EPISODE 372

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[INTRODUCTION]

[00:01:25]

FT: You're listening to So Money. Welcome back everyone. I'm your host Farnoosh Torabi. Thanks for joining me. Millionaire Next Door week continues and today we have Rocky Lalvani. He is a millionaire next door with a very fascinating story of his own. He moved to the US when he was a child from India with his parents. He was only two and his parents, his family, they had to completely start over. They had about $25 to their name, believe it or not. That's all they were able to bring over with them from India.

And he says that his parents were the epitome of the American Dream, working hard to provide for their family and teaching Rocky important principles to live well along the way, and we're gonna learn some of those principles coming up. Rocky has worked his entire life and he reached millionaire next door status in his 40's by working hard, saving, and staying away from debt. But it wasn't without some turbulence.

I mean he was someone who experienced two market crashes and yet he was still able to end up with seven figures, and now he's 50 years old, continues to live a frugal life, and he says that he and his wife live a rich, abundant life without the price tag. We're gonna talk to Rocky - I was really interested to learn about his immigrant background, how he runs numbers.

Like how does he actually know how much to save, how much to invest, how much he's gonna need for retirement? Because he does plan to retire in the next five, six, seven years. And one fast tip for all of us, how to actually avoid feeling like we need to keep buying things. And I give my own story about how I did this, Rocky gives his own story, and I think it's a really fascinating and important takeaway for all of us.

So here we go, without further ado, here is Rocky Lalvani our millionaire next door.

[INTERVIEW]

[00:03:08]

FT: Rocky Lalvani, welcome to So Money, millionaire next door series continues. Excited to learn how you reached your millions. Welcome to the show.

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RL: I'm excited to be here. You've had so many impressive guests and I'm just honored to be one of them on your show.

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FT: Of course you'd be on this show. Listen, you are honorable yourself. We want to learn more about how you reached millionaire status, but let's go back to when you were a kid because I've been reading your bio and I've been consumed on what's on your website at Richersoul.com and you had, like many people of this country, you come from an immigrant background. You came here from India when you were a child, maybe start there a little bit. What was your first kind of impression of America when you landed here?

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RL: I think for us what happened when we came to America, our family was starting over for the second time and when you came from India at that time, you weren't allowed to bring a lot of money. So you basically have to start off with nothing and rebuild. What I saw growing up as a very young child was that we constantly moved up the social ladder.

It seemed like every year, things were getting better and better and all of the family and friends that were with us as well did the same. So you literary went from living in the not so great parts of a city to just quickly and consistently moving up the social ladder and at that point, I don't think they had a car.

They took public transportation, then they'd buy a used car, then they buy a new car, then they buy a fancy car and that's the way that everyone went. People just progressed and so I think we just grew up with the expectation that you'll start at the bottom and you'll reach the top.

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FT: When you say social, what you really mean is also economic, you climb the economic class, the economic ladder.

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RL: Yes, the economic ladder, that's correct. Yes, going across social statuses I guess from being not so well off and living in not so great neighborhoods to moving on up and living in the nicer places.

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FT: And do what was your impression of money at that age as far as how you should spend it, how you should save it, what it was used for?

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RL: They're the same principles that I have today. When I was young, money was tight and so we didn't spend very much of it. We always saved. I remember my dad would rather walk than pay a quarter to take the bus. That's the level of savings that they had and within a fairly short period of time, they were able to actually save a lot of money.

They also spent and they didn't spend cheap, they spent frugally. What that means is they would find deals. It's was always about negotiating a deal, finding something for a fraction of a cost so that you could live a nicer life without paying for a nicer life and that's one thing.

I think in the Indian culture, money is something that everyone talks about. So when people get together, they're like, "How much did you pay for that? How much does this cost? How did you get that deal?" So I think money was more of an open conversation within our community.

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FT: Yeah, that's very similar to the Persian culture too and I am actually grateful for it because as a result, you grow up feeling comfortable around financial topics, financial conversations. It's not a coincidence that I am doing what I'm doing based on the fact that I grew up in a home where money was not taboo.

We all obviously had our own issues with money but at least the communication part we had down. So then, you grow up, did you always have a very smooth financial course or along the way, were there some stumbling points for you?

[0:07:14]

RL: You mean once I got out of college?

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FT: Sure, once you started to be more independent on your own two feet, financially how was the path for you? We always ask guest on the show for their number one financial failure. It seems strange to ask a millionaire next door about that but I don't need to assume that you always had this clear path. Were there some stumbling points?

[0:07:38]

RL: I think there were. When I was young, meaning before I got out of college I always made money. I was one of those kids who always hustled, had a paper route, had a job, so when I was young I always had money. Once I got to college though, I started realizing I have to save money.

So up until the point I got out of college, I don't think I saved a single penny. Once I got out and I got my first real job, I just started automating my savings and I would save as much as I can consistently. I think there were two lessons I learned early in life. The first one was because I was doing relatively well and I was still living at home so I had no expenses, I would probably overspend or over commit.

I would be like, "Oh, that's only $50 a month. I'll get that" and "That's 30 bucks a month, I'll get that" and "That service is 20 bucks a month, I'll get that," and realize within a short period of time, I realized that all those monthly obligations were crushing me and so I quickly got rid of them all and I think that was a good early lesson that don't get trapped into monthly obligations.

The second lesson that I probably learned and it's taken me most of my life is that I can't beat the stock market and I should stop trying and I think I, like so many people, we all want to buy low and sell high. I've spent my life chasing returns and buying high and selling low unfortunately but at least the principles that were there helped me overcome those mistakes that I made.

Now, I don't touch my money. I give it to other people. I'm like, "Go invest this for me, keep it away from me, I'm going to be stupid and make bad decisions".

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FT: And when you do invest, what's the strategy as far as the assets because some millionaires next door, myself included, we don't really try to chase returns. We're all about the long term, the selections that we chose are index funds. What's your strategy as far as what's in your portfolio?

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RL: I think early on, I was chasing returns. I always thought I was smarter than I was and I could somehow beat the stock market and so I made those mistakes. Now, my money is pretty much towards index funds or managed by someone else. I don't want to take a ton of risk but I have a balanced portfolio.

So for my stock investments, it's relatively balanced whatever I can do into low cost index funds that I manage, it goes into the lowest cost index fund that just mimics the market. So if I can do with what the market does, I'm thrilled and that's best for me and then I have another pool of money that I use for investing outside of stocks and bonds.

That is something that I have gotten into more in probably the past five years. So real estate and then going forward, I'd like to get more involved in investing and some sort of other businesses that create cash flow that I control more versus relying on the stock market or somebody else to make my wealth.

[0:10:50]

FT: Well speaking of cash flow, when it comes to earning your first million or getting to place where you consider yourself to be “financially stable”, financially independent, whatever the phrases that you choose, would you say that your journey is thanks mostly to smart investing, smart saving or earning enough so that you can have a lot of option and then reach your millionaire status.

You reached a million dollars net worth in your 40’s which is early, so for you what would you say is the leading strategy or the leading decision that you made with your money that helped you ultimately get you to this point?

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RL: I can tell you it’s not my investing capability as I’ve already mentioned. I’m not good at that. Two things, number one, I automate my savings and so I pay myself first.

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FT: How much, how much do you pay yourself?

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RL: I sat down and I run numbers because I figured you might ask, so when I look at my totals, 27% of my total spent goes to taxes, 27% I save and 45% I spend and hopefully that adds up right. So that’s where I’m at currently.

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FT: So why did you come up with 27% saving, why?

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RL: I didn’t come up with 27%, I think that’s just the numbers. I started out and I started saving just X amount of dollars and every time I got a raise, I would increase the amount a little bit. So if maxing out the 401(k) and then I continued saving outside of tax deferred and every time I would pay off a loan, I would just add most of that to my savings pile.

So when the mortgage was saved off, I added the mortgage payment to my savings pile. If I took out a car loan and I paid off the car loan, I now add my car loan payment to my savings pile because I don't miss that money. That's the key, if you can figure out a way to save money without missing it and never seeing it, then it just keeps building. I think the 27% just is the amount that ended up, it ended up building too. I don't think that's a magic number. It's just keep adding to your savings rate as much as you can.

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FT: I think it's interesting that you have been doing this for many years. This wasn't an idea that popped in your head at age 40 like. I want to reach a million dollars and you raced towards that for the next five years. It's been a gradual build up and through that time, you have experienced like everybody else fluctuations in the market.

Big swings in the market, the crash for example of 2008-2009 and so, what was your strategy after that because that I think was a very pivotal moment for many people. People saw their 401(k) get divided by two and then they just lost hope and a lot of them pulled out of the market. What did you do when the market crashed?

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RL: That was actually I believe my, that was second big market crash when I had considerable assets. The first one was 2000 and rolling into 2000, I think that I realized that the tech bubble was crazy and so I sold out early in 2000. So when we had a crash in 2000, I rode that storm unbelievably well and then about 2003, I got back in the market.

From 2003 to 2008, life was wonderful to 2008, life was wonderful. I looked around and I realized that real estate was crazy and that it wasn't a place to invest. What I didn't realized with the crash of real estate would hammer my stock market portfolio as bad as it did and I'll admit, at the bottom of the market, I panicked and I sold.

That mistake has cost me hundreds of thousands of dollars but I learned from that and so now I know that the next time we have a market crash, you're not going to panic and sell. You just got to ride your storm out. So that's one thing and I've also learned that I need to diversify more outside of stocks and bonds and those types of things.

Because everything in the market went down in 2008. It wasn't just stocks, it was bonds, it was almost every single asset category including real estate. So I made a lot of mistakes along the way, I'll be the first to admit it and I screwed up 2008 really badly.

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FT: Well, here we are in 2016, you've bounced back, how does it feel to be a millionaire? Is it what you thought it would feel like?

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RL: No.

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FT: Uh-oh.

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RL: Well, no it's not that. When you're young, you want to be a millionaire because you want to have all this stuff right? I spent a lifetime probably up through my 40's collecting stuff, wanting to live in a big house, have fancy things and somewhere along the way, I hit a point where it was like, "Enough is enough, I'm done and I don't want stuff anymore."

Literary, we're at a point in our life where it's more about I actually paid somebody not long ago to come clean out my crap and get rid of it. We literary went through the house and like save, get rid of, in the garbage or donate. They literary helped us sort our house out and they took everything and got rid of it.

I didn't even want money for it. I just wanted it out so now that I'm here, I value things very differently. I don't care about fancy stuff, now it's more about experiences. Spending time with the kids, doing things that are meaningful to me not things that are meaningful to society of having fancy things or living this fancy glamorous lifestyle.

I don't care about that anymore, I just want to be comfortable and be able to do what I want to do when I want to do it without thinking twice about it. So to me, financial freedom is just about freedom to make the choices you want to make and do what you want to do when you want to do it so it's quite different. I don't care about fancy stuff anymore and that I think is a very enlightening thing for me.

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FT: I'm enlightened. So is part of the strategy to become a millionaire at a relatively early age in your 40's, is part of that require being okay with being a minimalist in some ways or not caring about having the newest technology, the newest car, do we have to give back those things?

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RL: I know that there is a big group out there that wants to live a minimalist lifestyle. If you looked at me, I do not live a minimalist lifestyle in a sense. We have nice cars, we keep them forever. We have a nice house, we go to nice places, I spend lots of money but I spend it wisely and I spend it on what I want instead of what society tells me I should have.

One of the things that we stopped doing is watching TV and if you don't watch TV and you don't walk in the store, all of a sudden you don't want the latest greatest iPhone or the latest greatest this or that, you're content with what you have and I think that's a big part of it. It's just being content with what you have.

It doesn't mean though that you have to live with this minimalist lifestyle. I'm not into that at all. I want nice things, the nice things that matter to me though not that matter to making me look good to somebody else.

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FT: It makes complete sense. I just think about how my routine has changed since having a child. My expenses in some categories have skyrocketed, diapers, milk, baby clothes, gear but on the other hand, I don't think I've shopped for myself. My husband too, we're like, "We haven't bought really gone shopping for ourselves since before the baby" and we don't really watch a lot of TV, we don't have time to go window shopping and I do think that that has limited our desire to really go out there and consume. So that lesson is key, if you want to save money, change the course of your day sometimes.

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RL: I would agree with that.

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FT: Put a big red bow on that, that's a pretty good tip.

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RL: That's a very good tip and sometimes, I still have it. It's funny because if I walk into Costco and I see that 80 inch LCD TV, I still want it and I'm like, "Wait a minute, I don't even watch TV. We have a big TV", why? It's just human nature. I think it's just you want it and you think it's going to make you happy and I think that's one of the things I've learned is, those things make you happy for a moment and then you're not happy in the future and if you still got the bill for that item four years later, you're miserable. So say no to that stu.ff

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FT: But you got a great picture, you've got a great, great….

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RL: You got a great picture, yes.

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FT: Flat screen picture. Rocky, you mentioned in your e-mail to me before we connected that you want to retire in the next five to 10 years, you're 50 now. What's your plan for retirement? When will you feel comfortable enough financially to actually "retire"?

[0:20:45]

RL: I think that's one of the things that's happened over the years. When I was young, my goal was to become a millionaire and then as I got a little older I realized, you have a million dollars in the bank that only gives you with a 4% withdrawal rate $40,000 a year. Well, $40,000 a year that's nice but it's not a ton of money and so I think I've continued to want to grow that so that I have more available to me. A lot of my things are probably fear driven. I don't want to be 80 years old and out of money. So I think I want to grow the pot as big as I can that I never have to worry.

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FT: What does that mean though, I'm going to push you…

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RL: Let's just say for example I decide that my retirement spending budget is a $100,000 a year so out of that $100,000 I'm going to have to pay taxes because I'm pulling out of tax deferred accounts. I've got to pay a lot for medical care even Medicare is expensive, people don't realize all the coinsurance and all of that.

I want to travel, I want to do different things, I got to pay for a wedding at some point or two or help the kids out. So let's just say I want a $100,000 a year for my retirement budget per year. The stats say that in order to do that, I need $2.5 million of investable assets to create $100,000 of cash flow. I say okay, that's a good chance that that will work.

I want a safety margin so maybe if I want a little bit safety margin, say let's go to $3.5 million and that gives me the safety margin of an extra $40,000 a year so that if we go through 2008, I don't freak out. If something else happens, I don't freak out. If the returns going in the future aren't what they are in the past, I still have my cushion.

I don't have to worry about it. So that's I think what that means. I'm also learning, to diversify so real estate, I have rental properties now. That helps create cash flow to take the burden off creating another million dollars in the bank because if you have rental real estate, that will throw off let's say $50,000 a year in retirement.

So that helps the cash flow and the other thing is I'm not going to stop working. I think originally, my idea was, "Okay, I become a millionaire and I go sit on a beach and I sip drinks and learn to play golf. Now that I'm here, I have no desire for that. I'm going to work and that's literary what my website is about.

It's about giving back, about teaching people these fundamentals and I think between charity work and just going back and helping people with their finances, that's going to be my retirement. So that will also create a little bit of additional income and maybe I'll never even have to touch my pot of money.

I think that's kind of where I'm heading for towards retirement is a little different path than where I started. I'm not going to sit around all day. You get old and probably die fast.

[0:24:08]

FT: That's for sure. Well you said something interesting earlier which is that you ran the numbers. What calculators do you use and if there are specific ones and interesting that you just don't just go by those calculations, you added another million to that projection. Is that something that we all have to be in the habit of doing that sometimes calculators don't portray the most realistic figure that you need?

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RL: Absolutely and that's a lot. If you read Tony Robbins book, I know he even talks about that and you've had I think Todd Tresidder maybe on, he talks a lot about that. When you look at calculators and statistics, they're all averages but that's all it is. It's an average and if you can actually have an average positive return in the stock market and at the end of 10 years have less money than when you began because it depends when an event occurred.

When you retire in 2008 and you lost half your money, if you lose 50% of your money, you need a 100% return to get back to where you started. So if I have $100 and I lose $50 — 50%, I'm at $50 but to get from 50 back to 100, I need a 100% return and the average of those two numbers is what? 75? It still shows positive when you average it but in reality, you're a negative and so that's why averages in calculators don't work so well. You actually have to look at physical returns and I know I haven't explained that well but…

[0:25:55]

FT: Well I think that the real take away is that run the calculators, that's important because that's something that we can't just do easily on your own but you want to be a little more conservative or as much as you can. and save maybe 10, 20% more than that.

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RL: Or as much as you can. I think the easiest way to do that is, when you have a pile of money, if you just delay touching it, it will automatically grow. It's not like you have to keep adding to it. You can change your lifestyle, you can semi-retire and just make enough to pay your current expenses and not save and let your pot of money continue to grow.

It will automatically self-correct for that just on its own and that's my plan. I'm going to retire semi still earn money so that the pot of money can grow so that I don't have to keep adding to it. Once you have the pot, it keeps growing. I don't know that you even need to worry about calculators.

I think most people think 4% is a good number which is basically if you have a million dollars, you'll earn $40,000. If you want to go conservative and say, "If I have a million dollars, I'll earn $30,000." Well sit down and say, "How much do I need in retirement? How much am I going to be at from social security, how much money am I going to get from somewhere else? And then what's my total number?" And then just multiply it.

So if you need $30,000, a million does it. If you want $60,000, two million does it and it's fairly simple math.

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FT: What do you think is the biggest mistake people make with their money? The biggest, mistake if you had to judge.

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RL: I think we touched on these two points. Number one, people don't save in this country. It's amazing but if you don't pay yourself first and you pay all those other people that you're buying stuff from, you'll never going to get ahead and you can read the papers all the time. There's people who have made millions upon millions of dollars who are broke and bankrupt because they didn't save.

So I think saving is probably one of the biggest things and that's just simply pay yourself first before anyone else and then create that pile that will carry you through whenever you needed to carry you through.

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FT: But what if you're 25 and you're making a starting salary and you have student loans and you've got your rent and you've got all these other expenses, would you say at some point, it's not just the savings problem but an income problem and a debt problem from education. How do you reconcile all of that and still pay yourself first?

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RL: So yes, there is somewhat of an income problem. Clearly, if you're young focus more on, "How can I increase my income as fast as possible?" But see, you've already started the problem. You've got debt. You're 25 years old with massive debt, don't get into college debt. There are ways to get through college without getting into debt.

I've already told my kids, I said, "You're responsible for paying your college and you're not allowed to take out a loan. Figure out a way," and there are ways to do that so don't make the first mistake into going into massive debt. Number two, when you get out of college, you're still young. You had a blast in college.

At my age, college — you look back fondly on college. We didn't spend a lot in college, live like you're in college for the first few years of your life and don't raise your lifestyle to this new income that you just got. Live like in college and have fun and then you don't have as much of an income problem, you still have a spending problem.

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FT: It's so true but you know, it's hard. I totally agree with you and it's something that I always preached and lived by that rule myself, I try to but it's one thing, you go from making zero dollars in college to suddenly $40,000 a year and you're thinking, "Oh my gosh, I'm loaded," and so your perspective on what you can really afford gets jaded but you're right. Just live in your sweatpants and maybe you can still live with your parents for a few years.

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RL: I went through that. I mean I came out of college and I did all right my first year, my second year I was making probably $50,000. Now I'm 50 so that was a long time ago.

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FT: That's a good salary.

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RL: It was a good income. I felt like I had more money than I needed and I overspent to a certain extent, however I lived at home. I had no debt and so I was able to immediately just start saving and that's the key. When you come out wherever you are, get rid of your debt, make that your number one goal in life.

Get rid of debt, don't sign up for monthly reoccurring expenses. If you can live at home and live cheap, live cheap. If you spend those first few years building that solid foundation, then the rest of your life will be great but if you spend those first few years blowing that $40,000 and having a great a life, the rest of your life is going to be a struggle.

It's just a choice you have to make and when you're young and you haven't experienced $50,000, you can experience 20 and still be thrilled and be just as happy as somebody who's making 50.

[0:31:38]

FT: Well Rocky I think what you just said is brilliant, that your financial life, much like life in general, comes down to a series of choices which is extremely empowering because at the end of the day, you have the power to determine your financial fate and I know that some things are out of control but so much is. And so thank you for your great story, your advice and tell us how can we learn more about you and where can we find you online?

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RL: You can find me at richersoul.com and that's my retirement plan is partially to give back to help people learn about these basic money principles to make wise choices and you can contact me on there. E-mail me, I'll be more than happy to answer your questions and help you build the strong financial future so that you have a great life.

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