[0:00:11] ST: Welcome nation to the Financial Rockstar Show. I'm your host, Scott Alan Turner ready to help you get out of debt, save more money and retire early. If you missed the last show, I shared with you the best way to deal with customer no service, skip the hold times, skip the people that can't help you, skip getting hung up on. Skip the maze of pressing buttons, beepbeep-beep-beep on your phone. Find out how to get results fast, make sure you check out that episode. Today, we have a special guest for you nation. Let's roll the interview.

[INTERVIEW]

[0:00:43] ST: My guest today is Doug Goldstein. He is a certified financial planner and the founder and director of Profile Investment Services an international investment company. He writes for newspapers, blogs and books and host a personal finance radio program. His newest book, Rich as a King, have a wisdom of chest that can make you a grand master of investing. It is a collaboration with world chess champion, Susan Polgar that explains how strategies from chess can be applied to investing.

Dough, welcome to the show.

[0:01:11] DG: Hey Scott, it's really great to be here. Thanks so much.

[0:01:13] ST: My pleasure. How did the idea to discuss money and chess come about? Why not money and dungeons and dragons or money and monopoly?

[0:01:23] DG: Good question. Dungeons and dragons I don't think has quite enough players although there are quite a few. A few reasons, one of them is that chess is probably the most famous and well respected strategy games on the planet. So I know that in different countries people like different games but chess is certainly up there and what really happened was that a few years ago, I was sitting in the coaching session that one of my kids was at. Two of my kids, I should tell you, are chess champions.

[0:01:51] ST: Oh, awesome.

[0:01:52] DG: And I was sitting in on one of their coaching sessions and one of the things that you do when you're learning to become a better chess player is you do what's called a postmortem. You examine a chess game that you played to see what your mistakes were and we were doing this. I noticed that all of the ideas and all of the corrections and everything that the coach said were exactly the same types of things that I say to clients in my day job as a financial adviser. There were so many parallels that I actually began taking notes on it and that was the beginning of the path to discovering all of the, not all but many, may connections between chess and investing.

[0:02:30] ST: Okay, explain to us what it takes to become a grandmaster of chess?

[0:02:36] DG: A lot of different people achieve the title, well they work on many different ways. but basically to be a grand master, you have to win in a number of tournaments. You have to have a very high rating to ultimately get that title. The interesting thing is that my good friend and co-author, Susan Polgar was the first woman to earn the title of grandmaster because up until she did it, it was only men. They all kind of assumed, "Oh you know girls don't do that kind of thing," and she really proved them wrong.

[0:03:09] ST: That's great. Now in the book, you have a lot of cartoons that are funny and a couple of them talk about how you want to beat her at chess. Have you managed to beat her at chess yet?

[0:03:19] DG: I once came pretty close, I thought, but it didn't really work out so well. In fact, she and I when we were working on the book, we used to, we'd meet around the world because we both travel a lot and we always joke that we have offices in most of the big cities. You've probably seen them, they're on the corners usually called Starbucks and Susan and I would meet there.

Occasionally, we would play a game of chess and one day, I actually had lined up the pieces that I thought I was about to declare "checkmate" and I was ready to move and it was her turn and my turn next, I was moving to checkmate and all of a sudden her bishop came from the other side of the board, captured my queen and completely shattered my illusions of ever winning. I looked up and I was really disappointed and she said, "Doug, what do you think? You thought I didn't see what you were going to do?" And then I realized it's impossible to beat a grandmaster.

[0:04:16] ST: Tell us about the simplest move on a chessboard and how that relates to investing?

[0:04:21] DG: The simplest move on the chessboard. Probably, the simplest move that people make is just pushing their pawn up. Their pawns have a few different ways of moving but the simplest and probably the most common opening move is to move your pawn up and I'll tell you one of the interesting things about it, one of the mistakes you see a lot of amateur chess players make, which really is reflected in a way a lot of amateur investors move.

For anyone who isn't a chess player, I'll give you the 10 second rule with pawns is that the first time you move a pawn, you're allowed to move it either one square or two. So in most cases, it's actually pretty reasonable, in many, many cases at least when you start the game to move your pawn two squares up because you get a lot of leverage. You are moving it twice as fast. And a lot of times, amateur chess players will only move it one square. You should know by the way, if you're playing a grandmaster and she moves at one square, you'd better be afraid because she's some brilliant mind.

But normal people will move their opening pawn two squares up to try and get control of the middle of the board and in the same way, investors all too often are too shy. They just move their money around a little bit here, a little bit there, they don't take a step because they're not willing to go out in the middle and really try to grow their portfolio. What happens ultimately is they don't even beat inflation because they're just taking tiny little non-important steps that don't really get them anywhere.

[0:05:46] ST: Okay. In the book, you talk about different life stages and what people should be looking out for in their personal finances investing. If we're in our 20's, what do we need to focus on when we're getting started investing?

[0:05:57] DG: I think one of the biggest mistakes that people in their 20's make is that they don't put aside money in their 401(k) plans. It's like a known thing. There are all those statistics. I think the average American has something like $30,000 in his 401(k) plan. So you could imagine, if that's what you're planning on retiring with one day, you're doomed. You're never going to make it. You'll be living on social security.

Which by the way is what most Americans retire. That is the main source of their income. So I always tell people and we certainly discuss it in the book that when you're young, make sure that not only do you participate in your 401(k) plan but participate the maximum you're allowed by law and the maximum to make sure you get matching from your employer because that is free money that they give you.

[0:06:42] ST: Yes, that's a great advice. What would you say to people that if we're in our 30's what should we be doing with our investments?

[0:06:49] DG: If you haven't started to save in your 401(k) plan just give it up and marry money. No, I think a lot of the same things apply in terms of making sure you are doing your savings but a lot of times when you're getting into your 30's, all of a sudden you realize, "Wait a second, I haven't been doing things in an organized fashion and I'm still overwhelmed with debt."

Maybe you had a student debt or a big mortgage when you were younger, if you're not eating into that and really chipping away at that in your 30's, you've got to change your whole perspective. By this time, you have to be seriously focused on saving and the only way you can legitimately save is by making sure you have no debt.

The mortgage is the last one to go away but as you and I both know, people have credit card debt and student debt and car loan debt, there are so many debts and the reason they keep coming up is because you are spending more than you earn. So you've got to get that really figured out.

[0:07:49] ST: When you meet with clients and they come to your office or you're meeting them remotely, the successful ones what are the traits that they have that they're going to be rich as a king later on in life?

[0:08:00] DG: That question I really love. I think that certainly, you will see people and a lot of times they will come to me and say, "Doug, what investments can I do that's going to make me a lot of money?" And I will say, "I don't really know," which disappoints some people because they think of course I should know.

But the people I see that are really most successful are from a very young age who are in the habit of saving and if you want a good rule of thumb, whatever you earn 20% goes into savings. Just start that when you're young, pile away the money and you will be rich one day. It's doesn't even matter, I mean obviously, don't invest in loser investments but there's no investment solution to becoming rich.

The investments are part of the whole deal, invest prudently obviously but start with saving. The thing that I also recommend to people is start by being, and this is going to sound counter intuitive, but a very generous philanthropist even when you're young. I hope this is a bit of a surprise for a lot of people. You will say, "Well how is giving away money going to make me rich?"

I think the answer to that is, if people start by giving away 10 to 15 to 20% of what they earn to charity, it gives them a new way of looking at money and it's no longer so emotional and they're able to make smarter money decisions for the rest of their life.

[0:09:20] ST: It's interesting because I hear that again and again and again from people and you're right at this counter intuitive and I've seen it in my own life as well. The more you give, it always seems to come back. You end up getting more than what you've given away. I don't know how it works, I don't know what's going on out there but it's happening. People who don't give, they don't believe that it's true so it's strange, like you say.

[0:09:45] DG: Right, you just got to try it. Give it a try for let's say, I don't know, 10 years and you can start a little bit. I meet a lot of people and I do a lot of financial planning, I've never ever once met someone who said to me, "Geez Doug, I gave away so much money in my life. Boy, do I regret it. What a mistake that was."

[0:10:02] ST: Right.

[0:10:03] DG: It's always the opposite it's, "Wow, I wish I had given away more."

[0:10:07] ST: Why is budgeting important?

[0:10:10] DG: It's a painful word. I will tell you a little story. My daughter was an entrepreneur from age 12, so I have four kids and one of them is quite entrepreneurial and when she's now about 20 and she recently gave a talk to a number of teenage and young women about personal finance because I guess growing up in my house you learned quite a lot.

The number one thing that she said to this group was that they have to begin to keep track of all of their money. Everything you spend, get a receipt or enter it in your smart phone and one of these apps that keeps track of it and it was the number one thing that all the girls said, "No, that's awful. Who wants to do that? That takes away the fun in life."

The funny thing about it is that like anything whether it's dieting or money or anything that you can measure and keep track off, once you start keeping track of it, you can control it. But if you don't keep track of it, then you lose control and the proof is in pudding.

[0:11:10] ST: Certainly, so you'd say in the common theme to having a successful budget is really the tracking portion of it and keeping at it?

[0:11:19] DG: That's the number one thing. I will tell you, I tried this a couple of years ago I decided it's time to lose a little weight. I'd reached that age and that weight that I thought I should do something about it. So like all middle aged technical kind of guy so I look for the app that does it. I found this app called Myfitnesspal.

All it did basically is just type in every time you ate something the number of calories and I ended up losing 25 pounds. And it turned out, I later found out that this app is the number one weight loss tool in the world. It beat Weight Watchers and everything and I triggered it to simply as soon as you keep track of something, you can get in control of it.

[0:11:58] ST: That's awesome and congratulations on the weight loss too.

[0:12:00] DG: Thanks. It was awesome.

[0:12:03] ST: We're learning about money and health on today's show. How can we become grandmasters of the stock market?

[0:12:09] DG: I think you have to follow the path that a chess player is going to take on the board and really there are three parts to any chess game. They're generically called the opening, the mid game, and the end game. If you follow the rules of each one in terms of your own portfolio management, I think that's how you're going to win.

Let me give you an example from the end of the game, and one of the reasons that I am doing this is there are a lot of different schools of thought for how you should teach people about chess. The Russian school of thought is, start by teaching them the end game and so you'll see all these kids who have Russian coaches and I guess I am a little bit partial to that because my kids had a Russian coach, and they all learned end games first.

And one of the things that I speak to a lot about retirees is don't try something new. The end game of chess, the end game of investing is all written out. We all know what to do and the time when you mess up is when you say, "Oh, you know I really need to be more aggressive. I know that I'm 65 or 70 or 75 but I just heard this new thing," or, "I saw a great ad," or, "Hey, I got an email, someone was nice enough to send me an e-mail about how I could become rich overnight. I'd better act on it."

And that's when the trouble begins. So I think that if you look at your, I am just giving you an example for retirees, don't try something new when you're at the end game. Figure out exactly the same and tried and true techniques that people have been using for years and do that.

[0:13:40] ST: So when we get the e-mail from the Nigerian General who just needs to store some money in our checking account for a few days, we should just ignore those?

[0:13:47] DG: I would suggest ignoring unless you are really desperate. No, no I'm kidding. Really just ignore them.

[0:13:53] ST: If we've been in the work force for a few years, we have some student loans, some credit card debt but we've got a decent paying job, what are some moves and strategies we can make to be rich as kings?

[0:14:02] DG: First off, obviously there is the paying down of the debt but let's talk about one of the good ways of doing it. I will just give you a tool that in fact my daughter spoke about when she gave her talk but I guess because she heard me say it. One of the worst ways of paying for things is using your credit card.

I know that some people are a little more, I think in fact Scott you might be, but some people are a little more liberal on this than me. But over the years, I've become more and more against credit card use. Obviously someone can always come to me and say, "Yeah Doug but I pay my bill every month". Okay, so not you but 80% of the other people who are paying not the full amount every month.

An interesting study was done in McDonalds which I really can't get over. They looked at people who bought lunch and paid with a credit card and people who bought lunch and paid cash. The average expense on lunch if you paid cash was about $4 and if you paid with a credit card, it was around $7. All of a sudden you realize, and I mean there are many examples like this.

If you're paying with a credit card, you're just spending more and more money because you don't feel it. So people, to answer your question, people who want to begin to get out of debt and pay it off, cut off the credit cards, switch to cash and all the extra money you're going to have every month, use that and just plow that back into paying down your debt.

[0:15:24] ST: And I love that study as well and I'm always quoting it. I use it as a disclaimer when I'm talking about credit cards because I do have credit cards and I use them. And you're right, a lot of people can't control them and anytime I tell people to use credit cards, I just point it out, "You're going to spend more money, you just need to be aware of it and pay them off. If you can, yes, cut them up," like you said.

[0:15:46] DG: Right. Yeah, I would say that actually, a few years ago we're doing okay. I've got a good business and I helped a lot of people and things are going all right but a few years ago, well, more than maybe 10 years ago, my wife and I decided to just to forget the credit. We had them and we are hardly using them and then we actually realized that because we had them, we were open to identity theft, so we just cancelled them.

[0:16:07] ST: Funny, my credit card just got stolen two weeks ago.

[0:16:12] DG: Is the thief is using it and he is spending less than you are, you can still report it.

[0:16:16] ST: You're going to Domino's and Dunkin Donuts places I typically do not shop so I guess he had a few good meals on my credit card company but I didn't have to pay for them. What are some risky moves we need to be aware of that can cause us to be checkmated?

[0:16:32] DG: I'm trying to think of one of the things that people really, we spoke about the Nigerian Prince, right?

[0:16:36] ST: Right.

[0:16:38] DG: If you're hearing from him, I think one of the issues that sets people back so much is their own inability to make a smart decision about their investing. I'm not talking about because you don't know or you don't understand stocks and bonds. I am not talking about that. I'm talking about the fact that all too often, people are — when presented with two options, they're always going to choose the wrong one.

Let me give you an example. In fact when we were writing the book, we had the great honor of talking about some of our research with Daniel Kahneman, who won the Nobel Prize in Economics. He wrote a book which I hope a lot of people have read called Thinking Fast and Slow. His specialty is behavioral finance and one of the things that he pointed out in the studies that he's done is that folks will often when making a bet, they will insist on having a huge return if they win compared to something that's more reasonable.

The example that he gave is, if you flip a coin, you have a 50/50 chance of winning. So in theory, if you could bet a dollar or a $100 on heads or tails, you should be pretty happy if you could win a little bit of money. If more than half the time you can win an extra dollar or two, that would be a pretty good bet but it turns out that people will often demand to win a 100% profit on a flip which is just outlandish.

It doesn't happen that way and it's not even reasonable giving the market they're trading in, the market of flipping coins and then what happens is that people end up looking for investments that have a promise of high returns and often will give such terrible losses. If people would just spend a little time and try to be reasonable and balance the amount of gain they want to make, the amount of risk they're willing to take, I think they'll do much better.

[0:18:26] ST: Thanks you Doug for being on the show. Doug Goldstein, author of Rich As a King, how the wisdom of chess can make you a grandmaster of investing. Where can we go to find out more about you Doug?

[0:18:37] DG: Very simply, the URL is Richasaking.com and the Twitter feed is @richasaking.

[0:18:43] ST: Thank you very much Doug for being on the show.

[0:18:45] DG: Scott thanks so much.

[FINAL MESSAGE]

[0:18:48] ST: Doug's book is really well written, easy to understand, you don't have to like or know anything about chess to get some great tips out of it. I only know the names of the chess pieces and I was able to follow along. Now, I used to know which way the chess pieces move, but I haven't played for so long, I forgot even that much. Checkers though, I got that one down.

Next time, we're going to hear about why leasing a car is a terrible idea. That's it for this episode. I'm your host, Scott Alan Turner, Rockstar Katie is my producer. All the links mentioned in the show are available on the show notes on Scottalanturner.com. Today's episode was powered by Ben & Jerry's ice cream. Thanks for listening.

[0:19:25] ANNOUNCER: Okay nation, for your free copy of the guide, "How to save $1,000 in one week", simply subscribe to the podcast right now on iTunes and text "with saving" to the number 33444 to prove that you did it. Subscribe now to get out of debt, save more money and retire early. See you next time.

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