

**PART I**

# Build a Money Machine

**T**his book first emphasizes the need and the reasons for investors to look out for themselves, add to their income, and take control of their own finances. Part I addresses how we can get extra income by creating a money machine to generate regular additional income for the investor. This machine can be designed and created specifically by the individual after considering his own needs and abilities. The first three chapters are intended to show the reader how he can move forward to improve his life by committing to the betterment of his own financial welfare through the creation of these money streams. The first part, then, addresses the concept and decision-making elements.

In Part II, the reader will examine a wide array of specific investments that he may choose to use alone or in concert as parts for the money machine he designs for himself. In that second part, we'll see precisely how different methods and strategies may be incorporated and utilized to reach an objective of adding income to almost anyone's life.

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**CHAPTER 1**

# How We Get the Income We Need

I've been rich and I've been poor. I've had good paying jobs and I've been broke twice in my life. I've never been homeless, but I've been to the point where I couldn't pay the mortgage—let alone the phone bill, the electric bill, the car payment, or the credit cards. Along the way, I've learned many financial lessons. Among them are:

- You aren't likely to get rich working for someone else.
- No matter how good you may be at your job, you are expendable.
- If you are an employee, your time is not your own.
- Politicians may promise, but government won't take care of you.
- The term "security" can be an illusion.
- No one cares as much about your money as you do.
- It's probably better to learn to manage your own money than to rely solely upon brokers, financial planners, or insurance salespeople.
- Social Security isn't secure.
- You would be wise first to learn how and then create multiple sources of income.

During most of the years when I practiced law, I enjoyed a very good income. At the same time, however, there was an important trade-off. My time was not my own. As Abraham Lincoln said: "A lawyer's time and advice are his stock in trade." My time did not belong to me if I wanted to earn money. My time belonged to my clients and was controlled by them and by the courts. Vacation dates, for example, were ruled by court calendars, and nights with family were sometimes abandoned because of

municipal meetings or zoning hearings. I'm not seeking sympathy because I knew I was trading time for cash, but I often wondered whether there might be some better way to achieve those qualities of life that financial health can bring without sacrificing my time to control by others.

It seems clear to me that anyone who has a boss, anyone who is an employee, is faced with the same situation. They are relinquishing control of their own time to their employer. Certainly the employer is entitled to that control because he is paying the employee for the employee's time and effort. In fact, the employer has every right to tell the employee that he no longer needs the time and services and can fire the employee. I have been on the short end of that stick as well as having been the person doing the firing. While neither side is pleasant, it can be devastating for the person who has lost his job. For most, the sale of their time, their job, is the only source of income and once lost the income stops. That is how I became poor one time.

### **NEARLY EVERYONE NEEDS INCOME**

Most of us need income. Baby boomers coming to their later years need food, shelter, medical care, insurance, and transportation just like anyone else. Certain costs like those for medical care are rising dramatically with no end in sight and the older we get the more we are likely to need additional care. Transportation costs have risen and the costs of fuel may continue to rise for as long as we continue our dependence on carbon fuels. Food costs are also rising as crops like corn and sugar that once were relatively cheap become more costly as they are converted to alternative fuels. There is only so much land on which crops can be grown and when more of that limited acreage is grown in corn and less in wheat, it is no surprise that the cost of flour will rise. The use of corn for food now competes with the use of corn for fuel so while supply may remain nearly constant, demand has increased significantly. In addition, the demand for energy has risen around the globe. Factors like these guarantee higher costs of living with the passage of time.

Over the past several years, I have spoken to many in the 60-plus age group who are approaching retirement or who have retired. A high percentage of those people are concerned that they may outlive their money or that they may have to diminish their quality of life to live within their means. Previously undiagnosed conditions like Alzheimer's disease raise the possibility of long-term care and the large expenses associated with the treatment. These fears are real as people live longer and inflation erodes fixed income streams. Some already find it necessary to take part-time jobs

just to get health insurance benefits. Baby boomers who once looked forward to a pleasant retirement now need to focus on how they will be able to afford the rest of their lives. Later in this chapter I'll discuss some of the possible solutions and their potential effectiveness.

Certainly baby boomers are not the only group who can foresee a need for continuing and, perhaps, additional income. Young families are also burdened by heavy expenses. While their costs for medical care may not reach the same levels as that of their elders, costs for food, shelter, transportation, and insurance will probably exceed those of the preceding generation. In addition, they must face the explosion of costs in education and, in a high percentage of homes, the costs of day care. Today, in families where both spouses are in the household, it is common for each to have at least one job and a significant proportion of one of the incomes frequently goes to day-care costs if there are children. In homes split by divorce it is probably even more common to see both parents employed. In all of these situations, the families must face the issues and costs of day care and make decisions whether the cost might outweigh the benefits of income from one spouse's job. Where there is a stay-at-home mom, the family must weigh income needs against their view of the desirability of child care from a parent versus child care from an outsider. In addition to those issues while children are young, parents also consider the costs of education for their children.

Private school tuitions can be extremely burdensome. The current kindergarten tuition at the east coast school where I attended high school is now \$17,600 and the tuition for high school is almost \$24,000. At current rates at that school, the total tuition to send one child from kindergarten through high school would be well above a quarter of a million dollars. Not far from where I now live in the Colorado mountains, one school I checked charges tuition of \$3,500 for kindergarten and \$5,150 a year for first through eighth grades. Private college tuitions are also very high. As I write, the University of Pennsylvania, an Ivy League school ranked fifth by *U.S. News & World Report* for 2008, charges tuition and fees of almost \$36,000 a year plus a little over \$10,000 for room and board. By contrast, Briarwood College in Iowa (ranked 38th among Baccalaureate Colleges in the Midwest for 2008 by *U.S. News & World Report*) charges about \$20,000 for tuition and an additional \$5,900 for room and board. State universities and colleges, though significantly less expensive particularly for in-state students, nevertheless can be fairly costly. Mississippi State University, for example, ranked in the third tier of national universities in 2008 by *U.S. News & World Report*, charges in-state residents almost \$5,000 in fees and tuition plus almost \$7,000 for room and board.

Single people who are not committed to any relationship do not escape the need for income. They, too, must have shelter, food, transportation,

and the necessities of life. Frequently, they have additional expenses to enhance their enjoyment of life. Dating, meals out, entertainment, and furnishing apartments or homes, education loan payments, and credit card bills (shared by almost every category) all add to the need for income.

Income needs can be daunting. According to the U.S. Census Bureau, the median annual household income in 2006 was only \$48,201. It is really no wonder that so many have a hard time getting ahead, let alone making ends meet.

### **ONE SOURCE OF INCOME IS NOT ENOUGH**

Undoubtedly the most common source of income is a job. Most of us have gone to school and learned that we need to get a job and have been taught that is how we need to make our livelihood. How much we can earn at our job or jobs is dependent on many factors. Generally, education can play an important part, as can the number of hours we devote to the employment. Geography is also a factor and, according to U.S. Census figures, the median household income in New Jersey in 2006 (the highest ranking) was just short of \$67,000 while in Mississippi (the lowest ranking) it was slightly over half that at \$34,343. While employment is clearly the predominant source of income for most people, it does come with a number of limitations. As I discussed earlier, during the hours of employment, the employer owns your time and exercises very significant control over your activities. At least as early as 2007, I saw that some employers track their employees' movements by GPS. This demeaning practice may assure greater productivity, but to my mind it makes being an employee less desirable.

Even professionals who have control over the operation of their businesses are beholden to their clients or patients. As we know all too well, there are only so many hours in the day and we can't work all of them so no matter what our hourly rate, our earnings from employment do have a cap. While we can earn large sums from employment, we also run the risk that we may lose clients, lose our job, or suffer an injury or disability that prevents us from continuing to earn at the same level. At the same time, a job can also offer at least the illusion of security. When we have a job, we have an expectation that we will regularly get a paycheck and we may even have the promise of a pension at retirement.

Although times are changing, when we think of the employed, we tend to think of the traditional work force; those in the 18 to 65 age bracket. However, because of the need for income, many older people are

continuing to work longer or are finding new careers or new jobs. Social Security simply isn't enough. The term is approaching oxymoron status. I was recently reading *The Reagan Diaries* (HarperCollins, 2007) and was reawakened to President Reagan's efforts to get Congress to do something about the Social Security program as far back as the early 1980s. In a March 26, 2008, article entitled "Officials warn of Medicare's demise," Richard Wolfe, in *USA Today*, wrote simply:

*Medicare and Social Security are going broke.*

*That was the blunt message delivered again . . . by trustees for the two programs. Each year they warn of the impending doom caused by benefits that will eventually exceed revenue. . . .*

*Social Security, the insurance program for nearly 50 million retirees, survivors, disabled workers and their dependents, will start spending money it's not raising in 2017 and go bust in 2041 unless Congress acts.*

This once important source of income for the elderly has long been nothing but a political football and is fast becoming a joke. When a suggestion was made that people become responsible for managing part of their own retirement there was a great hue and cry from the politicians and even, to my great surprise, from the AARP. People just can't manage their own money was the argument (as if government could). Politicians have offered no alternative proposal to repair the system and lash out at anyone who dares suggest that people might take care of their own money. The year 2017 is just over the horizon and nothing is being done to save Social Security. Instead, the benefits are reduced or postponed or taxed again. Seemingly we forget that these funds were originally taken as a tax from paychecks to be returned, with interest, to those who paid. The bottom line is that the baby boomers and those who follow should not and cannot count on the past promises of Social Security and will receive only a pittance, if anything, to assist their income needs if things stay the same. In the meantime, contributions from current workers must not only help provide for their own future, but also must assist in financing the retirement of the older generation.

Another potential source of income for retirees is the pension—where it has been properly funded, the company still exists, and the employee has managed to remain in his position long enough to be vested. Many in my own generation were taught that if you went to work for a corporation and faithfully fulfilled your duties you would be set for life. In some cases that expectation has been fulfilled. Sadly, in others, the expectation has been dashed. Friends of mine have suffered varying fates because they followed a long-term plan designed to result in a comfortable retirement with a

decent pension. One such friend was a longtime faithful employee of WorldCom. His reward, instead of the pension he deserved and earned, was a company that went down the tubes with a chairman who was convicted of fraud, conspiracy, and filing false documents with regulators all relating to an \$11 billion accounting scandal. Another friend who served his company long and well was simply fired shortly before his pension vested. That fine man not only lost the pension rights he had worked for, he was so injured psychologically that he became a complete recluse. Again, pensions can and do provide a source of income to those who have earned them when the company treats its employees honestly, stays in business, and properly funds and manages the pension. I have friends who have been and continue to be the happy beneficiaries of such situations. Again, as with Social Security, it is great if you get it, but like so many things in life, it may be unwise to count solely on income from such sources. The Bureau of Labor Statistics published data demonstrating that individuals born between 1957 and 1964 held an average of 10.8 jobs from age 18 to 42 (BLS News Release, "Number of Jobs Held, Labor Market Activity, and Earnings Growth Among the Youngest Baby Boomers: Results from a Longitudinal Survey." Washington, D.C., June 27, 2008). As I see it, that number is likely to increase because of earners taking on more part-time work and second jobs and changing jobs and careers more often. Not only do fewer jobs offer pensions, but also the frequency with which workers change jobs means pensions are less likely to be vested even where they do exist. These factors make it even more important that people create additional streams of income for themselves.

We need to be aware that there are many ways to produce streams of income besides a job. Devices as common as savings accounts and certificates of deposit (CDs) also offer income through the interest they pay, but generally speaking, while relatively safe, the rates are something short of spectacular. Corporate bonds sometimes offer decent rates of return and municipal bonds are available where the interest is free of federal and sometimes state taxes. In later chapters, I'll discuss some of those vehicles as well as ways to utilize the stock and options markets to generate income.

When I was an active lawyer, I enjoyed one stream of income: my job. After I left the profession and opened a photo-processing and photo franchise, my income came from that source alone and I quickly learned that although I loved photography the business had little to do with that passion and all to do with the retail trade. As anyone in the retail business knows, endless hours must be devoted to succeed. Though my store was rated "The Best of the Best" by the franchisor, the time and energy did not translate into great profits. While working more than 60 hours every week, I think the largest check I ever took out of the business was about \$200. My employees made at least minimum wage while I, as the owner, didn't. Even



with significant revenue, little filtered down to the bottom line after sales taxes, property taxes, wages, Social Security payments, rent, equipment leases, inventory, and the franchisor's percentage were paid.

During that time, I was too close to the situation or not smart enough to realize there had to be a better way. As we worked harder and harder only to get deeper in the hole, one of life's cataclysmic events occurred and made me realize that I could achieve more if I worked smarter, not harder. Since I did not want to start over in the practice of law in my fifties, I sought other work. I tried sales and did quite well, but again, my time belonged to others. Finally, I stumbled upon stock and option trading, studied it, and achieved financial success. Now, at least, I could rule my own time. As I studied, I learned that the truly wealthy made their money work for them and frequently had several streams of income. My eyes were opened wide by Robert Kiyosaki and Sharon Lechter's *Rich Dad, Poor Dad* (New York: Warner Books, 2000) through which I learned the valuable lesson that my time was not the only asset I could use to produce income. My thinking changed and my approach to earning broadened. Through the wisdom of others, I came to the realization that I could attain higher levels of income and better assure financial security by using assets in addition to my time to produce additional income.

Since that time, I have gone from someone whose income was totally dependent upon his time to a person with several streams of income. I use my time to set up trades and investments and then let them provide income through interest, dividends, and premiums I generate with certain option strategies. I also invest some time in coaching traders and investors as they work to improve their own trading. I have three subscription services where I publish some of my stock and option trades to try to show others some of the methods and strategies that have worked for me. I also have been able to invest in some resort real estate and am able to enjoy rental income as I look forward to appreciation. I have created and sold DVDs of trading seminars I conducted, and I receive royalties from my books. Some of these income streams still require my time, but nowhere near the hours I used to spend practicing law or running a small business. My trading activities require no more than 10 hours or so a week and that includes sending alerts about some of my trades to subscribers. The resort property is managed by an agent and requires almost no time. Once a book is written, I may have some speaking engagements to assist in the promotion, but I find that those few instances are fun for me and not very time-consuming. I take on no more than 10 coaching students a year so that endeavor involves about 20 days and a little follow-up with e-mail and phone conversations.

In short, I am now blessed to be in a position where I am financially comfortable, secure, and able to utilize my time as I choose. I now have time for family. I can play golf or go fishing almost whenever I want and it

is a rare day, indeed, when I can't do pretty much as I please. I try to remain mindful of my own good fortune and make an effort to give back through some charitable activities. Much of this has come because I have learned how to create a number of income streams and, in this book, I am going to try to show you ways in which you may be able to do the same things.

### **ADD STREAMS OF INCOME WITHOUT ADDING ANOTHER JOB**

I am now in my mid-sixties and am interested in working less and enjoying more while at the same time trying to assure a strong flow of income. It doesn't matter what stage you may be in life, you probably have similar goals. Whether you are a baby boomer or a newlywed getting ready to raise a family, you very likely need income. Wouldn't it be great if you could create income by using sources other than, or at least in addition to, your time? You could then have more time for your family, your avocations, your charities, or whatever else may draw you. Almost certainly, your stress level would be reduced since the financial pressures you may feel now would not be as great. In short, the quality of your life could be improved.

I believe each of us should take the personal responsibility to learn how to create income by using assets in addition to the sale of our time to an employer. Once learned, we can go on to create income sources that will help us in our quest for a better quality of life and financial security.

In this book, I am going to try to show you ways to create additional income. Some of these ways may not be new to you, but may give you a new perspective. Other strategies may be eye-openers; things you have not yet considered or, maybe, have not yet taken the time to understand fully. As you read through this book, you will probably find some methods or strategies that are more appealing to you than others; some you may reject out-of-hand for now, but want to explore later. Whatever the case, hopefully, you will have at least peeked at some possibilities of adding to your income.

The emphasis throughout the book will be on investment vehicles related to the stock, bond, and option markets. Though worthy of mention and something I do myself, I will not focus on real estate investing except in relatively general terms. There are already a large number of books dealing with real estate investments and I would defer to them for specific detailed information on various strategies.

In Chapter 2, I'll discuss how you may want to approach the creation of income-producing assets and ways to formulate a plan for the management

of those vehicles depending on factors like age, experience, time, and interest.

In the chapters that follow, I'll try to focus on specific individual strategies and tactics that can be used within the broader strategy to enhance potential earnings. None of these strategies is new. Most, if not all, have been used effectively and in a variety of ways. I have successfully used every strategy in this book and I continue to do so at the time of this writing. I would urge the reader, as I did in my first book, *Trade Your Way to Wealth* (Hoboken: John Wiley & Sons, 2008) to understand the risks of each strategy and to practice the strategy before putting real money at risk.



## **GETTING INTO GEAR**

No matter where we are in life, most of us have a need for income. The needs of the young and growing family may differ from those of the baby boomer or the young single person, but they are needs nonetheless. Even though we may have been taught that working a lifetime for a corporation would lead to financial security or that the government would take care of us in our later years, life may teach us otherwise. It is my belief that we have an obligation to ourselves and to our families to learn how to create income sources in addition to what we can achieve by selling our time and particular expertise to our employer. In the end it really is up to us to educate ourselves financially.

This book endeavors to outline a number of ways in which we can create and utilize income-producing assets beyond the sale of our own time.

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