My Mama Didn't Raise No Millionaire

The Motley Fool

By David Jacobs

My good friend Billy Bob Rutabaga told me that he didn't just fall off the turnip truck. Billy Bob was my lab partner. We were both taking a course in automotive electricity at the community college. I was amusing myself. Billy Bob wanted a better life for himself and his family.

Billy Bob said that all the talk about the IRAs, 401(k)s, pension plans, retirement savings, and the president's Commission to Strengthen Social Security was for rich folks. He said that the most money he ever earned in his life was when he joined the Marines and got sent to Oklahoma or Okinawa — he wasn't sure which because people talked funny in both places. Between keeping his pickup truck running, feeding his dog, going hunting with his kin and friends, and courting Sally Mae, he reckoned that he'd have to work till he was dead. As Billy Bob put it, "My mama didn't raise no millionaire."

While I confess to changing the names to protect the guilty, I reply to posts like this one on The Motley Fool's discussion boards often. I recall two posts on the Rule Your Retirement discussion board from folks who were facing retirement with no significant financial assets. People write that they came from modest means, and they'll die from modest means. That's the way of the world.

I disagree.

Starting from scratch

Let's take the case of an entry-level tradesperson. You might find this person constructing houses in your town, or fixing cars in the automotive garage of a local big box retailer, or caring for your pet at your veterinarian's office, or backing up your doctor in the clinics and laboratories of your community hospital. Or this person might be a lower-ranked enlisted member in the Armed Forces stationed in Oklahoma — or Iraq.

These folks generally start around $8 per hour for a 30- to 35-hour workweek. If they prove themselves, they quickly advance to $9 to $12 per hour for a 40- to 45-hour workweek. After five to seven years on the job, they plateau at around $15 per hour.

Now for the scary part. Eight dollars per hour for 30 hours translates into $240 per week, or about $1,000 per month. Ten dollars per hour for a 40-hour workweek translates into $400 per week, or about $1,800 per month. Fifteen per hour for a 45-hour workweek translates into $713 per week, or about $3,200 per month.

That's gross income. Then come taxes, food, clothing, and shelter. Additionally, most tradespeople acquire and maintain their own tools and provide their own supplies.

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A little bit can go a long way

Some readers might wonder how someone could survive on so little money, but my experience is that everybody can afford most of the things they want. For example, my classmates at the community college don't have money for textbooks or tools, but while I'm brown-bagging my meals and snacks, they're buying fast food and patronizing vending machines. The junior tradespeople I know don't have money for vacations, but they do have money to lease a new car every other year, and judging from the marks in the parking lots and the sounds at shift-change time, they're rough on tires, transmissions, and engines.

Suppose these folks managed to set aside $15 per week. Could they become millionaires?

Since the end of World War II, which is the start of contemporary history of the U.S. stock market, the stock market has returned an annualized 12% to 15% pre-tax or 8% to 10% post-tax. The exact results depend on whose numbers you use. Let's assume a disciplined investor could earn a conservative annualized 8%.

If my hypothetical tradesperson invested $15 per week at an annualized 8%, then he or she would have $38,483 at the end of 20 years.

Now let's assume my hypothetical tradesperson did not invest another penny, but he or she allowed the nest egg to grow at an annualized 8% for another 20 years. At the end of the second 20 years, he or she would have $180,053. That's not enough.

Suppose these folks managed to set aside $50 per week. At an annualized 8%, then he or she would have $128,276 at the end of 20 years. If this hypothetical tradesperson allowed the nest egg to grow at an annualized 8% for another 20 years, he or she would have $597,888. That's closer.

How about $85 per week? $85 per week at an annualized 8% for 20 years yields $218,069. And in 20 years, the next egg will grow to $1,016,409. Bingo!

How much is $85? That's about the cost of a dinner and a movie date. It's about the incremental cost of two fast-food meals a day for five days compared with eating at home. It's about the cost of a handful of audio CDs. It's about the cost of filling a heavy-duty pickup truck with fuel. It's significantly less than the cost of a tattoo.

And if the stock gods smile upon you...

Let's try one more demonstration. We assumed that a disciplined investor could earn a conservative, annualized 8%. Suppose this investor actually earned an annualized 10%.

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Eighty-five dollars per week at an annualized 10% for 20 years yields $281,770. And in 20 years, the nest egg will grow to $1,895,605.

How about 12%? At the end of 40 years: $3,550,472.

Many people earn more than the hypothetical tradesperson does. Public schoolteachers earn $40,000 to $50,000 for nine months' work, or about $60,000 per year. Most folks in the professions (for example, doctors, lawyers, and engineers) earn in the neighborhood of $80,000, and in many cases higher. Setting aside $85 a week for these people should be a cinch.

Billy Bob could become a millionaire with only a little effort. Did your mama raise a Fool?

David Jacobs is a full-time member of the Armed Forces, and he has been a paid consultant to the Fool since 2003, answering questions on the Rule Your Retirement and TMF Money Advisor discussion boards. He has lived and worked in Belgium, Turkey, Vietnam, and the United States, and he has traveled through Europe, Asia, and North America.