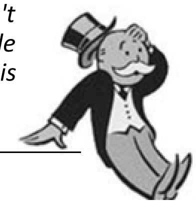
Getting a Millionaire's Mindset

Let's face it; we all don't make millions of dollars a year, and the odds are that most of us won't receive a large windfall inheritance either. However, that doesn't mean that we can't build sizeable wealth — it'll just take some time. If you're young, time is on your side and retiring a millionaire is achievable. Read on for some tips on how to increase your savings and work toward this goal.



Stop Senseless Spending

Unfortunately, people have a habit of spending their hard-earned cash on goods and services that they don't need. Even relatively small expenses, such as indulging in a gourmet coffee from a premium coffee shop every morning, can really add up — and decrease the amount of money you can save. Larger expenses on luxury items also prevent many people from putting money into savings each month.

That said, it's important to realize that it's usually not just one item or one habit that must be cut out in order to accumulate sizable wealth (although it may be). Usually, in order to become wealthy one must adopt a disciplined lifestyle and budget. This means that people who are looking to build their nest eggs need to make sacrifices somewhere — this may mean eating out less frequently, using public transportation to get to work and/or cutting back on extra, unnecessary expenses.

This doesn't mean that you shouldn't go out and have fun, but you should try to do things in moderation — and set a budget if you hope to save money. Fortunately, particularly if you start saving young, saving up a sizeable nest egg only requires a few minor (and relatively painless) adjustments to your spending habits.

Fund Retirement Plans ASAP

When individuals earn money, their first responsibility is to pay current expenses such as the rent or mortgage expenses, food and other necessities. Once these expenses have been covered, the next step should be to fund a retirement plan or some other tax-advantaged vehicle.

Unfortunately, retirement planning is an afterthought for many young people. Here's why it shouldn't be: funding a 401(k) and/or a IRA early on in life means you can contribute less money overall and actually end up with significantly more in the end than someone who put in much more money but started later.

How much difference will funding an IRA early on in life make? If you're 23 years old and deposit $3,000 per year (that's only $250 each month!) in a Roth IRA earning an 8% average annual return, you will have saved $985,749 by the time you are 65 years old due to the power of compounding. If you make a few extra contributions, it's clear that a $1 million goal is well within reach. Also keep in mind that this is mostly interest — your $3,000 contributions only add up to $126,000.

Now, suppose that you wait an additional 10 years to start contributing. You have a better job and you know you've lost some time, so you contribute $5,000 per year. You get the same 8% return and you aim to retire at 65. When you reach age 65, you will have saved $724,753. That's still a sizeable fund, but you had to contribute $160,000 just to get there — and it's nowhere near the $985,749 you could've had for paying much less.

Improve Tax Awareness

Sometimes, individuals think that doing their own taxes will save them money. In some cases, they might be right. However, in other cases it may actually end up costing them money because they fail to take advantage of the many deductions available to them.

Try to become more educated as far as what types of items are deductible. You should also understand when it makes sense to move away from the standard deduction and start itemizing your return.

However, if you're not willing or able to become very well educated filing your own income tax, it may actually pay to hire some help, particularly if you are self employed, own a business or have other circumstances that complicate your tax return.

Renting Versus Buying

At some point in our lives, many of us rent a home or an apartment because we cannot afford to purchase a home, or because we aren't sure where we want to live for the longer term. And that's fine. However, renting is often not a good long-term investment because buying a home is a good way to build equity.

Unless you intend to move in a short period of time, it generally makes sense to consider putting a down payment on a home. (At least you would likely build up some equity over time and the foundation for a nest egg.)

Buying Expensive Cars

There's nothing wrong with purchasing a luxury vehicle. However, individuals who spend an inordinate amount of their incomes on a vehicle are doing themselves a disservice — especially since this asset depreciates in value so rapidly.

How rapidly does a car depreciate? Obviously, this depends on the make, model, year and demand for the vehicle, but a general rule is that a new car loses 15-20% of its value per year. So, a two-year old car will be worth 80-85% of its purchase price; a three-year old car will be worth 80-85% of its two-year-old value.

In short, especially when you are young, consider buying something practical and dependable that has low monthly payments — or that you can pay for in cash. In the long run, this will mean you'll have more money to put toward your savings — an asset that will appreciate, rather than depreciate like your car.

Don't Sell Yourself Short

Some individuals are extremely loyal to their employers and will stay with them for years without seeing their incomes take a jump. This can be a mistake, as increasing your income is an excellent way to boost your rate of saving.

Always keep your eye out for other opportunities and try not to sell yourself short. Work hard and find an employer who will compensate you for your work ethic, skills and experience.

Bottom Line: You don't have to win the lottery to see seven figures in your bank account. For most people, the only way to achieve this is to save it. You don't have to live like a pauper to build an adequate nest egg and retire comfortably. If you start early, spend wisely and save diligently, your million-dollar dreams are well within reach.

Questions for Discussion
Type your responses to the questions below; 50 word minimum each

1. Summarize in 6 bullet points what the author’s tips are for making your million-dollar dreams become a reality. Use your own words!

2. For each one of the tips you listed in #1, provide a specific example of how YOU could follow this advice in your life (over the next 5 years).