

A WINNING STRATEGY FOR RENTERS, BUYERS AND OWNERS

# THE AUTOMATIC MILLIONAIRE HOMEOWNER

A POWERFUL  
PLAN TO  
FINISH RICH IN  
REAL ESTATE



## DAVID BACH

#1 National Bestselling Author of *The Automatic Millionaire*

### EXCLUSIVE CHAPTER EXCERPT – CHAPTER I

We hope you enjoy this exclusive chapter excerpt from David Bach's *The Automatic Millionaire Homeowner*, brought to you by:

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**MEETING**

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**THE AUTOMATIC**

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**MILLIONAIRE**

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**HOMEOWNER**

I'll never forget when I met my first Automatic Millionaire Homeowner. I was in my late twenties and was on one of my first book tours, giving a talk at a bookstore in San Jose, California.

After a long down period, the real estate market in California was starting to take off, and many of the people who had come to see me had questions about whether now was a good time to buy property. In the middle of discussing the benefits of homeownership, I called on a young woman named Karen, who seemed particularly excited. "David," she asked, "what do you think about the idea of setting up an LLC

for real estate? I'm trying to decide if I should put my property investments into an LLC or a Nevada corporation."

An LLC, by the way, is a Limited Liability Corporation. Don't worry if you don't know what this is. Neither did Karen when she asked the question.

I told Karen there was no simple answer to her question. "It depends," I said. "What type of real estate do you own?"

Karen blushed a little, then said, "Actually, I don't own any yet, but I just read a book on real estate that said I should put my real estate in an LLC or Nevada corporation, because then my assets would be protected against frivolous lawsuits." She shrugged helplessly. "It all sounded so complicated. I'm not sure where to start."

"Well, let me ask you something else," I replied. "Do you have a lot of assets right now?"

Karen shook her head. "Not really."

I smiled at her. "You just read a book on real estate," I said. "Why? Is it owning real estate that matters to you or the financial freedom you're hoping to get from it?"

"The financial freedom," Karen said firmly. "I want to get out of debt, stop renting, and finally get ahead. I'm tired of living paycheck to paycheck."

"That's great. Congratulations on knowing what you want and making a decision to get there. You've already done the hard part—something that most people never do. Now, how about we focus on it one step at a time? Instead of worrying about whether or not you need a complicated LLC structure for your assets, let's look at how you would go from renting to homeownership. That's really your first step in building assets."

Karen nodded enthusiastically. “I know,” she said. “My parents told me that I should focus on buying a home. The book I read said I should look at foreclosures and buy real estate with no money down. But the book didn’t really explain how to do it. It just said rich people do this all the time.”

### **LEARNING FROM THE REAL WORLD OF REAL PEOPLE**

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I knew the book Karen was talking about. At the time, it was very popular and I had read it myself. It contained some valuable ideas and information, so I didn’t want to single it out. Instead, I looked around at the audience and asked, “How many of you have seen one of those ‘No Money Down’ real estate infomercials?”

There were more than 100 people in the room and pretty much all of them raised their hands.

“Great,” I said. “Now, how many of you have actually bought a property with no money down?”

Out of the 100 people there, two raised their hands.

“OK, so we know it’s not impossible to buy real estate with no money down. But we also know it’s not very common, nor is it necessarily easy. Now, how many of you own property and have it in an LLC or Nevada corporation?”

Not one hand went up.

“Interesting,” I said. “Here’s another question for you. How many of you own your own homes or condos?”

About half the audience raised their hands.

“For those of you who own a home or condo, keep your hand up if it’s the best investment you ever made.”

Nearly every hand that was already up stayed up.

“OK, keep your hands up and let me put a question to the rest of you who don’t own your own homes. How many of you have had your parents or grandparents tell you that their home was their best investment they ever made?”

Now, nearly EVERY single hand in the room was raised.

“Isn’t that interesting?” I said. “What we just did was conduct a real-life test on real people about what seems to work in the real world. And you know what we’ve learned? We’ve learned that there’s a lot of ‘razzle-dazzle’ out there in real estate. ‘Buy real estate with no money down.’ ‘Protect your assets with an LLC.’ It’s not that you can’t do these things. It’s that they’re not what you should be focusing on.

“What we’ve just seen is that there is one thing that is being done over and over again that works like a charm consistently—and that is buying a home and owning it for a while.”

I turned back to Karen, who smiled and laughed. “Okay, I get it,” she said. “Stop renting and buy a home! That seems to make a lot of sense. Now if you could just help me with the down payment, I’d be all set.”

The audience laughed.

“I’ve got a better idea,” I said, laughing along with them. “How about I teach you how to save up the money you’ll need for a down payment and how to get the financing you’ll need from the bank. The truth is that there are many special loan programs for first-time homebuyers that can help you buy a place faster than you’d think.”

Karen’s smile widened. “Sounds good to me!” she said.

## **THE MOST IMPORTANT INVESTMENT YOU WILL EVER MAKE IS YOUR HOME**

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As Karen sat down, I caught sight of an older couple I had spotted earlier in the back of the room. They were sitting there with their arms crossed. When you're speaking to an audience, crossed arms are usually a bad sign, but these two folks were both nodding and smiling.

After the question-and-answer session ended, I spent twenty minutes or so signing copies of my book. To my surprise, I noticed the older couple patiently waiting for me to finish. When I finally did, they came up to me. "David," said the man, "do you have a few minutes for us to share a story with you?"

"Absolutely," I replied. "All my books are based on the stories of real people. I love to listen—and learn."

## **“WE’RE MILLIONAIRES BECAUSE OF THE HOMES WE BOUGHT”**

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Their names were John and Lucy Martin. They looked to be in their early sixties, but young for their ages—fit and athletic—and excited about life.

"I hope you won't take this wrong," John began, "but we didn't actually come to the bookstore to hear you speak. We were just browsing when we heard the commotion in the back and thought we'd check it out. You were really engaging, so we decided to stay and listen."

“You were right with the advice you gave that young woman Karen,” Lucy piped in. “A house *is* the best investment you’ll ever make.”

“And renting never makes sense if you can avoid it,” John added.

John and Lucy looked at each other and smiled. “We know from personal experience,” said John. “In fact, we’re millionaires today because of the homes we bought over the years.”

“Really?” I said.

“Now don’t misunderstand,” John continued. “I don’t mean to boast. It’s just that I think it’s really frightening how many of these young kids seem to be making so much money in the stock market so quickly. They don’t realize that all those dot-com profits are just on paper—and that until they sell their stock and invest in something like a home, it’s nothing but pure speculation.” This was the 1990s, and John was wise to be skeptical.

## **“WHAT MADE US RICH WAS HOMEOWNERSHIP”**

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Lucy nodded vigorously. “We’ve invested in the stock market ourselves over the years, but we’ve always been well-diversified and in it for the long haul,” she said.

I nodded in agreement.

“But here’s the thing,” Lucy went on, “what made us rich was being homeowners. When we were young, we never thought we’d be able to even buy a home. But it turned out

to be so much easier than we imagined—and ultimately it helped us build real financial security.”

John beamed proudly. “I still find it hard to believe, but we own more than \$3 million worth of real estate. And we’ve done it simply by buying a handful of homes, living in them, and being smart about which ones we kept as rentals and which ones we sold for a tax-free profit. To tell the truth, it’s been fun.”

“And so much easier than we imagined,” added Lucy. “Can we tell you how we did it? We’ll take you out for a latte!”

We all laughed. In the presentation the Martins had just sat through, I’d been talking about what I call The Latte Factor®, a concept of mine that explains how the small things we spend money on (like lattes) can end up costing us a fortune—or make you rich if you learn to cut them out and pay yourself first.

So we headed off to a coffee shop—and a lesson about how to get rich through homeownership.

## GETTING ON THE HOMEBUYING TRACK

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John did most of the talking, but the story he told was definitely a joint effort. If anything, Lucy seemed to be the one who had originally gotten them on the homebuying track.

“We actually didn’t buy our first home until we were in our late twenties,” John started off. “And truth be told, we didn’t really give much thought to money. I was in the military at

the time and wasn't making much. But we weren't spending a lot either, because we lived on a base in Oakland and a lot of our living costs were covered. One thing that definitely helped was that the military had a bill-paying system where you could elect to have money taken out of your paycheck automatically. Basically, we saved money *automatically*, just the way you preached in your talk. We had a car we were paying for, so I had them take out the money for that. Then one day it was paid off, and we started discussing what to do with the extra cash that had been going to our car payments.

"It was Lucy's idea that we start saving for a house. My response was, 'Why should we save for a house when we can live on the base for practically nothing?' But Lucy insisted. She said that owning our own house would give us options. Renting would keep us trapped.

"Thank goodness I listened to her. Within two years, we had saved enough for a down payment."

"Don't make it sound so simple," Lucy interrupted with a smile. "Even then you weren't sure, were you, honey?"

John grinned back. "No, I wasn't," he admitted. "Our car was getting old, and I was in the mood for a new one. But Lucy put her foot down. She said, 'No way. We're not wasting this money on a new car. We're going to go look for a house.'"

"That's right," Lucy agreed. "We were starting a family, and I told him we needed to move off the base and find us a nice neighborhood with a good school system."

## **THE NEIGHBORHOOD WASN'T IDEAL, BUT THE HOUSE WAS AFFORDABLE**

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John resumed the story. “At first, it seemed pretty impossible. As we began looking, we quickly realized that we couldn’t afford very much. It was hard because we’d both grown up in nice homes. Our parents certainly weren’t rich, but things were cheaper in their day. The homes we were being shown were insanely expensive.

“To make matters worse, our friends were giving us a hard time for wanting to leave the base, telling us we were wasting our time. But Lucy was relentless. Every Sunday, we pored through the paper to see what was out there. We went to open houses on weekends and drove around neighborhoods we liked looking for ‘For Sale’ signs. But the more we looked, the more depressed we became. It seemed like nothing was in our price range in the places where we wanted to live.

“We were about to give up when we saw an article in the paper about this area called Walnut Creek. Back then, Walnut Creek was in the middle of nowhere, in the absolute boon-docks. But the houses were affordable, and the schools were good, and more and more young couples were moving out there.

“We called a real estate agent in the area and went out looking with her. In two days, we found a home for \$30,000. Now, Walnut Creek really wasn’t where we wanted to live. It was about twenty minutes farther out than we wanted to be. And the house wasn’t perfect. It was small and it needed a lot

of sweat equity, as they say. But it had three bedrooms and two baths, and we felt we could afford it. We had enough saved for a down payment, and we felt that with a lot of belt-tightening we could make the mortgage payments. Still, back then, \$30,000 seemed like a fortune to us.”

### **“YOU START SMALL AND YOU WORK YOUR WAY UP”**

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“While we were looking at the house, Lucy noticed I wasn’t too excited about it. I think I even said to her, ‘You know, this isn’t exactly the dream house we’ve always talked about.’ And she said, ‘John, dreams start small.’ And then our real estate agent said something I’ve never forgotten. She said, *‘You don’t buy your dream house with your first purchase, but it will be your first house that someday helps you get your dream house.’*

“We realized she was right, and then and there Lucy and I made the decision to go for it. We made an offer and it got accepted.”

### **A \$30,000 INVESTMENT EVENTUALLY TURNS INTO \$1 MILLION**

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John leaned back in his chair, a faraway look in his eye as he recalled that fateful day. “That was nearly 35 years ago,” he said. “Today, that little house is worth nearly a million dollars. I know because we still own it.”

“We paid off the mortgage years ago,” Lucy chimed in, “and we rent it now to a nice young couple with kids. They pay us nearly \$3,000 a month. Hard to believe we bought it for less than it now brings us in rent in a single year.”

“Our second house was a lot more expensive,” John said, resuming the story. “It cost us a little over \$100,000. Of course, it was bigger and it was in a new development—with a pool!”

“We needed both the space and the pool,” Lucy laughed. “By then, we had three kids.”

“And even though I was out of the service by then and making a little more money, we once again had to stretch to make the purchase,” John continued. “But—and this is really important—we didn’t stretch too much to buy it. In fact, we actually stretched a little *less* than we could afford because we had decided not to sell our first house but, instead, to keep it and rent it out. So instead of selling, we refinanced just enough to pull out a down payment on our new place.”

### **SAVING A TON OF MONEY BY PAYING OFF THE MORTGAGE EARLY**

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“By the time our kids went off to college, our \$100,000 house was worth more than \$500,000. We truly couldn’t believe it.”

“And best of all,” Lucy added, “it was nearly paid off because we had used a program our bank offered called a ‘biweekly mortgage payment plan.’ It sounds complicated but it’s not. What it does is help you pay off your mortgage extra fast, which saves you tons of money in interest.”

“You know the saying, ‘Time is money?’” John interjected. “Well, with mortgages, that’s really true.”

“Which is why in addition to using the biweekly mortgage payment plan, we also added a little extra to our mortgage payment at the end of the year when John got his bonus,” said Lucy.

John nodded and gestured to Lucy. “Why don’t you tell the rest of the story, hon?”

Lucy plunged ahead. “With our kids out of college, we really didn’t need to worry about school systems anymore. John wanted to live on a golf course, and so we started looking around at golf communities.”

### **“WE DID SOMETHING CRAZY— WE BOUGHT OUR DREAM HOUSE!”**

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“Long story short, we sold our second home for \$650,000. And then we did something crazy with the money—we used it to buy our dream house! It was 4,000 square feet, with a pool. The price was \$750,000, so once again we had to stretch a bit. But interest rates had come down a lot and we felt we could make the payments.

“We couldn’t believe it. Little us, now living in a huge house, almost a mansion. It was nearly five times the size of our first house and three times the size of the houses we grew up in. Our kids thought we were crazy. But we were ready for some fun.”

“Still are!” exclaimed John, and we all laughed.

“Well, that was ten years ago,” Lucy went on. “We recently sold that house for more than \$2 million. We spent part of the money on a new house on a golf course in Arizona, which is where we live now, and the rest to buy a small apartment building. The building has four units and makes us about \$50,000 a year in rent after expenses. Between our first house, which we rent out, and this four-plex, we earn \$90,000 a year. Not bad for a retired couple.”

### LIVING IT UP WITH NO FINANCIAL WORRIES

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“And you know the most amazing thing about it all?” John asked. “We really didn’t do anything all that special. But here we are 35 years later living it up, retired with no financial worries and a wonderful home on a golf course.”

“Oh, come on,” I said, “you’re selling yourselves short. What you did really *was* special.”

John shook his head. “Not at all. We always took care not to overextend ourselves. If we did anything at all special it was not to sell our first home. Renting out that house helped us build equity at someone else’s expense. And ultimately, the rent from that house helped us pay down the mortgage on the house we were living in much faster. Because of that, when we were ready to buy our third home, we were able to afford a really big one.”

“And when the tax laws changed,” Lucy jumped in, “we really made out.” She was referring to the changes Congress

enacted in 1997. Before then, the government let homeowners sell a house once in their lifetimes without having to pay any taxes on the profits. But in 1997, Congress changed the rules. Now, every time you sell your house, the first \$250,000 in profits are tax-free—the first \$500,000, if you're a married couple.

“So when we sold our \$750,000 California home for \$2 million, \$500,000 of the profit we made was tax-free,” John explained. “We plan to do even better with our home in Arizona. We're going to sell it as soon as its value increases by \$500,000 and lock in the tax-free gains again.”

### **“EVEN IF OUR HOUSE DOESN'T APPRECIATE, WE'LL STILL BE FINE”**

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“You mean *if* it goes up, John,” added Lucy. “Even in real estate, nothing is guaranteed. Of course, if our house doesn't appreciate, we'll still be fine, living in it and enjoying ourselves.”

John laughed appreciatively. “That's my Lucy. Always the realist. *If* it goes up by \$500,000. And *if* we ever sell our apartment building—which is already worth \$250,000 more than what we paid for it—there's a way we can avoid paying any taxes on it as well.”

He patted Lucy on the arm. “It's really something,” he said. “I suppose we've been luckier than a lot of people. We certainly aren't the smartest folks around. But all in all, it really hasn't taken much effort for us to do as well as we have. Sometimes real estate seems so simple. We don't even man-

age the four-plex we own. Our real estate agent set us up with a property-management company that does it for us.”

“And don’t forget that first home of ours,” Lucy pointed out. “We’ve been renting it to the same family for ten years. Sometimes I feel bad for them. I mean, with all the rent they’ve paid us over the years, they could have bought their own home. But they seem happy. Not everyone wants to own a home, I guess.”

### **“AND NOW OUR KIDS ARE DOING IT, TOO”**

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As we were heading out of the coffee shop, buzzed from our lattes, I asked John and Lucy one last question: “Do you think what you did over the last 35 years can still be done today?”

John and Lucy looked at each other and smiled. “David,” Lucy said, “it’s being done every day. Most of our friends are like us.”

John nodded. “Arizona is filled with people who are doing what we just did. You know, even our kids are doing it. It’s funny, our biggest mistake—mine and Lucy’s—was that we didn’t get started until we were practically in our thirties. Thank goodness, neither of our daughters waited that long. Veronica is only 25 and she already owns a condo in San Diego that’s doubled in three years. And her sister, Kathy, bought a home in Idaho that’s gone up by 50 percent. They learned from us how it easy it can be. Now they’re teaching their friends how to do it—and they are already getting ready to buy second homes.”

## THE MOST IMPORTANT THING IS HAVING THE RIGHT MINDSET

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“John is right,” Lucy said, “but there is one thing he’s leaving out. The most important thing about what we did was having the right mindset. *We were people who thought poor for a long time.* We thought we would always be renters, and for ten years we were. But then one day, we expanded our thinking. We realized that we could actually go from renting to owning. And then, when we got to the point where we were ready to buy a bigger house, we realized that instead of selling our first house, we could keep it and become landlords. That changed everything.”

She looked at me intently. **“Most people never change their mindset. If you do that, you can do what we did.”**

I thought about what Lucy was saying. It sounded almost too easy to be true. “But what about discipline?” I asked. “I mean, it’s one thing to decide to do something, but it’s something else entirely to stick to that decision. Where did you get the discipline to put away the savings you needed and keep up with all those mortgage payments?”

## “THE TRICK IS TO MAKE EVERYTHING AUTOMATIC”

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John and Lucy burst out laughing. “Gosh,” Lucy said, “we’re probably the least disciplined people we know.”

“The trick,” John said, “is to make everything automatic.”

With the help of our bank, we automated everything from our savings programs to our mortgage payments. We even have our tenants deposit their rent payments automatically.”

Lucy nodded thoughtfully. “It really is amazingly simple,” she said, “I never imagined retirement could be so easy—or so much fun.”

And with that I shook hands with John and Lucy, thanking them for the latte—and their story. Such nice people, I thought as I watched them walk down the street holding hands, such a simple plan.

They were, I realized, Automatic Millionaire Homeowners. Maybe someday I’d be one, too.

## NOW IT’S YOUR TURN

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The story of the Martins and how they got rich without a lot of effort or experience in real estate can become your story.

To find out how, turn the page and continue reading. You’re about to enter the world of homeownership and real estate investing, a world that is far easier to understand—and to conquer—than you ever imagined. You are only a few hours away from a totally new way of thinking about where you live and how you live. If you’re currently a renter, you will not want to continue doing that much longer, I promise you. And if you already own your home, you’ll soon be thinking about buying another one—maybe several.

You are on your way to becoming an *Automatic Millionaire Homeowner*.

