

SEVEN MYTHS ABOUT MONEY

**And the Truth About Finding
Financial Freedom**



Rob Dix

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The Sunday Times Bestselling Author



Praise for

Seven Myths About Money

‘This is a masterpiece. I have repeatedly found that most conventional financial advice is bang on the money – provided you were born in 1958, and started following it in 1971. But things have changed. This is the book I want my children to read.’

Rory Sutherland, author of *Alchemy*

‘This brilliant book doesn’t just debunk the most common misconceptions people have about money. It also reveals how to really build wealth – no luck, inherited fortune or business genius required. It’s the one-stop guide you need to transform your finances.’

Jake Humphrey, author of *High Performance*

‘A brilliant read that is equally engaging, informative and accessible. This book will make you revisit, reconsider and maybe even refresh your thinking on some of the things you always thought you knew about money and investing.’

Jack Meaning, co-author of *Can’t We Just Print More Money?*

‘A lively take on modern money management from a gifted storyteller, filled with intriguing financial predictions.’

Claer Barrett, author of *What They Don’t Teach You About Money*

‘A very important book . . . All too many millions of us are sleep-walking towards a worryingly impoverished future. Reading *Seven Myths About Money* will go some way to helping you avoid suffering that fate.’

Andrew Craig, author of *How To Own The World*

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INTRODUCTION What if
everything you've been told about
money is wrong?

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INTRODUCTION

NEW GAME, NEW RULES

It might not always feel like it, but you're lucky enough to be living through the best period in human history.

From the evolution of the first modern humans 300,000 years ago until literally the last few centuries, mere survival was considered an A+ result. If you managed to work brutally hard every day from childhood until you died of old age – without famine, rampant disease or war wiping you out before you got there – you'd have been one of the world's winners. If you were outlived by more than half of your children, you'd have lived a charmed life indeed.

Fast forward to today and life is better than ever in just about every way. You're less likely to die of disease, as illnesses that once would have been a death sentence are now treatable. You own a magical device that can instantaneously distract you with the world's accumulated knowledge, and allow you to maintain relationships with friends all over the world. You might be listening to this book on a wireless speaker that's nestled in your ear or reading it as you're whisked in (relative) comfort across great distances.

Yet there's one area in which life *isn't* better for the average person than ever before: money.

If you'd graduated high school in the 1960s, you could have walked straight into a professional career, with no university degree and resultant student debt required. A single earner could support a typical family, and by saving up four years' salary you could buy a typical home. You would have gone on to live

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through a period where any assets you owned – including your home – rocketed in value. And, as if that weren't enough, you might have retired with a pension linked to your final salary – regardless of how well financial markets had performed. Merely by following the herd from school to workplace and copying the financial habits of your peers, it was possible to live a comfortable financial life.

Not any more. By following the default choices now, you might find yourself at university – driven not by a deep desire to learn, but because it's the only way into most jobs – and then leave with debt that it takes most of your working life to pay off. You then find that you need two salaries to support your family, and you can't afford to buy a home until you're well into your thirties.

If you want to retire in comfort, then you need to save hard to make investments (while also saving to buy that expensive house) and cross your fingers. If you're not able to retire, at least you won't be alone: at the time of writing, the number of over seventies in the workforce in the UK has increased by 61 per cent over the past ten years, and in the US it's expected to grow by another 96 per cent in the next five years. Across Europe, the share of workers aged fifty-five years or older increased from 12 per cent to 20 per cent between 2004 and 2019.

Yes, your life will still be better than those of your ancestors by many metrics – but money touches all the metrics that are left over. If you're doing worse financially, it's going to hurt.

THE YEAR THAT CHANGED EVERYTHING

Why are things so different now from half a century ago? The beginnings of our answer can be found on one of my favourite websites: wtfhappenedin1971.com.

Started as a joke by a couple of anonymous social media

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accounts, ‘WTF happened in 1971?’ collates graphs and charts pointing to a surprisingly widespread set of financial and social changes that started in the early 1970s. Now, though, the collection has grown to a point where it’s not funny – and is actually rather disturbing.

It shows that, up until 1971, productivity growth and worker compensation moved in line with each other in most of the rich world – suggesting that people were benefiting from the gains generated by new technology and more efficient working practices. From then onwards, productivity continued to grow. But wages stagnated: the gains were going elsewhere.

It also shows that inequality – as measured by the gap between the richest 5 per cent and the bottom 20 per cent – had been roughly the same for decades. Until 1971, that is. After that point a yawning chasm began to open: the richest got richer and everyone else was left further behind.

Across a startling array of measures – from savings rates to the number of working hours required to buy a house, and even divorce and incarceration rates – you can look at dozens of charts and see a consistent trendline up until the 1970s, at which point it suddenly changes course (usually for the worse). What, indeed, TF happened?

Well, 1971 wasn’t just picked at random. In fact, it was the year when the system that had underpinned the global economy since the end of the Second World War – the gold standard – came to an end.

As the name suggests, under this system the value of the world’s major currencies was defined in relation to gold: every US dollar could be converted into a fixed amount of gold by foreign governments, and many other currencies were pegged to the dollar at a fixed rate of exchange. The result? Without getting its hands on more shiny metal to cover any demands to turn dollars into gold, the Federal Reserve (the central bank of the US)

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was limited in its ability to increase the supply of dollars in circulation.

When this system was abruptly scrapped by President Nixon one Sunday evening in August, a new financial era began. The world's major currencies were now untethered from anything, and had value purely because governments said they did. This gave central banks far more flexibility to manipulate the economy – because, suddenly, they could more strongly influence the amount of money in circulation, with all the knock-on effects that had on inflation, interest rates and productivity.

Economists disagree among themselves (as they disagree on virtually everything) as to how much of what's happened since has been the result of central banks wielding these powers unwisely, and how much is due to completely unrelated factors, like changing demographics, globalisation and investor behaviour. But what's indisputable is that, in the years after that fateful Sunday evening, the world economy would start moving in a very different direction – experiencing first spiralling inflation, then more sluggish productivity growth, and then, in the longer term, a startling downward drift in the rate of interest.

The long-term average for interest rates in the US and UK, going back as far as reliable data is available, is roughly 4–5 per cent. After rates hit historical all-time highs during the inflationary 1970s, they moved downwards throughout the 1980s and 1990s – eventually falling to levels below 2 per cent in the US by the early 2000s. Naturally, as money becomes ever-cheaper, it's rational to borrow more – which is what governments, corporations and individuals alike chose to do over these decades. Globally, the total level of debt to GDP practically doubled from just over 100 per cent in 1971 to 195 per cent by 2007.

In the wake of the 2007–2008 financial crisis, this longstanding trend would go into overdrive. A banking collapse that started with subprime loans in America triggered a loss of trust across

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the financial sector, and brought down supposedly ‘too big to fail’ institutions that had been around for hundreds of years. In the ensuing panic, central banks took full advantage of their powers and acted quickly to put the economy on life support – reducing the cost of borrowing even further to stimulate as much economic activity as possible, and flooding the system with unprecedented amounts of newly created money. Interest rates were slashed to previously unthinkable lows: in the US and UK, rates were set at just above zero, and in the Eurozone they even turned negative. And the cheaper debt became, the more that was borrowed. In the US, government debt (which had already doubled to 62 per cent of GDP by 2007) reached 97 per cent only a few years after the crisis, in 2012.

It’s clear that during the forty years since the end of the gold standard ushered in a new financial era, the world had become hooked on cheap debt. For every crisis, the creation of ever-more, ever-cheaper debt was part of the solution – and in between crises, things seldom moved back in the opposite direction. Even by the beginning of 2020 – twelve years on from the 2007–2008 collapse – interest rates had barely crept above their all-time lows. Meanwhile, the combined global debt levels of governments, businesses and individuals exceeded 250 per cent of GDP, reaching a total of \$226 trillion.

Many people benefited from this era of ever-higher, ever-cheaper debt. But not everyone. The winners were those with assets. Stocks, bonds and real estate all benefit from falling interest rates: borrowing becomes cheaper, leading to increased demand for assets, which drives their prices up. (In fact, they won twice over – because they could also borrow cheap money to get their hands on even more assets.) The losers were, well, everyone else – going some way to explaining that ‘WTF’ inequality gap.

But at least by the time the ‘free money’ era got into full swing in the years after 2007, it was obvious how to play the game. Buy

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the biggest home you can as soon as you can, because debt was so cheap it'd be silly not to. Invest in the stock and bond markets, because both were only going in one direction – meaning that without trying too hard or taking too much risk, a passive investor could enjoy double-digit annual returns. And, with inflation being so low, there was no need to worry too much about the bite it'd take out of your gains.

As long as conditions stayed the same, so would the rules of the game. Of course, if interest rates reversed course, then there'd be some consequences to face. But those days were gone for good, right?

THE END OF THE OLD ORDER

Wrong. It may not have been marked by a televised presidential announcement this time, but another new era has begun. The financial world that we've lived in for most or all of our lives has changed, potentially for ever – and this book is your guide to navigating it.

Starting in the early years of the 2020s, the forces that had defined the world's economy for half a century – and which stepped up several gears following the financial crisis – screeched to a halt and reversed, at a pace that took everyone by surprise. Inflation, which had been thought of as a problem of the past, returned with a vengeance. And suddenly, to combat it, interest rates rebounded from near-zero all the way back up to their long-term average. As we'll learn in the chapters that follow, while the worst inflationary pressures of the early 2020s may have subsided, it's hard to imagine interest rates falling back to the historic lows that defined the world of the last few decades – nor inflation being brought fully under control for good.

The easy money party is over – and the hangover that we're living through now could be a particularly painful one.

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For one thing, the embedded assumption that assets only rise in value has been shattered: the forces that pushed all asset prices upwards at the same time have abated, leaving us in for a far bumpier ride. For another, inflation will keep rearing up and threatening our living standards.

On top of that, governments are less able to help than ever before – and may even be coming cap-in-hand asking you to help them instead. After all, governments now find themselves in the same position as the homeowner who used cheap money to buy a house they couldn't otherwise afford: those trillions of dollars of debt will eventually need to be refinanced at higher rates, meaning that debt repayments will take up a larger share of tax revenue. Borrowing more money just to cover everyday commitments – as the US government has done in every year but four since 1971, and the UK government has done in every year but five – suddenly seems less appealing. The only way out is through cutbacks, tax increases and inflation.

So it doesn't take a crystal ball or an economics degree for the average person – who's already spent the past 50+ years falling further behind – to see that life is likely to get significantly worse.

But there is a way out. My belief – and the case I'll make throughout this book – is that it is possible to thrive in this new economic era. It just involves forgetting a large amount of what you've been told – and being prepared to bust a few myths.

The word 'myth' has several meanings. It can refer to a story passed down through the ages. It can mean a widely held but false idea. It can mean a deliberate misrepresentation of the truth, or an idealised picture of it. Today, most of what you hear about money – even if once true – has taken on at least one of these qualities. The old-school financial wisdom – much of which was already woefully out of date even by the turn of the twenty-first century – is now rooted in myth as much as in fact.

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It's a myth, for example, that savings are always going to come to your rescue when times get tough (what happens if inflation is higher than the interest paid by your bank?). It's a myth that 'compounding returns' are all you need for a happy retirement (what happens when the rate of compounding is lower than the old models would ever have predicted?). And it's a myth that you should never try to beat the market (what if times are tough enough that doing so is the only way to get ahead?).

In this book I'll be tackling the seven biggest and most pernicious misconceptions, half-truths and outright lies about money head-on. And in debunking them, I'll sketch out an alternative route to financial independence – one that will help you thrive in the new reality of today's financial system.

Don't get me wrong: I'm not a finance 'natural' or any kind of guru. I've only come to discover this new path by trying out all the old advice, keeping the rare bits that succeeded, and filling the gaps with experiments inspired by some decidedly unconventional sources. For every one of my stranger money moves that worked – like posting banknotes to a stranger to buy Bitcoin before anyone beyond online weirdos had heard of it, or refusing to buy the home I live in despite presenting a show called *The Property Podcast* – I had two that didn't. (It turns out that reflexively buying cheap shares in a company because everyone thought it was about to go bankrupt was ill-advised: sometimes, the majority is right.)

But over the past fifteen years, I've studied the worlds of economics and personal finance intensively – questioning everything, and learning which ideas about money are correct and which are nothing more than hearsay. Over time this has developed into an alternative rulebook that has worked for me, and which I've seen work for a huge number of others too. If it worked for them, and it worked for me, it might just work for you, too.

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MONEY RULES FOR THE REAL WORLD

Turning your back on conventional wisdom can be a little daunting – particularly when many of the misconceptions we’ll explore in this book have been following you for your whole life. But if abandoning the myths of the past doesn’t come naturally, don’t worry: I won’t be asking you to do anything extreme.

In fact, that’s the first of four ‘red lines’ I put in place when I was designing this method for myself – and which are, for me, the basis of any sane approach to your finances. These guiding principles are clearly needed, because even when the world of money was a more straightforward place – and some of today’s myths still qualified as sound advice – most people struggled to get ahead financially all the same. The problem wasn’t a lack of knowledge; it was that much of what was being asked ran counter to human nature. You were being handed a plan that would have worked perfectly, provided you could suppress all your impulses for decades on end.

For me, a method only has value if what it preaches is something people are able to follow – and, ideally, are excited about following. That’s how I came to set myself these four ground rules.

Red line 1: It doesn’t require major life changes

Sure, most people on *The Sunday Times* Rich List got there by taking big entrepreneurial bets (if they didn’t have the foresight to be born into wealth already). Many friends of mine found their way to wealth by moving to the other side of the world in search of new opportunities and a cheaper cost of living.

If you’re wired to take risks and follow your own path, great – but for most of us it’s not realistic, and not necessary. In fact,

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following my method will make your financial life feel simpler and less risky than it is now.

Red line 2: It doesn't take decades to work

If I had a doctor who said she had a fool-proof plan for curing me but it'd take forty years, I'd go looking for a new doctor.

Personal finance books are full of great advice for what you can do in your early twenties to secure your eventual retirement. But what about those of us for whom that ship sailed long ago? Or what if you do have youth on your side, but you're not willing to wait that long?

Following my alternative prescription won't see you showered in instant riches – that's just not realistic. But you'll start to sense a difference within a year, be on a whole new financial trajectory after three to five years, and have radically transformed your life within a decade.

Red line 3: It doesn't require endlessly delayed gratification

There's a subculture of people called 'life extensionists' who abstain from alcohol, processed foods and sugar because they believe it will extend their lifespan – perhaps even keeping them going until advances in medical science manage to find a complete cure for ageing. The joke about this group goes that they may not live for ever, but it'll certainly feel that way.

The same goes for money: I don't think we should deprive ourselves completely today for the sake of a distant future (which, without wanting to be too morbid, we're not guaranteed to live to see). Yes, Future You is important, and we need to look out for them. But Present You deserves some love too, so my method is focused on providing for the future while also improving your life today.

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