ON THE MONEY

Life lessons from the super-wealthy

BARRY RITHOLTZ

On Investing

> Money won't buy happiness, but it will pay the salaries of a large research staff to study the problem.
>
> **Bill Vaughan**

Please excuse the very wealthy for feeling a bit under siege lately.

Taxes for the top 2 percent are very likely to go higher. Uncle Sam's share of capital gains and dividend income might rise, and means-testing for Social Security and Medicare is probable. In the United States, the very rich hold most of that wealth in dollars, which are worth increasingly less. As income inequality has grown dramatically in the nation, the very wealthy are blamed for all manner of social ills.

Rather than pile on the wealthy, this week I'd like to approach the subject of money a little more philosophically. There are surprising insights to be gleaned from the experiences of the very wealthy regarding their investments and experience with wealth.

Some context: In my day job, I come into contact with very high-net-worth individuals. These include young technologists with modest portfolios to families that measure their wealth in nine and 10 figures. For the math-averse, that's hundreds of millions to billions of dollars.

Over the years, I have had some fascinating conversations with people who have hospitals and graduate schools named after them. I'd like to share some of the things I have learned from these folks.

1. Having money is better than not having money.

Sure, this may be obvious, but let's get it out of the way upfront. Money may not buy you happiness, but it buys many other important things. Like financial security, excellent health care, education, travel and a comfortable retirement. In a word: freedom.

2. Don't become "cash rich" and "time poor."

Devoting all of your waking hours to making money is a problem, especially in professions with a partnership fast track. Lawyers, doctors, bankers and accountants can get so caught up in the competitive nature of their jobs that they lose touch with their family. Any semblance of a normal personal life disappears, and a very unhealthy balance between work and home can develop.

Work is the process of exchanging your time for money. Remember: What you do with your time is far more meaningful than the goods you accumulate with your money. If you are working so much to become rich but you ignore your spouse and miss seeing your kids grow up, you are actually poorer than you realize.

3. Memories are better than material objects.

You may be surprised to learn that among the monied set, expensive cars, yachts, houses, jewelry and watches come at the end of the list.

Their priorities? Memories and accomplishments. This was especially true when it came to family. Toys matter less than good times.

The rule of diminishing returns is a harsh mistress with luxury goods. Do you really think $100,000 audio speakers sound 20 times better than a pair of $5,000 speakers? (They don't). Is a $250,000 sports car five times faster than a $50,000? (It is not). These days, you can buy quite a lovely home for $1,000,000 (and much less in the country's interior). Those $10,000,000 manses are not 10 times roomier. Anyone who has owned a $10,000 Rolex will tell you that a $39 Casio keeps better time.

When discussing the benefits of wealth, I have heard again and again about amazing experiences, family get-togethers, vacations, shows, sporting events, weddings and other events as these people's most important life experiences. While these things cost money, nearly every family can afford reasonable versions of them.

4. Watch your "lifestyle leverage," especially early in your career.

Those partnership-track careers? The dirty little secret: Those firms love to get their young employees leveraged up. They will even help you get that way, co-signing mortgages for big houses or even directly lending you the cash on favorable terms.

They encourage up-and-comers to spend extravagantly; they extend lines of credit to their rising stars. You need a big house with a jumbo mortgage; you cannot pull up to a business meeting in anything less than the best luxury car. It is part of their corporate culture.

Isn't that nice of them?

Not really. The big banks, investment shops, law firms and accountants have learned how profitable it is to have "golden handcuffs" on their best employees. These highly-leveraged, debt-laden wage slaves will work harder, put in longer hours and stay with the firm longer than those debt-free workers.

Besides, overleveraged employees do not leave to work at a new start-up or a smaller, more family friendly competitor.

You recent graduates: Remember this when you are offered credit on generous terms. Your leverage is your detriment.

5. Having goals is incredibly important.

I have a friend who is a serial entrepreneur. He was a board member in a household-name dot-com from the 1990s. He sold his stock — too early, I warned at the time — for $30 million. (It would have been worth $90 million a few months later.)

But that didn't matter to him — he planned to use that money for his next company, which he promptly built and sold for $250 million. He rolled that l into his third venture, which he cashed out of for a cool $1 billion. His long-term goal, and the ability to execute that vision, are what led him to incredible success.

He once said something that has stayed with me: "I am always surprised at how many people have no goals. They simply let life's river flow them downstream."

There is a Latin phrase associated with military actions: "Amat victoria curam." It translates as "Victory loves careful preparation." You would be amazed at what you can accomplish with planning.

6. You must live in the here and now.

Goals are important, but don't miss out on what is happening today.

This is especially true among entrepreneurs, corporate execs and Type A personalities. Do not let dreams of that mansion on a hill prevent you from enjoying the home you live in.

This is an area that can easily veer into cliche. Rather than risk that, I'll simply remind you of what John Lennon sang in "Beautiful Boy": "Life is what happens to you while you're busy making other plans."

7. It helps to be incredibly lucky.

I am struck by how many very wealthy people I know — especially tech entrepreneurs – have expressed being grateful for their good luck. Again and again, I have heard the phrase: "Being smart is good, but being lucky is better."

Rather than leave you with the impression that success is simply a roll of the dice, I am compelled to remind you what the Roman philosopher Seneca the Younger was reputed to have said: "Luck is where preparation meets opportunity."

I don't know whether it's better to be smart or lucky, but I would suggest that making the most of the opportunities takes more than just dumb luck.

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THE COLOR OF MONEY

Proposal is no way to solve the housing crisis

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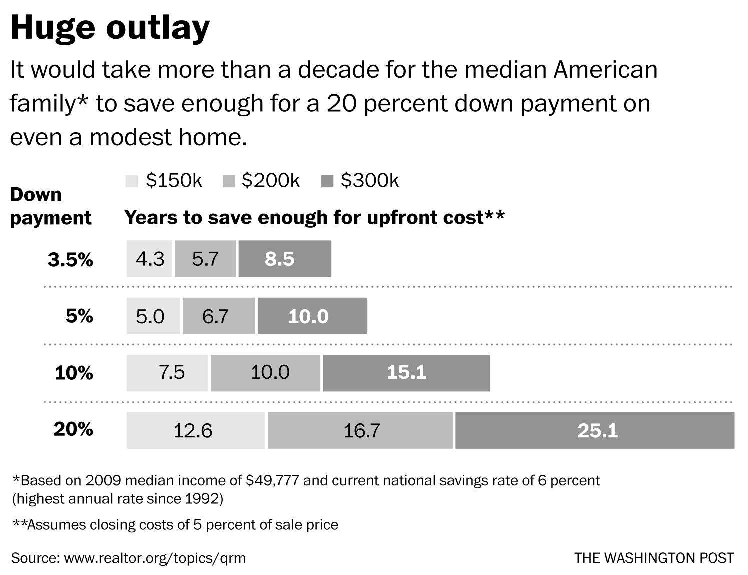

would reduce her monthly mortgage payments and interest charges. Instead, the retired government worker saw her monthly mortgage payment go from $132 to more than $1,300. Her income was just $1,700 a month.

A lot of major factors contributed to loan defaults, but the lack of hefty down payments was not one of them. Rather, it was making loans to people who had little or no chance to pay their mortgages.

From 1990 to 2009, about 27 million mortgages were made with low down payments that did not carry the risky features found in subprime loans, according to the Center for Responsible Lending.

Under the proposed rule, borrowers who cannot afford a 20 percent down payment and who are unable to obtain financing through the FHA will be expected to pay a premium of two percentage points for a loan in the private market to offset the increased risk to lenders, according to National Association of Home Builders.

"This sledgehammer approach to restore the health of the mortgage markets makes no sense," said Bob Nielsen, chairman of the NAHB, when the QRM rules were released.

Like so many others, I want to be sure that our government fixes whatever broke the housing market. But if borrowers have to wait to save up a 20 percent down payment to qualify for the best mortgage deal, we will be putting homeownership out of the reach of a lot of people, particularly low- to middle-income borrowers.

The proposed rule will create a "class of newly designated high-risk borrowers, formerly known as the responsible middle-class borrower," said Marc H. Morial, president and chief executive of the National Urban League, in a letter to the six agencies charged with developing new mortgage regulations.

It would take more than a decade for the median American family to save enough for a 20 percent down payment on even a modest home, according to the National Association of Realtors.

Last year, an average first-time home buyer financed 96 percent of a mortgage, according to the association's "Profile of Home Buyers and Sellers." The average repeat buyer financed 86 percent, and 14 percent of all buyers (first-time and repeat) took out a mortgage for the entire purchase price.

But let's say the 20 percent down payment requirement were reduced to 10 percent. It would still shut out too many folks, Day said.

If a household earning the median annual income of $47,777 (based on the latest data from the Census Bureau) did nothing but save for a 10 percent down payment plus 5 percent in closing costs, it would take 13 years to accumulate enough money — assuming the borrower had saved about 5 percent of his after-tax income — to buy a home with a U.S. median sales price of $173,333, according to calculations by the Center for Responsible Lending.

The wait for homeownership would be much longer for minorities. For Latino households earning the median income of $38,039, it would take 15 years. For an African American household with a median income of $32,584, it would take about 18 years.

We won't stop a repeat of the housing crisis and predatory lending by making creditworthy people wait a decade or two before they can save enough to get the best mortgages. We stop it by putting in place rules that prevent what happened to borrowers such as Howard, who should have never gotten a loan in the first place.

Readers can write to Michelle Singletary c/o The Washington Post, 1150 15th St., NW, Washington, D.C. 20071. Her e-mail address is singletarym@washpost.com. Comments and questions are welcome, but due to the volume of mail, personal responses may not be possible. Please also note comments or questions may be used in a future column, with the writer's name, unless a specific request to do otherwise is indicated.

When the credit starts flowing again

Where to look for loans to get that small business up and running

BY KAREN MRACEK

A very different credit environment awaits Main Street businesses that seek to expand in the coming year or two, as economic growth gradually picks up. After the Wall Street financial meltdown, credit that had been relatively easy to obtain effectively dried up. For most businesses, that didn't matter much; they had little desire to borrow while the economy was shrinking and demand for their products and services was on the wane. Those businesses that sought financing to help them weather the recession found higher collateral requirements and less favorable terms. And with lenders much more skittish about risks, many credit-seekers simply couldn't qualify.

Kiplinger

Now that consumer demand is starting to pick up, demand for credit is beginning to rise, and banks are generally prepared to offer financing to solid customers. Large banks are sitting on piles of cash and are eager to lend it out, while small institutions are looking to make up through more business lending what they have lost in volume in residential lending. That market is still woefully thin.

But the landscape that must be navigated by business owners seeking to expand and people planning start-ups is very different from the pre-crash terrain. Some previously well-used sources of credit are out of reach.

First, home equity loans are much tougher to get. With house values likely to drop an additional 2 percent this year, and lenders tightening up on creditworthiness, fewer business owners can tap them for funds. Already, the volume of home equity loans is down 5 percent this year.

Using credit cards or personal lines of credit to float a business start-up or operation is also hindered by regulators' push for tighter standards and limits on such credit. Even turning to personal savings is harder; personal worth is down 21 percent from its pre-crisis peak.

Commercial loans, however, are easier to nail down than in recent years. About half of lenders say that they have recently loosened standards for large loans to businesses. A third of lenders say they're looking more favorably on smaller loan requests.

They're insisting, however, on rock-solid business plans that offer a clear picture of how the firm intends to repay the loan, its cash flow, as well as contingency plans. Business owners' assets will matter less, and a sound business plan . . . more.

Business lending has begun to accelerate, reflecting a rise both in demand for financing from small firms ready to hire and buy new equipment and in banks' willingness to take the risk. Small-business loan volume will grow 4 percent this year. Total business lending will be up 6 percent by year-end. Those are the first increases since 2008.

If you're contemplating borrowing, the first places to look to are small banks. They're eager to boost business lending to nearby firms. Most didn't tighten lending standards as much as their big brethren, and they know the local scene, so they are more likely to be flexible on conditions.

But you may get a better reception at a large bank than you have in the past, as well. J.P. Morgan Chase, for example, is hiring 250 bankers who will focus exclusively on small-business concerns. The megabank intends to increase its lending to smalls by one-fifth. Already this year, Chase has upped its total business lending by 64 percent.

Meanwhile, there's little danger that interest rates will rise swiftly, choking off demand. Although the Federal Reserve will tighten credit next year, lending rates will remain in a fairly comfortable zone for some time, with prime no higher than 4.5 percent by 2013.