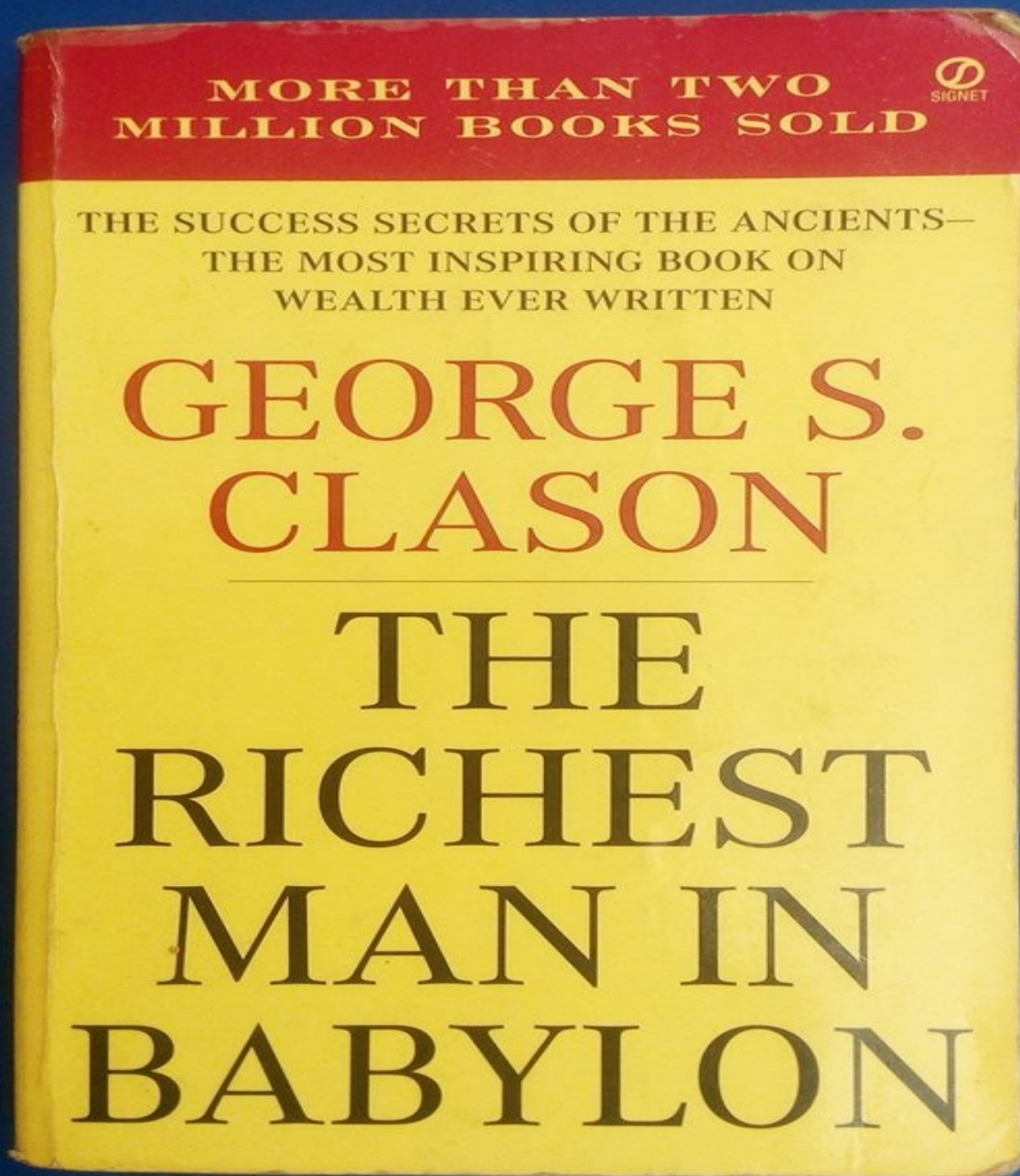


10 Key Financial Lessons from The Richest Man in Babylon

Why The Main Idea of The Richest Man in Babylon is NOT to Save



Part 1

Lesson 1 : Passive Income

"Income, that is the thing" ~ Bansir, The Man Who Sought Riches

It would not be unfair of me to say that the true secret of this book lies in the first 10 pages. The first story in "The Richest Man in Babylon" is about a conversation between two friends, Bansir and Kobbi. They ponder how it is that they have worked for over fifty (50) years and yet have not become "men of means." It was in this conversation that Kobbi so casually gave one of the great secrets to wealth, PASSIVE INCOME. Essentially, passive income is the income that flows into a man's purse (read "purse" as "bank account") whether he works or sits on a wall all day.

Lesson 2 : Money Begins in Your Head

"A man's wealth is not in the purse he carries. A fat purse quickly empties if there be no golden stream to refill it." ~ Kobbi, Friend of the Seeker.

Kobbi gave another insight into wealth in this conversation that is too often overlooked. When Bansir suggested that there must be some secret to wealth that they might learn, Kobbi mentions seeing Arkad, The Richest Man in Babylon, in the streets that day riding in his golden chariot. To this, Bansir jokes about robbing him if he should ever catch him alone on a dark night. It was at this point that Kobbi shares probably the most useful insight into wealth. In his own words, "A man's wealth is not in the purse he carries. A fat purse quickly empties if there be no golden stream to refill it." Many times we feel we will become wealthy if we get a raise or a higher paying job. This is a mistake, one that I have made in the past as well.

It is highly likely that if you are earning \$100,000.00 now but spend \$120,000.00, then you will just spend \$240,000.00 when you start earning \$200,000.00. Money is a result. It begins in your head, not in your wallet. Being wealthy is a mindset, not a financial situation. The point here is that we must first decide that we will become wealthy, then we must adopt and develop the mindset that will enable us to achieve it. Finally, we must devise a plan that will enable us to be recipients of passive income.

Part 2

Lesson 3 : A Part of All I Earn is Mine to INVEST

"A part of all I earn is mine to keep" ~ Algamish, The Money Lender

The rallying cry of the community most fond of "The Richest Man in Babylon" has been "Save 10% of all you earn." That is a great idea, one that is repeated throughout the book BUT it is only half of the true lesson the book aims to teach. Again I say, money begins in your head. It starts with a decision. One cannot SAVE his way to financial independence, much less, financial freedom. In chapter one of the book, Arkad, The Richest Man in Babylon, preludes his discussion with a group of men who had come seeking his advice by saying, *"In my youth, I looked about me and saw all the good things that were to bring happiness and contentment. And I realised that wealth increased the potency of all these."* He went on to say, *"And, when I realised all this, I DECIDED to myself that I would claim my share of the good things in life...Therefore did I decide to find out how one might accumulate wealth and when I had found out, to make this my tasks and to do it well."* The mantra of saving all you earn comes from the story that Arkad then shares with the group. The true secret to wealth in that story is subtly placed. It is for that reason that this author feels it is overlooked.

When Arkad was young, he had an encounter with Algamish, the money lender and made a deal with him. Arkad arranged with Algamish that he would complete a clay tablet in a very short period of time in exchange for Algamish to tell him how he became so wealthy. When Arkad finished the task, Algamish told him that the secret to his wealth was his discovery that a portion of all he earned was his to keep and that it should be no less than one tenth. With this knowledge Arkad decided to save 10% of all he earned. This is where the profound financial advice of saving 10% of your money originated. BUT, that is only half of the story. The story continues and exposes the reason for saving the 10%. Algamish did not only encourage Arkad to save one tenth of all he earned for a year, he also taught him to put it to work.

"Every piece of gold you SAVE is to WORK for you, and every copper it earns is a child that must also work for you" This, put simply, is how one creates **COMPOUND INTEREST**.
"If you will be wealthy, what you save must earn and its children must earn..."

Financial freedom is achievable by all men. It is done by investing, not less than, one tenth of all we earn and applying the rule of compound interest. In a subsequent article, I will share five (5) ways one can create compound interest.

I will pause here to share two additional lessons found in this chapter on investing. I will also share my personal experience in the ways I have transgressed these laws.

The first lesson is one in investing, particularly, the process and requirements of successful

investing. Twelve months after Algamish gave Arkad his secret to wealth, he returned to find that Arkad, The Richest Man In Babylon, had given his money to a brick maker called Azmur to buy rare jewels. Arkad was to receive a share of the profits when the jewels were sold. Upon learning this, Algamish gave Arkad the first lesson – **Invest with people knowledgeable about the vehicle or business in which they plan to invest your money.** Better still, invest your money yourself in businesses that you understand. He asked Arkad what a Brickmaker would know about precious jewels and told him he would have to start over. As it turned out, Azmur was tricked by the sellers and ended up purchasing worthless pieces of glass in place of jewels.

The second lesson was concerning what to do with the gains off his investments. Another year later, Algamish returned to Arkad who delightfully told him that he had invested his savings with a shield maker who was now paying him a rental (dividend) every four months. Algamish was pleased to see that Arkad had learned the lesson and had profitably applied it. However, he was not very pleased to learn that Arkad used his profits to host a big feast and buy luxuries for himself to enjoy. Here, he passed on the second lesson – **reinvest profits to create compound interest.** Algamish suggested that Arkad first get himself “an army of golden slaves” to provide a suitable income such that he can start spending on the luxuries he desired. Arkad did this and two years later when Algamish returned, he was in good standing having observed the lessons from his earlier mistakes.

In my own time as a young investor, I have amassed significant wealth by following the first two principles. I graduated University in 2014 and went immediately into a job earning \$800 USD per month, my expenses totaled USD \$500.00 and I invested the remaining \$300.00 USD in stocks, insurance and long term investments. My mistake was the same as Arkad's. After some time, I started to spend my profits, I started going to expensive restaurants and subscribed to paid services I did not need. I then liquidated my long term investments held in Unit Trusts to buy an appliance to make myself more comfortable. Before long (one year and six months later, to be exact) I lost my job and had to liquidate my other investments in order to survive while I sought another job. Needless to say, I learned a lot from that experience.

Algamish summarised the lessons from this chapter of The Richest Man in Babylon as such.

- 1. Spend less than you earn, i.e., save a portion of your income to INVEST.**
- 2. Invest no less than 10% of your income, under advice of knowledgeable men, in ventures you understand.**
- 3. Reinvest the earnings instead of spending it on luxuries – Make gold work for you.**

Another lesson Algamish shared was the need for insurance. “*Provide also that thy family may not want should the Gods call thee to their realm*” We will talk more about this later.

See my article “[Why You Should Buy Insurance Young](#)”

Finally, Algamish cautions against being a Miser and trying to save more than is practical.

Part 3: The Seven Cures for A Broke Bank Account.

I will end this part of the book summary by looking at what may just be the most important chapter in "The Richest Man In Babylon." By now, you must be tired of hearing what I am about to say but it deserves repetition for one to truly appreciate it. Money is a result. "***The RICHES of Babylon were the RESULT of the wisdom of it's people. They first had to learn how to become wealthy.***" Anyone who learns how to acquire wealth will indeed amass much of it.

The story is told in "The Richest Man in Babylon" of a king whose Chancellor lamented of the state of poverty faced by the majority of people in the Kingdom. Before that time, the city of Babylon had embarked on great ventures that led to much growth but at this time, the works had been finished, the builders and stakeholders of these ventures were now wealthy. However, the working class and the skilled workers were in a state of desperation. After hearing the situation, the King commissioned Arkad, The Richest Man in Babylon, to convene a course wherein he would teach 100 men the principles of wealth creation. These principles became known as the Seven Cures for A Lean Purse.

Lesson 4: The First Cure: Spend Less Than You Earn.

This is such a simple but powerful, and often neglected philosophy. It is even rarer in practice today as we have access to all forms of credit and leverage. It is rather simple, concerning anything, if we take out less than we put in, we will begin to build up a storehouse of that thing. This is as true for the money we have in our investment accounts as it is for the food we put into our bodies. I often say, "We get rich the same way we get fat, by putting in more than we use." The philosophy of spending less than we earn has been taken as the main idea for building wealth because it is repeated so many times in "The Richest Man in Babylon." However, as we will see in the other six cures, it is only one of the many principles to be practiced in creating wealth.

Lesson 5: The Second Cure: Use A Budget to Control Your Expenditure

"Who, my friend, would determine thy budget?" ~Arkad, The Richest Man In Babylon

I am sure we've all heard this over and over again. Now, I will be the first to admit that I do not always keep to my budget. In fact, I rarely do, BUT having it helps me to keep track of my expenses. It helps me to keep abreast of my liabilities and to not fall so far into debt that

I am unable to recover. If you take only one action from "The Richest Man in Babylon," let it be this: Write down all your expenses. In so doing you will get a clear picture of your current financial situation. This one action could revolutionize your financial position.

We have created a free PDF and excel spreadsheet to assist you in this task. I will tell you another reason I find it important to do this exercise. Before I read this book, I earned \$400 USD monthly and every month I would spend 400 USD. Soon after, I started earning \$700 USD and I spent \$700 USD. At the time of this writing, I earn, 900 USD, guess how much I spend every month? That's right 900 USD. This is what I found, regardless of how much I earn, I will spend that amount. I currently have two credit cards and it is a constant challenge to deny myself the pleasures/luxuries I so longed for but could not afford. It is for this reason that I reread this book, to remind myself that "*What each of us calls our necessary expenses will always grow to match our incomes unless we protest to the contrary.*" Arkad, The Richest Man In Babylon knew this. For this reason, he encouraged the men in his class to make a budget and to allow it to show up the leaks in their purses. Perhaps if Arkad lived in our time he would say "*Write down your expenses and make a budget so it can show you the holes that are draining your bank accounts.*"

Lesson 6 : The Third Cure: Compound Interest.

"If you will be wealthy, what you save must earn and it's children must earn..." ~Alghaish, The Money Lender

I feel I have exhausted this point in my earlier report on how Arkad became the Richest Man in Babylon. The simple truth is this: We must save to INVEST and not to SAVE. We must let our savings work for us by investing it and reinvesting its earnings.

Lesson 7 : The Fourth Cure: Don't Loose Money

"There are only two rules of investing, 1. Don't loose money, 2. Don't transgress rule number 1." ~Warren Buffett, The Oracle of Omaha

Arkad taught his students that they should seek the counsel of men wise in the handling of money. We should do the same. We should invest in businesses with which we are familiar. This also happens to be one of Warren Buffet's principles of Fundamental Investing. Warren doesn't buy stocks of businesses he does not understand. That is why he did not participate in the technology bull run of the 1990's. Arkad believed in protecting his principal and so does Warren Buffet. Warren Buffet has only two rules for investing his money. Rule number one is "Don't loose money." Rule number two is "Don't break rule number 1." Therefore, in order to protect our principal, we must either: become knowledgeable in the wise use of

money to make more money or become partners with men who have profitable businesses and have great knowledge about their business.

Lesson 8: The Fifth Cure: Own Your Own Home

"...Therefore do I recommend that every man own the roof that sheltereth him and his" ~ Arkad, The Richest Man in Babylon

After taxes, my biggest is rent. This is possibly true for you as well. We are not alone, it has been the case since the days of Babylon. Now then, one might say, I don't pay rent, I have my own home, I pay a mortgage. Well, let's look at that. What happens if you don't pay your mortgage for six months? Exactly, the same thing that happens if we don't pay our rent for six months, except your eviction letter will come from the bank. Thus, having a mortgage simply means that the bank is your landlord. It is important for me to note here that I do consider a home an investment. However, I do not consider it an asset. I subscribe to the philosophy of Robert Kiyosaki (Author of Rich Dad Poor Dad) on this issue.

Our homes are investments in our peace of mind but they do not provide cash flow and are therefore not assets. According to Rich Dad's definition, an asset is something that provides you with an income whether you work or not. Our homes are not assets unless we rent a room or two to other people. Arkad, The Richest Man in Babylon, recommends that we own our homes so that we can have peace of mind. Furthermore, the money we would otherwise be paying for rent, or a mortgage, can be saved for investing.

Lesson 9 : The Sixth Cure: Invest in Life Insurance, Pension Schemes and Long Term Vehicles such as Index Funds

"Provide in advance for the needs of thy growing age and the protection of thy family" ~Arkad, The Richest Man in Babylon.

What would happen to us if we were to suddenly fall ill and unable to work? What would happen to our families if we were to meet an untimely death? These were the questions discussed when Arkad met with his class on the sixth day. In the Words of The Richest Man In Babylon himself, "NO man can afford not to insure a treasure for his old age and the protection of his family, no matter how prosperous his investments may be." Some time ago, I published an article entitled "Why You Should Buy Life Insurance Young," I highly recommend that you read it.

Although, it did not exist at the time, Arkad hinted at the emergence of the Life Insurance Industry in his conversations with the men of Babylon. Luckily for us, insurance today offers all three aspects that the Richest Man in Babylon alluded to. Insurance companies exist at

the time of this writing that offer life coverage, long term savings/investing plans and pension plans all combined in a single policy. We also have options in that we may have our life insurance coverage with one institution, our pension with another and still have our long term investments with yet another. I encourage you to follow the suggestion given by Arkad and take advantage of this facility if you have not yet done so.

Lesson 10 : The Seventh Cure: Increase Thy Ability To Earn

Through personal and professional development, we become better at those skill which we possess, but we also become better people. Here is a secret you may have heard, "The best people, get the best incomes." Let that soak in for while. We must not get complacent. I think that one thing we should always seek to do is learn. The goal of BestYouPRO International is create a community of people who are striving to become the best version of themselves. It's in our name and in our creed, "*to become the best version of ourselves*". And it is a never ending process, that is why our platform is called **#JOURNEY**.

We believe very strongly that our learning should never end. Some time ago, I wrote the blog post "Personal Development – Why You Should Care" and published it on the BestYouPRO website. It has gotten an overwhelming response. If earning more isn't a good reason for you to embark on the personal development **#Journey** then this article makes a case using four other arguments. The simple yet powerful truth that the Richest Man in Babylon stated in regard to continued professional and personal growth are:

- The Man who seeks to learn more will be richly rewarded.
- The more wisdom we know, the more we may earn.
- And finally, if we practice these truths we will grow prosperous and wealthy. There is abundance for all.

This article is the first of a three part book summary of George S. Clason's "The Richest Man in Babylon", please visit us again for parts two and three.

Endorsement

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