be when you make an extra \$25,000 because you're going to spend it.

Jordan Harbinger: Right.

Ramit Sethi: The key, is actually get the habits right. Because when you have a million, ten million, fifty million, those habits are going to really matter.

Jordan Harbinger: Yeah. That's why most lottery winners are broke like three years afterwards.

Ramit Sethi: That's exactly right. In fact, I found another statistic about how 78 percent of NFL players go bankrupt within, I think, it's five years of...

Jordan Harbinger: Wow!

Ramit Sethi: Of getting out of the NFL.

Jordan Harbinger: That's ridiculous.

Ramit Sethi: Other excuses people love, when it comes to not doing this stuff, is they didn't learn it in school, which is ridiculous because I didn't learn much of anything in school.

Jordan Harbinger: [LAUGHS]

Ramit Sethi: As the article implied. Credit card companies, when you learn how to game those credit card companies—it is funny because I've been doing a lot of the stuff my whole life, a lot of the tips that you read in here about scripts and things like that. Say you are a credit card company, and I've been doing that for a long time. I used to call it social engineering...

Jordan Harbinger: Yeah?

Ramit Sethi: But it was actually pretty legit when it comes to this, especially these credit card companies and banks, in the past two days I've saved almost \$100 in fees because I went to the bank and I said: listen, this fee, this fee, this fee and this fee is total bullshit, and if you don't it I'm just going to close my shop up right now and take my money out.

And they were like: well, I'm going to try and call your bluff on that, I don't really...I don't really think that that's, you know, a move that he is going to make, and I was like: alright, cool, let me talk to the supervisor. One of the things I want to point out that a lot of guys don't even know is that when you get on the phone with

these companies and you try to say: hey, you know, this charge here, or I want to lower my APR or something like that, and you hear, no. It doesn't mean you shut down for good, just like with women. You know, you hear no once, you don't go: okay, that's done, I'm never ever going to get those charges refunded.

I know, even Jordan has done this, where it takes three, four calls, but on the fourth call, she's like: okay, you know, you are a valued customer I'm going to waive the charges.

Jordan Harbinger: Yes, let's talk about that.

Ramit Sethi: I love what you said. What I talk about is how to negotiate like an Indian.

Jordan Harbinger: Right, yeah.

Ramit Sethi: And I'll tell you why I came up with that, you know, in India, I go into a market and I'll be trying to buy something and they'll say: 4,000 rupees, and I'll say: alright I'll give you 220 rupees, and that's where the discussion starts.

Jordan Harbinger: Right.

Ramit Sethi: And it doesn't end. Here it would end because people would be insulted.

Jordan Harbinger: Right.

Ramit Sethi: I don't understand being insulted because that's what I do when I'm rolling in New Delhi. So I will say that these credit card companies actually...it becomes a very fun game, and you have to do it with respect,

obviously there are some idiots who take this advice and...they used to take my advice and they would be somewhat rude...

Jordan Harbinger: Yes, and that's...

Ramit Sethi: And that's why we assume that bartering has to do with conflict and...

Jordan Harbinger: Exactly!

Ramit Sethi: It's not adversary it's cooperative.

Jordan Harbinger: Right.

Ramit Sethi: And that's why I actually wrote these scripts out, because I wanted people to see how polite, and yet firm, you can be. Because, honestly, these companies often pay, like banks, often pay between \$300 and \$1,500 per customer to acquire you. Which means, they don't want to lose you for \$20; it's simple business.

Jordan Harbinger: Yes.

Ramit Sethi: So you have a lot of leverage, but the problem is that in America we are basically—we think that finance is done to us.

Jordan Harbinger: Right.

Ramit Sethi: But really, it's done with us.

Jordan Harbinger: Right.

Ramit Sethi: We just...we don't participate in our end of the bargain.

Jordan Harbinger: Right

Jordan Harbinger: A lot of people have the mindset that, like: okay this bank is keeping my money for me, I have to pay them certain fees to do that because they keep it safe, and blah-blah-blah, but the truth is, they are reinvesting the hell out of your money. So if...like I've \$35 fee for something, and I said: listen, I'm just not paying this, and if...First of all I was like: would you mind removing it? And they go: oh, I can't do that. Really! Who can? Well, the person is not here right now.

Okay, can you tell me how to close my accounts because I've gotten a lot of these fees and they're kind of getting ridiculous? And she was like: oh, okay, you know, actually I can see what I can do, and boom it was gone. And then today, of course, on the phone with the credit card company, I said the same thing: I know I've been a customer for a while, I'm usually really, really good about these numbers, I must have slipped up with you, would you mind removing that. Of course not, no big deal, because the last thing they want is for me to pull \$48,000 worth of credit card credits from their company...

Ramit: Yeah.

Jordan Harbinger: Just because of a stupid fee that they know is pretty much a lame shit in order to get a dollar out of me anyway in times of crisis.

Jordan Harbinger: The time-specific question that I have now in regards to this, and I don't know if you've heard stories about this,

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I haven't actually experienced it, but people were talking about it the news is that: since the credit card companies are slashing people's credit limits...

Ramit Sethi: Mm-hmm.

Jordan Harbinger: Sometimes it's not apt to pick up the phone and try to negotiate with them at this point in time because they can cut your credit limit down, and they can deny you even if you...if you're pushing about trying to lower your APR or payment time, or something like that.

Ramit Sethi: Well, okay, so that's a good question. There certainly are some companies that are slashing credit; they tend to do this for customers that are credit risks.

Jordan Harbinger: Mm-hmm.

Ramit Sethi: Companies don't usually make decisions because they are angry at someone, right?

Jordan Harbinger: Right, right.

Ramit Sethi: Because credit card companies are smarter than you, me and everybody listening to this, right?

Jordan Harbinger: Yeah, right.

Ramit Sethi: They're very quantitative. I've interviewed with them, and they are really quantitative, so I wouldn't be so afraid of doing that, but there are two reasons. One—I don't think they're going to change my credit

because I'm mean.

Jordan Harbinger: Right, right.

Ramit Sethi: Second, I think that in an ideal world, you have enough buffers, that even if one credit card went caput, you've mitigated the risk with a couple other credit cards with good amounts of credit available. Obviously, that's ideal.

Jordan Harbinger: Sure.

Ramit Sethi: And to the people listening, you may not have three credit cards that are fully optimized, and all that crap, that will happen over time. But the important thing is to just realize, just the first and most important thing is just look at your credit card bills, call up your credit card and ask them a couple things.

(1) Am I paying any monthly or annual fees? Okay: yes. I'd like to get those waived and removed.

(2) Have there been any late fees or anything reported to my credit? Okay, I'd like to talk about that. And ideally, if you get a late fee get that money in immediately and make sure it's in sooner than a month because they will report it to your credit and your credit will be screwed.

(3) Get a booklet of free benefits from your credit card. Your credit card gives you tons of stuff nobody knows about.

So let me give you a couple examples. You guys both have laptops here?

Jordan Harbinger: Right.

Ramit Sethi: If you spilled...if you just bought this, alright, let's say, 60 days ago, you spill a cup of water on it, you just lost 2 grand. Most people say, shit—right?

Jordan Harbinger: Yeah.

Ramit Sethi: Well, what you can do is, you can call up your credit card and if you've bought it within 90 days, they will give you \$500 or \$1,000 accidental—they'll give it to you. If you lose something, they will reimburse you for that as well. There are a lot of things they do that nobody knows. Extra insurance, it's automatically given to you.

Jordan Harbinger: Yes.

Ramit Sethi: So don't forget to call your credit card and talk to them.

Jordan Harbinger: Yes, MX is one of them, we always use our MX, we've lost like five or six iPhones among the company and they immediately credited, we go to the store and we pick up another one. We never have to get that stupid settlement of car rental insurance from out of town, because it's included on the card when you use the card to pay for the rental.

Ramit Sethi: But if you don't know that...

Jordan Harbinger: Yeah, it adds up. Yeah, if you don't know that because you didn't read the booklet, because no one ever does, except for me and Ramit.

Ramit Sethi: [LAUGHS] I know, you're pretty good, I can tell.

Jordan Harbinger: So seeing your credit scores because I know a lot of guys listening might not have the best credit score. There are these companies that claim that they can up your credit score by going through the legal hoops for you. Are those legit or are those...?

Ramit Sethi: No, don't be an idiot, these guys...this is a great reason why people don't like personal finance because there are a lot of predatory companies out there. The simple thing to do go to www.myFICO.com they have a very simple education site and they show you what comprises your credit score, okay. Like the biggest—35 percent, the biggest chunk of it is paying your bills on time. Which is why, chapter-5, I spent so much time building literally an optimized system that I've been building for five years—okay.

Jordan Harbinger: Yeah.

Ramit Sethi: And by the way, you know, there's another place you could Google, because you could get a lot of this...you can see the system in action. I actually did it, a video of it. You should Google "the psychology of automation—building a bullet-proof personal finance system". I did a guest post on Tim Ferriss' blog—Tim Ferriss from the Four Hour Work Week.

Jordan Harbinger: Mm-hmm.

Ramit Sethi: And showed you how I built this

system. So you can get a little taste of it there. But no, you should...the first thing is to realize that you can't trick your way into a better credit score.

Jordan Harbinger: Yeah.

Ramit Sethi: It's going to take time. You've got to do things right and your credit score becomes very important when you make major purchases. So give it time and do it right. don't try to trick your way into it.

Jordan Harbinger: So, alright, everyone's afraid to use these credit cards now because we've already talked about there's so much that can go wrong, but why is credit good and actually necessary? I mean, you mentioned big purchases...

Ramit Sethi: Yeah.

Jordan Harbinger: But what, if anything, and why...If I'm like 21, and if I'm not there, and if I'm 18 I'm not even in college, what do I need good credit for, what's the point? Why don't I avoid all this hassle altogether, and I can't get into debt if I don't borrow any money?

Ramit Sethi: The key to being rich is thinking ahead of everyone else. Your friends think in the next two months.

Jordan Harbinger: Mm-hmm.

Ramit Sethi: Rich people think in the next 20 years. So when it comes to credit, it is so important, and I'll give you an example. You read these idiotic newspaper columns saying

like: don't spend money on lattes, okay. I don't give a damn about \$3 a day. What I do care about is credit. Let me give you an example, because this is something that's not sexy, but it will make you rich.

Let's say you're going to buy an average house it's at \$200,000; 30-year fixed mortgage, the difference between someone who has the top credit score or a bottom credit score, over \$6,000 a year. Okay, so that is what I call the big wins. Forget about the small details, and the minutia that we love to debate.

Jordan Harbinger: Right.

Ramit Sethi: This is where the big wins are, so credit...So let's get tactical, right, what do you do to get credit?

Jordan Harbinger: Yeah.

Ramit Sethi: You have to get a couple sources of credit. Credit card could be one, if you have a student loan, there's a number of ways. You can search sources of credit, you need to pay that off on time, and preferably in full, each month. You know, for student loans that may not be applicable, and then you want to make sure that...I show you some advanced tactics in the book, I don't want to get into those too much because I know that people who are listening will want to optimize the hell out of their lives.

Jordan Harbinger: Right.

Ramit Sethi: But sometimes you need to

make sure you have no debt first...

Jordan Harbinger: Yes.

Ramit Sethi: Before you start optimizing.

Jordan Harbinger: Right. So how do we start building credits safely without income? What if I'm in frigging high school or college, I have no job, I have no money. How am I going to start building credit safely? I can't even get a credit card and if I do it's going to be the one that came in the mail, it's going to have the 'screw you over APR', and all the stuff that I don't want.

Ramit Sethi: First of all, I don't like credit cards that come to me in the mail.

Jordan Harbinger: Mm-hmm.

Ramit Sethi: They are usually the worst. And by the way, the conversion rates for college students are astronomical. They open those things and sign up at humungous rates, and often it's for things like a free T-shirt.

Jordan Harbinger: Right, yeah.

Ramit Sethi: Which is ridiculous—ignore the things that come in the mail, in fact, go to www.optoutprescreen.com and put your name there so you will be removed from those lists; and what you want to do, if you have no income, go to your bank and get what's called a secured credit card. You put like \$500 down as collateral and you will start building credit in about 6 to 12 months, you will have enough credit that you will be able to open your own

real credit card, that's the way to get started.

Jordan Harbinger: Cool. So what kind of card do I pick then when I can get a card? I mean I don't know, there are a million different kinds of cards, some of them give you cash back, when I look at those numbers though I think: alright, that's like 20 bucks a week or a month, or whatever.

Ramit Sethi: Yeah, that's right.

Jordan Harbinger: What kinds of cards do I even want, and there's a zillion—there are a million credit cards I can get one from any store, I can get one from any bank, I don't even know where to start.

Ramit Sethi: This is a good question and you will quickly see that no one has made it really easy, and what I'll tell you is this: I'll just tell you the ones I think are the best, okay. So first of all the simplest card you can get is a student card from your bank. The reason I like to use it is they have no fees at all. Make sure that they have no fees, okay. If you're a student you're not spending enough to justify the fee, so keep that in mind.

Jordan Harbinger: Right.

Ramit Sethi: I have a fee-card but I spend enough, more than enough to justify it, okay. However, for...there are a lot of these reward cards, I really rewards cards, because if you're spending you might as well get something for it, now the problem is that these stupid rewards cards, they're like: you spend...you get 5 percent back if you spend on this specific

block, in this specific city...

Jordan Harbinger: Right.

Ramit Sethi: On a specific date for you to get 2 percent, or maybe 2.5 percent if there's a blue moon. And I'm like: look I don't have time to deal with this, I don't care about optimizing for an extra \$7, so my favorite card these days is a Schwab Cash Back Card, it's 2 percent flat everywhere. And I actually have come to really respect Schwab, I actually recommend their checking account in my book, because it's the best checking account around. One of the things I really love, especially for the guys listening, is that you get reimbursed for all ATM withdrawals.

So I was in Vegas this weekend for a bachelor party for a friend of mine—withdrew money like six times in a day. I'm like: dude you could've saved 40 bucks if you had used the Schwab card. So I like what Schwab is doing as a company in terms of moving to be more customer-centric and that's why I recommend their 2 percent cash-back card.

Jordan Harbinger: Nice!

AJ Harbinger: It's good to know because we are Chase users and we are [inaudible 27:14].

Jordan Harbinger: Yes, so ridiculous. When I told the people at Chase that I was going to, maybe, get another account somewhere else. They're like: oh, but we have ATMs everywhere, that's one of our major things. And I said: what if I get a card that reimburses ATM fees? And they were like: I don't think

anybody does that. I said: actually I just read about it today. And they were like: well, where to do I get that. The banker herself is wondering where she could get that.

Ramit Sethi: Yeah, exactly! It's a good card and it's simple, I like it.

Jordan Harbinger: Now that we know what kinds of cards to get, what happens if I miss a payment or I'm too stupid to manage my credit cards properly?

Ramit Sethi: If you miss a...

Jordan Harbinger: Why is it so bad, actually, I should ask you?

Ramit Sethi: I'll tell you—first of all, if you miss a payment by a couple days, immediately call your credit card up, pay it and make sure to say: I'd like to confirm that this has not affected my credit. You have a few days' grace period. If you miss it more than, usually, a month, here's what can possibly happen. Your credit score can drop 100 points.

Jordan Harbinger: Wow! Which is a lot, because it's what, out of 800 or something?

Ramit Sethi: It's a lot. The thing is your APR can skyrocket by about 30 percent. You will get hit with a late fee of about \$35 and this is the most astonishing part of all. Other credit cards can then jack up your rate because you are not as credit worthy.

Jordan Harbinger: So basically it can cost you thousands and thousands of dollars...

Ramit Sethi: As I say in the book...

Jordan Harbinger: Over a long period of time?

Ramit Sethi: As I say in the book, if you miss a credit card payment, you might as well pick up a shovel and hit yourself in the face, because these credit cards are going to get you now.

Jordan Harbinger: Yeah, yeah, and a lot of people don't even know that they don't cancel out your introductory rate. So people sign up for the zero percent for a year, and then they miss one payment and think: ah, no big deal. And not only does it wipe out that rate, but now all of the rates, and all of your other cards went up too.

Ramit Sethi: Yeah. Isn't it funny how important this is, yet we spend so much time focusing on things like: oh, I'm going to get a small Coke today...

Jordan Harbinger: Right.

Ramit Sethi: Because I can save 48 cents...

Jordan Harbinger: Forty-eight cents.

Ramit Sethi: It's kind of like, you know, when think about the stuff that you guys work with: I'm going to get a fancier type of wool for my sweater because that will get women.

Jordan Harbinger: Right.

Ramit Sethi: And really, you're focusing on something that may have 0.002 percent, but...

Jordan Harbinger: But you're 45 lbs overweight.

Ramit Sethi: Exactly! Exactly right! Focus on the big wins not the minutia.

Jordan Harbinger: Exactly!

AJ Harbinger: It's funny, because growing up, you know, my family would drive around trying to find the best gas prices, but when it came to really managing your money, I didn't get any of those lessons that now I'm really regretting when I'm getting into these situation I'm like: oh, what do I do here? What's the best situation to put myself in, and I didn't even know.

Jordan Harbinger: I spent a week in Croatia back in college, with an investment banker, an Indian girl, actually, and she would walk around the cities we are in for 45 minutes looking for like a-tenth of a cent difference in exchange rates, to change her dollars into Croatian dinar, or whatever it was at that point. And it drove me insane. So when I did the math for her, which was actually her job was an investment banker, and when I did some basic math for her, she realized that she was spending 45 minutes saving about a nickel, a little bit less.

So it became pretty apparent these economies...these little lifestyle economics or whatever, became really apparent. So that's one of the reasons why I like the book so much, is because it really says: to hell with the \$3 latte, don't even worry about it, but how about sav-

ing 40 grand on your house when you buy it in 20 years.

Ramit Sethi: Yeah.

Jordan Harbinger: Or five years, or whatever you are.

Ramit Sethi: So if we do miss a payment we call them right away, and we make the payment right away. We claw tooth and nail to figure out how we are going to do that.

Jordan Harbinger: Exactly, and then if you miss it, you miss it.

Ramit Sethi: And sometimes the ship has sailed and so let's technology...let's be realistic and let's say: look, I messed up once, I'm not going to try harder, because clearly it didn't work last month. What I'm going to do instead, is build a system that's going to automatically handle this for me.

Jordan Harbinger: Mm-hmm, right.

AJ Harbinger: Automatic bill pay is one of the God sends for me, I'd rather...so now I don't have to worry about being late on any of my bills

Ramit Sethi: You know what's funny? I've been speaking to a lot of different media, and some of the people watching are a little older, and y, we are pretty comfortable with bill pay and stuff, but one of the concerns people have about bill pay and automating their life is that they don't feel in control anymore. And I will say that I'm actually more in control now

than I was before, and the reason for that is that I get notifications, at specific times that I set up. So when a bill is about to be taken up or paid, it's not like it just vanishes, right?

Jordan Harbinger: Yes.

Ramit Sethi: I get an email saying: Please review this. But by default, if I do nothing, the right thing will happen, in other words the bill will be paid.

Jordan Harbinger: Right.

AJ Harbinger: So if you want to spend that extra time nitpicking the bill to make sure all the cents are there, you can, but you don't have to to stay inline.

Ramit Sethi: Exactly.

Jordan Harbinger: So why is it so important to plan early? I mean a lot of guys are probably already tuned out because they're like: whatever man, I'm 20 years' old, I don't have to think about any of this crap for like ten years.

Ramit Sethi: Yeah, alright let me give you a great example. You know, when it comes to weddings and people will say like: let's not talk about weddings...it's like, it's coming down the road.

Jordan Harbinger: Right, right.

Ramit Sethi: But let's just talk about that for a second. When it comes to weddings we all have this game, we are like...we say: Oh, yeah, I just want to have a small, simple wedding.

Alright fine.

Jordan Harbinger: Right.

Ramit Sethi: Right, you do, because first of all a wedding is not just you, there's going to be a girl involved.

Jordan Harbinger: And we know what that means? Once you're involved with a girl, all bets are off.

Ramit Sethi: The second thing is that, just be realistic. Look at weddings, right. We say: Oh, I want to have a simple wedding, but when it comes to that day, inevitably the couple whoever it is will decide: no, I actually do want the best flowers because it's my day, and I actually want that ice sculpture that I can drink Vodka off of, or whatever people do at weddings.

Jordan Harbinger: Right, yeah.

Ramit Sethi: It's my day, so let's just be realistic and say: okay, we know three numbers, let's run some numbers—we know the average cost of the wedding, roughly \$28,000, we know the average age that a man gets married and a woman gets married, okay. So if we know these three numbers, and I've calculated this on my site; you know that when you're age 20 you need to be saving about \$300 a month for your wedding. Who does that?

Jordan Harbinger: Nobody.

Ramit Sethi: Nobody, it's ridiculous.

Jordan Harbinger: Nobody does that.

Ramit Sethi: It's ridiculous because you're 20 years old, right. Even if you're in a relationship, you're like: screw that.

Jordan Harbinger: Yeah.

Ramit Sethi: But if you're 25, you need to be saving something like \$1,100 a month.

Jordan Harbinger: No!

Ramit Sethi: Of course no one does that. Now the point isn't to discourage you from saving. The point of this is to show that...

Jordan Harbinger: Discourage you from getting married, yeah. [LAUGHS]

Ramit Sethi: [LAUGHS] The point is to show you that these things are going to happen whether you like it or not. Whether you admit that you're going to get married at some point or not...

Jordan Harbinger: Sure.

Ramit Sethi: You're going to, and I'll take that bet right now. I love betting on just raw statistics because people always think that they're different. You're not different, you're the same, so save for it, plan for it, okay. And don't try to say I'm going to be different, my wedding will be small.

Jordan Harbinger: If all these people who thought they were different actually were, we wouldn't have these statistics to work with.

Ramit Sethi: That's exactly right.

Jordan Harbinger: Alright that makes sense. So now we've got...I'm freaking, almost 30 man, what do I do? Would I have to save like my entire monthly paycheck now to pay for my wedding that may or may not ever even have?

Ramit Sethi: I think the key is to set up a few sub-savings accounts and talk about your short-term goals—that's one to five years, and for anything longer than that, focus on your long-term investments. So let's talk about that. You're 30 years old, what you want to do is thing about what you're going to do in the next five or...Now get a napkin out and you can actually write this down, and I could right now. You're going to get married, you're going to, maybe, get a house. You're going to have kids. Okay, these are like the big things that are going to happen.

Jordan Harbinger: Right.

Ramit Sethi: Each of those things, you know, I've showed you in the book and on the site how much those things cost. You don't have to save 100 percent, but you do need to start saving, the habit is important. If you can save even \$10 a month for each of those things, then it's just a simple flick of the switch to save \$100, and then \$1,000 as you start earning more. So the key is to get the habits right and get the accounts right, because it's a very different thing to be theoretical about it, but this book is not theory, it's not philosophy. By the time you finish this book your finances are

automated.

Jordan Harbinger: Yeah, that makes a lot of sense. So going in, to use myself as a case study here, I have a ton of student loan debt. I went to Michigan Law, and it's like \$140,000 or something at the end. So what do I do? I mean, I've got a massive amount of debt, and do I need to pay that down, or do I need to invest? Do I need to fund my IRA all the time? What do I need to with the money that I actually do have?

Ramit Sethi: So, this is a question that gets into both the mathematical side of personal finance and the psychological side of it—and never doubt that personal finance is very, very intricately tied with psychology. So do you know at what interest your loans are at?

Jordan Harbinger: Some of the higher ones are...well, the lower ones are even lower than even the bank savings accounts, so those, I mean, are just...those I can pay off in 30 years, right?

Ramit Sethi: Mm-hmm.

Jordan Harbinger: Because it's not that big of a deal.

Ramit Sethi: Yep.

Jordan Harbinger: Some of them, I want to say are like 4 or something percent.

Ramit Sethi: Okay.

Jordan Harbinger: Or they are a little higher.

Ramit Sethi: Alright, so this is interesting. So basic, basic, numbers again, I'm simplifying here; the market return is roughly 8 percent over the long-term, okay. So technically if you have a 4 percent loan, you know, you could pay the minimums but be making more in the market. That's the mathematical side of it, and that's highly simplified but I'm just giving it to you like that.

However, there's a psychological side. Some people hate having debt, okay, they hate it. So they're like, you know, I don't care if I'm losing X-theoretical dollars, I just want to get rid of this debt so I can get on with my life. For them it makes sense to just pile on as much as possible. What I actually talk about in the book is that there are three choices:

- You can pay the minimums and invest.
- You can pay all your debt off quickly, or
- You can do a 50/50 or some combination split.

There are benefits to doing the 50/50 split because there's compound interest, so think about it, you know, take a look in the book and run some of your own numbers as well.

Jordan Harbinger: Getting into investing, that to me is something that I never really studied, I don't know much about, but I'm still always worried about, you know, do I trust this financial advisor, do I trust this banker. You know, every time I go to the bank it's like: are you investing? You know, can I get you to invest? Who can you trust at our age? Who do you recommend? Do you recommend us learning more about investing, in general, or do you

recommend us just going to our bank and trusting the financial advisors...?

Ramit Sethi: No, no, no, no. Do not trust the people are your bank. It's not that they're bad people, the system is just built for them to take your money, invest it, but also keep a little bit, which turns out to be a lot.

Jordan Harbinger: Yeah, right.

Ramit Sethi: So here is who you will trust. First of all trust yourself. There are...you should be doing this on your own, it's not the same as hiring someone to take care of your garden or your backyard.

Jordan Harbinger: Right.

Ramit Sethi: That seems like a simple service in exchange, and a lot of people think: oh, I'll just pay someone to manage my money. It's actually fundamentally different because a gardener will cost you, I don't know, 30 bucks a month, a financial advisor who is taking commissions will cost you tens of thousands of dollars over your lifetime. And that's just a good one. There are bad ones too. What I will say is this, for most people, you can do this on your own, just think about how much time you spend doing whatever. Hanging out, watching TV, whatever. Would you be willing to put ten hours in if I told you that you would make hundreds of thousands of dollars over your lifetime?

Jordan Harbinger: Of course.

Ramit Sethi: Of course—of course we all say

we would but let's see if we will do it. The second thing is, if you're looking for companies, I do have a couple companies that I do recommend, I think Vanguard is great. I really respect them, they have been around for a long time, their fees are low, and they are really a consumer-focused company. T. Rowe Price, TIAA-CREF, I recommend all these in the book I show you the funds as well. Yes, one of the things I don't like about other books, sometimes they just give you the high-level advice.

Jordan Harbinger: Yeah.

Ramit Sethi: For me I'm like: look, here's what I really like, so I recommend all those companies to take a look at, and you can learn a lot. Call them up ask them, they will educate you.

Jordan Harbinger: Okay. What about Fidelity, that's the one I'm using right now?

Ramit Sethi: Yes, they're actually pretty good too.

Jordan Harbinger: Yeah, okay good—good enough, because I just gave them a lot of money to throw into my Roth IRA yesterday.

Ramit Sethi: Good.

Jordan Harbinger: And I can't do anything about it now. One thing I really like about this book, and we talked about this earlier, is the leverage and the scripts that you get, so for example, you talked about this fee and the credit card charge which is something that I do regularly because always there's these little things, for example, I just got a credit card

charge from a place in California that I went to like a month ago. It was just 6 bucks, so it would have been real easy for me to forget about it, but I'm like, no, some bastard at this bar in California is tipping himself out, probably with, like, 100 or 500 credit cards that people have used over the past 30 days, and I'm not going to be one of those people and I don't want MX to flag it, so they're like: wait a minute, there's something going on here, there's a bunch of \$6 charges.

So you can call and you can actually dispute these charges, and the credit card company army will go to bat for you economy it's their money if people are fraudulently using your plastic.

Ramit Sethi: Absolutely! I talk about how to mobilize your credit cards army for you. So any time there's a situation, your credit cards have some of the strongest consumer protection laws in the country. If there is anything that happens, the merchant will automatically be flagged, you will be given a credit in your account and they will fix it for you.

So like, for example, let's say that you order something off whatever—eBay, or whatever. Well, eBay is a great example because they will fight for you. But if you order something from some merchant online and he never ships it, you know, something like that. You call your credit card, you say: look, I never got this, and they will have you fill out a very simple form, but they will actually credit you before you even fill out the form.

Jordan Harbinger: Before you even fill out the

form... yeah.

Ramit Sethi: They are going to go to bat for you, so don't forget these credit cards, while we love to hate them, I love to hate them too, in some ways they are angels on our side sometimes.

Jordan Harbinger: Yes, absolutely!

Ramit Sethi: So, now let's look on the dark side. I've got, me personally, I have no credit card, that I pay my balances off every month because I don't want to give those bastards any more money than I have to; but a lot of people have a mountain of credit card debt and absolutely astonishing amount of credit card debt. What do you do about that?

If you're making less than...if you're making a few thousand bucks a month, if you are a student, especially, what do you do when you've got like \$12,000 of credit card debt?

Ramit Sethi: So the first thing is to get a handle on how much you own, and on how many cards. What I find—and I was talking to someone just a few hours ago about this, and this person was using some telltale characteristics that made me know they had a lot of credit card debt. Do you know what it was? They were using a debit card.

Jordan Harbinger: Oh.

Ramit Sethi: And I said, why are you using a debit card? And they told me: oh, you know, I don't want to carry cash around. Really interesting—what a credit card, which is where I

spend all my money, and it became clear that they had credit card debt and a lot of it. And of course my next question was: do you know how much you have, and on what cards? And this is the first step that most people never take. They never sit down with a spreadsheet or a napkin and say: how much do I have in debt, what are the interest rates, and how long will it take to pay it off under a couple of situations?

If you can do just that much, that's 50 percent of the way right there. But you know what? It's very psychologically scary to do that.

Jordan Harbinger: Yeah, it makes you face one of the biggest holes in your entire life which is the enormous amount of debt that's just creeping up behind you, ready to take you out.

Ramit Sethi: It's a behavioral issue too. A lot of times people will get their debt, they will pay it off, and then immediately get back into debt.

Jordan Harbinger: Mm-hmm, mm-hmm.

Ramit Sethi: And it's clear, like these are not the credit cards that screw you, it is a behavioral issue.

Jordan Harbinger: Right.

Ramit Sethi: It's the fact that, you know, you're spending too much, you can't control, and there are lots and lots of tactics, I talk about in the book, as to how to control that.

Jordan Harbinger: Right, perfect.

Ramit Sethi: There are plenty. I talk about how to use strategic and psychological barriers against yourself—lots of literature that I’ve reviewed in the psychology world to get these things for us. There are ways to get around it, and responsibly build your credit.

Jordan Harbinger: Solid, well now, if I’m young, which I’m no longer, unfortunately—if I...I mean my dad, he was busting my balls even when I was like 19, to get out a Roth IRA, a retirement account, and I’m thinking: dude I don’t even have a job, why do I need an IRA. And so what is it about these 401(k) and these Roth IRAs and stuff like that, that are so important, even when you’re young? Because you are saying, alright then it’s important that you do this, and it’s the easiest way to get rich, but aren’t there down sides? I mean, if I’ve got my money in there and I can’t use it...?

Ramit Sethi: You said that, “You don’t even have a job, so you can’t get a Roth IRA.” What you’ve basically said, I’m going to translate that: you thought you had to be rich in order to start investing.

Jordan Harbinger: Exactly!

Ramit Sethi: And that is the most common mistake of people who never get rich. They think that one day they have to do something in order to...they have to have money in order to make money.

Jordan Harbinger: Right.

Ramit Sethi: Most people, and there’s a great

book called *The Millionaire Next Door*, which will shatter your illusions about how wealthy people live. You may say, you know: they drive older cars, their watches are old, you know, they don’t have fancy stuff, but they have a lot of wealth. When it comes to these 401(k) and Roth IRAs—first of all they have the worst and most cryptic names in the world. I wish they were called like ‘super charge tax beneficial...’

Jordan Harbinger: Right.

Ramit Sethi: Whatever—‘cocoons’, I would use those, but what they are instead is...I’ll just give an example with your 401(k), most times... each time you make \$1 the taxman is going to take about 30 percent.

Jordan Harbinger: Sure.

Ramit Sethi: So you actually get about \$70...\$0.70.

Jordan Harbinger: Right, I like that conversion.

Ramit Sethi: Yeah, I know, that would be amazing.

Jordan Harbinger: I want that retirement plan.

AJ Harbinger: Is that in the book?

Ramit Sethi: So you make \$1, and you actually get about \$0.70, but what a 401(k) let’s you do is, instead of only putting that \$0.70 to work in the market, you actually get to put a whole \$1.00 okay, and you’ll pay taxes later, which is great.

Jordan Harbinger: I like to pay it later.

Ramit Sethi: Yeah later, you pay later and so you get that extra 30 percent to work for you and compound which turns out to be lots... many thousands of dollars. Alright, a Roth IRA is sort of the opposite, you pay taxes now like usual, you put your money into a Roth, and when you take your money out you don't pay taxes on their earnings. So I'll just give you a very concrete example. Do you guys happen to know off the top of your heads what is the best returning stock from 1970 to 2000?

Jordan Harbinger: Not right the top of my head, no.

AJ Harbinger: No.

Ramit Sethi: Take a guess.

Jordan Harbinger: Has anyone gotten this right—IBM.

Ramit Sethi: Okay, IBM, Microsoft, both good. Any other guesses? Somebody guessed Google once, and I'm like: dude...

Jordan Harbinger: Dude, yes, they missed the first year.

Ramit Sethi: Yes, exactly. It's going to be something super basic...

Jordan Harbinger: I'm guessing.

Ramit Sethi: So it's actually South West and the symbol is L-U-V—LUV. Now let me give

you now much this thing returned, we talked about it in the book how the market returns on average 8 percent; Southwest returned 26.99 percent annualized, which, if you check out this thing, I teach you these really cool nerdy tricks like: The Rule of 72...

Jordan Harbinger: Yes.

Ramit Sethi: That means that that money basically doubled every three years. So if you had invested \$10,000 the first day and never touched it again, you would have had \$10 million. So going back to the Roth IRA, you would have paid taxes on that \$10,000, you would not have paid taxes on the remainder of your earnings. That's an extreme example. You, me, nobody in this room, we are not going to get that kind of return, but for whatever return we get with our Roth, we will not pay taxes on the earnings.

And one more thing about these retirement accounts. So I just said 401(k), Roth IRA, and people are thinking like: well, how does that work...how does that integrate with my credit card debt and my paying for like going out to bars, where do I put my money first? That is where the system comes in, so that what I talk about is a ladder of personal finance. First you do this, then you do that, if you don't have that, then you do this. So there are a lot of very simple, step-by-step directions.

Jordan Harbinger: Right, and I noticed one of things you were saying in...especially in terms of spending, is to be proactive and not reactive. In other words, don't be like: oh, crap I'm broke, now what do I do? You have to actually

plan out how much you're going to be and not even the exact amounts, you just have to do this envelope system which you have in the book, where you say, alright, this is how much I'm going to allocate for screwing around, and this is how much I'm going to allocate for keeping in case I, you know, get injured or something, or I have to get married, God forbid—right?

Ramit Sethi: Yeah, the envelope system is a great way for temporarily stopping a spending problem, or if you just wanted to do one thing today to get your spending under control, to do this for a short period of time. It's literally as simple as it sounds. You set up five envelopes on your table, you put cash into each one, so you say, I want to spend \$500 this month going out. When that \$500 is gone—you're done. Okay, because you certainly don't want to take money out of your rent envelope...

Jordan Harbinger: Yeah, you can't.

Ramit Sethi: To pay for that. So that's how the envelope system works. Now if you do that you will be shocked at where the money goes. And I also want to add one more thing, if you spent no money today, if you spent zero dollars, and you sat in this room, you would actually still be spending money—don't forget that. Your rent, that's accruing, your Christmas gifts at the beginning...at the end of the year that averaged \$700 to \$1,000, you're still paying for that today. So people spend money each day even though they don't know it because we are not cognitively wired to amortize that.

Jordan Harbinger: On that note you've got...

you've talked a lot about subscription services which, you know, you're also paying even if you're just laying bed or staring out the window, you're still paying for that. So your Netflix and your cable, and all this other stuff, these are these money pits that most people don't even need. And you've talked about the a-la-carte system, and it's funny, you've talked about gym memberships, they're like 70 bucks a month or whatever, which is actually not even that expensive for New York City. If you just bought a day pass for five or ten bucks, if you look at how often people actually go to the gym, versus how often they think they go to the gym, it becomes cheaper to just buy day passes, and the same thing goes for renting movies or getting magazines, and anything like that—newspapers, anything like that.

Most of the subscription services are actually working against you, in terms of being...yeah, they're convenient, but they are actually way more expensive than people even realize.

Ramit Sethi: Yeah, companies love subscription services because it's autopilot for consumers to pay them. And there is nothing better than getting a consumer on autopilot, right, because we don't like to think about this stuff.

Jordan Harbinger: Right.

Ramit Sethi: I will give you an example from my own life, from mistakes I've made, and this was not too long ago. So I signed up for some marketing subscription on something, and they enrolled me in a...it was like: first month free and after that 70 bucks a month, and

that's a lot.

Jordan Harbinger: Yeah.

Ramit Sethi: So, what I do when I sign up for a subscription; I sign up for a lot, and I go through the free trials and I set a reminder on my calendar, which is a key part of my infrastructure, five days before the time comes up. That way, even if I'm out of town, I come back, I know it's working. So five days I log in and I'd say: Man, this is some really good content, I'm going to download some of this, I'm going to come back and review it so I move it to the next day.

Of course, I got busy, it took me two months to cancel that. So that company got \$140 from me that I didn't intend to spend, and that's why subscriptions work so well. So when people talk about big wins, a lot of people complain: I have no money. Like: I don't earn enough. Okay, that may be true and we talk about how to earn money as well, but optimizing your spending is so important and some of these small steps, like one of the things I do, once year I call up and negotiate my car insurance. I have a script for that on my website. And you should look at the comments, because people are like: I did this on a Saturday morning; it took me one hour, because you gave me all the phone numbers and websites...

Jordan Harbinger: Mm-hmm.

Ramit Sethi: And I saved \$600.

Jordan Harbinger: Nice!

Ramit Sethi: For one hour—that's amazing. Well I would take that 600 bucks, boom, redirect it to a vacation, an investment, whatever it is that you love and makes you live a rich lifestyle.

Jordan Harbinger: Amazing.

AJ Harbinger: On of the cool things about my credit card at Bank of America is I can create a credit card number that has a specific limit that I set. So if I sign up for a subscription that I know is going to be 80 bucks the next month, but I know that if I may forget, I may be traveling. I can set that limit to \$15, when they go to run that card, the money is not there, the subscription is cancelled, they then notify me: hey, your credit card didn't run, if you would like to renew your subscription we need another credit card.

So that way if I really do want that service I just put in the real credit card number, but I have that buffer, so in case I forget, I never get those charges.

Ramit Sethi: Love that—I love that.

Jordan Harbinger: I think PayPal lets you do stuff like that too. It's not even hard, you can even go to a drugstore and buy an American Express Gift Card and fund it, and I don't even think it costs anything if you actually fund it—fund it with 20 bucks, you can use, it's just as good as a regular...it's like a secured card like you were talking about before.

Ramit Sethi: Yeah. You notice, by the way,

when we were talking about the a-la-carte method...

Jordan Harbinger: Right.

Ramit Sethi: Which was very counterintuitive for people when I proposed it, and because subscriptions are seen to be, you know, you save money if you get a subscription to a magazine or whatever. Well it's counterintuitive but I did that intentionally. What I wanted to do was: jolt people into conscious spending. So, for example, rather than having a \$70 cable bill, cancel that, and instead buy the TV shows on iTunes. Now why does this work? Not only is it potentially cheaper, maybe it's not...

Jordan Harbinger: Right.

Ramit Sethi: But you can try that out for a month or two, I love a micro test. What it does is each time you go to pay, you are forced to be conscious about it and that will cause you to think twice, and also you're just going to be...it's not as easy to turn on that TV anymore, so you're going to be less likely to do it in the first place.

AJ Harbinger: Right, one of the cool things we did, we decided not to get cable, we watch Hulu we read, you know, and if there are [crosstalk 21:57]...

Ramit Sethi: How novel, you read—amazing!

Jordan Harbinger: I don't do any of that.

Ramit Sethi: [LAUGHS]

Jordan Harbinger: I watch a lot of Hulu.

AJ Harbinger: And the iTunes, really, I mean, if your cable bill is 80 bucks, it's like...what is that? Forty shows you have to download a month?

Ramit Sethi: Exactly! Astounding!

AJ Harbinger: I mean, I don't know of very many people who watch 40 episodes of something.

Jordan Harbinger: No, nobody with the job or a life anyway. So one thing I felt was really interesting is that you also based in psychology is you said: don't let your friends influence your spending too much. And I realized that my whole life, I've basically just been hanging out with people and spending money like they do. So when I was younger in college, my roommate was...he never spent any money, and I never spent any money. We'd always find stuff to do that was just free, and then later we sort of hang out with people who like to go out and buy tons of stuff or spend money and stuff, and I realized I was doing the exact same thing.

But it's easy to...it's actually pretty easy to go and hang out with those people and be like: hey, I'd rather lay down the law, I throw the cash down. You know, a lot of people will go: yeah, you know, that's not a bad idea; we should probably just do something else. Because everybody is just waiting for the next guy to say: maybe we shouldn't go and do this, maybe we should actually just chill in-

stead.

Ramit Sethi: Yeah, I love that. I think most personal finance advice completely ignores the effect of social influence, and for us, for guys like us, there's nothing more profound when it comes to spending. If we have friends that want to go out and buy \$15 drinks, dude, we are going to keep up, that's just the way it goes. And I'm not going to be the guy to say: don't do it. What I will say is: It's important to think about this consciously, alone.

Before you get out to a bar, before you go to a restaurant. In fact, I did a segment with ABC where we talked about, some ways to save money at restaurants, and one of the key things, is that when you get there, the restaurant has engineered the whole environment, slower music, produces a 41 percent increase in drink revenue. And there are all these tactics they use. They've engineered, they're very smart, but by the same token, you can work against them, but the key is planning out before you go, how much you want to spend... In fact, potentially even getting a restaurant buddy, where you say: look, dude, I don't want you to let me spend more than 20 bucks, okay.

You could do that at a bar, you could do that when you go out. Whatever it is, you can find ways, instead of being influenced in a negative way, of turning that around to allow yourself to be influenced in a positive way.

AJ Harbinger: Right; and one of the cool sets that I've found is at www.restaurant.com you can guy gift certificates. So if you know you

eat out a lot, and you set your budget for \$500 you can buy \$500 worth of gift certificates for \$400, and you're spending that money...you're spending that extra \$100 that you wouldn't have spent before because you couldn't have afforded it. So there are simple ways, so that if you know you are spending a lot of money in this...certain area that you can save a lot of money.

Ramit Sethi: Yeah, I love that. I love entertainment books, www.entertainment.com the funny thing is, it's used to be seen as kind of, like weird and cheap to use those things—right?

Jordan Harbinger: Yeah, yeah.

Ramit Sethi: And like in the book I distinguish very carefully between people who are cheap and frugal. But the cool thing is, I think these days, it's actually seen as kind of cool, or at least it's not weird if you take out a coupon. Right, you roll out with friends, and you have like a \$10-off coupon, and people are like: yeah, awesome.

Jordan Harbinger: Oh, yeah.

Ramit Sethi: So it's not bad anymore.

Jordan Harbinger: No, it doesn't matter, and even if it were, who cares, really.

Ramit Sethi: Exactly, who cares like a 10-minute...

Jordan Harbinger: [Crosstalk 25:06]

Ramit Sethi: Exactly! Ten minutes later who is

going to remember, nobody.

Jordan Harbinger: Nobody.

Ramit Sethi: And you said 25 bucks.

Jordan Harbinger: Yeah, it's totally worth it, to hell with those people. If your friends don't like you for pulling out coupons, get new friends. So, in terms of saving money, it's hard, it's hard to throw money in a bank account because it's freaking boring, you just have money in a bank, it's way more fun to spend it. What do you suggest?

Ramit Sethi: Well, first of all, if you have to actively send money into a savings account every month, of course you're not going to do it, because it sucks.

Jordan Harbinger: Right.

Ramit Sethi: You are basically saying: good-bye money, I'm saving you for indeterminate reasons, so see you later, which is retarded. What you want to do is say: alright, first of all what do I love? I want to go to Brazil later this year. It's going to cost me 500 bucks five months away, so I need 100 bucks a month. But instead of me...First of all, you're already ahead of the game right now, because you know what you're working towards, you have a specific goal.

Jordan Harbinger: Right.

Ramit Sethi: Now instead of you having to, basically, take \$100 out of your pocket, and put it into this bucket, what you want to do is

automate it. So as soon as that...you know, as soon as your paycheck comes in 100 bucks is whisked away into that sub-savings account for the Brazil trip and that's just a really specific example. Imagine scaling that out for your entire financial infrastructure.

Jordan Harbinger: Yeah, that makes a lot of sense actually, I like that. So, having that goal makes it easier to watch your balanced increase. You've got some challenges in your book like: save \$1,000 in 30-days.

Ramit Sethi: Yeah.

Jordan Harbinger: Assuming that means clip \$1,000 in unnecessary [crosstalk 26:27]...

Ramit Sethi: No, no.

Jordan Harbinger: In 30 days?

Ramit Sethi: No, no it doesn't. You see, that's a common mistake. People think saving is only about cutting cost.

Jordan Harbinger: Mm-hmm, right.

Ramit Sethi: Like I said: CEO model—cut costs, earn more, optimize your spending. So let's talk about that. We talked about some of the ways to cut costs. Earning more, I talk about how to be a consultant. You guys know that very well, you guys have started selling products, services, training—you guys are a prime example of doing something entrepreneurial. For most people it's even simpler.

Do you speak English? Do you know how to

Fourth Grade Math? Can you be somebody's running partner? Go on to Craigslist, look for what people are looking for. Do they want a tutor? Do they want someone to help be their assistant? Whatever it is, you can make 20 bucks or 25 bucks an hour, and that's a few hundred dollars in cash in each month for a few hours' work—that's earning more. And then remember that optimizing your spending is something everybody else overlooks. That's where we talked about negotiate like an Indian, that's where we talked about redirecting cash that you were spending on gas a few months ago when it was so high, you found that money somewhere, take that same money, redirect it to a sub-account for gas, so that when gas goes higher next time, you have that money sitting there.

There are a lot of techniques you can do, and my readers saved hundreds of thousands of dollars using that one-month challenge.

AJ Harbinger: So does Schwab actually have those types of accounts? I've never seen...

Ramit Sethi: No, but I used ING Direct for savings.

AJ Harbinger: Okay.

Ramit Sethi: And they allow you to make it very easily, and so what I did, by the way, with those tips—so if you guys are interested you can search online for the Save \$1,000 in 30 Days Challenge. And all 30 tips are there for free. After that was really successful, I started a separate site called: ScroogeStrategy.Com, where I give people one tip per week, and I

charge them because I think the tips are really, really good.

Jordan Harbinger: Mm-hmm.

Ramit Sethi: And I've got hundreds of customers who are not paying for that.

Jordan Harbinger: Nice, I like that a lot. One thing I thought was really interesting. This is something I've done, at least sometimes and it's worked really well is: If you discover how much you make per hour, then you think about how much something costs. It's a really good way to dissuade you from wasting your money.

Ramit Sethi: Yeah, I used to think about it in terms of quarters when I was in college. You know, like: that's going to cost four quarters which is, how much you would spend on laundry.

Jordan Harbinger: Right.

Ramit Sethi: And now I think, you know, you can think of it in terms of hourly. So the trick here is, if you make \$50,000 a year, you make roughly \$25 an hour, or just divide by two, or you could do it the other way around. If you make \$30 an hour, just double that and add a few zeros, you make \$60,000 a year.

Jordan Harbinger: Right.

Ramit Sethi: It's a nice trick you can use at parties if you want people to really be impressed and get a lot of chicks, trust me, it really, really works. [LAUGHS]

Jordan Harbinger: Well it makes you think, wow, this meal is totally not worth 4 hours of work, at all.

Ramit Sethi: Yes, it's an interesting way of thinking about it.

AJ Harbinger: The other big things that a lot of guys listening will, obviously, know about is, how do you talk about money with your girlfriend or your fiancé or your wife, because obviously, you are meeting someone, you're building this relationship, they have a whole set of financial history just as you do. How do you actually talk about that stuff?

Ramit Sethi: This is a big deal, this is a big deal and this is the cause of a lot of stressful relationship. I talk about the DTR—define the relationship—but for money. And so...

Jordan Harbinger: What are we?

Ramit Sethi: The way to do it is, you have to be very, very subtle, and let's walk through it. So what most guys do, because we are undiplomatic cavemen, we are like: what the hell are you spending \$50 on lipstick for? Or why do you get a two hundred dollar haircut, that's retarded. And then of course, they get defensive and then we are in a really bad spot.

The way to do it is to first realize that you're going to have to go slow, and second—and this is the key—ask questions. So start off really subtle, even if you know the answer, you say: hey, you know, I saw this thing on TV about these online high-interest savings

accounts. Have you heard anything about that? Even if you know the answer, just do it, because people want to be the expert, and anyway, you can learn something about what kind of knowledge does she have about it? I want to emphasize, you guys cannot judge about money. You cannot judge especially in a relationship, you don't even know how delicate it is.

So you work from there, you talk about: oh, okay, cool. So the next week you ask another question. Then you go and you start talking, instead of just asking say: hey, I've been thinking about my money, is there something that you think I should be doing better with it? Okay, again, tailor this for your relationship.

Finally, and I'll just make a long story short, because I go into detail in the book with scripts, at the end you basically want to work towards kind of like money-day, when you talk about money together. Of course, because you've worked for so long and worked through it gradually, it's not really a big, dramatic day. You're actually talking about your goals together. You are not talking about how much does she spend on magazines; you're talking about what you want to do together with money.

AJ Harbinger: Right, and if you're learning all these great tips, wouldn't you want to share them with the person you care about, so that they can get their financial history in order.

Ramit Sethi: Exactly, in a nonjudgmental way.

Jordan Harbinger: Absolutely!

Ramit Sethi: A couple similarities I know would be between what you guys do and what I do. The first is that a lot of people always have an external locus of control, they think the world is outside their control. There is no way I can get that girl. Something in the world must need to happen in order for me to get her.

No, and what you guys talk about and what a lot of pickup artists talk about is: you have control, but you need to work for it. You need to pay for value. Have you every actually gone out with another guy who knows what he's doing and spent your time, or spent your money to learn how this process works, and I think money is very, very similar.

The other thing is, when it comes to relationships or money, always escalate, right. Always be escalating, and that doesn't mean like going to the end goal right away, it means...A lot of times people will write me and they're like: look, I did the stuff in your book, what am I supposed to do now, I still have an extra 20-K, there is always room to escalate, and go to the next level. Now you obviously have to be ethical, you obviously, you know, when you're dealing with relationships, with money as well. But there are always you can do more and more; whether it's philanthropy, giving back.

You know, I started this scholarship for young entrepreneurs, because for me that was my next level, but there are plenty of places you can go and you want to be focused on always going to the next level.

Jordan Harbinger: Right. And for the guys listening, I mean, just stop and think about how much time you spent reading about how to get women, reading about how to build attraction, but yet, how much time have you even spent thinking about your money and trying to learn where it's going and how to make more of it. I know that for a lot of guys listening, myself included, there's probably very little time.

Ramit Sethi: Absolutely!

Jordan Harbinger: Or zero, as a matter of fact, some days you bury your head in the sand.

Ramit Sethi: But in the end it's worth it.

Jordan Harbinger: So let me ask you this: why shouldn't I just let my parents manage my money like most people? And this is all well and good but my dad probably knows all that stuff so now I'm not going to bother.

Ramit Sethi: You know, chances are your dad doesn't know what he's talking about. Your mom too, because people are not taught about personal finance and they don't take responsibility. So problem number one is they probably don't know what they're talking about. Problem number two is that, if you continue to let them manage it, you will never build the habits to do it on your own, and trust me, it gets increasingly difficult as you go along.

Do it now, even if you make a few mistakes, that's okay. Even if you rack up a little bit of an overdraft fees, that's okay, because we are talking about relatively small dollars now, the

dollars will grow quickly, especially if you're doing A Great Career.

Jordan Harbinger: Right.

Ramit Sethi: Focus on getting the habits right, it's not hard, and once you do it, trust me—you guys are already trying to optimize, you know, your lives with women, this is a huge part of optimizing your life. It's something we do every day, it's worth the time.

Jordan Harbinger: Excellent!

AJ Harbinger: Perfect.

Jordan Harbinger: Thank you so much, Ramit.

Ramit Sethi: Thanks for having me.

AJ Harbinger: It's great.

Jordan Harbinger: You've got it man.