CHAPTER 3

FINANCIAL FUNDAMENTALS OF THE FILTHY RICH
In the last chapter, we revealed some inconvenient and uncomfortable truths about the financial elites who secretly control most of the wealth, not just in the United States, but on the entire planet. What we didn’t do was to explain to you exactly HOW they do the things that they do. How they got themselves in the position of such considerable power.

Those things will be the subject of this chapter. We will give you a crash course in thinking like a 1%er, not because we want to enable you to become an evil mastermind and take over the world, but because we want you to be able to use their playbook against them so you can start to build a robust system of financial protections for your family.

It doesn’t matter if you do not earn six figures (although if you do, that puts you that much ahead of the game!). It doesn’t matter if you’ve never made an actual investment in your life. We will teach you what you need to know to start thinking, living, and acting like the guys who own most everything on the planet. Ready? Here we go….

You know how it goes…you’ve probably been there a million times. You get your paycheck, and you pull out the bills to see what’s due next. What you can afford to pay right now, what you may have to wait till the NEXT paycheck, what you have to skimp on to make ends meet…you know, all the usual kitchen table mental gymnastics you perform when pouring over the family budget.

Yeah, the rich do not do that, and they didn’t do it before they were rich, either. They think differently, and it causes them to ACT differently.

No matter what your current financial situation, PAY YOURSELF FIRST! The more you can pay yourself, the better, but even if it is only five or ten bucks a week, do it! Set that money aside before you start in on the pile of bills, and do not just bury the money in your back yard, or stick it in an envelope in your desk, DO something with it.
If you are looking for a quick, painless way to start paying yourself first, then look no further than an app called Acorns ([https://www.acorns.com/](https://www.acorns.com/)). This app works like certain kinds of checking/savings accounts that banks used to offer (but that you can hardly find any more). When you set up the App, you go through a wizard that assesses your tolerance for risk. Your answers to these questions put you into one of a handful of categories.

There are investment funds organized around those risk thresholds. Any time you spend money with your debit card, Acorns rounds your purchase up to the nearest dollar, and invests the loose change in the fund you picked by answering the questions at setup. You can access the fund at any time and assess your performance. Quick. Simple. Painless. You will never miss it, and it will guarantee that you “pay yourself first.” AND you will be earning good returns on your money.

No, this alone won’t make you rich, but it will help you get started. Well worth it!

It is not enough to do this “just because the rich do it” though. You’ve got to understand WHY it is so important. The reason is simply this: No one is going to put you first, except you. If you do not do it, then it simply won’t get done. Yes, you owe people money. Yes, that’s important. It matters. But it doesn’t matter more than YOU matter, so start acting like it, and prioritize yourself.

Earlier, we mentioned a quote that has been attributed to Albert Einstein. “Compound interest is the most powerful force in the universe.”

The real magic isn’t the act of investing itself. It is the act of the interest your money earns, ALSO earning interest, and allowing that to build over time. Think about an avalanche. It starts small, sure. One or two little chunks of ice and snow falling from a high shelf on the top of a mountain.
That random chunk of ice or snow hits another bit of snow at a lower elevation and knocks it loose. Then those bits hit MORE ice and snow and knock them loose. Before you know it, there is a tidal wave of cold stuff streaming down the mountain, creating an unstoppable Force of Nature.

It is the same way with compound interest, except what makes it work in the case of compounding is time, rather than altitude. The more time you have to invest, the more powerful the effect comes.

Consider this: The average lifespan in America (for men) is just a little bit above 66 years. That’s it. That’s all the time you get, on average (higher for women, and higher in many other parts of the world). That might sound like a lot, but of course, you spend a third of that time sleeping, so you’ve actually only got access to about 44 of those years. That’s it. Worse, you only spend about a third of your life engaged in pursuits that actually earn you money, so now you are down to 22 years, and that’s if you work until the day you die.

But the magic of compounding works even while you sleep. Twenty-four hours a day, seven days a week. No vacations, no down time. No rest. Compound interest is relentless. It works for you, even while you are sleeping, or taking a vacation, or fishing…doesn’t matter. Compound interest sits there in the shadows, quietly churning away. That’s what the rich know and you do not. Use it. It is an immensely powerful tool.

You’ve probably heard a lot of investors say that debt is good, not bad, and it can be. Of course, the way that the rich utilize debt is very different from the way the rest of us utilize debt.

Understanding those differences is key, so right AFTER you pay yourself, and take care of the bills you have to pay to keep your modern life functioning (keeping a roof over your head, keeping the lights on, etc.), the next best use of what money you have is to eliminate the “bad” kinds of debt, because these debts cost you plenty.

So what is bad debt?
Mostly, it is credit card debt that you carry from one month to the next. This debt generally comes with strings attached, and those strings take the form of ruinously high interest rates charged on the money you spend when you use those cards. Let’s face it, if you can pay off a card whose balance carries a 19.9% annual interest rate, then you are essentially making an investment with a return of 19.9% interest, right? Because you are no longer having to PAY that rate of interest, which is just as good from a financial point of view. So focus on getting rid of all that bad debt, and if you use your credit cards in the future, try hard to pay the balance off at the end of each month.

When paying credit card debt, there are actually two dimensions to consider. One is, of course, the interest rate you are being charged, but the other is the outstanding balance you have on each card. You might naturally be inclined to just focus on whatever card has the worst (highest) interest rate, but that’s not always the optimal play, because all cards, regardless of their prevailing interest rates, make you pay a minimum amount.

The best, fastest, and most efficient way to pay off your credit card debt is to use the “snowball” method. What you want to do is to create momentum that will help you pay off all the debts even faster, like the avalanche described above.

To do that, you will need to list out all your debts, the rate of interest you are being charged for them, and your outstanding balance.

To get a feel for which one to pay off first, group your debts into the following categories:

- Less than $500
- $501-$1000
- $1001-$2000
- $2001-$5000
- $5001+
Inside each of these sub-categories, order the debts not by their outstanding balances, but by their rate of interest.

Pay the minimums on EVERYTHING but the debt with the highest rate of interest in the first category you’ve got debts listed in. Every spare dollar you get (after paying yourself first and taking care of the bills you can’t avoid month to month), apply toward that one debt. Again, necessary minimums only toward all the rest.

Once that debt is gone, march through your list systematically, until all the debt in your first category has been eliminated. Then move onto the next category. As you do this, you will find yourself with an ever-expanding pool of money you can use to eliminate your outstanding debts.

It might take a while, depending on how much debt you have actually accumulated, but doing this will leave you in a MUCH better financial position, often freeing up literally hundreds of dollars a month by the time you are finished.

The next trick then, is to KEEP the debts at bay by resisting the temptation to carry revolving balances. It is just ruinously expensive to do that. You will live better and more freely by putting that money to better and more productive use, and once the debts ARE gone, you will have a nice, fat pool of money to invest with.

If you do not want to invest all of it, that’s fine, but the more you invest, and the longer you invest it, the more powerful the compounding effect will be. This will, from a financial perspective, be the same thing as giving yourself a raise. Whatever amount of money you were formerly spending keeping your creditors at bay...you now have that amount of money available to spend on other things, or to invest in your future and the security of your family. It is important. It is vital. Do it now, starting today.

Now, I can almost hear you thinking the question: If collapse is inevitable, why not just stop paying your debts altogether? I mean, if the chaos is going to be complete, what will it matter?

It WILL matter, and here’s why. Ultimately, the money you owe, you owe to the 1%. While the government won’t be able to do anything for the 99%, you can bet that they will fight to the last to protect the interests of the 1%. As things begin to fall apart, they’ll be using armed squads of police to evict home owners who fall behind if they still hold a mortgage. Or if you fail to keep your car payment current. Or even if you fall behind on your credit card debt.
The punishments for failing to pay what you owe the 1% will grow increasingly draconian. Debtors prisons will come back into fashion and families will be destroyed as a direct result of it. While you are rotting in a cell, your family will be on the street.

THAT is why you need to get your debts paid, and note that this includes more than just credit debt (which will obviously be the first thing you target), but also, the note that the bank holds on your car and your home. It is the ONLY way you will be able to hold onto those things, post-collapse.

Another big area where the rich and the rest of us think differently. Honestly, how much time do you spend thinking about the amount of tax you pay? You probably do not think about it much at all, except during tax season, of course, when you march through the steps of some online wizard, plug in your numbers and pay what the system tells you to pay, right?

That’s the way most people do it, but of course, the rich aren’t like most people. They know what and where the loopholes are, and they use them to maximum advantage.

They should…after all, they paid good money to have those loopholes written in the first place! Here’s a quick overview of the way the 1%ers use perfectly legal means to get out of paying most, if not all of their annual tax bill:

- **Offshore tax shelters** – by keeping their money tied up out of the country, any interest they earn on it isn’t taxable in the US. Even better, there are many countries scattered all over the world who are hungry for foreign money, so they’ll either charge no taxes, or very low rates. That amounts to a huge savings every year for the 1%. 
• **Exploiting (or creating new) onshore tax breaks** – Oftentimes, when a big corporation wants to build a new factory in the US, they’ll shop around, pitting various cities against each other. The city that offers the most “perks” gets the factory.

These perks include such things, as the city eating the entire cost of creating the tie-in to the municipal wastewater treatment plant, paying for the parking lot and all the lights in it, tying into the city power grid (things you and I often have to pay for if we buy a property and build a house that’s not already grid-connected), and of course, tax breaks.

Most often, this takes the form of the company getting X number of years totally tax free when they build the factory. The rich do the same thing. They won’t spend money unless they can get a good deal. That good deal almost always involves trading for favors which sees them lowering their total tax bill.

• **Shell Corporations** – Hiding assets out of the country is only one “trick” the rich use. They also create shell corporations. Companies that do not actually “do” anything but own assets for them. Think about that for a moment, and how powerful it actually is. If YOU go out and buy a car, here’s what happens:
  - The purchase is not tax deductible and you do not get depreciation benefits
  - Your personal spending power is reduced by the amount of the price of the car in the year you purchased it.
  - If you buy the car using a loan, you now have monthly payments (not tax deductible) and an interest charge to deal with.
  - If you are involved in an accident, you are on the hook for the damages, either directly, or via your insurance company.

Now, contrast that to what happens when a 1%er buys a car via one of his shell companies:

  - The purchase is tax deductible and every year depreciation is tax deductible (it is a piece of business equipment, see? And as such, it is just a necessary cost of doing business)
  - If the car is involved in accident, there is no personal liability. If anybody gets in trouble at all, it is the corporation, which of course, can’t go to jail, since it is not a real person, and if the legal bill is too much, the corporation simply declares bankruptcy, is dissolved, and the bill is wiped away. By the following week, a “new” shell corporation is created and the rich guy goes on about his way.
Or, consider home ownership. If you need money desperately, you might consider selling your home, then “downsizing” to something smaller and cheaper, using the profits from the sale to get you out of whatever bad financial trouble you are in.

Again, the rich do not do that. Instead, if they need an infusion of cash, they’ll simply borrow the equity in their homes, rather than sell.

Why?

Well, if they sold the property, they’d have to declare that as income, which would be taxed at a high rate (the current rate is 39.5%). If they borrow the money, they only get charged the prevailing interest rate (currently around 5%). The difference is the amount that they save.

Plus, the interest itself is tax deductible, which makes the tax bill on the rest of their income that much lower. This money, of course, is then used to purchase more assets and further extend their wealth, and round and round it goes.

**More Ways to Hide Assets** – Of course, the rich have more than one trick in their bag of tricks. It is not always necessary to use shell companies. You could start a Trust fund, for example.

This is a legal vehicle for storing assets “in trust” for future generations (trusts can either be revocable, allowing you to end them voluntarily, or non-revocable, usually set up when you want to pass assets to your heirs).

In both instances, the assets held by the trust can’t be touched by taxes, until they’re used. That means, if you do not OWN the house that the trust holds, it is not taxable. Same with the car.

Same with the money. And of course, if you are sued for some reason, the person suing you can only go after assets you personally own, but if you do not actually own anything, then what can they get? NOTHING, and that’s the entire point!
The same thing can be done if you, say, for example, start your own religion (the Church of Scientology, or the Cannabitarian Church come to mind as recent examples), or a charity foundation. You can give assets to these groups which are, of course, totally tax EXEMPT, but you still have full access TO those assets. I am sure you’ve noticed a trend here.

The rich do not care about ownership. We’ve been taught from birth that ownership is a good thing. It is part of the American Dream. Former President Bush even went on national TV once and touted his vision to turn America into an “Ownership Society,” except that the rich do not play that game.

What the rich want is CONTROL of an asset. Unrestricted use. They do not mind (at all) letting some fictional entity they create “own” the asset if it makes it tax free. After all, they OWN the fictional entity, and since they do, they control all the assets that the entity owns anyway.

The difference, of course, is that they do not have to pay a cent of taxes that way. That’s what the rich know, that you do not. And they use it every single day to amass more of the world’s wealth.

The thing is though, you can put these practices to use for yourself! You do not have to be a millionaire to start a corporation. You can do it through Legal Zoom for less than two hundred bucks!

(www.legalzoom.com) If you are not, you are as good as leaving money on the table, and you will never improve your financial situation that way! Do not worry, we will go into more detail about using these strategies for yourself in later chapters in this book.

Let all of that sink in for a few minutes and think about the vast differences in mindset the rich have, compared to the way you are used to looking at the world. You’ve got to retrain your brain. You’ve got to start looking at the world more like they do in order to be fully prepared for what’s coming.
These strategies are powerful when used by themselves, but they’re not meant to be used in isolation. When you COMBINE these asset protection strategies with the power of compounded interest (like the rich do), THAT’s when you start seeing big impacts. In the next chapter, we will start getting down to brass tacks and particulars, and show you precisely how.

One final note here is tracking. You need a simple, effective way to keep track of where you “are” at every step of your journey toward financial independence and freeing yourself from nationalistic influences.

What you do not need is to spend money on such a solution. Here’s your answer. A free app that makes tracking your financial position an absolute snap: