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An Investment Plan to Create Wealth

DISCOVER LIFE'S THREE CHRONOLOGICAL INVESTMENT PERIODS

Our investment philosophy is based on an individual's chronological time line, which consists of three periods: (1) asset accumulation, (2) wealth building, and (3) asset conservation.

The financial journey through life's time line starts at different levels, depending on whether you were born with a plastic or a silver spoon in your mouth. As you travel through your time line, your investment options change. Knowing where you are and what options are available will help you make the right choices.

How and when you make these choices is what this chapter is all about!

A Winning Financial Plan up to Age 35

The first chronological period of your life—mid-twenties to mid-thirties—should be devoted to accumulating assets and acquiring basic necessities. When you're just starting out, your assets are usually limited and the major portion of your income goes for the basic needs—food, clothing, and shelter.

This is the time to save, save, save! Amass as many investment dollars as possible. Your approach to investing during this period should be through tax-deferred plans at work or Individual Retirement Accounts (IRAs). Your degree of risk should be moderate. Investments included in this category are AAA corporate bonds, blue chip stocks, and growth-oriented no-load mutual funds.

Every effort should be made to purchase a home now. The advantages, from tax savings and equity buildup, historically outweigh the short-term benefits of lower monthly rent payments.

Be careful when sheltering yourself and your family from liability. Only pay for protection when you're purchasing life insurance. Purchase whole life insurance if it will yield a higher rate of return than other investments. After reading the chapter on asset protection, you might seriously consider reducing your liability coverage.

Remember, your main financial goal during this time is tax-deferred accumulation of capital. Don't take risks with your investments. Save as much as you can so that when you enter the next phase of the time line you'll be ready to move forward.

Investing between the Ages of 35 and 50

After earnings have increased, assets have been accumulated, and basic necessities are under control, it's time to move on. Ready or not, you must face the challenges during this aggressive investment period of your life, when you are between your mid-thirties and early fifties.

WHY IT IS MATHEMATICALLY IMPOSSIBLE TO BECOME WEALTHY EARNING 20 PERCENT PER YEAR

Aggressive investments are designed to create maximum wealth while controlling risks. The value of these investments must increase substantially for you to become wealthy. Investing $6,000 at 20 percent simply isn't going to do it. After taxes and inflation, mathematically it's impossible. Look at Table 1.1 to see the data that is summarized in Figure 1.1.

The Best Financial Plan for You

Your best financial plan is to create the maximum wealth during this aggressive investment period of your life. Build financial security

Table 1.1 Number of years to amass the purchasing power of a millionaire.

	Inflation Rate				Inflation Rate		
Year	3%	5%	7%	Year	3%	5%	7%
1	6,623	6,487	6,350	46	565,191	216,761	81,454
2	7,311	7,013	6,721	47	623,892	234,340	86,206
3	8,070	7,581	7,113	48	688,689	253,345	91,235
4	8,909	8,196	7,528	49	760,216	273,892	96,558
5	9,834	8,861	7,967	50	839,172	296,104	102,191
6	10,855	9,580	8,431	51	926,329	320,118	108,153
7	11,983	10,356	8,923	52	1,022,537	346,080	114,462
8	13,227	11,196	9,444	53		374,147	121,140
9	14,601	12,104	9,995	54		404,490	128,207
10	16,117	13,086	10,578	55		437,294	135,687
11	17,791	14,147	11,195	56		472,759	143,603
12	19,639	15,295	11,848	57		511,100	151,981
13	21,679	16,535	12,539	58		552,550	160,847
14	23,930	17,876	13,271	59		597,362	170,231
15	26,416	19,326	14,045	60		645,808	180,162
16	29,159	20,893	14,865	61		698,183	190,673
17	32,188	22,588	15,732	62		754,805	201,797
18	35,531	24,420	16,650	63		816,020	213,570
19	39,221	26,400	17,621	64		882,199	226,029
20	43,294	28,541	18,649	65		953,746	239,216
21	47,791	30,856	19,737	66		1,031,095	253,172
22	52,754	33,358	20,888	67			267,942
23	58,234	36,063	22,107	68			283,573
24	64,282	38,988	23,397	69			300,117
25	70,958	42,150	24,762	70			317,626
26	78,328	45,568	26,206	71			336,156
27	86,463	49,264	27,735	72			355,768
28	95,443	53,259	29,353	73			376,523
29	105,355	57,579	31,066	74			398,489
30	116,298	62,248	32,878	75			421,737
31	128,376	67,297	34,796	76			446,341
32	141,710	72,754	36,826	77			472,381
33	156,428	78,655	38,975	78			499,940
34	172,674	85,034	41,249	79			529,106
35	190,608	91,930	43,655	80			559,974
36	210,405	99,385	46,202	81			592,643
37	232,257	107,446	48,897	82			627,218
38	256,379	116,159	51,750	83			663,810
39	283,007	125,580	54,769	84			702,537
40	312,400	135,764	57,964	85			743,523
41	344,846	146,775	61,346	86			786,900
42	380,662	158,678	64,925	87			832,807
43	420,197	171,547	68,712	88			881,393
44	463,839	185,460	72,721	89			932,814
45	512,013	200,500	76,964	90			987,234
				91			1,044,829

Tax Rate: 31%, Rate of Return: 20%, Initial Investment: $6,000

Source: The Center for Real Estate Studies.

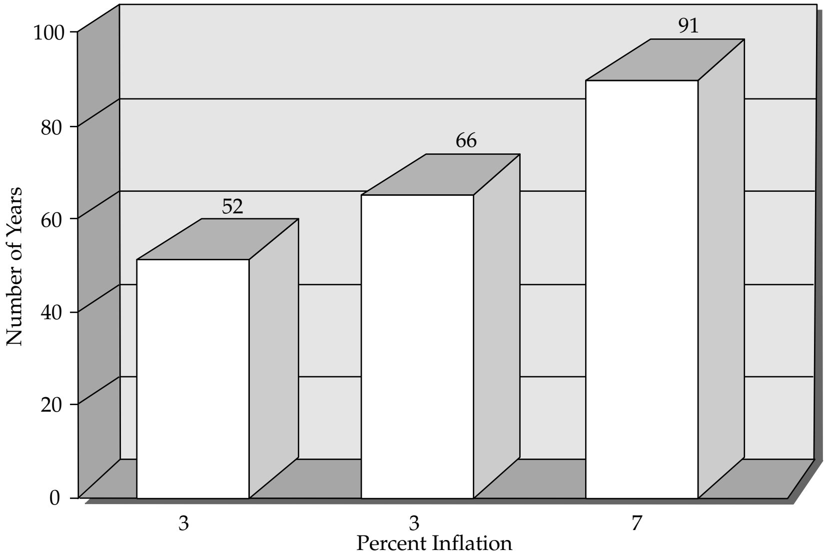

Figure 1.1 Number of years to amass the purchasing power of a millionaire.
Source: The Center for Real Estate Studies.

yourself. Don't rely on others to do it for you. Many people who relied on major banks and insurance companies for financial security ended up short when these institutions failed. The social security system will not do much better.

You should be careful not to over diversify your assets or adopt a "hold-back" attitude. You must concentrate your assets into one or two aggressive investments rather than spreading them out. Diversification often leads to ineffectiveness.

What if you fail during this period? What is your down side? If you consider your ability to bounce back because of your age, the political clout of your generation, taxes, and inflation, the real risk is minimized. Make your aggressive investments now. As you get older, your ability to rebound declines. If you do not try at this stage in your investment time line, you probably will never do it, and more importantly, you will never know whether you could have made it.

What It Takes to Become Wealthy

Becoming wealthy requires taking "controlled" risks. If anyone tells you that they became wealthy without taking any risks, they either inherited wealth or they won the lottery.

If you're afraid to take risks, *don't do it.* Your mental health is far more important than your financial health. However, not taking financial risks becomes a risk in itself. No-risk investments have lower rates of return. Higher rates of inflation and taxes will eventually cause you to lose with these types of investments.

If risk taking makes you feel vibrant and alive, go for it! Especially during this exciting chronological period of your life.

Your ability to take risks depends on your financial and emotional capabilities. Financial capabilities are based on age, occupation, number of dependents, health, investment knowledge, and net worth. Emotional capabilities refer to whether or not you can sleep after you've invested the $6,000. The quiz in Figure 1.2 tests your tolerance for taking risks.

	(Circle One)	
1. I prefer working on a commission basis.	Yes	No
2. I have my car checked according to the maintenance schedule.	Yes	No
3. I would invest in gold.	Yes	No
4. I make my own decisions.	Yes	No
5. I want to be self-employed.	Yes	No
6. I like going to Las Vegas, Nevada.	Yes	No
7. I would bet on a horse if I got a tip from someone I know.	Yes	No
8. I prefer working for the government.	Yes	No
9. I would invest in a venture capital firm.	Yes	No
10. I prefer investing in certificates of deposit.	Yes	No
11. I like surprises.	Yes	No
12. I make daily decisions that affect other people.	Yes	No
13. I own a sports car.	Yes	No
14. I would rather play than watch sports.	Yes	No
15. I have enough in the bank to carry me through 12 months.	Yes	No
16. I have my attorney help me with my financial decisions.	Yes	No
17. I own a vacation condominium.	Yes	No
18. I like to go to different restaurants.	Yes	No
19. I enjoy traveling.	Yes	No
20. The challenge is the most important thing.	Yes	No
21. I prefer investments that produce income rather than appreciation.	Yes	No
22. I prefer to read.	Yes	No
23. I would have been a Western pioneer.	Yes	No
24. I exercise daily.	Yes	No
25. I purchase investments with borrowed money.	Yes	No

SCORE: If you answered yes to 1, 3, 4, 5, 6, 7, 9, 11, 12, 13, 14, 17, 18, 19, 20, 23, 24, 25, you have a very high tolerance for risk. If you answered yes to half of these, you have a moderate to low tolerance. You should assess your own score in light of your financial goals.

Figure 1.2 Measure your risk tolerance. *Source:* The Center for Real Estate Studies.

If you devote sufficient time and effort, you will be able to enjoy not only the wealth-building period of your life, but you will be able to look forward to the next chronological stage, the asset conservation period.

The Best Investment Strategy over Age 50

The asset conservation period usually starts in the early fifties and extends until you're "pushing up daisies." Your investments should be primarily in federal and state tax-free bonds. Your main goal is tax-free income and preservation of capital. Estate planning should be initiated during this phase of your life. Your investments can be diversified as long as they are conservative and risk free.

By taking controlled risk in the previous period, you won't have to depend financially on the government or relatives. You'll be independently able to maintain yourself during this asset conservation period of your life.

CONQUERING YOUR FEARS OF INVESTING

Often people do not succeed because of fear. Why do people have a fear of investing? Some people are afraid of making decisions because they continually feel they don't have enough information. This is what is called "paralysis by analysis." Subconsciously, they keep on wanting more information to avoid making a decision. Make your decisions based on the information you have diligently gathered and on the trust you have in yourself and others.

Do you have a fear of failure? If you do not act because you're afraid of failure, you've lost your opportunity. Everyone fails at one time or another. That's part of being human. The only way to conquer this fear is to keep trying. It doesn't matter how many times you fail. What matters is that you just keep trying and never give up. This is what life is all about. This is how to get ahead.

Strange as it may seem, many people have a fear of becoming wealthy. They fear losing friends by moving to a different socioeconomic level, and they fear that others will only like them for their money. If you lose friends because you become wealthy, they weren't true friends to begin with. Real friends like and need you for what you are, not how wealthy you are.

People coming from countries where the government maintains complete control over them from cradle to grave have difficulty dealing with such freedom. Financial freedom works in the same way. People don't know what to do with their time or their money. There are too many choices. They become confused and withdrawn. Just remember all the things you wanted to do and all the people you wanted to help. Take one day at a time and don't make any major changes in your lifestyle.

Expressing your fear of expanding your horizons by continually adhering to an ultra-conservative philosophy is self-limiting. Bargain shopping is a prime example. I've seen people spend countless hours saving pennies when they could have used the same time making dollars. Using your time and money to create wealth has limitless potential. Don't get caught up in petty economics. Expend your valuable resources of time and money for more rewarding goals.

BECOME A GOLD MEDALIST IN INVESTING

The purpose of this investment philosophy is to make you extremely wealthy by taking controlled risks and aggressively concentrating your resources. Make a firm commitment to succeed, the same that is made by an Olympic gold medalist. If you're willing to make that commitment, then the information in this book will help make that goal a reality.

In going for the top, you won't have to quit your job. However, you should be prepared to work at least half a day to accomplish your goals. How much is half a day? Well, when the CEO of a Fortune 500 company was asked by a reporter how he accomplished so much, he responded, "I only worked half a day." The reporter commented, "That doesn't sound like much." He said, "I agree with you. Twelve hours a day isn't much work at all." Seriously, you don't have to work half a day. Work only long enough to get the job done. You be the judge. I'll give you the tools. You will make the sincere effort.

SUMMARY

Your net worth and financial goals will determine how and when you should make your moves. Investments should be timed accordingly.

Financial independence means having enough money. It's that simple. Amass enough capital during the asset-accumulation period so that you can aggressively invest during the wealth-building period to eliminate money worries while you're in the asset-conservation period. It sounds elementary, and it is.

In his book, *In Search of Excellence,* Tom Peters noted that the best strategy for success is, "Ready, fire, and aim." (As opposed to ready, aim, fire.) If you're "ready," then you're ready to fire. Just get out and do it. Fine tune it later. Most people spend so much time aiming, they never pull the trigger.