



**The Next Step to...**

**Waking up  
the  
Financial  
Genius  
Inside You**

**by Mark O. Haroldsen**

**This document contains a sample chapter of Mark O. Haroldsen's highly acclaimed new book, *The Next Step to Waking Up the Financial Genius Inside You.***

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# CHAPTER 1

## MAKING MILLIONS FROM PENNIES

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If I gave you a choice of working for me for \$1,000 a day for a period of thirty-five days, versus working for yourself for one cent the first day and doubling the amount each day for thirty-five days, which job offer would you take?

Obviously, if you were to take the first choice, at the end of thirty-five days you would have \$35,000. A wage of \$35,000 in thirty-five days is phenomenal. Had you chosen the alternative of working for one cent the first day and doubling the amount each day for thirty-five days, you would be compounding your money at 100 percent per day.

When I use this example in lectures, usually about half the people prefer the first job offer and half the second. Without the aid of a pencil or calculator, decide which choice you would make.

### OFFER 1

Amount in

Day

1	\$ 1,000
2	1,000
3	1,000
4	1,000
5	1,000
6	1,000
7	1,000
8	1,000
	<hr style="width: 100%; border: 0.5px solid black;"/>
	\$8,000

### OFFER 2

Amount in

Day

Dollars

1	\$ .01
2	.02
3	.04
4	.08
5	.16
6	.32
7	.64
8	1.28
	<hr style="width: 100%; border: 0.5px solid black;"/>
	\$2.55

Okay, it's been 8 days now. Have you made a decision yet? Would you take the sure \$1,000 per day, or the 100 percent compounded from a beginning penny?

Total Days 1-8      \$2.55

<b>OFFER 1</b>		<b>OFFER 2</b>	
<b>Amount in</b>		<b>Amount in</b>	
<b>Day</b>	<b>Dollars</b>	<b>Day</b>	<b>Dollars</b>
9	\$ 1,000	9	\$ 2.55
10	1,000	10	5.10
11	1,000	11	10.20
12	1,000	12	20.40
13	1,000	13	40.80
14	1,000	14	81.60
15	1,000	15	163.20
16	<u>1,000</u>	16	<u>326.40</u>
	\$16,000		\$652.80

How about now? Which choice do you favor? What if I said I would continue paying you \$1,000 a day for an entire year? Would that push you over the top for a quick decision?

Total Days 1-16      \$652.80

<b>OFFER 1</b>		<b>OFFER 2</b>	
<b>Amount in</b>		<b>Amount in</b>	
<b>Day</b>	<b>Dollars</b>	<b>Day</b>	<b>Dollars</b>
17	\$ 1,000	17	\$ 650.00
18	1,000	18	1,300.00
19	1,000	19	2,600.00
20	1,000	20	5,200.00
21	1,000	21	10,400.00
22	1,000	22	20,800.00
23	1,000	23	41,600.00
24	<u>1,000</u>	24	<u>83,200.00</u>
	\$24,000		\$166,402.80

Not much of a problem to decide now. And you have eleven days to let your money grow.

Total Days 1-24      \$166,402.80

<b>OFFER 1</b>		<b>OFFER 2</b>	
<b>Amount in</b>		<b>Amount in</b>	
<b>Day</b>	<b>Dollars</b>	<b>Day</b>	<b>Dollars</b>
25	\$ 1,000	25	\$ 165,750.00
26	1,000	26	331,500.00
27	1,000	27	663,000.00
28	1,000	28	1,326,000.00
29	1,000	29	2,652,000.00
30	1,000	30	5,304,000.00
31	1,000	31	10,608,000.00
32	1,000	32	21,216,000.00
33	1,000	33	42,432,000.00
34	1,000	34	84,864,000.00
35	<u>1,000</u>	35	<u>169,728,000.00</u>
	<u>\$35,000</u>		<u>\$339,456,652.80</u>

*Note:* These figures have been rounded off for ease of calculating.

Most people find it almost impossible to believe that one penny compounded at 100 percent per day is worth over a third of a billion dollars on the thirty-fifth day.

Sure, that is an exaggerated example of the fantastic effects of compounding interest, but the use of compound interest is virtually the only way to make millions today. Try changing days to years (more on that later).

## **LEVERAGE MAKES YOUR MONEY WORK HARDER**

I was extremely fortunate in that I was given some good advice early in my career. A man of great wealth told me to get to know and fully comprehend interest rates, leverage, and how

to compound investment capital through good investments. Although his advice did not sink in at that time and he did not elaborate on the types of investments to make, a few years later when I started making small investments, what he had said came back to me. And the results from using his philosophy have been amazing.

As with many young men, my goal had always been to become a millionaire. Like most, I became frustrated. I worked hard, but there didn't seem to be enough hours in the day to make a million. I reasoned that there had to be a way; I knew people who had achieved that goal, many of them still young. I studied the lives of more than two dozen millionaires and finally realized that the only practical way of making a million was to have your money work as hard for you as you work for yourself. Later I learned that with the wise use of leverage your money can literally work ten times harder than you can. I was on the way! The next step was to learn as much as I could about money, interest rates, and the use of leverage and compounding.

Even though I was busy at the time, I took time out to really learn and understand everything there was to know about the compounding of money. I particularly focused on the wise use of leverage. What leverage could do for you and to you astounded me. It has to be the most incredible tool in this era of inflation.

Virtually all of the financial wizards, industrial giants, and self-made millionaires now and in times past have realized the profound effect of the compounding of money.

## **SIMPLE COMPOUNDING**

Compounding, of course, simply means that you earn interest on top of interest. For example, if you invest \$1,000 for one year at 15 percent return, at the end of the first year you

have \$1,150, or 15 percent over and above the amount you started with. Your profit is \$150.

The second year the entire \$1,150 would earn at the rate of 15 percent for a total of \$172.50 interest. This \$172.50 interest added to the \$1,150 brings your total to \$1,322.50.

Whereas money experts agree that it is not realistic to compound money at 100 percent per day for thirty-five days, as in our example, most would agree that it is possible to compound money at 100 percent per year for thirty-five years. It is possible, and indeed not difficult, to compound money at 30 percent per year. In fact, there are many examples, including my own, where people have compounded their assets at over 100 percent per year. In Chapters 6, 7 and 8 on leverage, you will see how easily this can be done on sums as low as a couple hundred dollars and on several hundred thousand dollars. This is less difficult to accomplish in the early years of an investment program when you are not dealing with large amounts of capital.

Even with the less dramatic figure of 30 percent, the results are amazing. For example, when \$10,000 is compounded at 30 percent for eighteen years, the result is an accumulation of capital in excess of \$1,124,000. Would it surprise you to know that many people compound their assets at the rate of 30 percent per year, particularly those with a net worth of less than \$1 million? In Chapter 6 you will find out exactly how to consistently compound your money at 30 percent (and higher!).

Even though I felt I knew and understood interest rates, compounding, and how to use leverage, at that point I lacked the proper investments to try out my newfound knowledge. I tried stocks and bonds (in fact, I used a \$1,500 government-backed school loan to experiment), only to find that because I lacked control over the investment I consistently lost money.

I thought some control could be gained if I were closer to the investment, so I joined a stock brokerage firm, and lost more

money. It was then, as a stockbroker, that I found the type of investment that could give me a consistent, dependable, and at the same time, a high return.

## **THERE HAD TO BE A “GOLDEN GOOSE”**

While trying to get my feet wet as a young, green-as-grass stockbroker for Paine, Webber, Jackson and Curtis, I met a client (an account I inherited when a broker left the firm) who showed me what I had been searching for.

*Larry Rosenberg\** worked as an accountant for the Public Service of Colorado. He used to call for stock quotes; and once in a while he would buy 400 or 500 shares of a stock. At first I couldn't figure out where he was getting all the money. (His stock picks weren't bad, but nothing great.) I knew he couldn't be getting it from his salary, so I concluded he had either inherited it or was embezzling!

I finally got up the nerve to ask Larry what and where his “golden goose” was. He told me it was apartments in northeast Denver. The real shocker was the number of apartments he owned, and where and how he started.

Mr. Rosenberg not only had acquired more than a thousand units, but he had started with nothing only twelve years before. He did it in a part of Denver that was going downhill. Larry and his brother, Lew, have not only made themselves a fortune, but they have made a great contribution to an entire section of Denver. They have improved and upgraded buildings and grounds to the advantage of everyone.

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\* *Larry Rosenberg is still in Denver, Colorado at this time and remains a very good friend. We talk on the phone a few times a year and compare investment ideas and strategies. He graciously agreed to spend time with me recently as I filmed the story of my life. What a wonderful face-to-face reunion after all these years. (My story is available in DVD format. For more information email me at [moh@reincome.com](mailto:moh@reincome.com) or [moh@networld.com](mailto:moh@networld.com).*

I had found an investment I could control, one where I could apply leverage and compounding. I was excited because I could begin immediately by buying small units.

## **HIGH RATES OF RETURN**

If you are a small investor or just beginning, you really have a big advantage in many areas of investing. Whether you are shooting for a rate of return of 15 percent, 30 percent, 50 percent, or 100 percent, you can compound your money at these higher rates more easily because of the amount of money you are working with. The reason is that many large investors are not interested in some of the areas that you as a small investor are interested in. Consequently, while you still have small sums to invest, you can increase your average annual return dramatically.

For example, you can invest in a small real estate property — a duplex, four-plex, ten units, or thereabouts, where your only competitors in buying such units are people in similar situations, people without a lot of capital. Additionally, these people don't generally have a vast amount of experience or knowledge, so with a little extra effort you can surpass your competition.

Later, as your assets begin to build to around \$800,000 or \$900,000 you will find it harder to get the higher return every year. However, another thing will happen at this point — your abilities as an owner and investor will have compounded and it will be possible to continue at a high rate of return. The point is that your brain actually has a similar power to compound itself. In "Can Exercise Improve Your Brain Power?" *Reader's Digest*, May 1973, the author (Edwin Diamond) indicated that through physical and mental exercise your brain size can actually increase.

Each of us begins life with roughly ten billion brain cells. There are literally tens of billions of connective glia cells that can

increase the size of the brain and the mental capacity of the person who does those things to stimulate or "compound" it.

Conversely, a person who does not exercise both brain and body, but who does the same things every day and stays in a narrow routine, becomes less alert and his brainpower diminishes, or at best stays the same. As one broadens his horizons and packs many and varied experiences into his life, he finds that a compounding effect takes place — the more he learns the more he wants to learn; in fact, the easier it is to learn. The more experience one has the more he wants to have, and he finds it easier to comprehend and benefit by these added experiences. I call this brain compounding. It is just as important as money compounding, and the two principles should be used jointly. It was said of J.P. Morgan that he had the genius to focus all of his mental powers - and concentrate on one thing for five minutes.

## **REAL ESTATE AND BRAIN COMPOUNDING**

As you read this next example be sure not to get hung up on the numbers in the examples. Yes, they are low — I mean who could ever buy a house with \$10,000 these days. But remember, everything is relative. Back when I did this deal not too many people made more than \$28,000 a year. To make this example fit more closely in today's market just add a zero, or maybe even two zeros depending on where you live. The average price of houses in Kauai in 2004 for example, hit more than \$500,000. That's the average! Can you still make money in markets like that? Absolutely. As you will see, I've been doing just that — read about it in an upcoming chapter. Remember, it's the concept that you and I need to continue to learn from and duplicate.

Let me give you an example of combining the two types of compounding. I had been building my asset base slowly for a little over a year. At the same time my mental abilities, at least

when focused on investments, began to compound. A real estate agent through whom I had bought several properties came to me all excited about a fantastic little investment he had found.

My first question: "Why don't you buy it if it's so great?" He brushed this aside, saying he was too old to get involved in buying single-family houses.

I told him that single-family units were not in my game plan and that I didn't have any extra investment cash. He insisted on showing me the house. I went along out of curiosity and was surprised to find a modest, well-kept home in a lower income area in tip-top condition. It was obviously worth the \$ 14,500 asking price. But the Realtor had described it as a "fantastic bargain." Sure enough, the seller's wife said they had to sell it that week and were lowering the price to \$10,000. Within an hour I had written an offer to buy it for \$10,000 cash.

I made the offer with less than \$500 in the bank. But my brain had been working fast from the moment I saw the house. I wasn't going to let that bargain slip through my fingers. I was sure I could borrow the money somewhere. If I couldn't, I would only lose \$100 earnest money. The odds were attractive.

The minute I had the seller's signature I went directly to the largest bank in town. Because my credit was good, I secured a \$10,000 loan on my signature. Two days later I picked up the money, went to the closing, paid the money, and took title to one of the few properties I have ever owned free and clear. But that state of affairs didn't last long. I went to another bank with which I had been dealing for some time and asked for a long-term real estate loan on the property. Within three weeks they had appraised the property and loaned me \$10,000, which was 70 percent of their appraised value (a low appraisal, incidentally).

Of course, I took the \$10,000 from the mortgage money and paid off the first bank. My wonderful tenants were now paying off the mortgage. After all expenses were paid, more than

\$700 was left over each year. That extra income was tax free (see Chapter 17), and with inflation the house was eventually worth several times what I paid for it.

In the chapters on leverage, you will find several other examples of this type of leverage and financing with much larger properties.

This example has two points: (1) In spite of prevailing market conditions you can find attractive rates of return and make your money compound quickly. In this example you can't even determine the percentage rate of return on my initial investment, since I really didn't have anything invested in the property. And (2), if you are actively engaged in seeking investments and comparing financial data, appraisals, and methods of financing, your mind works overtime and starts to compound. You think of ways of getting the job done that never would have crossed your mind earlier. This is brain compounding.

Let me give you another great example — another real live case. This one's not mine, but from a young man who's on his way to many millions. He's going to pass me up quickly — and at my age now, I love it! And get this... he is the grandson of the first real estate agent I ever used. The late Elmo Higginson was that man who helped me so much way back when I began. And now I've been able to help his 26-year-old grandson who is well on his way. (Talk about what goes around, comes around.) Here's one of the young Jeremy Higginson's recent (2004) deals:

I have been buying and selling real estate for about three years, using mostly conventional financing. My first no money down deal was a home I bought with a 5% down payment and 95% conventional financing. We found this home while we were in the neighborhood looking at another property.

When we drove by this home we noticed that the lawn was totally dead, there were beer cans on the front porch, and most

obvious were the two huge windows in the front that had been boarded up.

I remember saying to my wife as we drove by, "boy that house looks cheap." We did some investigation and found out that it was a HUD home. A HUD home is a home that was financed via FHA that had gone to foreclosure. When buying a HUD home here in Utah, you have to bid on it via the Internet.

HUD was asking \$96,000 for the property. We were using a real estate agent who was also a general contractor and we figured that the property would be worth \$125,000 if it were all fixed up. The agent figured that it would cost us about \$3,000 for fix up costs. We offered \$92,000 with HUD paying our closing costs and they took it.

The 5% down payment came from a cash advance on two or three of my credit cards (other peoples' money.) Once we closed, we got to work.

Because the Realtor just made a commission on the purchase of the property, we worked out a deal wherein he and his partner would help me remodel the property, but I only needed to pay my agent's contracting partner while we were working. The agent would wait until we sold the property.

Well, like always it costs a little more than expected and it ended up costing us \$3,400 for labor and materials to fix up the place. At the time I knew very little about remodeling, and as the contractors remodeled I tried to help, but I mostly learned. If they were doing something that I didn't know how to do, I asked a lot of questions. I basically paid the contractors to remodel the place and teach me how to remodel.

I had the property on the market for a few months and finally sold it for \$125,000 with me paying the closing costs.

Here is how it all worked out:

Sold for	\$125,000
Owed approx	-\$ 87,400 (\$92,000 - 5% or \$4,600)
Down payment	-\$ 4,600
Fix up costs	-\$ 3,400
Holding costs	-\$ 1,200
Closing costs	<u>-\$ 2,500</u>
Total profit	\$ <b>25,900</b>

Not bad for the young Jeremy's first try! - And note how his brain worked through the various challenges, i.e. lack of cash for fix up costs, lack of knowledge of how to remodel.

## **FORMULA FOR MILLIONS AND MULTIMILLIONS**

There are many high-powered, complex formulas for success and financial independence, most of which are so mind boggling it would take a Ph.D. to understand them and a Phi Beta Kappa to interpret. Many of these formulas were written by people who never actually made it themselves but sat back and watched others do it.

From a spectator position they think they know the answers and make things so complex and involved that the average person cannot understand them. Take it from me, making a lot of money in a short period of time can be done with a simple game plan. I like the slogan used by Charlie "Tremendous" Jones in his books and lectures. It is "SIB-KIS" — See It Big, Keep It Simple. As he puts it, most of us see something small and then make it complex so that nobody else can understand it. (Charles E. Jones, *Life Is Tremendous* [Wheaton, Illinois: Tyndale House Publishers, 1968], pp. 15-17.)

When I studied the lives and fortunes of the two dozen millionaires, I was looking for a common denominator: Something they all had or did that accounted for their success. I

finally noticed factors that were present in almost every fortune. I slowly eliminated those factors that didn't show up in every case. What I ended up with was basic and somewhat obvious, although it escapes 96 percent of those who look for it.

## **FINANCIAL SUCCESS = P + S + I + C**

There are four essential ingredients, and I put them into a formula: PSIC, which simply translates into P = Plan, S = Save, I = Invest, C = Compound.

A man by the name of Owen Feltham said, "The greatest results in life are usually attained by simple means and the exercise of ordinary qualities. These may for the most part be summed up in these words—commonsense and perseverance." I assume you have commonsense and that you will persevere. I also assume that you have a certain amount of motivation or you would not be reading this book. Two other essential ingredients to make the PSIC formula work are drive and desire. These two qualities can be learned and added upon.

Motivation, drive, and desire can overcome many handicaps. However, without technical and practical knowledge of how to make money, a person can work hard and still be unfruitful and unproductive. Without motivation, all of the formulas, practical methods, and game plans in the world are not worth twenty-seven cents.

The object of this book is to provide both the stimulus to do, and the specific plan to succeed.

To make the PSIC formula work — and it really does work — you must do all of the steps of the formula. Don't leave anything out.

This PSIC formula is as valid now as it ever was. Strangely, the "S" part of the formula is loaded with a huge dichotomy. That is, if everyone in the country practiced safely saving 10 or 20 percent of their income, our good old USA

economy would dive-bomb to the bottom of the economic ocean. (Countries tend to prosper to the extent their citizens spend, and spend, and spend their hard earned wages.) But this next part is huge. If you practice religiously the big "S" — that is save, save, save — you will end up with a gigantic prosperous financial economy or financial net worth of your own and live life as if you were your own country.

That, at least for my life and money, is a pretty powerful thought! We all want our [little] lives to mean something when it's all done and finished. And money, whether we like it or not, counts for something. It can be used for good or evil. Money can be used for enhancing humankind or tearing it down. It's all up to you. So don't kid yourself or put money down. Money is damned important and has hundreds of ways to influence our lives, and that will always be the case.

So why not accept that fact and go get some of it and make your mark - and then do some great good with it.

Using the PSIC formula, you can most assuredly make your mark financially. PSIC has been proven to work over and over again, and not just in my experience, but with thousands of others who read my first book. It really is against all rational thought to question the basic formula. The only real challenge is do you really want to do it? Do you really want to start, and stick with it? It's really a very simple formula to follow.

So why don't most people "just do it"? The answer to that question is not unlike that of why most people don't have success and stay with dieting. There's a temptation for all of us to set a goal and start with enthusiasm, only to get off track later. For an easy trick to use to keep yourself on track for virtually any goal you set, read Chapter 9 on *SETTING GOALS AND THE ENERGY THEY CREATE*. Go ahead, read it right now even though it's out of order.

One last parting thought about money and its value. Michael R Roizen, M.D., who wrote a fascinating book entitled *Real Age*, published by Cliff Street Books, said, "Health is like money. At first the comparison sounds crass. How can you equate money with something as precious as life? But how can you not? Money as money isn't worth a dime. Money is only as valuable as what it buys. Money is really about potential. It provides possibilities, choices, and freedom. It also allows you to place a value on your choices and to make decisions."

*I just had to add this exciting and uplifting story. I just got back from a month-long trip to Europe, visiting several countries. Quite accidentally, while visiting the city of Szczecin in the North of Poland, I met the 40-ish Krzysztof Fialkowski. I spent a delightful day with him, he was so very giving and generous with his time - and wow, how very proud he was of Poland and the huge economic strides that it has made since it broke away from the Soviet Union and returned to a free-enterprise system and democracy.*

*But get a load of this.. .Kristoff (as I call him) in addition to his full-time job has been applying the good ole PSIC formula, and with great success. Among other deals, he bought an old beat up building, fixed it up, financed it, and leased it to a bank and made a tidy sum of money doing it. And Kristoff is just beginning. He has several other real estate projects started and looking fantastic. In one of his current deals he is using a partner — a very wise move, as you'll see when you read Chapter 8.*

See Chapter 8 entitled *THE QUICKEST WAY TO A BILLION - BEYOND SUPER LEVERAGE*, and note that Kristoff used many of the seven required steps to the real big money and net worth.