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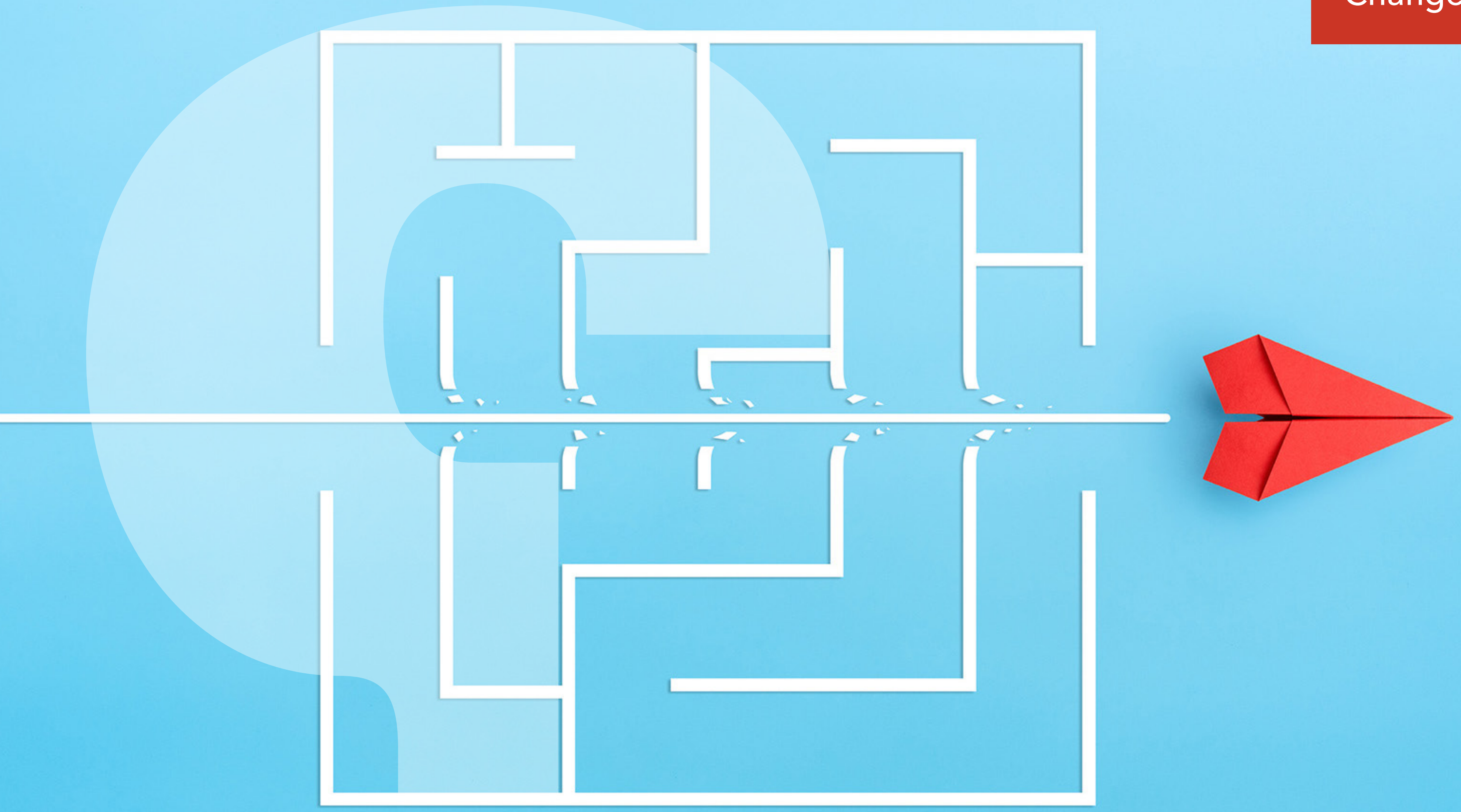

TAKE BIG RISKS ON BIG IDEAS: A NEW LOOK AT PERSONAL FINANCE

Chris Guillebeau

If you've read any personal finance books, or even if you've followed a personal finance expert on social media, you might be familiar with a few words of advice.

Don't try to beat the stock market, for instance. *Stick with index funds instead.*

Build up an emergency fund before doing anything else is another.

Save, save, save. Avoid debt, except for a mortgage, and maybe not even then. Tear up your credit cards or store them in the freezer.

It's all fairly standard, and boils down to the same recommendations that you see everywhere.

Okay, not everyone takes things as far as recommending you literally freeze your credit cards (though some do). But when it comes to investing, almost every personal finance expert has been repeating the same equation over and over for decades.

Here's another one you may have heard: To ensure that you'll be able to live comfortably forty years from now, you're supposed to identify a number you need to support your lifestyle without a regular paycheck, wherein you can withdraw 4 percent of your portfolio every year without dipping into your savings.

To get to your number, you need to live as frugally as possible, pay down any debt, and generally avoid luxuries or even anything that seems frivolous.

Do this, and one day, the theory goes, you'll be able to buy lattes with all the money you saved not buying lattes. Life goes on, at least until it doesn't.

To be fair, the standard advice isn't all bad. For most long-term stock market investing, for example, you're probably going to do better, on average, by putting your money in index funds that buy the entire market. (And it's true that the more the average person tends to tinker around by trying to pick their own winners, the lower their average return tends to be.)

However, *average* is the key word. If you want average results, follow the rules of average.

IT'S TIME FOR NEW RULES

If you grew up in America, you almost certainly absorbed the message that if you do well in school, you'll be able to get a good job that pays good money, while your less rule-abiding classmates are stuck working minimum-wage jobs at Walmart or Starbucks. Even if you grew up elsewhere, the odds are good that the message was similar.

One study that followed sixth graders for forty years challenged this narrative. The students who were described as "studious" when they were twelve years old did indeed end up having high-paying jobs many years later. Seems about right—but it turns out they didn't have the highest-paying jobs.

Those jobs went to the students who misbehaved the most, who didn't follow the rules, and who in some cases dropped out of high school or college.

Another study confirmed these results, and even found that valedictorians—who tend to be extreme rule followers—were less likely to become millionaires than their peers.

Ask yourself: "What could I try that wouldn't be that bad if it failed, but would be amazing if it worked?"

The personal finance industry is built on the experiences of people who excelled in life by following the rules. It's not surprising, therefore, that years later they have their own set of rules they expect everyone else to follow.

We've already heard plenty from them. But what can we learn from the dropouts? Instead of taking the safe path—a stable job, conservative investments, and so on—they take big risks on big ideas... and many of them are rewarded handsomely for it.

Why abandon the rules now?, you might be wondering. There's a simple answer: The world has changed. The very nature of money has changed. And the financial technology sector ("fin-tech") continues to innovate, transforming the world of finance in entirely new ways.

LEARN TO TAKE ASYMMETRICAL RISKS

Learning to take the right kinds of risks can serve you well throughout life. Some of the best risks are asymmetrical, which means the probability of something going catastrophically wrong is much smaller than the potential for gain.

The classic example is investing in stock options. With options, you bet on the price of a security for a predetermined future date. If you don't hit your target, you lose the opportunity to purchase at that low price—but that's all. You can never lose more than you paid. The potential gain, however, is unlimited. If the security rises (or falls, depending on the bet) 500 percent, your profit is 500 percent.

Just to be clear: I'm not saying you should become a day trader. Actively trading stock options is not for the faint of heart—but there are two larger principles here: The right kinds of risks are worth taking, and inaction can sometimes be riskier than the risk itself. Put another way, if you don't buy the lottery ticket, your odds of winning are zero.

This principle applies well beyond financial trading. Where else can we find asymmetrical risk? Let's take a career example. When Damion Taylor was laid off from his job in social media management, he decided to try his hand at the freelance life.

But rather than post his services on a platform like Fiverr, which is essentially a giant marketplace for freelancers, he had a different idea. He logged on to LinkedIn and started contacting companies that had posted job listings in search of full-time social media managers, even though Taylor wanted to work strictly on a contract basis.

His pitch was unconventional, but compelling: "Hey, I know you're looking to hire a permanent employee, but I can do this task for you on an outsourced basis for much less money." Most companies he contacted ignored him, but some listened and gave him the gig. He now earns $10,000 a month from a roster of clients that has grown to the point where he has to turn down work so he doesn't burn out.

Damion's method was a classic asymmetrical bet, with limited downside and unlimited potential. So now it's your turn: learn to identify activities that have little or no risk and the potential for 10x gains.

Ask yourself: "What could I try that wouldn't be that bad if it failed, but would be amazing if it worked?"

The tired advice from the personal finance industry is due for a refresh. Remember: average advice works for some people, some of the time. But if you want above-average results, you'll need to go further. **So stop worrying, start living, and learn to take risks where the rewards greatly outweigh the losses.**

Adapted from *Gonzo Capitalism: How to Make Money in An Economy That Hates You,* published by Little, Brown Spark.

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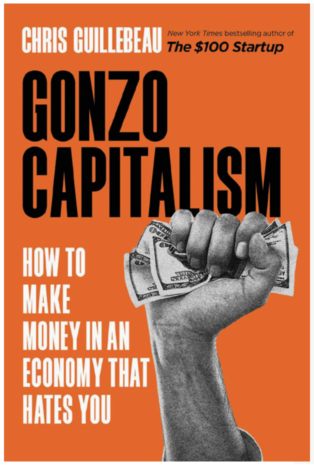

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Chris Guillebeau is the New York Times bestselling author of *The $100 Startup, The Happiness of Pursuit,* and other books.

During a lifetime of self-employment that included a four-year commitment as a volunteer executive in West Africa, he visited every country in the world (193 in total) before his thirty-fifth birthday.

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