Module 6

Wealth On Any Income

Today we will cover the fun part of the course, what to do with the money that you set aside to create financial freedom, where work is a choice instead of a requirement.

My favorite is real estate investing, and we will cover both how to buy and manage apartment buildings, and how to buy and NOT manage apartment buildings. We will discuss stocks, bonds, mutual funds, peer-to-peer lending, and trust deeds. While you may know about some or all of these options, you need to ask what is the best fit for yourself, AND are you investing on a consistent basis.

 And we will talk about 2 different paths to financial freedom. One is slow and steady, and the other is geometric. After two divorces and starting over, I took the geometric approach and moved from broke to millionaire in 10 years. And most importantly, I was only earning about $60,000 per year when I started. So this call will not be limited to putting $300 per month away into stocks or mutual funds. We will also talk about business building and leveraging your money AND your relationships.

To review: In Module 1, we covered thinking from the details or the big picture; we covered the three areas we all operate from; thoughts, feelings or values, and how feelings run us most of the time. But tapping into our values can overcome the feelings that can get in the way of our financial success. And when we listen to familiar information are we making statements or asking questions? Like, “I’ve heard this before,” versus “How can I use this to improve my situation?”

 In Module 2 we did a word exercise to measure your relationship to either poverty or prosperity thinking; we will discussed our belief systems about money based on messages we may have received when we were young; we did another exercise for couples to understand each other’s money values; you wrote a 5 year financial goal, from the future; and finally we covered the 6 areas of influence from the book *Change Anything* to build a support structure that you will use to guarantee your success in the achievement of your goals.

 I recommended that you continue to re-read your 5 year goal to be sure it’s a fit for you and your values and suggested creating milestones from 1 day, 1 week to 1 month on your goal.

In Module 3 we covered the Debt Elimination and Memory Jogger forms and two of the powerful financial tools used by the wealthy; the Balance Sheet and the Income and Expense form. These are also the tools the wealthiest people in the world use, and I hope you saw you don’t need any financial background to complete these forms. These forms measure how you’re winning the financial game of life, and getting on track toward creating work as a choice instead of a requirement. We spoke about the difference between personal-use assets versus investable assets.

In module 4, I introduced the Spending Register and asked you to track your spending: You were to track things like meals out, entertainment, parking, auto expenses, like fuel or any repairs, clothing purchases for you or family members, office supplies or outside services, and so on. Again, you didn’t need to track one time payments like an auto lease or rent. And I provided a very effective script to easily get referral business.

In Module 5 we covered how the concept of “Pay Yourself First” has been working for 5000 years and why you need to begin to do that now, regardless of whether or not you have a surplus or deficit in your monthly income. And we covered why to start with a 50/50 allocation of those funds into your Keep Forever or Wealth Account, versus your Spend Later or Emergency Account.

**Tell me what showed up from tracking your spending?**

**Who made at least three calls and used the referral script? What were the results?**

**And who has begun the process of paying yourself first since our last call?**

**What got in the way?**

I want to let you know ahead of time this call will run long because there is so much for us to cover on the investment categories and opportunities from real estate to stocks and whether to pay down debts first or start investing first. And the Wealth On Any Income book that was provided to each of you will fill in the gaps of what I don’t cover on the call.

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### Real Estate

 My favorite area of investing is real estate, despite the recent housing and mortgage meltdown. That was actually the time to take advantage of the fire sales. Some people like to invest in single-family houses. I prefer apartment buildings. My friend from high school likes strip centers and commercial buildings. There are so many different opportunities in this one area. But in the same way the stock market is highly subject to investor psychology, feelings, and emotions so are single-family houses. Apartment buildings and other commercial properties are more insulated from emotions. When I purchase a building and make upgrades to increase rents, I directly increase the value of the building. If I bought it for 10 times the rental income, and double the rental income, I have doubled the value of the building, regardless of investor emotions.

 Stocks and mutual funds are easier to invest in. You can start with small amounts of money. With real estate you need larger amounts of money, unless you use someone else’s money. Many of the real estate seminars teach how to find property and use other people’s money to purchase it.

 I am not Warren Buffett and when I buy stock I will have no influence on the board of directors, the products they develop or how they choose to market their products or services. I have control issues, and that is why real estate investing is comfortable for me. I get to choose the area I invest in, who the tenants are, what upgrades I will make and when I will sell the building. Buying and managing apartment buildings is what made me wealthy.

 Investment single family houses have several drawbacks:

1. You are subject to the crazy psychological vagaries of the housing market and people’s emotions.
2. If you lose a tenant and have a mortgage, you lose 100% of the income to cover your expenses.
3. If you have several houses, you are dealing with multiple roofs, plumbing issues, gardening and so on.

Instead, if you start with multi-units, even a duplex, you limit your risks.

1. If one of your tenants moves out, at least you have half your income. A triplex or 4-plex would be even better. In a 4-plex if one of your tenants move out, you still have 75% of your income to cover expenses.
2. The value of your property is not based on market psychology and emotions. It’s more based on the rental income. The higher the rents, the more valuable the building.
3. You only have one roof to deal with, one plumbing system, one gardener, one insurance policy, and so on.
4. And once you move beyond five units, you have the commercial funding available where the property qualifies for the loan more than you need to qualify. In 1-4 unit properties the loan evaluation is on you more than the property.

 In our next module we will go into more detail on finding the building and analyzing the purchase using the Gross Rent Multiplier, ROI, Cash on Cash, Debt Coverage Ratio, working with brokers, advertising, showings, qualifying applicants, the importance of each item in the lease agreement, who to have on your team, using outside management and the designations to look for, and emerging markets. If that sounded like a run on sentence, I’m sure it was.

 Now let’s talk about more passive investments, and the first thing is to distinguish between simple interest and compound interest or earnings.

 If I have a $10,000 that will earn 5% simple interest, then each year I would receive $500. After 10 years I would have a total of $15,000 if I didn’t spend the interest. It’s not like I can even go the bank and get 5%, but this is the concept. And I will talk about how to earn much more than 5% in other investments.

 If this same $10,000 earns 5% compound interest, now we need to know what the compounding period is. Is it annually, monthly, weekly or daily? That does make a difference. If it was annual, at the end of the second year you would have $11,025 and at the end of the 10th year you’d have $16,289 instead of $15,000. That’s $1,289 more than the simple interest. And if the compound were daily, it would have grown to $16,487, or $198 more than the annual compounding.

 So for investing you want compound interest. For borrowing, you want simple interest.

 Let’s add to these basic terms the word “earnings.” Many people are not aware of the difference, so I’m going to review it. *Interest* refers to the income an individual, a bank, corporation or the government pays you when you loan them money. Interest is only one component of earnings. *Earnings* represent two components: the interest or dividends which are paid, plus the *growth in value* of a stock, bond, real estate, or any investment. This is also called *total return*. Many people are led astray by advertising that illustrates investment earnings from the past that are total return figures. You are already aware a bank or bond pays interest. People see a mutual fund advertise it earned 24% in a previous year and they think this means the fund paid investors 24% interest. This is just based on a lack of education. No one was paid 24% interest. Investors may have received a 2% dividend distribution and the balance represented a 22% increase in the value of their shares.

 In addition to a lack of education, when I work with groups, whether it’s a class of four people, or a presentation to 400, there are attitudes people express that concern me. It relates to a study I read about several years ago. People were asked, “What would you do with $5,000 received as a gift?” Many of them said they would pay off some debts or bills, buy a new car or entertainment center. The point is that had plenty of places to spend the money. When the question was asked, “What would you do with $50,000 (assuming it had no tax obligations)?” They answered more along the lines of spending a little bit, but putting most of into some savings or investment where it could grow in value.

 The study showed most people would spend what they perceive to be a small amount of money, and only look to save or invest larger amounts. The fallacy is you can’t get to the larger amounts if spend all the small amounts. You must also have respect for small amounts of money.

Look at the next chart. If you spend $5 today, you probably wouldn’t even miss it. That’s probably not enough money to buy a cup of coffee and a muffin at Starbucks. If you saved $5 per day, you probably wouldn’t miss that either. If you earned a 10% return on it, you’d have close to $114,000 in 20 years. Of that $114,000, only $36,000 represents the $5 per day. The $78,000 difference is all earnings. This is the *magic of compound earnings*. Money over time creates geometric growth. Start now, even if it’s with little bits of money.

 If you have the feeling it’s too late for you to take advantage of this, you feel you’re too old, that’s never the case. Even if you’re in your sixties, you could easily be alive for another 20 years and take advantage of the effect of compound earnings.

**You can Become a Millionaire on $10 per day - Even with Debts!**

This is one of my marketing slogans, and because it’s covered very thoroughly in the book starting on page 138, I’m only going to cover it briefly on our call. Bottom Line: With as little as $10 per day, earning 12% over 30 years you can create a million dollar portfolio. Obviously I’m not talking about money in the bank. There are mutual funds with track records of 20, 30 and 40 years with returns in excess of 12% on an annual compounded rate. Obviously, nothing is guaranteed, but then there is no guarantee we will rise from bed tomorrow either.

 Here’s an inspirational calculation: If you pay yourself first 10% of your current income and invest it at 12% earnings, compounding annually for 20 years, you will create enough invested assets which could pay out close to 100% of your current income, and not reduce the assets. In 30 years, you would produce a portfolio with enough invested assets to pay yourself 350% of your current income! Again, the numbers that back up this claim are in the Wealth On Any Income book. Just look at the chart in the book on page 139.

 **Does anyone have any questions so far?**

**Chart 1: $10 per day at 12% earnings**

**($300 per month)**

|  |  |  |  |
| --- | --- | --- | --- |
| Years | Money In | Account Value | Ratio of account value to what you put in |
| 10 | $ 36,000 | $ 69,000 | almost 2 times |
| 20 | $ 72,000 | $ 297,000 | more than 4 times |
| 30 | $108,000 | $1,048,500 | almost 10 times |

 You might ask, “But what if I have debt? Shouldn’t I pay that off first?” The answer is NO! You can see that clearly from Chart 2 in the book. If you waited as little as two years to pay off your debt before you begin investing, it hurts your investment return far more than any interest you would save.

 In Chart 1 you would have $1,048,500 at the end of 30 years. In Chart 2, which shows a delay of investing for two years, you would have $819,000 after another 28 years. This is a loss of $229,000, just for waiting two years to begin. This lost money could generate an additional income of $27,500 per year. This is enough money for a couple to leave the United States twice per year for the rest of their lives on a two-week European vacation and stay in “5 Star” hotels. I also have a section titled, “Don’t Pay Off Your Debts First” which offers more on this point of view.

**Chart 2: Pay off debt in two years and then begin to invest**

Assumes a debt of $6,000 paid off at $300 per month,

(18% interest). Annual interest, $1,080.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Yrs | Money In | New Acct. Value | Instead of | Difference\* | Interest saved |
| 10 | $ 36,000 | $ 48,000 | $ 69,000 | $ 21,000 | $ 8,640 |
| 20 | $ 72,000 | $227,000 | $ 297,000 | $ 70,000 | $19,440 |
| 30 | $108,000 | $819,500 | $1,048,500 | $229,000 | $30,240 |

\*Difference reflects two years of less money contributed into the investment account plus lost earnings.

What if the debt was never paid off, but interest payments were made, year in and year out? It would still be less than the lost earnings from waiting to invest. In year 30, you would have $229,000 more money by starting two years earlier to invest. How can this difference be so dramatic? This is because the earnings from your investment are compounding, but the interest on your loan is at simple interest. If you forgot about the difference, go back and review simple interest and compound earnings. The point is this: you must not wait to begin paying yourself first and investing. Look at Chart 3 - you must START NOW.

 Please recognize I am not encouraging you to keep debt. My emphasis is to support you in paying off your consumer debt and becoming financially free. If you never pay off your debt, but start investing now, you can create financial prosperity. In addition to the financial rewards, as I’ve said before, paying yourself first creates psychological advantages also, which can support you in paying off your debt more easily.

 And you can start to invest with as little as $100. Your next question might be, “How?” Whether $100 or $10,000, you would still start in the same place, which is to get more education than I can provide on these calls. You can see my suggestions on page 142 in the book.

### Investing versus Gambling

 When I speak about investing in the market, I’m referring to purchasing quality corporate stocks, not gambling. There is a difference. Many people go to Las Vegas or Atlantic City to gamble, have fun and be entertained and the stock market can be approached the same way.

 However, I am NOT suggesting playing the market when I speak about investments.

Yes, you can have fun and you can be entertained from your stock market investment portfolio. Playing the market and investing do not belong in the same sentence. They do not mean the same thing.

 You can gamble in Las Vegas, but unless you own the casino, take advantage of neighborhood conditions or take advantage of gamblers, you can’t invest while in a Las Vegas casino. How can you gamble in the market? You can bet on the rise or fall of a stock or the market itself. You can bet that certain things may happen by certain dates. Gambling has names like puts, calls, straddles, options, butterflies and derivatives. I’ve heard people say they’re not gambling when they buy a put or call., They say they’re hedging. Well, that’s what gamblers do; they hedge their bets.

 Unfortunately, gambling and investing have been tied together since the early 1900s. Even the term that represents the largest most stable corporations, Blue Chips, is said to get its expression from the most valuable poker chips, which are blue.

 As I’ve said before, creating wealth is not a do-it-yourself project. When I want to discuss some financial planning ideas, I speak to someone I can trust. This doesn’t have to be some high profile financial planner, and I know many of them around the country because of my activities in the past.

 How do you find someone you can trust? Ask. Ask other people you trust for referrals. Ask your CPA, attorney or bank officer for a referral. Maybe you know a successful business owner or have a wealthy friend. Ask someone who may be familiar with a particular planner’s work, abilities and specialty. Again, there’s more on this in the Wealth On Any Income book including questions you can ask a prospective financial planner.

 Now let’s talk about where you can put the money that you will keep forever.

First there are two concepts to understand. You can own something, like real estate, stocks or a business, or you can loan money to an individual, company or government entity.

 Stocks put you in the category of own. Shares, shares of stock and equities refer to the same thing. They represent units of ownership in a corporation. There are both private and public corporations, and you can buy the stocks of any public corporation. If the corporation is doing a good job and making profits it could be a good business to own, and you would do that by buying their stock. A private company cannot be purchased by the general public. This is also called closely held stock.

 Bonds fall into the category of making a loan. Bonds are issued by a corporation or government entity and represents a promise to pay for money borrowed. Interest is paid to the lender, who is the bondholder. Interest rates are higher than bank interest and increase based on the risk involved, or the ability of the borrower to repay the loan. The term *junk bonds* refer to bonds issued by companies where the risk of default is high. Maturity dates are often 10 years or longer. Interest is paid during the maturity period and the amount loaned is repaid at the end of the period.

 The value of the bond can rise or fall, based on changes in the interest rates available in the general market place. If you have a bond that pays 10% interest, and new bonds are issued which have rates at 8%, the value of the 10% bond will rise above its face amount. This excess over the face amount is called a *premium*. Bonds do not have to be held by the owner to maturity, they can be sold earlier and fetch more or less money than the face amount depending on changes in interest rates.

 On the evening news you’ve heard how the Dow is up or down and by how much.

This is the term often used for the Dow Jones Industrial Average. This is the most frequently quoted index which lists the prices of one share of stock from 30 household names such as Disney, McDonald’s, Coca-Cola, and so on. It is supposedly designed to measure the health of the economy based on the products manufactured and sold by these corporations. Its validity as an accurate gauge of the economy is widely debated and many of the companies listed are not even in manufacturing, unless you consider movies and hamburgers manufactured products.

Dow Jones Industrial Average Stocks

October 24, 2008 http://money.cnn.com/data/dow30/

1. 3M 59.61

2. Alcoa 9.41

3. American Express 24.05

4. AT&T 24.68

5. Bank of America 21.07

6. Boeing 45.24

7. Caterpillar 33.30

8. Chevron 63.91

9. Citigroup 12.14

10. Coca-Cola 41.61

11. du Pont 29.33

12. Exxon-Mobil 69.04

13. General Electric 17.83

14. General Motors 5.95

15. Hewlett-Packard 32.44

16. IBM 82.07

17. Home Depot 18.51

18. Intel 14.28

19. Johnson & Johnson 60.79

20. JP Morgan & Chase 35.43

21. Kraft Foods 27.10

22. McDonalds 53.06

23. Merck & Co 27.35

24. Microsoft 21.96

25. Pfizer 16.57

26. Procter & Gamble 58.87

27. United Technologies 47.31

28. Verizon Communications 25.082

9. Walmart 51.40

30. Walt Disney 22.61

 8,378.95

How to Invest Without Paying Commissions

Over 200 companies in the U.S. and around the world offer the opportunity to investors to purchase their stock without going through stockbrokers and paying commissions. They vary from consumer products to utilities. Some very well-known names are on the list, such as Gillette, Mattel, Chevron, Exxon, Merck, Owens Corning, Home Depot, and McDonald’s.

 You can buy direct for a little as $50 to $1,000. Most often, dividends can go back in and purchase additional shares. This is called a dividend re-investment program, or DRIP. If you want to know more please see this section of the book. (Chapter/Step/Secret 12.)

Investment Clubs

 Many people enjoy the opportunity to meet and discuss their investment ideas and get feedback from like-minded people. There are many different approaches and personalities to investment clubs as there are people.

 Some clubs do extensive research based on fundamentals, others go on hunches with minimal research, and still others will buy and hold while others trade actively. Some will go for the stocks of large corporations and others want start-ups. Some require $25 per month to participate; others could require $1,000 up front.

 To find out more just Google investment clubs.

 **Any questions so far?**

### Mutual Funds

 Mutual funds allow you to participate in the investment opportunities offered by the stock, bond and money markets, with several advantages over trying to build your own portfolio of individual stocks. Mutual funds offer these four advantages:

*Diversification*. You can invest in a broad variety of stocks, bonds, and other securities with as little as $250. This helps reduce the risks of investing.

*Professional Management*. Experienced managers and analysts invest your money. They study companies, industry forecasts, and market factors before (and after) committing to an investment.

*Various objectives*. You can pursue a variety of objectives with mutual funds, from seeking high income to long-term growth, from technology stocks to forest products, from conservative to aggressive investors.

*Liquidity*. You can withdraw your money at any time at the current net asset value, which may be higher or lower than your purchase price.

Funds that pay a sales commission to the person who provides you the fund are called *load funds*. A ‘load’ is a commission. *No-load funds* do not pay sales commissions. Both load and no-load funds will still charge management fees. These and other details are found in the prospectus that the companies must provide to you before you invest. Please read this information.

 You can find out more by searching no load funds in Google.

Don’t Be Afraid of a Load

 While I briefly discussed in previous sections how to buy stocks without paying commissions, and that you can purchase mutual funds with or without loads (commissions), you don’t have to be afraid of paying a commission or load. All mutual funds will have various management fees and expense charges, whether or not they charge a load. These costs are usually deducted from the overall fund and are reflected in a reduced rate of return. They are not taken out of your individual account. If you have little investment experience, you may want to look at the load from the perspective of paying a fee for a service. And, you could actually be financially better off paying a commission. If you are someone who repairs your own car, then you probably wouldn’t pay a mechanic to change your oil. If you can do it yourself, and it’s something you normally do, why pay someone else? You may have taken classes, read books, played around on your own, or been taught by someone else how to repair a car.

 If you have the education, training and experience to do financial planning, insurance analysis or investment evaluations, then you wouldn’t need to use a financial planner, insurance agent or stockbroker. If you can do it yourself, you wouldn’t need to pay someone else for their advice or assistance, unless you still want to have someone confirm your conclusions. You’ve probably heard the expression, “If a lawyer represents himself (or herself) in court, they have a fool for a client.”

 If you want someone who can provide advice, someone who can ask you questions which will create clarity and provide appropriate recommendations based on your unique situation, then you will need to pay someone either through a fee, or through a commission from the products they sell. As I said in a previous section, many financial planners and insurance agents will work with you for only the commissions they will receive from the products you buy. This can be an easy, nearly painless way, to get advice and pay for their services.

**Dollar-Cost Averaging**

 This is a method of systematic investing. It requires an investor to purchase equal dollar amounts of stock, or a mutual fund, on a regular basis, such as weekly, monthly, quarterly, etc. The success of the strategy is based on the fact that the same amount of money will buy a different amount of shares based on prices rising or falling with market conditions. The strategy alleviates investment timing problems. While no specialized expertise is required for success, it does require the discipline to invest regularly, even in declining markets. Over time, this approach yields an average cost of shares that is less than the average price. Over time, investments at a lower share price will benefit your account when you ultimately sell. It is better to dollar-cost average in a falling market than to make lump sum investments. This also works well when you are nervous about current holdings. In a mutual fund, if you re-invest dividends and capital gains in additional fund shares, you are using a type of dollar-cost averaging.

 **Any questions on what I’ve covered so far?**

### Insurance

 There have been too many books written about various types of insurance for me to take up the time and space to go into any detail on that subject here. What I will do is repeat the reason for purchasing this product, which I used when I discussed risk management as one of the six roadblocks to financial independence: Insurance is used to protect yourself in the areas where you can’t afford to do it on your own. If you have a small fender bender and there’s $300 of damage, you can probably handle that. But if you were to injure someone with your car, it could cost tens of thousands, or even hundreds of thousands of dollars. Auto insurance is designed to protect you from the possibility of financial ruin over a momentary lack of judgment.

 If you got sick and missed two days of work it probably wouldn’t be the end of the world. What if you became disabled and couldn’t work for one or two years? Could you maintain your standard of living? Would you lose your home or car? Disability income insurance protects you from completely losing your standard of living in the event you are unable to work due to a serious illness or accident.

 When a family is dependent on the income from one or both parents, and one of them dies, does that mean the rest of the family doesn’t need money any longer? Is it likely they will still want a place to live, food to eat and clothes to wear? If the children were in a private school, it is probable this was important to their parents. Would they be able to stay in a private school? Where will the money come from? This is the purpose of life insurance. Insurance is for asset and risk management.

Life Insurance

 There are two primary types of life insurance: term and cash value. There are many variations on these two types.

 *Term insurance* is designed to provide the largest amount of death benefit at the lowest out of pocket cost in the early years. When a couple is young, raising a family, and has little disposable income, term insurance can be an appropriate choice. It provides the important protection at an affordable rate. As you get older and the term expires, the cost increases for the next renewal term. You can select coverage for terms of 1 year, 5 years, all the way to 30 years. The coverage can remain level, or the premium may remain level, but that has to be a trade-off. When you stop paying premiums, the coverage ends and the money you spent is gone.

Life insurance has often been ridiculed as an investment vehicle. Its primary purpose was to provide ongoing support when an income earner died. It was not intended to be the investment vehicle of choice. There are many cases where it is the only structure that allows some people to save money. In recent years, it has become an investment alternative. It can be an incredible vehicle when used creatively in estate planning strategies. It can provide tax benefits in the form of a universal life or variable life investment product.

 *Cash Value insurance* combines a savings element with the death benefit offered by term insurance. With this type, you pay more money for the same amount of coverage, but a portion of the premium is set aside in a separate fund which you can access, without having to die. It comes with names like whole life, universal life, variable life, endowments and more. Which is right for you? That depends on your situation. Are you single or married? Do you have children who are dependent on your income? Do you have parents who are dependent on your income? Do you have debts you would like paid off at death, instead of passing them on to family members? Are you in a business with someone where a death could cause a decline, or possible end to the continuation of the business? Do you expect to leave a large estate at death and would like to pay the death taxes at a discount? If you refer to the section on how to pick a financial planner, you can use those same questions to pick a life insurance agent. Start by asking people you respect for a referral.

 Make believe you’re the head of a family with a spouse and two children, ages 6 and 8. You are in the fortunate situation where your career pays enough for your spouse to stay at home and care for the children. Your objectives are to begin a systematic investment program, protect your family if you die too soon, and set aside money for your children’s college education. You’re willing to take reasonable risks with your investments and want diversification like mutual funds offer. You don’t like the tax hit from owning mutual funds personally (versus through a qualified retirement plan), and would like your investments to have some tax advantage.

 Here’s where a professional experienced insurance agent or financial planner becomes your ally or advisor. Should you get term insurance to protect your family or cash value insurance? Should you get a variable annuity to defer the taxes on the mutual funds or add to your 401(k) plan at work? What if you don’t have a retirement plan at work? Should you get a universal life policy to have flexibility with the premiums? What about your investment goals?

One recommendation could be a Variable Universal Life insurance policy (VUL). This would provide the protection for your family, the mutual funds for your investment goals, and the tax advantages you’re looking for. Again, I’m not going into detail here, that’s the job of a financial planner or insurance agent.

 Even though you have an idea of the product that could fit, how do you choose the company to purchase it from? There are over a hundred life insurance companies offering a VUL product. Again, this is the advantage of using a professional. You can spend your precious free time on the Internet getting quotes from dozens of companies; learn the ins and outs of each product; research the loads, actuarial assumptions and underlying portfolios; or you can have someone who has years of experience do it for you.

**Health Insurance**

Most people who have health insurance are covered through their employer or some government plan, like Medicare or ObamaCare. One serious health incident like cancer, stroke, heart attack or auto accident when there’s no medical coverage, can drive a family into bankruptcy. This is one of the reasons the Affordable Health Care Act became law in 2013. I would urge you, if you don’t already have major medical coverage, to do what it takes to get coverage. The higher the amount of the deductible (the portion you pay) the lower your premiums will be. Of course, the older you get, the more likely there will be health challenges, and the premiums will be higher.

**Property Insurance**

 Property insurance differs from life and health insurance and is based on what you are protecting. In property, or casualty insurance, you are protecting things and not people; things like a car, house, boat, business and so on.

 What are some of the things you should look for when shopping for property insurance? One would be for the company to be an “admitted carrier.” I live in California, and in the 1990s there were many situations where people had purchased auto insurance from companies that had not been approved to do business in my state. They had the lowest rates, but when the policy owner had to file a claim, they didn’t pay. Price is not the only factor when shopping for insurance. Look to the financial strength of the company. You’re buying insurance to protect you against the things you can’t afford to lose, right? The lowest premium, but denying claims doesn’t work for building wealth. Ask, and get confirmation the company is admitted to do business in your state.

 Will you be going direct to the company like 21st Century Insurance (now AIG) or GEICO? These are examples of direct writers. This is a company where you do business directly with the company and have no agent working on your behalf. You ought to save on the premiums with these types of companies.

 Finally, there are the value-added services an agent can provide. The agent is someone who knows you and your situation. They have many other clients and can provide referrals to people in other specialties you might need, from cement masons to dentists.

 Financial strength, being an admitted carrier, discounts, value-added benefits and the services of an agent or financial planner are some of the things to look for when you go shopping for life, health, or property insurance.

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### Trust Deeds

###  This is a way to indirectly invest in real estate. Just like you can borrow money from a bank to help finance the purchase of a house, you can loan money directly (or through a lender) directly to a borrower who will use their home, or other real estate, to provide the security (collateral) for the loan. If they default on their payments, you would go through a foreclose process and become the new owner of the real estate. I have often lent money in this way and earned 8-15% interest. Some loans are first trust deeds where I am the only lender. Others were as a 2nd trust deed lender where there was another lender in a superior position to me.

### Peer to Peer Lending

 The advent of the Internet has allowed people all over the world to connect through social media, and allowed the creation of peer to peer lending. One example is Lending Club where you can loan money to people in amounts as small as $25 and earn 6-12%. The minimum account size is $2500, and you must read the risks, but this could be an alternative to letting money sit in the bank.

### Life Settlement Investing

 This is a way to invest in life insurance policies that have been issued to other people. Cash value policies can be surrendered to the issuing company or sold on the open market for more money than the issuing company might pay. You would be taking over as the owner and beneficiary of the policy issued on the life of someone else. You would make the premium payments and at the death of the insured you would receive the death benefit. There are several companies that are set up to handle all of the paperwork and claim you can earn 14% or more with no stock market risk. To get an idea of how these companies operate you can google *life insurance settlement companies.*

 **Are there any questions up to this point?**

**Use the leverage of tax-advantaged investing**

 If you have the opportunity to invest in any type of qualified retirement plan, such as a *401(k), profit-sharing or pension plan, Tax Sheltered Annuities, or any tax qualified retirement plan*, take advantage of it. Just be aware you want to discuss any potential tax liabilities you may have for your individual situation with your personal tax advisor.

 As an example, if you made tax deductible contributions of $100 per month earning 10% and you are in a 30% tax bracket after 20 years you would have an account worth $36,465. However, if you if you got a tax deduction for your deposit and it grew without being taxed, you would have $75,937, which is over 100% more money.

 In 30 years the difference grows to 264% more money from the tax advantage.

 **Does anyone have any questions about this?**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Paying your taxes along the way | Deferring your taxes | Difference |
| 10 years | $12,116 | $ 20,484 | $ 8,368 |
| 20 years | $36,465 | $ 75,937 | $ 39,472 |
| 30 years | $85,398 | $226,049 | $140,651 |

The difference between $85,398 and $226,049 is 264%. Losing 30% in taxes at that time would reduce it to $158,235. This is still $72,000 more than the amount available if taxes were paid along the way. That difference alone is enough to buy a brand new top-of-the-line Mercedes-Benz for all cash.

 It seems the common wisdom from many accountants and financial advisors is to pay off your high interest debts before you start a savings or investment program. On the surface it might look appropriate, or even intelligent, to pay off credit card debt at 14% to 21% instead of putting money in a savings at 2% to 5%, or investing when the return could be unknown. To start with, if your credit is good, you can transfer balances to lower rate credit cards. If your objective is to create financial freedom where work is a choice and not a requirement, using the common wisdom may not be the best advice to take. And since I’ve worked with several CPAs to save them from bankruptcy, they are not all experts on personal finance or investing.

 After working with people and their money for about 40 years, I’ve discovered two sets of conflicting views. The first set is, *short term versus long term*; and the second is, *looks good on paper versus human nature*. The funny part, or sad part, depending on your personal outlook, is what looks good for the short term is a disaster for the long term. And, what looks good on paper most often does not fit how human beings act.

 And, being debt free is absolutely not the same as having financial freedom. One means you don’t have any debt. Having no debt does not mean you have created assets that generate an income so that you no longer have to work. Only income producing assets will do that, and if you have enough income producing assets, then you will also have the income to pay any debts.

 If you want to see an actual example read the story of Jack and Jill on page 167.

**Does anyone have a question about paying debts before investing?**

 Intelligence, education, success in business or a profession does not offer protection against **investment fraud**. Chances are the more successful you become, the more you will be able to attract a better class of con artist. I started collecting articles in 1983 and have dozens covering all sorts of frauds and swindles. They depict well- dressed, church-going, public and community involved individuals, like Bernie Madoff, as well as gangsters, who stole from the people who trusted them. You can avoid being a victim of investment fraud by following the guidelines on page 170, but here are a few tips:

* Develop a coherent investment strategy tailored to your own circumstances. The development of realistic investment goals is worth the effort, not only for its own sake, but also because it results in a healthy skepticism that con artists dread.
* Select investments to fit ***your*** goals. Do not settle for what someone wants to sell you. Even in times of economic uncertainty, solid investment opportunities exist.
* Have a good defensive strategy. Use other professionals you trust to review investment offerings in which they have expertise. Ask an insurance agent about insurance; ask a CPA tax questions; ask a stockbroker about a specific stock; ask an attorney a legal question; ask a certified financial planner to help you set goals. You wouldn’t ask your gardener for medical advice. Would you?
* NEVER, EVER, AND I MEAN ***NEVER*** SEND MONEY, OR GIVE YOUR CREDIT CARD NUMBER, TO A STRANGER ON THE BASIS OF A PHONE CALL, ESPECIALLY IF THEY SAY THEY ARE WITH THE IRS.
* Do not be hustled by high-pressure tactics. The investment world is not going to run out of good opportunities in the next hour.
* Beware of hucksters who claim they’re doing you a favor because you’re a member of a particular organization, church, or a group. Affinity sales are a common scam.
* Do not assume state or federal regulators can protect you. They are far outnumbered by the scam artists.

I know this module ran long, but there was so much I wanted to cover, and there’s even more in the book that I didn’t cover. Based on the requests from the surveys, Module 7 next week will go into more detail on finding an apartment building, analyzing the purchase, Gross Rent Multiplier, ROI, Cash on Cash, Debt Coverage Ratio, working with brokers, advertising, showings, qualifying applicants, the importance of each item in the lease agreement, who to have on your team, using outside management and the designations to look for, and emerging markets.

 Until then, please continue to track your spending and continue to call clients and ask for referrals using the script that I provided.

**Are there any questions before we complete this call?**