HOW TO BUILD GENERATIONAL FAMILY WEALTH

by Rob Minton

Before you dig into the various wealth building strategies outlined throughout this book, I thought it would be helpful to share the story behind everything you'll uncover in the pages that follow.

Each month I write a monthly newsletter for my Cashflownaire Members.

These newsletters highlight everything I'm doing personally to build wealth and increase my monthly cashflow.

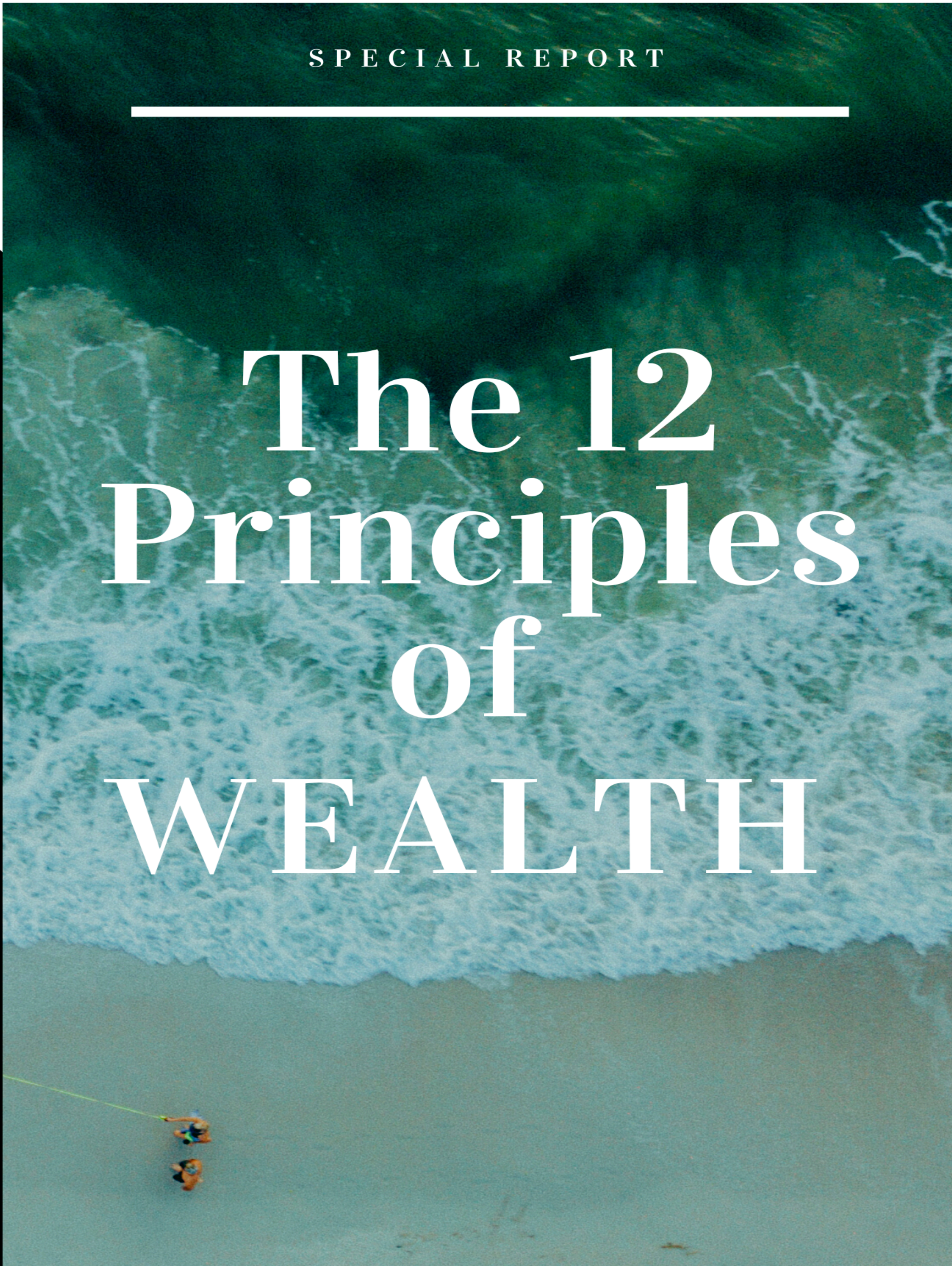
In addition to my monthly Cashflownaire Newsletter, I also include additional research reports for my members. These research reports detail different strategies anyone could use to build wealth (financial fortress), increase their investment income (cashflow), and pay down their debt (reduce financial risk).

This book is a compilation of several wealth building research reports included with various Cashflownaire Newsletters. As you study each chapter, you'll uncover different strategies you can use to build and maintain family wealth.

Obviously, there is risk with every investment strategy, including the ones detailed throughout this book. This book is for informational purposes only. Please discuss any strategy you're considering with your team of professional advisors to make sure they are appropriate for you based upon your personal circumstances.

To your success!

-Rob Minton
Cashflownaire



SPECIAL REPORT

The 12 Principles of WEALTH

The 12 Principles of WEALTH

In late 1993, a 29-year-old engineering and computer whiz made perhaps the most productive coast-to-coast road trip in United States history.

The young man had just quit his high-paying job doing mathematical modeling for a hedge fund in New York. On his cross-country journey to Seattle, he wrote out a business plan for what would be the next chapter in his life.

Once in Seattle, he got to work designing a new website. He borrowed money from his parents and used this new website to start selling books from his garage by late 1994. The company was called Amazon, and the young man was Jeff Bezos.

Twenty-five years later, Bezos was the world's wealthiest person. And, of course, Amazon was doing a whole lot more than just selling books. In 25 years, it went from being an online bookseller to being:

- An entertainment distribution company, streaming music and then video
- The world's largest online retail company, selling millions of different products across hundreds of industries
- A web services company
- An artificial intelligence company
- A production company, making its own TV shows and feature films
- A subscription company, its Prime membership generating billions of dollars
- A shipping company with its own fleet of trucks
- A real estate company, owning large swathes of land and buildings in the millions of square feet

Without seeing exactly what Bezos wrote in that cross-country car trip in 1993, it’s impossible to say if all of what came to be was the plan all along. But – no matter what you think about Amazon and its societal impact – it’s difficult not to admire the building process.

For example, Amazon used the platform it built to sell books to evolve into a company that sells, well, just about everything now. It took its music and video streaming business to the next level by producing its own entertainment to sell on an established channel. It used its membership, which was based on the promise of free, two-day shipping, to fund what became its own shipping company that can now easily fulfill that promise without a third party. Amazon has evolved, mostly organically.

In the simplest of terms (and as a huge understatement), **Amazon has changed.**

But over the 25 years or so since launch, there are some things that haven’t changed.

You might not know this, and it’s unclear if it was part of Bezos’s cross-country business-plan development, but there is something that has remained the same as long as Amazon has been online.

Amazon, no matter what it has become, has always adhered to a set of leadership principles that Bezos laid out long ago.

You can actually find these leadership principles on the Amazon site, at the URL: https://www.amazon.jobs/en/principles. Here they are:

Customer Obsession

Leaders start with the customer and work backwards. They work vigorously to earn and keep customer trust. Although leaders pay attention to competitors, they obsess over customers.

Ownership

Leaders are owners. They think long term and don't sacrifice long-term value for short-term results. They act on behalf of the entire company, beyond just their own team. They never say "that's not my job."

Invent and Simplify

Leaders expect and require innovation and invention from their teams and always find ways to simplify. They are externally aware, look for new ideas from everywhere, and are not limited by "not invented here." As we do new things, we accept that we may be misunderstood for long periods of time.

Are Right, A Lot

Leaders are right a lot. They have strong judgment and good instincts. They seek diverse perspectives and work to disconfirm their beliefs.

Learn and Be Curious

Leaders are never done learning and always seek to improve themselves. They are curious about new possibilities and act to explore them.

Hire and Develop the Best

Leaders raise the performance bar with every hire and promotion. They recognize exceptional talent, and willingly move them throughout the organization. Leaders develop leaders and take seriously their role in coaching others. We work on behalf of our people to invent mechanisms for development like Career Choice.

Insist on the Highest Standards

Leaders have relentlessly high standards — many people may think these standards are unreasonably high. Leaders are continually raising the bar and drive their teams to deliver high quality products, services, and processes. Leaders ensure that defects do not get sent down the line and that problems are fixed so they stay fixed.

Think Big

Thinking small is a self-fulfilling prophecy. Leaders create and communicate a bold direction that inspires results. They think differently and look around corners for ways to serve customers.

Bias for Action

Speed matters in business. Many decisions and actions are reversible and do not need extensive study. We value calculated risk taking.

Frugality

Accomplish more with less. Constraints breed resourcefulness, self-sufficiency, and invention. There are no extra points for growing headcount, budget size, or fixed expense.

Earn Trust

Leaders listen attentively, speak candidly, and treat others respectfully. They are vocally self-critical, even when doing so is awkward or embarrassing. Leaders do not believe their or their team's body odor smells of perfume. They benchmark themselves and their teams against the best.

Dive Deep

Leaders operate at all levels, stay connected to the details, audit frequently, and are skeptical when metrics and anecdote differ. No task is beneath them.

Have Backbone; Disagree and Commit

Leaders are obligated to respectfully challenge decisions when they disagree, even when doing so is uncomfortable or exhausting. Leaders have conviction and are tenacious. They do not compromise for the sake of social cohesion. Once a decision is determined, they commit wholly.

Deliver Results

Leaders focus on the key inputs for their business and deliver them with the right quality and in a timely fashion. Despite setbacks, they rise to the occasion and never settle.

Hopefully, from these leadership principles, you can get an idea of what stays the same at Amazon no matter how much the business itself changes. It's hard to argue that it's been successful so far, right?

Now for the bad news: You're statistically unlikely to become the next Jeff Bezos. Odds are that you won't build the "next Amazon."

The good news is that just about anyone can come up with a set of guiding principles that shape their own financial future.

In fact, some of the people whom Bezos has modeled his leadership style after – Warren Buffett, JP Morgan's Jamie Dimon and Disney's Bob Iger – have their own principles that guide their investments and business decisions. Using the ideas of successful people who have gone before you, you, too, could (and should) come up with a set of principles to which you adhere while building wealth.

Principles are important because they provide the foundation to success. They are the "no matter what" guidelines from which growth happens. They are the things that drive your behavior regardless of the noise there is around you.

In his book, "Principles," billionaire hedge fund manager Ray Dalio wrote:

> "Principles are fundamental truths that serve as the foundations for behavior that gets you what you want out of life. They can be applied again and again in similar situations to help you achieve your goals."

Here's a model of 12 principles, derived from the ideas of a select few wealth-builders, that you might use as a personal investor building your own wealth.

Principle No.1: Invest for financial freedom, not a number

So many people are trained to think creating a "nest egg" is the way to financial freedom. Individual investors, then, start out with a goal of some arbitrary number they're shooting for – a million dollars, five million dollars, etc. They think "If I can just hit that number, I will be well-off. But that's not a guiding principle for most successful investors."

Those who build wealth through investing tend to invest in things that produce income, rather than hold out hope for increased equity. Having enough income to live on without having to physically work at a job is what true financial freedom is. So the next principle is …

Principle No. 2: Invest in income-producing assets

Bezos, when he created Amazon Prime, was looking for a way to increase income. He sold Prime memberships that generated a lot of cash, which paved the way for other investments.

Amazon was earning cash, and thereby became more valuable for its investors, regardless of what its share price was. In other words, it was a profitable company regardless of Wall Street's opinion of its individual shares' values.

With 100 million or so Prime subscribers paying an average of about $100 per year to be a member, Amazon earns about $10 BILLION a year in revenue NO MATTER WHAT. It could make literally zero profit on all else it does, and still be a $10 billion company.

This is contrary to how many people view investing, a view based on the "buy-low, sell-high" speculation-based perspective. Earning income with an investment, rather than acquiring it and crossing your fingers that it will increase in value, means that you can you can use that income NOW for whatever you want, whether it be current expenses or as a means for re-investing.

A good way to describe it would be to demand income from every dollar invested. It's a principle common among the world's most successful investors. Examples of income-producing assets are rental real estate, dividend-paying stocks or funds, and businesses that operate at a profit.

Principle No. 3: Don't spend the principal

A professional gambler would call it "playing with house money." At a blackjack table, for example, a pro gambler places a bet (or bets) with their own money. Once they have winnings, however, that original money is taken off the table and goes back into the gambler's pocket.

From then on, the name of the game is to stay in the game with their winnings, the money they've gotten from someone else. In Vegas, that's it's called "house" money. In investing, it's a matter of reinvesting what you've earned from your original investment and keeping more of your own money out of it.

In either case, the gambler/investor does not often spend twice what once created the original profit. Their profit compounds, creating future profit.

Bestselling author of the "Rich Dad, Poor Dad" books, Robert Kiyosaki, laid out a five-step plan for successful investing. In his book "Who Took My Money," Kiyosaki wrote: "As a professional investor, I want to:

1. Invest my money into an asset.

2. Get my money back.

3. Keep control of the asset.

4. Move my money into a new asset.

5. Get my money back.

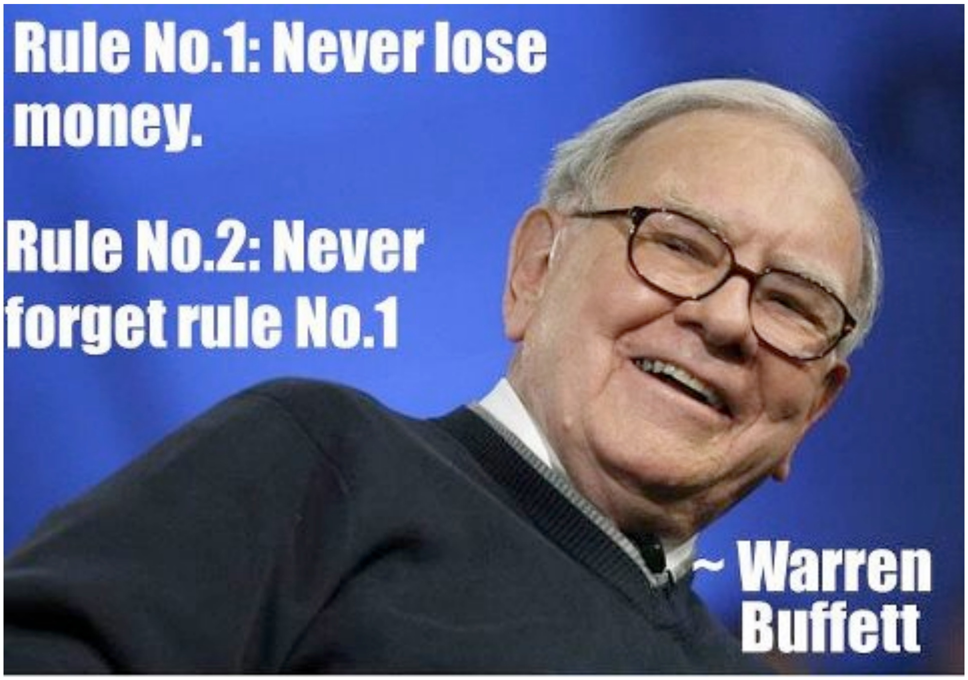
6. Repeat the process.

In the simplest of terms, an important step is to get your money back. Your own dollars fund the first investment, and then the dollars generated from that investment fund future investments; your original investment is protected.

Principle No. 4: Don't lose money

Warren Buffett is often positioned as the world's greatest investor. One of the reasons is that he never seems to lose money. One of the reasons for THAT is because one of his principles is to never lose money.

Buffett's gigantic conglomerate, Berkshire Hathaway, invests in plenty of different companies across plenty of different industries, but it NEVER invests in anything that's going to lose money in the short term based on a hope or dream that it will make money eventually. In fact, he says it's his No. 1 rule of investing.



Buffett would rather spend millions investing in something that will just break even than in something that has the promise of making millions but carries the risk of losing money first.

Principle No. 5: Invest into demand

When Berkshire Hathaway got into the Realtor business, it was at a time when housing was a slumping industry. Buffett has always been a value investor when it comes to slumping industries, but he also knew that, no matter what the economy was like, people would always need a place to live.

It's the same with Bezos and even Disney's Iger: People will always buy certain things. So the investment principle is to acquire what people will always need and/or want.

Think about what Amazon has added in recent years. They've made a major push as an online retailer of groceries in recent years, and they've created two brands of their own clothing lines. Why? Well, for one, when times get tough people won't always need books or music or movies. But they will always need food and clothing.

You can piggyback this principle on other ones, even if you don't have the means or the will to become an online grocer or clothing retailer. For example, because housing is and always will be in demand, you can invest in income from it (rent) regardless of its market value. This, in turn, provides the financing for other investments (house money). Rental housing is an asset that fits several principles.

Principle No. 6: Invest in the tangible

Do you see any news articles that describe how Warren Buffett or Jeff Bezos are buying, say, massive amounts of bitcoin?

No. Bezos invests Amazon-earned profits into things that it can sell to the general population. Buffett owns a ton of Coca-Cola stock because people will probably always drink Coca-Cola. One of Berkshire-Hathaway's longest-held positions is Sees Candies, which is something people can consume, unlike bitcoin.

How many people made millions, then crashed hard, with the dot.com craze around the turn of the century? It wasn't the Bezos or Buffetts of the world because they stayed out of fray of intangible assets.

For those who aren't billionaires already, investing in a small business that sells useful, tangible things might be a way to start building wealth. Real estate is another tangible investment.

Principle No. 7: Play the long game and make all decisions accordingly

We don't know because we weren't in the car with him at the time, but it's a safe bet that Bezos didn't draft his cross-country business plan thinking he'd cash in, then cash out, in a couple of years.

So many people want to make a quick buck. They want to catch lightning in a bottle and go from rags to riches overnight. To be fair, it sometimes happens. But if you study the richest people in the world, all of them have long-term vision.

Buffett has been at it for about 60 years. Even Bezos, who could spend something like $10 million a day and never outlive his fortune, has taken 25 years to build his massive wealth. For people like them, it doesn't happen overnight because they don't want it to happen overnight.

A dollar today might be worth more tomorrow, but that same dollar a year from now will be worth much more. The world's best investors see each dollar for what it will be down the road. It's a lesson to be learned. Each investing decision should be made accordingly.

Having a long-term outlook also provides short-term comfort. If you're a stock trader and you are checking your brokerage account every single day for the rises and falls of individual stocks you own, you can drive yourself crazy.

But if you have a long-term outlook, you know that daily ups and downs don't matter. If you're investing for cash flow, you know you're earning money every day, regardless of any share prices. A long-term perspective helps you avoid panic and, often, costly mistakes.

Principle No. 8: Opinions don't matter; facts do

Two-thirds of the way through these principles, it's a good spot for a reminder that principles only work to your advantage if you're constantly working them, constantly sticking to them.

That often means ignoring what other people's opinions are. When what you are doing is working, what other people think about it doesn't matter. What matters are the facts.

When you're a disruptor, as Bezos is, the industries you disrupt will often tell you why your way won't work. Then they'll copy you once you're successful. A good example is Walmart, which now offers almost the same shipping terms that Amazon does for online purchases but without the membership premium.

Do you think Bezos spends sleepless nights worrying about how he will answer Walmart’s answer to his disruption?

It’s more likely that he spends his time knowing that what has thus far proven profitable will continue to be. His focus is on doing what he’s been successful doing, rather than reacting to others’ opinions and THEIR reactions.

Principle No. 9: Go by the numbers to maximize returns and minimize risk

The idea with any investment should be to maximize return, then employ management strategies that reduce risk. When it comes down to it, investment becomes a simple numbers game.

What maximizes return on investment? What minimizes risk? It’s whatever the numbers say it is. Good investors take emotion out of the equation. They invest for maximum return and try to combine that return with strategies that minimize risk.

Sometimes, the opportunity becomes something like: “I can double my money (100-percent return) in X amount of time, but I could also lose it all.” If you’re investing by the numbers, rather than on speculation or emotion, you’ll sometimes accept a lower rate of return in exchange for less of chance of losing it all. The statistical likelihood of either scenario is already established. <u>What you wish for to happen has no bearing</u>. Good investors recognize this reality.

Think of it this way: If someone promises you a dollar tomorrow for the 50 cents you give them today, but there’s a 50-percent chance you’ll lose it all in the same amount of time, is it worth the risk? What if someone says that they’ll give you 75 cents for that half-dollar, but there’s only a 1 in 10 chance you could lose it all?

Mathematically – unless you’re totally risk-friendly – the choice is pretty clear. In baseball terms, if you can hit singles and doubles all day, the numbers probably work out better than if you’re only investing for the occasional home run. <u>Remember that every dollar you lose is one fewer dollar you can invest into making the next ones</u>.

It's important to keep the numbers in mind when it comes to get out of an investment, too. If the return is not good, and the risk is high, it might be time to divest, even if you once thought it was a really great investment. The numbers don't lie.

Principle No. 10: Invest in multiple "pipelines"

A professional financial planner would advise investors to "diversify," that is, they'd recommend you not put all your investable cash into just one investment. The school of thought is that by diversifying, you mitigate the risk of one investment, or one investment class, tanking.

But if you're following these principles so far and investing for income rather than the hope of appreciation, then it might be helpful to think about each investment as a pipeline for cash flow. Like the diversification your financial planner might recommend, creating multiple pipelines of income protects you from problems with one investment or investment class.

For example, a real estate investor who rents out only commercial buildings will likely face some challenges if, suddenly, demand for commercial space dries up. Likewise, an investor with one rental property will have their income drop to zero if that property goes vacant, whereas an investor with multiple properties wouldn't see their income completely disappear.

The goal is to get paid from as many pipelines as possible, as often as possible. With enough income-producing assets, you could literally get paid every day from somewhere. Great investors get paid every day.

Principle No. 11: Don't fear making mistakes, and learn from them when you do

One of the things that holds people back from success in many areas of life is fear. When it comes to investing, people are often paralyzed into inaction because they are afraid of making a mistake.

Honestly, there aren't any successful investors or wealth-builders out there who have made their fortunes by bowing to fear. Fear is natural, but it's not something that can't be overcome.

When it comes to investing, the nature of the game dictates that you'll have to overcome fear of making mistakes. If you're constantly afraid of screwing up, you'll never earnestly put yourself into a situation where you don't. Good investors aren't afraid of making mistakes.

And that doesn't mean they don't make them. Everyone makes mistakes, including some of the world's wealthiest individuals. But what kind of separates those people from the general population is that they learn from them. They don't make the same mistake twice.

Not every investment is going to be a winner. When one isn't, and perhaps you lose money, accept that it is a mistake that has provided you with a powerful lesson. If your fear of mistakes is what prevents you from ever making any, you're depriving yourself of valuable lessons.

Keep in mind, too, that good investors also learn from OTHER PEOPLE's mistakes. History tends to repeat itself, and the great financial minds of our times can often see when it's happening. "Bubbles" in the markets are a good example. Good investors can spot them coming and stay clear.

Seeing others' mistakes can also lead to turning adversity into opportunity, another trait of great investors. Buying after a bubble has burst – when the markets are down and other investors have gone belly-up – has worked out for many wealth-building investors.

Principle No. 12: Don't make it all about the money

Do you remember Richard Gere's character in the film "Pretty Woman?" He was a corporate takeover specialist, working his tail off to acquire companies he could split up and sell for profit. It was almost like a sport to him; the pursuit of money was all-encompassing.

Then he eventually realizes that this all-consuming chase of the almighty dollar was not everything in life. There are things that are more important.

Time is more valuable than money. You can't replace time once you've spent it, unlike money. Your health, too, is a far more precious commodity. Knowing this, and remembering it, helps investors keep the right mindset.

Money is a means, not an end. Having money might help you spend your time more to your liking, and it might allow you to stay more healthy. Most importantly, it might help you achieve peace of mind.

Author and speaker Brian Tracy, in describing his seven principles for success, wrote:

"The first of these ingredients of success, and easily the most important, is peace of mind. It is the highest human good. Without it, nothing much has value. Because of this, you strive for it all of your life. You usually evaluate how well you are doing at any given time by how much inner peace you enjoy."

A massive desire to be wealthy has driven many people into misery. If you spend your entire life chasing the almighty dollar, you might eventually catch it. But you will have spent your entire life chasing.

Tracy and others suggest that it might instead be better to "chase" peace of mind. If peace of mind is your guiding principle, and you stick to the rest, you're likely to be successful.

How to use a set of investing principles

Now, the above 12 principles might not be for everyone. They are a combination of those that several well-known investors, advisors and financial authors seem to follow in one form or another.

But every individual is different. What might work as a guiding principle for Jeff Bezos or Warren Buffett or Ray Dalio might not be for you. You have to decide what fits you.

The important thing is to HAVE a set of principles when it comes to your investing and wealth-building. Having a set of guidelines that you believe in, can stick to, and can repeat will help toward achieving that peace of mind, no matter what ups and downs you encounter.

As for using them in your investing, a good place to start might be to make a list of principles, not just imagining a bunch of them in your head but writing out a list you can keep somewhere.

Maybe you can write a short explanation for each principle, so that you have a constant reminder of why each one is so important. It might also be helpful to share your list or display it in a prominent place (like Bezos does with his leadership principles on Amazon's website). Once you have the principles listed, you ought to make sure you can never lose sight of them, figuratively or literally.

As for employing them, let them employ themselves. Whenever you have an opportunity come up, ask yourself whether it fits your principles. If not, let it go no matter how tempting it might be. If it DOES fall in line, go for it.

Whether you come up with your own – like Bezos came up with his leadership principles for Amazon – or simply use those compiled by others, the takeaway from this report should be to **make sure you have a set of principles to rely on.** They will help guide you to great times and help you weather tough times.

To your success!

Rob Minton
Cashflownaire

P.S. Many of these principles can be found in each issue of the Cashflownaire Newsletter. We follow certain principles because they help us make better decisions. More importantly, they help us side-step costly mistakes.

P.P.S. Rental real estate obviously meets all of the above 12 principles of wealth.

P.P.P.S. Real estate is not a risk-free investment. You can lose money investing in real estate just as you can lose money in any investment. Your ability to be successful depends on many factors, including the systems you use, your experience and your support system. You can minimize risk by building a solid team of experienced professional advisors, including a real estate professional, real estate attorney, and real estate tax advisor and through appropriate insurance protection. This report and the sample investment ideas within are for informational purposes only.

SPECIAL REPORT

'OLD MONEY'

How to Invest & Build Wealth the 'OLD MONEY' Way

How to Invest and Build Wealth the 'Old Money' Way

If you've ever heard the term "nouveau riche," you might find it a more appropriate descriptor now than at any other point in history. It's a phrase used to describe those who have recently made their own fortune, built it from scratch. Here's how Wikipedia describes the term:

> *"Nouveau riche is a term, usually derogatory, to describe those whose w**ealth has been acquired within their own generation, rather than by familial inheritance**. The equivalent English term is the "new rich" or "new money" (in contrast with "old money."*

Today's technology has certainly provided a way for ambitious folks to acquire wealth regardless of their family's financial situation. Think about Bill Gates, Mark Zuckerberg, Mark Cuban, Elon Musk – all became self-made billionaires at a young age through tech-related investment, all during the same era. They all might be considered "nouveau riche" because, while none of them was poor as children, they certainly did not come from wealthy families.

Musk's father was a scientist. Zuckerberg's was a dentist. Cuban's dad upholstered car interiors. Their families were hardly wealthy.

And while opinions may vary on the character of these particular entrepreneurs, there's still in society a general appreciation for their entrepreneurship – the idea of creating a business from nothing and growing into a billion-dollar fortune. It's pretty much the American Dream. The can-do attitude of self-made wealth is admired.

It wasn't always like that. In fact, the term "nouveau riche" is considered derogatory, as Wikipedia mentions, originating as a way to describe the newly wealthy who had the money, but not the same kind of class as the "old money."

If you've read the book or seen the films, you might recognize this attitude in "The Great Gatsby" story. Written in the 1920s by F. Scott Fitzgerald, the novel explores the differences between the "old money" and the "new money" of the time. The story is based on Long Island, in the fictional villages of West Egg and East Egg. The old money families lived in East Egg, and the new money lived in West Egg.

The novel is thought of as a social commentary on class differences, but it’s also a love story of sorts. The protagonist, the working-class Gatsby, pulls himself up by the bootstraps and builds incredible wealth, hoping to win over an old flame, Daisy. But Daisy is from old money, an East Egg lady, and the differences in class and status do as much to keep them apart as anything else.

In very early America, the only money that was considered “old money” was the had-it-when-you-arrived money. Wealthy families from Europe moved to the New World and became the American elite. They stepped off the Mayflower already wealthy and simply carried over their wealthy ways to their new lives in colonial America.

So while we think of famous families such as the Rockefellers, Carnegies, Astors, Vanderbilts, etc., as “old money,” back then only the Astors would have been considered as such. Their wealth began back in Europe, and they were among those who just brought their status to America with them and continued it.

The Rockefellers, Vanderbilts and Carnegies of the world, however, were “new money” products of New World opportunity. Money made in oil, steel and railroads – all newer technology then – was not family money. It could be argued that even though we consider these families old money today, they were actually the Musks, Zuckerbergs and Gates of their time.

They were families, though extremely wealthy, would have looked down upon by the residents of East Egg. The Rockefellers, et al, would have had to live in West Egg. Were they to venture over to East Egg, they’d have been seen much the way Gatsby was – a wealthy but tasteless and decadent member of the newly rich.

Fitzgerald goes to great lengths to illustrate why the old money had so much disdain for Gatsby and his ilk. New money built opulent homes and drove ridiculously expensive cars. They threw lavish, expensive parties. The old money, in fact, viewed Gatsby’s costly mansion as a “party house,” the way a college faculty might describe an unruly frat house on campus.

Old money, you see, “entertained.” New money “partied.” Old money “dined” while new money went to clubs. Old money was sober and stoic. New money was loud and flashy.

Leonardo DiCaprio's Gatsby from the 2014 film. Old money didn't like the partying ways of the newly wealthy.

Now, it's easy for book readers and moviegoers to empathize with Gatsby and root against the old money. After all, audiences made up of everyone BUT old money have been conditioned to see self-made fortunes as virtuous. Becoming a self-made millionaire, or billionaire, remember, is admirable.

But there is something to be said for old money, too. True, these types come across as hoity-toity, exclusionary and arrogant in books and film, but old money is old money because it's enduring. Not only did these old money families at one point create their own wealth, but they have been able to hold on to it for generations. That's a positive trait as well.

SPOILER ALERT: For as sympathetic a figure as Gatsby might have been, he did end up dead. So things don't always end well for sympathetic figures, even the wealthy ones.

Think about modern times when people have become wealthy and blown it all. There are always going to be rags-to-riches stories, but there are also plenty of rags-to-riches-to-rags stories, too. You can probably name musical artists or athletes or dot.com millionaires who amassed fortunes only to lose it all. Old money doesn't ever lose it all. Remember also that, as the Rockefellers, Carnegies and Vanderbilts have demonstrated, what was once regarded as new money can come to be regarded as old money.

So, all things considered, maybe it's worth studying old money's penchant for building and maintaining wealth.

In his 2014 book, "*The Old Money Book: How to Live Better While Spending Less: Secrets of America's Upper Class*," best-selling author Byron Tully does just that. He researched the commonalities in attitudes and behaviors of old money to determine what sets old money families apart from other wealthy folk. If you were to read Tully's book, you would not be surprised that the old money families of Fitzgerald's East Egg would strike quite a contrast to the new money of Long Island.

Tully, in one especially revealing summation, wrote:

> "When the general public thinks of wealthy people, they think of them living in big houses, driving expensive cars, wearing fashionable clothes and flashy jewelry... Old Money response to such behavior: peacock today, feather duster tomorrow.
>
> The priority for Old Money is financial independence, not display. If you have to get up in the morning and go to a miserable job in order to pay for a big house, expensive car and high-end wardrobe, what's the point? If you can get up in the morning and do whatever you want to do that day - and every day - that's quite a luxury. Financial independence makes it easier to discover what it is you really enjoy doing, both regarding a vocation and regarding hobbies and leisure.
>
> Financial independence is easier to maintain when you live simply and focus on doing and being more than spending and having.... Financial independence often requires hard work to acquire it and diligence to preserve it. That's why Old Money lives efficiently and quietly. Money not spent is money that can be saved and invested. Old Money is fortunate, and it knows it. It does not squander, but it is not cheap, especially with family and friends. Old Money is an investor, not a consumer."

In some ways, Tully's Old Money book relates to Thomas Stanley's and William Danko's excellent book, *"The Millionaire Next Door."* In that book, today's millionaire is portrayed as an antithesis to the stereotypically wealthy. Today's millionaire is someone who invests "extra" money rather than spend it. Today's millionaire doesn't go into debt. Today's millionaire flies under the radar instead of flaunting signs of wealth. Today's millionaire doesn't try to "keep up with the Joneses."

But, truthfully, those aren't really traits established by today's new millionaires. **They're traits long held by those we'd consider old money.**

And most people typically don't see old money and the new type of next-door millionaire as an apples-to-apples comparison. New money's sensible way of living, saving and investing rather than spending, is viewed as a solid means of slowly but surely building wealth. Whereas the same characteristics of old money are viewed as ways of PRESERVING wealth. The truth is, <u>the mindset is the same and can be used to accomplish both building and preserving great fortunes.</u>

Danko's and Stanley's next-door millionaires and Tully's old money share that mindset. If you read both books, it's striking how today's next-door millionaire and history's old money intersect each other. Stanley's and Danko's next-door millionaires would be just as unapproving of Gatsby's ostentatious home and lavish parties as the East Egg old money families were.

And that's the takeaway. <u>Wealth, old or new, is not about what you do or how you go about doing it as much as it is about how you prioritize things and maintain some semblance of reason and self-control</u>, whether you're building or maintaining wealth.

In the "Millionaire Next Door" world, trying to show off and be flashy, spending whatever you earn to impress those around you, means you'll most likely never attain millionaire status. In Fitzgerald's Gatsby world, the same behavior means that no matter how hard you try, you'll never achieve the class status of the truly wealthy – those who perhaps understand that being "rich" involves a richness beyond finances. **Your lack of prioritizing the right things will prevent you from protecting what you've amassed.**

And you might end up dead with few people attending your funeral, as Gatsby did.

Hopefully, you can see that the beliefs, priorities and mindsets of those whose wealth thrives and survives are different from those whose wealth is a flash in the pan. Here's a short comparison of the old-money mindset stacked against the stereotypical new money mindset:

NEW MONEY	OLD MONEY
Big flashy home decorated by interior designers according to the latest trends. Goal is always to impress others.	A nice home tucked away where it cannot be seen by others. Decorated simply without concern for trends. Goal is comfort.
Overly concerned with social status. Drops names. Only participates in charity if it benefits them socially.	Does not care about social status. Never drops names. Prefers privacy. Charity is always anonymous.
Main financial goal is accumulating a large net worth. Will take excessive risks in order to achieve this goal.	Main financial goal is safety. The major concern is inflation and the erosion of future investment income.
Uses social media to increase social status. Pictures of vacations, selfies showing the "good" life. Wants fame.	Is not on social media. No "good-life" pictures. No selfies with cool people. When they travel, nobody knows about it.
Views public service as a tool to network and find business opportunities. Think publicity.	Views public service as an obligation. Mission is to help others who are not as fortunate. Always out of the public eye.
Drives an expensive luxury car that shows their success. Since they lease cars, they have a new car every few years.	Sees vehicles simply as a means of transporation. Buy quality cars and drive them for a decade(s).
Short-term thinking. Short-term decision making. Live above their means.	Long-term thinking. Long-term decision making. Live below their means.
Has no time for exercise. Live for today. Drink too much. Gets sloppy occasionally. Loves to tell drunk stories.	Health is a priority and a responsibility to their family. Drink socially in private homes. Rarely in a bar. NEVER drunk.
Bad marriage or divorced. Cheats on spouse. Poor relationships with children.	Good marriage. Not divorced. No cheating. Loyal to family. Maintains good relationships with children.
Excessive use of debt. Can't afford to pay cash. Home is mortgaged to the hilt. Large credit card balances.	Minimal use of debt. Prefer to pay cash. No second mortgage or equity loan on their homes. No credit card balances.
Actions are primarily connected to consumption of material items. Takes more than they give.	Main focus is service, purpose and mission. Adds value instead of extracting value.
Interested in winning at all costs. Self-centered. Will break the rules if needed to get what they want.	Interested in being a good person and doing what's right. Lives by a certain moral code/set of guiding principals.

If you take the above comparison, formed by observations regarding priorities and behaviors of old money from Tully's book, you might be able to recognize several common themes of old money:

1. Long-term thinking and planning
2. Self-control

3. Values go beyond money
4. Risk-averse
5. Concern for others, rather only than one's own self

New money is the bright red Ferrari two-seater, while old money is the Cadillac sedan. New money is cryptocurrency, while old money is dividend-paying stocks. New money is McMansions; old money is functional living spaces that provide comfort. New money is Kanye West, and old money is Stevie Wonder.

New money is telling everyone about their business, while old money is about going about their business quietly. New money is ostentatious; old money is practical.

"That's all great," you might say, "but how does this relate to me?"

Well, knowing these old-money themes, there are a few questions you can ask yourself that might tell you whether you fit the old money way of thinking, which is the way of thinking that builds and preserves true inter-generational wealth.

For example, would you rather be the person on your street with the fancy house, fancy landscaping, pool, etc., that everyone passing by can admire but can't tell it's mortgaged to the hilt, or be the person whose house is a pleasure to live in, functional and paid off? If your answer is the latter, you might be of the old-money mindset.

Would you rather have the newest model luxury car, on a $600-a-month lease, or the well-built, reliable vehicle that might not have the prestigious hood ornament but was paid for in cash and will last for years? If the latter, you might be of the old-money mindset.

If you get a bonus at work, do you buy yourself a new wardrobe, or do you keep wearing the classic clothes you've always worn and invest your bonus in something that will make you more money? If you choose the investment, you might have the old-money mindset.

Why do these questions matter? **They matter because if you want to build and retain wealth, it's important to have that old-money mindset, whether or not your actual money is old or new.**

Interestingly, one of the common investments of old money families is real estate. There's no old-money family in America that hasn't owned property as part of its strategy. The old, old-money families – the Astors, DuPonts, Rothschilds – have added to their fortunes by acquiring property. The families that are now considered old money – the Rockefellers, Carnegies and Vanderbilts – transitioned from new money to old money in part because they transferred some of their holdings to real estate.

That shouldn't come as any surprise. The original old-money American families brought their wealth with them from Europe, where the wealthiest families have been land-owners for literally centuries. Western European aristocracy has always been the property-holding class, and that simply translated to the New World when old-money families arrived.

Tradition has certainly made real estate an asset class that's attractive to old money, but that attraction continues to this day not just because of tradition. Real estate is an asset class that fits the old-money mindset regardless of tradition.

Think about how real estate aligns with all the above themes of old money:

Long-term thinking and planning: Real estate is a long-term investment. Buildings can last a long time – much longer than, say, a social media start-up. And land actually lasts forever. Plus, people will always need a place to live, so the demand is also an infinite, long-term reality.

Self-control: Real estate is one of the few asset classes that gives the investor/owner full control. Even if it's simply a primary residence, the owner of a property can control what kind of money is put into the asset. You can, for example, elect to put in imported marble countertops to impress visitors, or you can go with a more practical, durable material that doesn't harm the value of the property.

The self-control aspect of the old-money mindset also means little-to-no debt. As an investment, paid-off properties can be gold mines, money-making machines.

Values go beyond money: The old-money mindset places greater value on experiences rather than "things," and one of the greatest experiences old-money provides their families with is travel. So investing in a vacation home is a way that old money provides experiences for their families that also meets their other goals. You'd be hard-pressed to find an old-money family that didn't have a vacation getaway that contributes to family fun and still represents value financially.

Risk-averse: No investment is entirely without risk. In fact, when building wealth, some of the most-prominent old-money heads of families embraced it. But when it comes to avoiding risk in a way to protect still-growing wealth, most old-money families have always turned to real estate.

The near-constant appreciation of property, combined with the income potential that exists as long as a property is held, makes for a combination that old money will always embrace. Old money is more likely to invest in property than in the latest tech trend. And that is almost always because of the risk involved. Old money sees real estate as a low-risk investment.

Concern for others, rather than one's self: It might seem altruistic, but owning investment property DOES mean that you're providing something for someone else. As mentioned, people will always need a place to live or work. Real estate allows the investor to profit while at the same time providing other people a basic necessity.

And even if you don't buy that altruism completely, real estate is an income-earning asset that's easily passed down in families. So if helping strangers find shelter isn't what gets you going, owning property is still a way to better lives other than your own simply because it's easily transferrable to your next-of-kin. A valuable, income-producing property can set up your own family for generations to come.

Another appeal that real estate has to old money is its versatility. Old money tends to be solution-based. Those with the old-money mindset also tend to own things that pay them, rather than own things that cost them. Real estate's versatility allows them to match those criteria.

For example, let's say an old money family has a recreational vehicle or boat, and/or maybe cars they're holding onto for their kids down the road. They need a place to store them. Their old-money thinking will have them exploring buying or building real estate with a self-storage facility on it. That way, they have a solution to their own storage needs but are also investing in something that will have others paying THEM for the same space. That's the way old money thinks and operates.

Along similar lines, perhaps a child of old money is preparing to go off to college (old money is big on education, by the way). The old money family would probably look into buying housing on or near campus. Their child could live there while in school, and they could make the place available to other students, whose rent payments would help the family earn money from their own child's housing needs, rather than it costing them.

The same goes for the vacation homes that most old-money families seem to enjoy. They don't spend all their time there, but desirable real estate in desirable locations is always a money-earner. Old money considers renting their vacation homes to others when they're not using them, again turning an expense into income instead.

It's a common thread for old-money wealth. Even old money that starts new businesses buys the real estate on which those new businesses stand. So even if the business itself fades, there is always value in the property it sits upon. Look at a historical business such as Sears, which has failed. The enduring asset of this long-held business is the real estate it owns.

There's a scene in the 2017 movie "Justice League" in which Bruce Wayne (Batman) is with Clark Kent (Superman) and is asked by the latter how he got his adoptive aunt's house back from the bank after it had been foreclosed upon in a previous film. Wayne's response:

"I bought the bank."

That's how old money thinks. And it illustrates one of the main financial tenets that's woven throughout the old-money mindset:

It's far, far better to be owed money than to owe money.

You might not be able to ever buy a bank like Bruce Wayne did, but you probably could take this old-money guideline and live your life accordingly. In fact, it's one of the old-money rules that even relatively new wealth-builders would be well-served to adhere to in their lives.

If you can flip your mindset from that of the typical worker/consumer, the mindset of "buy things that cost you money" to that of old money

– acquire things that pay you – you will be better off financially no matter your current net worth or level of income.

That’s especially true if you can be proactive (another trait of old money). Let’s say, for example, you have a child who will be ready for college in 10 years. Unlike the anecdote above, you might not know where your child will go to school, so maybe you’re not ready to buy a house on campus for them to live in.

But you could buy a single-family house in a nice neighborhood near you, which you can rent out for extra income. You can use that extra income to save up for your child’s college education when the time comes. If, after college, that child needs a place to live, you can simply gift them the home. If they choose to live somewhere else, you can sell the home and get back the investment (at least) you made in paying for college. Or you can keep the home indefinitely, renting it out for income for the rest of your and/or your child’s life.

This is how old money operates. As mentioned above, they are long-term, big-picture planners. Add that to the idea that it’s better to be owed money than to owe money, and you can see how strategic real estate acquisitions **are self-funding solutions to particular needs.**

This isn’t meant to suggest that you MUST do this sort of thing. It’s meant to illustrate how old money – multi-generational wealth – plans for and invests for the big picture. If family finances were a chess match, old money would be three or four moves ahead, while new money would be reacting to the latest move.

The great thing is, you don’t have to be old money now to put into play the old-money behaviors that can build and protect lasting wealth. In fact, you can be a working-class, regular Joe and use old-money rules to improve your financial status. Here are some old-money rules anybody can use:

Don’t pay; get paid – Avoid buying things just to have them. Acquire things that pay you money rather than cost you money.

Avoid owing – For some, this might mean not buying things that can’t be paid for right now. For others, it might mean paying down current debt. Either way, the old-money philosophy is don’t owe people money.

See the big picture – Your financial situation is one that you will pass onto your kids, good or bad. If you want your kids to be secure, even after you're gone – morbid as that may seem – you must think decades into the future.

Focus on substance – In golf, there's a saying that goes "Drive for show, putt for dough." Put simply, the 2-foot putt you don't miss is at least as important as the 300-yard drive you hammer from the tee. The world will ooh and ahh over your 300-yard drives, but your livelihood is just as dependent on the boring 2-foot putts no one pays admission to see. *Old money executes all the things no one pays to see.*

Diversify – Every financial planner will tell you this. And every member of every old-money family will tell you that they diversify their investments OUTSIDE of their financial planner's realm. One of the ways they diversify is real estate, the age-old, safe investment that financial planners and stock brokers don't make money selling. No old-money family has their financial interests in, say, only stocks. No old-money retirement plan would be only a 401k.

Don't lose money – Every investment carries some risk, but old money tends to stack the odds in their favor when it comes to avoiding the loss of money. That's one of the reasons real estate is so appealing: Even property that somehow declines in value has worth because it can still generate income, no matter its value on paper. And unlike stocks – remember the dot.com crash – real estate is almost assured of never going to zero in value.

Steer clear of fads – For as long as humankind exists, there likely will be get-rich-quick schemes. Old money doesn't get caught up in them, mostly because they stick to the tried-and-true. Old money is old money because it's not spent on the "next big thing." But plenty of other folks quickly fall into this temptation.

Give to get – One of the most-common similarities among all old-money fortunes is philanthropy. You could argue the chicken-and-egg aspect of this – people with money give to others vs. people who give to others get money – but the correlation remains. No old money keeps it all to themselves.

Safety in numbers – Remember, old money tends to be stoic, free from emotion. The fervor around a particular investment, or asset class for that matter, carries no weight with them. It's all about the math. If the numbers work out, the numbers are what old money goes with. Numbers rarely lie, so old money relies on them when deciding where to invest.

Money as a means, not an end – This is as important as any old-money rule. Old money doesn't have the pursuit of riches as the singular focus. Rather, it views money as the means to more aspirational ends. Money buys freedom to do what one enjoys, or provides the means to education, worldly experiences or other personal satisfaction.

The last point above is particularly important. Throughout this report, there have been mentions of literature and film. Literature and film, of course, are mostly fiction. The Gatsby story, while instructional, is fiction. Bruce Wayne's old-money bank-buying is fictional. But in every piece of great fiction are at least some elements of truth. Were that that not the case, the works would be meaningless. "The Great Gatsby" novel has appeal because, as fanciful as it is, it accurately describes attitudes and situations of its time period. It's fiction based in fact. Its lessons regarding old money compared to new resonate because of this basis in fact.

Keep that in mind when considering the notion that, for old money, money is a means to an end and not THE end. In literature and film, those who have regarded money the opposite way have failed. History is strewn with book and movies figures whose failures are a directly a result of regarding money as the end and not the means.

In "The Wolf of Wall Street," based (loosely) on a true story, the new money guy who pursues wealth as the end fails miserably. In "War Dogs," another recent film based on a true story, the new-money protagonists who chase money as the end-all-be-all go to jail. There are numerous other, similar lessons taught by the arts.

The bottom line is that pursuing money as an end tends to not end well. On the other hand, **using money as a means to live a better life is the <u>main objective</u> of old money.**

This is what the "Old Money Book" author, Tully, had to say in summation about how old money approaches the ends-vs.-means equation:

"The philosophy of Old Money is to enjoy life to the fullest; to learn and grow as a person; to work hard and excel in a profession that one enjoys and is passionate about; to preserve and expand one's financial resources while using them well; to share a rich life with friends and family; to explore the world in order to better understand it, and one's place in it; to prepare one's children for a productive, healthy and rewarding life of their own; to benefit society and its less fortunate members through charitable giving or vocation; to leave a legacy for future generations."

This isn't to say that the "nouveau riche" don't have the same objectives or concerns. But throughout history, whether in fiction or fact, old money has certainly demonstrated a track record for accomplishment of these objectives.

And this philosophy lines up perfectly with real estate investment. Contrary to what people love to believe, real estate is not a 100-percent passive investment, but it's true that if you own even just one investment property that pays you rental income, you're earning money without having to physically be at the property, unlike most people's jobs.

Old money doesn't work for it. They don't spend time at a "job," trading their time for money. Instead, their money works for them. Ever wonder why, in movies and books like "Gatsby" why these people seem to have so much time on their hands? Why they're so often hanging out the in the middle of the afternoon?

<u>It's because their money is working for them instead of them working for their money</u>. One of the things that allows them to do that is real estate investment. And remember, every old money fortune started with one property. Which means that just about anyone can start down the old-money path by adhering to old-money philosophies and values and owning one piece of property.

To your success,

Rob Minton
Cashflownaire

P.S. Remember that every investment comes with risk. Real estate is an investment old money families like because it carries lower risk than some other investments, as long as the real estate investor is not purely speculative in acquiring

properties. Old money tends NOT to be speculative and invests in real estate primarily for its long-term income and enduring nature.

THE HIDDEN RULES OF THE WEALTHY

Hidden Rules of the Wealthy: How to Build a Powerful Network

Jon Levy grew up in Manhattan with somewhat eccentric parents and in a large, well-appointed apartment. It was the perfect mix for entertaining.

The apartment could host large gatherings, and his well-known mother and father – Dad, Benjamin, a painter and sculptor and Mom, Hanna, a composer and conductor – had a wide range of interesting friends. They would get together regularly for dinner parties and cocktail hours.

At the time, a young Jon didn't think much of the events. Just a boy, he preferred to slink to his room and play video games rather than hobnob with a bunch of grownups, no matter how interesting they might have been.

Now an adult, Jon Levy's background is in marketing and behavioral science. He has studied and written about the ways companies and their customers and target marketing audiences interact with one another. He believes that behavioral science helps explain the connections people feel with businesses and with other people.

Back in 2009, Levy started questioning whether he was achieving all he wanted from life. In addition to his successful parents, his siblings, too, had gained notoriety and financial well-being. Meanwhile, he was working in digital marketing after a stint as a life coach. It didn't feel like he was going anywhere extraordinary.

What he did have going for him was that expansive, five-bedroom apartment in Manhattan. His parents had left it to him when they decided to move to Israel. Do you know what he did with it?

He started hosting dinner parties. But not just any dinner parties. Secret dinner parties.

Levy began what he called “Influencers dinners.” Twice per month, he’d invite 12 different people whom he considered influential in one way or another to his home for dinner. The guests included public figures – authors, businesspeople, entertainers and more, and no one on the guest list knew who else was invited. As Levy told the *New York Times* in 2013, “I started these dinners hoping that if I could have people who do incredible things in my life, then my life would be extraordinary.”

Jon Levy, right, at an Influencers dinner event. (Business Insider)

By all accounts, the dinners themselves were out of the ordinary.

They were very structured. No one was allowed to reveal their last name or talk about work until after dinner was finished. Dinner was a collaborative effort, too, with all the guests and Levy doing the cooking as well as the cleaning up afterward, including scrubbing the dishes.

After dinner, the influencers would be joined by previous attendees, all of whom gathered for drinks and sometimes entertainment. Levy has had magic acts, musicians and singers, and various speakers engage with the crowd.

The idea behind the secret dinners, Levy has said, <u>is to bring interesting people together in a way that's different from the typical, boring networking events people are used to attending</u>. He also thinks it's important for influencers to get together without the expectation that others in attendance will want something from them.

It's a way to network with like-minded people who are "givers," weeding out the non-givers. That's why there's a level of anonymity and the cooking and cleaning tasks. There are no pitches or proposals.

More than 500 various influencers have attended Levy's secret dinners over the years. He doesn't name them, but over time, attendees have revealed themselves or have been there when reporters were working on a piece. Notables include: Bill Nye (the "Science Guy"), former Olympian and current Bitcoin guru Cameron Winklevoss, author and entrepreneur Bill Phillips, Grammy nominee Regina Spektor, poker champion Andy Frankenberger, and many more.

The secrecy of the guest list makes it difficult to name many of the invitees, but it's been reported that they've included athletes, singers and dancers, authors, media personalities, Nobel laureates and famous founders of startups. It's a very diverse group.

Levy might have copied his parents' basic idea – the dinner party – but he didn't start hosting dinners just because of what he learned as a child growing up in socialite circles. Rather, he decided to start hosting the dinners because of a quote he heard at a self-help seminar he had attended:

"The fundamental element that defines the quality of your life is the people you surround yourself with and the *conversations* you have with them."

Levy wanted his life to be more interesting, so he surrounded himself with more interesting people. But do you see how this strategy could be applied to different aspects of your life?

- If you want to be healthier, you could surround yourself with healthy people.
- If you want to be smarter, you could surround yourself with smart people.
- If you want to be more well-read, you could surround yourself

with well-read people.

- If you want to be wealthier, you could surround yourself with wealthy people.

Of course, simply surrounding yourself with people whose qualities you aspire to have isn't going to magically transform you. Hanging out with wealthy people, for example, is unlikely to cause loads of money to just appear in your bank accounts.

Instead, the idea should be that associating with people who've what you want can *inspire* you to do what they have done. Or at least to do what you need to do in order to move the needle in that direction.

Sometimes, it's a matter of surrounding yourself with like-minded people. When it come to the wealthy, for example, it's kind of a "hidden rule." The wealthy build networks of high-level people who think like they do. And there is a difference in thinking and in attitudes among the poor, the middle class, and the wealthy. Look at this chart that explains it:

HIDDEN RULES AMONG CLASSES / FROM RUBY PAYNE'S "UNDERSTANDING POVERTY"

	POVERTY	MIDDLE CLASS	WEALTH
POSSESSIONS	People	Things	One-of-a-kind objects, legacies, pedigrees.
MONEY	To be used, spent.	To be managed.	To be conserved, invested.
PERSONALITY	Is for entertainment. Sense of humor is highly valued.	If for acquisition and stability. Achievement is highly valued.	Is for connections. Financial, political, social connections are highly valued.
SOCIAL EMPHASIS	Social inclusion of people he/she likes.	Emphasis is on self-governance and self-sufficiency.	Emphasis is on social exclusion.
FOOD	Key question: Did you have enough? Quantity important.	Key question: Did you like it? Quality important.	Key question: Was it presented well? Presentation important.
CLOTHING	Clothing valued for individual style and expression of personality.	Clothing valued for its quality and acceptance into norm of middle class. Label important.	Clothing valued for its artistic sense and expression. Designer important.
TIME	Present most important. Decisions made for moment based on feelings or survival.	Future most important. Decisions made against future ramifications.	Traditions and history most important. Decisions made partially on basis of tradition and decorum.
EDUCATION	Valued and revered as abstract but not as reality	Crucial for climbing success ladder and making money.	Necessary tradition for making and maintaining connections.
DESTINY	Believes in fate. Cannot do much to mitigate chance.	Believes in choice. Can change future with good choices now.	Noblesse oblige. ('Nobility Obliges')
LANGUAGE	Casual register. Language is about survival.	Formal register. Language is about negotiation.	Formal register. Language is about networking.
FAMILY STRUCTURE	Tends to be matriarchal.	Tends to be patriarchal.	Depends on who has money.
WORLD VIEW	Sees world in terms of local setting.	Sees world in terms of national setting.	See world in terms of international view.
LOVE	Love and acceptance conditional, based upon whether individual is liked.	Love and acceptance conditional and based largely upon achievement.	Love and acceptance conditional and related to social standing and connections.
DRIVING FORCES	Survival, relationships, entertainment.	Work, achievement.	Financial, political, social connections.
HUMOR	About people and sex.	About situations.	About social faux pas.

Could you look at this chart and honestly answer how you think about time, money, personality, education, and the rest? Where does your thinking most consistently fall – among poverty, middle class, or wealthy?

If you want to be wealthy but find yourself with more of a middle-class mindset, there is a disconnect. If you want what wealthy people have, you must think like the wealthy think. Again, merely having something in common with the wealthy isn't going to immediately make you wealthy, but it's a necessary start.

If you look at the chart in the row for money, you'll see that the wealthy think money is to be conserved and invested, not spent or even "managed."

The other thing that the chart makes clear is that the wealthy value the power of a strong network. You'll see that several "rules" of wealthy people are focused on social connections:

- Personality is developed and created in order to build financial, political, and social connections.
- Education is necessary tradition for making and maintaining connections.
- Language is about networking.
- Love and acceptance are conditional and related to social standing and connections.

And last, but certainly not least, **the driving force of the wealthy is… financial, political, and social connections**. It's easy to see that wealthy people place the most value on building and maintaining a network of high-level people.

Why do you think this is the case? Maybe, just maybe, it's because a network of high-level people is an incredibly valuable asset that can be leveraged in unlimited ways. The old saying goes: "It's not what you know but who you know," and there appears to be some merit to that.

Wealthy people send their kids to college. And, sure, they value education, but they also know that college is where young adults begin to build their networks. They engage with professors, administrators, coaches, and fellow students with whom they will share connections over the course of the rest of their lives. Anybody can learn a trade or get a job out of college, but the children of the wealthy emerge as college graduates with connections they'll maintain for the majority of their lives. A degree from Harvard is a piece of paper, but everyone you meet while at Harvard can be a high-level individual whom you can potentially connect with over time.

Is it fair? Maybe not. But the inequities between classes, especially in the United States, with regard to income and wealth are a reality. It's true that the rich get richer, and you can either complain about it or do something about it so that you're on a more comfortable side of the class line.

To put class mobility bluntly: If you want to be poor, keep thinking how poor people think. If you want to be middle class, keep thinking how the middle class think. If you want to be wealthy, start thinking how the wealthy think.

And for all the "more interesting" rhetoric Levy provides about his move to host Influencers dinners, make no mistake: He has benefitted financially. He's now a best-selling author. He consults for high-level companies. He's a paid speaker at events and has a TED talk. Yes, he rubs elbows with "more interesting" people, but he's put money in his pockets, too. He's now not just an entrepreneur but an entrepreneur with a formidable network.

And Levy's is not exactly a unique story. Think about it.

Do you know anyone who's started their own business? If so, who were their first clients? Who were their first investors? Who were their first partners or employees? In most cases, the answer to all these questions is "people they already know."

And you can't leverage "people you already know" into success without knowing people!

People who launch new endeavors know the value of a solid network. Having a solid network can:

- Help you launch a new business quickly
- Help you solve any challenges that arise
- Help you with referrals

- Provide you with a brain trust for ideas

- Help you see additional opportunities

If you have gone down the entrepreneurial path yourself, or know any truly entrepreneurial people, you probably recognize the feeling of "going it alone." YOU have the new idea. YOU have the new solution. YOU have the new way of doing things that's going to disrupt the status quo. Those are common perspectives among entrepreneurial types. They are powerful motivations. But they can also leave you feeling like you're out on an island.

A proper network can help alleviate those feelings of going it alone. Having a network means you have allies in your corner. It means you don't have to do everything by yourself. A reliable, trusted network can be the difference between the isolated, go-it-alone entrepreneur and the successful, collaborative entrepreneur who doesn't put the gigantic burden of leading on themself. Again, that's one of the hidden rules of the wealthy.

Every wealthy person knows that if they share the wealth, they share the burden. That's why the wealthy build and maintain networks.

So, the million-dollar question – for the non-wealthy, the guy or gal who hasn't gone to Harvard or become a Manhattan socialite is:

How do I build the right network?

Those who build solid networks, including entrepreneurial types, seem to agree on four key points. They are:

1. Be proactive toward maintaining existing relationships

2. Be proactive about creating new relationships

3. Physically attend events

4. Join private groups (Gyms, clubs, mastermind groups)

This is how these four key points look like in real life.

1. Be proactive toward maintaining existing relationships

Most people have a social circle. This immediate social circle might contain those whom you consider true friends, but it might also include those you know less intimately, such as friends of friends, or neighbors or coworkers. No matter the depth of your relationship, these are identifiable as existing relationships. It's important to cultivate them.

How do you achieve this? Call people. Reach out. Let people in your life know you're thinking about them. You know the guy who seems to call you every time he's in his car on a long ride just to touch base? Be that guy.

Maintaining existing relationships is simple but not always easy. Life gets in the way. Everybody has different priorities and directions they go. Often, all it takes to rekindle an old relationship is a phone call or text. It's worth the minimal effort.

And, to borrow from Levy's approach, it's beneficial when you reach out just to reach out. You're being a giver, not asking for anything in return. That communication is more meaningful than picking up the phone only when you want something from someone.

Be proactive about creating new friendships

While it's important to maintain and develop the relationships you currently have, building a strong network also involves recruiting new people to your circle. It might mean extending yourself beyond your personal comfort zone, but the reward often is equal to the risk.

Here's an example: If you're a parent with a pool in your yard, you will eventually become accustomed to being a hub of sorts for kids in the neighborhood. Your children's friends will be over your house all the time, especially if there are few other pools in your neighborhood. It works out for your kids because your having a pool can project them into social groups.

But you should take advantage of it, too. The advantage to be taken is the opportunity to create new relationships.

Every neighborhood kid who comes to swim in your pool has parents. You connect yourself with them by having their kids over to your house. If they're nearby neighbors, it could lead to connections that may otherwise be harder to attain.

Your neighbor might be someone who’s a major sales prospect for your new business. If they’re not, they might know someone who is. Building a network around those close to you can mean the difference between success and failure, mostly because people want to do business with people they know.

So, the more people you know, the greater chance you have at success. This simply does not occur if you’re unable, or unwilling, to expand your network. And it often takes no more than extending an invitation to someone you don’t really know. You can treat every single interaction you have with new people as an opportunity to build your network.

If something like a global health crisis limits the number of people you can host at one time, maybe it’s for the better. Invite one family at a time, connect with them safely, and repeat the whole thing the next weekend. That’s basically what Jon Levy did, right?

Have an attraction? Invite people into your network.

Physically attend events

When it’s possible, it’s not a bad idea to physically attend events at which you can network with others.
Sometimes, we think about social media and those who build seemingly large networks online. But are they really networks? Are people you follow you on Twitter really “networking” with you?

You might not be excited about attending conferences or seminars, but the opportunities those types of events present can be powerful. When you meet someone in person, rather than just knowing them as an avatar on a screen, both people tend to get more out of it.

Meeting in person, rather than online, tends to make people more genuine. Their online persona might be very different from their in-person, actual personality. You can learn things from their body language and demeanor that you can’t always pick up online.

Is it hard to become motivated to attend conferences or seminars? Yes, especially during times when large gatherings under one roof aren’t necessarily safe. And often, the subject matter covered at a conference or a seminar is boring or redundant.

But, just as heading off to college, it’s not always about what you know but whom you know. Meeting like-minded people who are relevant to your interests and goals is often more valuable than what is presented or taught at a conference or seminar.

Making it a goal to attend events with like-minded individuals might have another benefit, too: If you make it a goal to attend events with more high-level people in attendance (remember, that’s the aim here), you might find yourself self-screening out of less-desirable events.

If you’re trying to build a network of high-level folks, and high-level folks are more likely to attend interesting, energetic conferences or seminars, than that’s where you’ll likely end up, too.

Join private groups

Have you ever golfed at a private country club? During warm-weather months, some clubs’ courses are packed. There are foursomes waiting at every tee box, and golf carts buzzing around the whole place.

But there might be just as many people at the pool. At dinner time, even during the week, there are often as many diners as there were golfers during the day. In fact, many country clubs have more people signed up for social memberships – pools, exercise facilities, dining – than they do for golf memberships.

Different people join clubs for different reasons. Sure, there are people who love golf and know if they join a club, they'll likely always have people to play golf with. But there are also people who join clubs just for the networking opportunities.

Those networking opportunities can as easily be achieved at the pool or in the dining room as on a course. When it comes to networking on the course, it's often a matter of a club member inviting a guest to play. That guest is given the opportunity to network with high-level members, and the members are given the opportunity to network with someone out outside the club network.

The same kind of thing occurs with gyms, social clubs, and even business groups such as chambers of commerce. Join an expensive gym, and you'll likely have a chance to network with high-level people. If you own a business and join your local chamber of commerce, you're probably going to meet other business owners.

If you really want to network with like-minded, high-level people, you could seek out what are called “mastermind groups.” These are groups of people who get together periodically to discuss ideas, experiences, and challenges that, when shared, can benefit the whole group.

People aren’t joining clubs, gyms, mastermind groups, or chambers of commerce just for the activities and refreshments. There is high-level networking going on.

Hopefully, you can see how building and maintaining a quality network is valuable in various endeavors, including wealth-building. You also know that a major driving force for the wealthy is developing financial, political, and social connections.

You also know what you need to do to build a network: Maintain existing relationships, create new relationships, attend events with others; and join private groups of high-level individuals.

“This all sounds great,” you might be saying, **“but how do I get started?”**

Good question. You’re not going to create an engaging, high-level network with the snap of the finger. When it comes to getting started, however, how about this:

**Do Something Proactive Every Day to
Build and Improve Your Network**

You could make this a 30-day challenge. Push yourself to do something – one thing – each and every day to build and improve your network. You can’t build the right network overnight, but you could make substantial progress in just one month if you take action every single day for 30 days.

You might be surprised to learn that this probably isn’t as hard as it sounds. In fact, making it a point to do networking every day will likely be rewarding. You might re-connect with old acquaintances, meet some new ones, maybe even make a sale or close a deal. Here are some ideas to get the ball rolling:

1. **Proactively connect with high-level people in your rolodex** (contacts in your phone/old school address book/ holiday card list).

Take a few minutes right now to make a list of 30 people, and call one person each day for the next 30 days. Yes, call them! Calling is far more effective then texting or emailing.

The goal is simply to connect with them and strengthen your relationship. See what's going on in their lives, and if there's a way you may be able to help them. Maybe, even meet them for coffee, lunch or a beer. Please understand this isn't about trying to sell anyone anything… it's about building relationships.

2. If you come across something that you think might be helpful to someone you know, send it to them. This could be an article, video, book, idea, newsletter, or even this report. Simply say, "I saw this and instantly thought of you." This can be very powerful.

3. Send daily thank-you notes. Think through people who've had an impact on your life. Send them a handwritten note thanking them. Some people keep every thank-you note they ever get. They mean that much.

4. Establish new relationships. Start conversations with people you encounter throughout your day. Every time you go to the gym, initiate a conversation with someone new. Connect with someone in your neighborhood whom you've never talked with before. Don't wait for someone to start a conversation. Always go first. The best way to initiate a conversation with someone is to ask them a question.

If you're introverted, initiating conversations can be difficult. But the more you do it, the easier it gets. It starts with forcing yourself to do it at first.

There is a snowball effect when it comes to networking, too. Even while it might be work at the start, once things get rolling, networking happens organically, sometimes exponentially.

Stacy London, the TV personality who was first known for co-hosting "What Not to Wear," told a reporter of how she came to attend one of Levy's dinners. She first met him at a technology event they both attended, and, after meeting, Levy followed up by sending her an invitation to an Influencers dinner. She thought he was just a rich kid with a big apartment and didn't attend.

But he kept popping up at the same events she was attending. One result of his hosting interesting and influential people in his home, was that Levy was being invited to other events with high-level people. When London ran into Levy yet again at a party, she finally accepted his invitation. As she put it, she thought: "What the heck?" Now, you might not be interested in meeting celebrities or becoming famous. But if you're interested in building wealth, remember the key point early in this report:

If you want what wealthy people have, you must think like the wealthy think.

The wealthy think differently about money than the poor or middle class do. That thinking about money drives the way they think and behave in regard to other things, including how they value business, political, and social connections. Just as Jon Levy chose to surround himself with interesting people because he wanted his life to be more interesting, those who want to be wealthier surround themselves with wealthy people.

As for Levy, he no longer works for the digital marketing firm he was at when he began the Influencers dinners. He built his own company, parlaying his networking expertise into a company that promotes networking. He writes, speaks to groups, and consults for companies and individuals who are seeking networking expertise.

He'd probably say his life is a lot more interesting now.

To Your Success,

- Rob Minton
Cashflownaire

P.S. Many small business owners launch their companies on the strength of their network. They start by letting their "circle of influence" know about their venture. Word of mouth is the oldest form of marketing, and it can be strong enough a tool to get a business off the ground. There's no real substitute for personal connections when it comes to networking, but there are also those for whom building social networks comes naturally. If you can combine in-person networking with social-media networking, a new business can really take off quickly.

SPECIAL REPORT

HOW TO COMPOUND FAMILY ASSETS

A CASE STUDY ON

How to Compound Family Assets - *A Case Study on Generational Family Wealth*

On March 20, 2010, a catamaran with a crew of six headed by a British expedition leader launched from San Francisco with the goal of sailing across the Pacific Ocean to Sydney, Australia. The sailing vessel was named *Plastiki*, a nod to the *Kon-tiki*, the raft that a Norwegian explorer sailed along a similar route in 1947.

The Plastiki, however, was unique. It was a 60-foot craft made almost entirely from reused plastic – about 12,500 reclaimed plastic bottles as well as recycled plastic container waste. Its power systems consisted of solar panels, wind turbines and bicycle generators. The goal was to raise awareness about plastic waste in the world's oceans.

The leader of the voyage was no stranger to ambitious expeditions. In 2006, he had crossed the Artic from Russia to Canada, which made him only the 42nd person in history to reach both the earth's poles and the youngest Brit to do it. He's also one of only 14 people ever to traverse the entire continent of Antarctica. He was a member of the party to cross Greenland's ice cap in world-record time, and he's ventured through jungles and across deserts. Now 43, the young explorer's name is David de Rothschild.

The name might seem familiar. David is the youngest living heir of the Rothschild family, whose fortune dates back to the 1700s. David's middle name is Mayer, named after the patriarch of what became – and has remained – one of history's wealthiest families, Mayer Amschel Rothschild.

It's difficult to assess because the family's massive fortune has been split among heirs and divided into shell companies' assets over time, but David's personal net worth is estimated to be around $10 billion. At 20, he founded and sold a music merchandising business, showing that he has an entrepreneurial side, but most of his activism and philanthropy is funded by his inheritance.

And it's literally been that way for centuries; the fortune has been handed down generation after generation, each new generation charged with its caretaking. And while its size is almost unfathomable, the *longevity* of the Rothschild fortune is what's truly, remarkably rare.

<u>The Rothschilds, as wealthy families go, are a huge statistical outlier.</u>

There's an old proverb that stretches across multiple cultures, a warning for families anywhere in the world. In probably its most familiar parlance, the proverb goes: "Shirtsleeves to shirtsleeves in three generations."

In Japan, it's "Rice paddy to rice paddy in three generations." You can find a Scottish version along the lines of: "The father buys, the son builds, the grandchild sells, and his son begs." In some countries, it's simply the adage: "Wealth never survives three generations."

Numerous studies have estimated that about 70 percent of wealthy families lose their fortunes with a second generation. That figure jumps to 90 percent by the third generation, according to the best-known of the studies, a 20-year deep dive into 3,200 high-net worth families conducted by the Williams Group.

Flipping the equation around means that **only 10 percent of high-net worth families retain their wealth after three generations**. That concerning statistic raises two seemingly important questions:

1. Why do the overwhelming majority of wealthy families lose their wealth in three generations?

2. How do the families that retain their wealth past three generations manage to do it?

In regard to the first question, the consensus seems to be that first generations work hard, are frugal, and intelligently invest their hard-earned money. That gets the wealth ball rolling.

The second generation, many of whom inherit a family business, are likely more privileged than the first. They don't experience hardship yet are still close enough to their parents' experience to understand what it's like to work hard and be frugal. The second generation who are so inclined – about 30 percent, apparently – further the fortune.

By the third generation, however, the family's wealth is distanced from the founders. The grandchildren might be aware that Grandpa started a business decades and decades ago, but they've known nothing but a life of luxury themselves. Some know at a young age that they'll never have to work a day in their lives if they don't want to. Their "job" might just consist of spending their way through life.

Mayer Amschel Rothschild

Mayer Amschel Rothschild, however, ensured that it wouldn't be that way in his family.

Unlike his descendants, Mayer was a self-made fortune-builder. He rose from a Jewish ghetto in Frankfurt, Germany, to become an apprentice at a bank. Learning the business and saving his money, he eventually started his own bank. He's known sometimes as the father of international banking because – unlike the resoundingly local banks of the era – he loaned money to wealthy foreigners and other governments.

Mayer had five sons. They were all educated, as you might expect a wealthy banker's sons to be, but they weren't handed the keys to the family fortune. As they reached the appropriate age, Mayer <u>loaned</u> each of his sons the money necessary to launch their own banks but insisted they do it abroad, expanding the family's reach.

So, each son opened their own "branches" of the family's bank business in other large European cities – London, Paris, Vienna and Naples, with the youngest staying home to take over the Frankfurt flagship. They followed their father's model, lending money to aristocrats and governments, but had to use profits to pay back the original loans, with interest, until their obligations were fulfilled. Once the loans were paid off, the rest was theirs.

On the surface, the setup might appear as Mayer's way of making his heirs work for their own fortunes much the way he had, a method of supporting their endeavors without doing the work for them. Pragmatically, it worked out well for the family, as the diversification of the family's ventures across Europe allowed them to survive multiple geopolitical conflicts, eventually including two world wars.

The Rothschilds – no matter how they're thought of in various circles today – might be the model of how a family builds, grows and preserves monumental family wealth from generation to generation.

In his best-selling book, “Family Wealth: Keeping It in the Family,” best-selling author James E. Hughes wrote of Mayer’s tactics:

> “He requested each of his sons relay to him every bit of financial information he gained in his city. He agreed to share this intellectual interest with his other sons. In modern terms, he created an effective information network.”

Mayer Amschel Rothschild, deliberately or not, accomplished multiple achievements that both advanced AND protected his family’s substantial wealth:

- He paved the way for his heirs’ success but didn’t guarantee it. He ensured that they had “skin in the game.”

- As the patriarch, he maintained direction of the overall financial dynasty.

- He incentivized his sons to be entrepreneurial.

- He monetized the experience his sons accrued, further building the family fortune.

- He minimized risk by spreading responsibility among the five sons, rather than simply bringing them into the same fold of the “family business.”

- He planned the succession of stewardship over his family’s fortune.

Hughes, whose own family has retained its wealth over a century-and-a-half in the United States, points out that the Rothschilds check all the boxes when it comes to establishing, growing and preserving generational familial wealth. In his book, he stresses that the Rothschilds held true a basic tenet that many wealthy families overlook:

The family’s most valuable asset was its human capital

This philosophy was at the core of every financial decision, every money move, that the Rothschilds made. Mayer Rothschild, as a banker, knew very well the power of compounding.

Money compounds over time, exponentially growing. His thought, though, was that his family's human capital could compound exponentially, too.

He imparted lessons on his five sons. He provided each with a formal university education as well as financial lessons he taught himself. If he was indeed the patriarch of international finance, then by passing his knowledge and understanding of the business to five more sons, he could significantly expand his family's reach. In turn, if each of them did the same with their own heirs – and those heirs followed suit – the expertise and appreciation of the family wealth would multiply generation after generation.

Sure, it's important to wisely invest the pile of money that represents the family wealth in order to create more wealth, but it seemed MORE important to Rothschild to invest in what would truly drive the wealth-building and preservation of that wealth: **people, the members of the family.**

In his book, Hughes wrote:

> "A family's wealth consists primarily of its human capital (defined as all the individuals who make up the family) and its intellectual capital (defined as everything that each individual family member knows), and secondarily of its financial capital."

Yes, the Rothschilds embraced this philosophy and handed it down from generation to generation. But there are modern examples of it, too, and not just from the wealthy family names who are familiar to you.

In 1994, the New York Jets of the National Football League signed a defensive end named LaVar Ball. He was an extraordinary athlete, playing both basketball and football at the collegiate level, but was a marginal pro football player. He bounced around as a backup and practice-squad player for a few years, earning some money along the way, but eventually suffered an injury that ended his playing days.

Ball went on to have three sons, Lonzo; LiAngelo; and LaMelo, whom he quickly devoted his life's work to. They inherited his athletic prowess, but he used his means to provide for them in a way he hadn't been provided for as a youth.

They went to the best camps. He aligned them with the best coaches and trainers, the right basketball traveling teams. He steered them to the right college programs and relentlessly promoted them. Today, they are all professional basketball players earning a lot of money, and LaVar has parlayed the family success into the “Big Baller” brand, a sports apparel company.

Is it the Rothschilds? No. And LaVar Ball is alternately criticized and praised for how he built his kids into a lucrative business. But the overarching theme is similar: He invested his resources into the people in his family. LaVar Ball might be described as “opportunistic,” but it could be hard to argue that Mayer Rothschild wasn’t opportunistic also.

Back in the 1700s, Mayer Amstel Rothschild expanded his family’s wealth by imparting his talent and knowledge of international financial markets on his sons. By dedicating his family’s resources to the development of the people in the family, rather than simply focusing on growing the pile of money, he not only ensured that the pile of money would further grow, but also that it would be preserved.

The Ball family

Mayer Rothschild didn't just hand over hundreds of millions of dollars to his sons; he provided them with the opportunity to access that wealth, add to it and preserve it by providing them with the necessary skills, knowledge and experiences. LaVar Ball has done the same.

<u>Once a wealthy family acknowledges that its greatest asset is its human elements, the rest can kind of fall into place.</u> Appropriately develop those human elements, provide paths to grow, and the financial stability will likely follow

How would you go about doing that?

Fortunately, there are experts – like Hughes – who have condensed research, case studies and personal experience into some common foundational goals a family can establish in order to preserve wealth. If you could boil all the information down from these expert findings into common attributes of families whose wealth is long-lasting rather than squandered, it might come down to six primary principles:

1. Governance

2. Communication

3. Individual happiness

4. Intellectual capital

5. Autonomy and responsibilities

6. Clear succession plans

What's interesting is that you can find multiple examples throughout history of families who failed at just one of those primary principles and squandered wealth. You could probably watch one season of a television show such as HBO's "Succession" and see how messing up just ONE could jeopardize a family fortune. But the families who've focused on all of these principles and made them priorities have thrived for decades, sometimes centuries.

David de Rothschild is today traveling the world on activist expeditions because his family is one that's thrived for centuries. So, it's worth looking at the ins and outs of these guiding principles.

Governance

There's just no other way to put it than that, when it comes to family wealth, someone has to be in charge. Every other principle outlined above evolves from the basis of governance.

What's communicated to the whole family is up to those in charge. What intrinsic knowledge is passed on is determined by the leadership. Skills, the levels of responsibility and autonomy of heirs, the succession plan – it all has to come from somewhere. It must be steadfast, and it must be something all heirs can buy into.

"Governance" doesn't have to mean one person is charge of everything and makes decisions unilaterally. A group of family members who have a say in certain matters, for example, can be an effective form of governance. Especially when keeping in mind all family members' happiness, a representative form of governance can be very effective for wealthy families.

It's difficult to not draw modern-day comparisons, which makes the Jackson family of musical artists a fair example as a contrast to the Rothschilds. At one point, the patriarch of the Jackson family, Joe Jackson, appeared to have control of everything.

The Jackson 5 as children were super-successful, a money-making machine of a family. But eventually, Michael and later Janet became the biggest earners, and Joe ceded control. As the children amassed more income and wealth than the patriarch, there was a complete lack of governance. As far as familial wealth, there was no one in charge, no governance. And what happened?

Michael is dead. Janet Jackson is most famous for a "wardrobe malfunction" during a Super Bowl halftime show, and Randy is on TV as a game-show piano player. What might have been dynastic wealth is now dependent on whether the next generation has too much money to ever "screw it up."

It would have never happened with the Rothschilds, and the Jackson family is an example of what can happen to potentially generational wealth when there's no real leadership. You can argue that Joe Jackson was TOO controlling over his children, but a *lack* of control (governance) is an invitation to financial failure for future generations.

If you're now in charge of your family's finances, don't be so eager to give that up. Someone must be the leader.

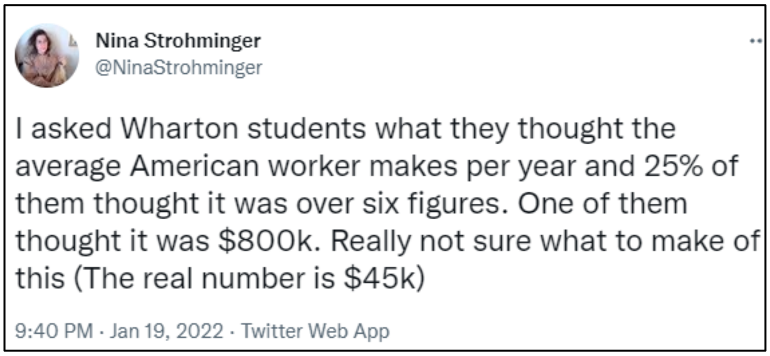
Communication

It's unlikely that you're a Rothschild, or part of the musical Jackson family. And there was probably some point in your childhood when you wanted something your parents told you they couldn't afford.

Maybe it was the latest toy or gaming system. Maybe it was whatever brand of jeans all your well-off peers were wearing. The specifics don't really matter. What matters is that many kids are told "no" when they ask for things. But what many kids are not told about is the "why not" behind the "no."

But the "why not" can be the most important piece of information. If your parents were considered middle class in, say, 1980, and their monthly budget for the entire household's clothing was $50, that $25 pair of Jordache jeans you wanted was problematic.
But think about this: There's no context for the expense if you didn't know your parents' income or the household's monthly budget for things. You might know that the pair of jeans costs $25, but if you had no idea of your parents' income or their monthly budget, you might take their "no" on a particular item as completely arbitrary.

The counter, then, would be to clue children in. Is there harm in letting your kids know your salary? Is there something wrong with divulging that the mortgage payment is? What is the percentage of children who know what their parents earn versus what they spend each month?


Nina Strohminger
@NinaStrohminger

I asked Wharton students what they thought the average American worker makes per year and 25% of them thought it was over six figures. One of them thought it was $800k. Really not sure what to make of this (The real number is $45k)

9:40 PM · Jan 19, 2022 · Twitter Web App

Have you heard about the Wharton School of Business professor who surveyed her college students about average salaries in the United States? A quarter of them believed the average American worker's annual salary is over $100,000. It's actually about half that, maybe less, depending on what statistics you use. The point is that plenty of young people often don't have a sense of real-world finances.

Chances are that your own kids don't know what you make and spend. It might feel like a taboo topic to talk about, maybe because your parents didn't talk to you about family finances. But the kids of wealthy parents most likely DO talk about it.

Families who build and protect wealth keep the lines of communication open when it comes to their children – sharing balance sheets, budgets and more. They teach them about balancing a checking account, paying bills, saving and investing. <u>How can one generation expect future generations to preserve wealth if they don't teach them anything about it?</u>

If you're unable or unwilling to share with your kids how income, assets and liabilities, and budgets work, your family's wealth is in trouble. **No one else will teach them in time.** It's up to you to impart what's necessary to future generations, and communication between family members – between generations – is key.

The better you are at communicating with your children, the more likely they'll be better with their own, and so on.

Individual happiness

If a chain is only as strong as its weakest link, couldn't a wealthy family also only be as strong as its weakest link? Often, it's the unhappiness of one family member, or a few family members, that can break the chain of wealth.

Unhappy family members take other family members to court over money. Unhappy members of a family are more likely to stop contributing to the overall goals, perhaps including the preservation of wealth. It might not always be easy to keep every single member of a family happy, but in his book, Hughes argues that families whose wealth is long-lasting make it a point to allow individuals to pursue their own happiness, and it should be part of the family leadership's goal. He wrote:

> "The purpose of a family is the enhancement of the individual pursuits of happiness of each of its members in the overall pursuit of the long-term preservation of the family as a whole."

In other words, you can't expect a family member who's unhappy with their own fit in the family-wealth structure to contribute to the overall goals of the family. The son of a wealthy family business owner who got his start as a teenager sweeping floors might not want to ever become CEO. Maybe sweeping the floors is what will make him happy forever. Thrusting a role on him that makes him unhappy, then, creates a weak link in the wealth-building chain.

Conversely, another family member might want that CEO role and never be given the opportunity to ascend to it. Lock that person into only a floor-sweeping role, and THEY'LL be unhappy, creating another weak link. Maybe yet another family member will decide that what would make them most happy would be to leave the family business altogether and start a business of their own. Keeping them from that pursuit would likely make them unhappy, too.

No matter how tight knit a family is, no matter how seemingly aligned everyone's goals are, every family is nonetheless made up of individuals. And individuals will always have their own goals. If a family wants to keep its individuals' goals pushing in the same direction as the family's overall goals – to build and preserve wealth – it must allow each individual the room to pursue their own happiness. That can present a challenge; it can be tough. But if it were easy, every wealthy family would retain dynastic wealth forever.

No family can keep every member happy indefinitely. But a family that allows its individual members to pursue their own happiness would seem to have a better chance at preserving wealth than one that doesn't.

The pursuit of happiness is human nature, and some, like the framers of the U.S. Declaration of Independence, would argue that it's a human right. A family that denies that pursuit is likely going to run into trouble.

Intellectual capital

If a family operates from the basis that its most valuable asset is its human capital, it stands to reason that what each of its humans brings to the table is valuable. Each family member has talent, knowledge and insight that contribute to the building and preservation of family wealth.

The talent, knowledge and insights possessed by each member of the family can be described as "intellectual capital." And wealthy families who enjoy long-term wealth nurture and protect that intellectual capital.

Mayer Rothschild is a perfect example. He certainly created a family culture that focused on the development of its members' intellectual capital. He made sure his children were educated. He made sure they understood the practices, policies and procedures that had already made the family wealthy. And he expanded that wealth by requiring his heirs to share with him and each other their lessons and experiences, always growing and developing the family's intellectual capital. Hughes described it, remember, as "creating an information network," back in the 1700s.

If you were to become extremely wealthy because of, say, a goose that lays golden eggs, would you not share with your heirs the methods by which you keep that goose alive? If you had a goose that lays golden eggs, you'd probably tell your kids how to make sure it keeps laying golden eggs.

That's simply maintaining intellectual capital. If you have a golden-egg laying goose and want your family to enjoy the wealth that goose provides, you're going to have to share everything you know about keeping that goose going. It's imaginary and simplistic, but you probably wouldn't deprive your kids of years of golden eggs by taking the golden-goose secret to the grave with you, would you?

Further, what if because you've encouraged the development of intellectual capital, one of your heirs comes up with an idea that makes the goose lay more golden eggs? Or can feed the goose so that it lays eggs more frequently? Your focus on their intellectual capital could further your family's fortune, but if you don't share your own intellectual capital – let that goose die with you – it could all be gone in one generation.


Howard Graham Buffett

You probably know who Warren Buffett is. He's sometimes called the greatest investor of all time, and, in early 2022 was estimated to be the world's sixth-wealthiest person. But do you know who Howard Graham Buffett is?

Howard is Warren Buffett's son. When he was 23 years old, Warren Buffett did something similar to what Mayer Rothschild did centuries ago. His son was interested in farming, so Buffett bought a ranch he could run. But he charged rent, copying Rothschild in that he lent a hand, not gave a handout.

These days, the younger Buffett runs a 1,500-acre family farm in Illinois. Through his charitable organization, he also oversees three large research farms, including a massive 9,000-acre property in South Africa. He became the president of Buffett Farms, is a director at the family's Berkshire Hathaway investment conglomerate and will likely someday take over as its non-executive chairman.

All of Howard's expertise and knowledge – operating farms, leading foundations, corporate directorships – is intellectual capital. By investing in his son at a young age, the elder Buffett was building intellectual capital for the family.

Sure, Warren Buffett's skill at picking companies to invest in is the goose that lays the golden eggs for the Buffett family, the most significant intellectual capital so far. He's 91 as of this writing and has set up his family's wealth to be long-lasting by developing intellectual capital among other family members that can persist after he's gone.

Autonomy and responsibilities

Mayer Rothschild and, centuries later, Warren Buffett gave their kids some autonomy. Rothschild sent his sons out into the world to establish their own banks in the model of the family business. Buffett did something similar. But while allowing their kids to "do their own thing," they also established ground rules for how those things fit into the overall goals of the family.

It was a balance of autonomy and responsibility to the family. Rothschild, especially, set expectations that his sons' "own things" would both add money to the family coffers and build intellectual capital in terms of knowledge and connections. It's what long-lasting wealthy families do.

But at some point, every wealthy family's patriarch dies. Every first generation gives way to the second. The families whose wealth lasts through those things are the ones who've assigned responsibility – custodianship over the family fortune – to the next generation, <u>even if that generation was "doing their own thing."</u>

Howard Graham Buffett has built his own fortune, financed by the original family fortune, so he's had some autonomy. He wasn't the teenaged floor-sweeper thrust into an eventual leadership role in the family business. But he knows, that at some point, he will be tasked with assuming at least some control over the massive family fortune.

In families whose wealth lasts, the patriarch usually accepts that he must cede control, AND the heirs must be willing and able to take on the responsibility of that control. Often, wealthy families establish trusts that own the family assets, even if some family members do have some say in how those assets are used.

In his book, Hughes calls it "control without ownership." He wrote:

> "CONTROL WITHOUT OWNERSHIP expresses a way of thinking, a philosophy. This concept, when practiced, powerfully assists a family to overcome the proverb "Shirtsleeves to shirtsleeves in three generations." Control without ownership means that each family member adopts the idea that 'I am the owner of something if I control it, even if I am not the legal owner of that thing.'"

In practice, it mostly applies to an older generation's propensity to want to control things from the grave. They own the assets, and what happens to those assets after they are gone isn't their problem. That's how potentially generational wealth stops in its tracks.

Think of an elderly king standing at the top of his castle with his prince son, viewing all his rich lands. He might say, "One day, this will all be yours."

But which day? On the day the king dies, the prince must suddenly assume all the lands? What if he doesn't understand the wealth-threatening issues those lands come with and can no longer seek the king's guidance? What if the prince doesn't want anything to do with those lands or is incompetent?

Families whose wealth endures lay out clear responsibilities of all its members, including future generations. Even if, on the surface, their own fortunes are autonomous, they might be asked to contribute to family investments, or at some point oversee a trust or manage real estate holdings.

There's a balance struck, and that balance requires cooperation between generations. The older generation must agree to pass on those responsibilities, and the younger generation must be willing to take them on. But it all must be settled before it's too late.

Clear succession plans

Hughes, an attorney by trade, tells a story about how his father – also a lawyer – would immediately ask any newly selected CEO an important question:

"Who is your successor?"

In business, a clear plan of succession for control of the business is important. The situation for families is the same, Hughes says, even if there's no traditional "family business" in the sense of one company to run or investment fund to manage. He wrote:

> "My father's teaching has stayed with me. In every business with which I have been associated, whether public, private, philanthropic, or trust, the issue of succession has been critical to the long-term viability of that business.
>
> My experience with families is exactly the same. A family's ability to remain in business over a long period of time always comes

down to excellent long-term succession planning, regardless of how successful the family is financially."

Succession planning is one of the reasons that allowing autonomy while assigning responsibility to the family is important. The king-and-prince analogy above can become more complicated when there are multiple princes and princesses, many of whom likely have their own families and their own businesses.

Assessing those family members – their strengths, weaknesses, honesty, integrity, even their happiness levels in life – is an important job of the leader of the family. Average families with average wealth might think of succession in terms of "Who gets what" when the torch is passed from one generation to the next.

But enduring wealthy families see it more as "Who DOES what?"

Remember, Hughes believes that one of the most important characteristics a family can have is the pursuit of happiness for all its members. He also believes that a family builds and retains wealth simply by making more good decisions than bad ones over long periods of time. That could mean that coming up with a succession plan – who does what – is a matter of figuring out who:

1. Will do the most to continue the pursuits of happiness for the entire family.

2. Will continue the habit of making more good decisions than bad ones.

Even if there is no actual family business to be run, there are still assets to distributed; perhaps trusts, real estate or charitable efforts to manage; educations to be provided for; legal issues to handle; and more. Each generation must select the "Who does what" of all these things among the family members of the next generation.

It can also be important to seek the counsel of an attorney when it comes to succession. Asset protection, long-term care plans for older family members, trusts, wills and more are all important ducks to get in a row in a succession plan.

It's tempting to lay the blame on the second and third generations of wealthy families for ending up back in shirtsleeves. You can picture spoiled heirs squandering money and not ever working. But if the first generation establishes a clear, sustainable succession plan, the chances of that scenario can be reduced.

The bottom line

Hughes, who has both personal and professional experience when it comes to family wealth preservation, wrote:

> "Every family I have observed that is successfully preserving its wealth is a reflection of the five virtues of truth, beauty, goodness, community, and compassion."

He also wrote extensively about the balance of quantitative measures of wealth versus qualitative measures, holding the strong belief that the people involved, not the wealth itself, are the primary driver of whether that wealth is preserved. Other studies done on generational wealth largely conclude the same thing. Fortunes don't squander themselves; people do.

That's why it's important to build skills, character and happiness in family members – investing in the human and intellectual capital that helps each generation provide proper custodianship of a family's fortune for the next. A system of governance that nurtures those attitudes, as well as the balance of autonomy and responsibility and a clear plan of succession all further a family's wealth preservation.

You might not be a professional athlete whose heirs inherit your physical ability. You might not be the world's best investor, whose heirs inherit a holding company with stakes in all the world's best businesses. You might not ever be Mayer Rothschild, with heirs who 200 years later are worth $10 billion and can go on groundbreaking expeditions.

But if you want to make it possible for *your* heirs to have as much and be as much as they could possibly want, you CAN copy the wealthy families whose wealth has endured by focusing on the human element of wealth-building and preservation.

To your success!

- Rob Minton
Cashflownaire

P.S. What history lessons don't always tell you is that the Rothschilds, because of two world wars, faced enormous adversity. Only one of the family's five bank "branches" survived World War II, for example. In fact, the Nazis, when they occupied Paris, seized more than 5,300 pieces of the family's collection of art and artifacts and sent them back to Germany for the Third Reich's leaders to choose for their own collections. The lesson in that experience is two-fold. First, it's a testament to the family's wealth that it had amassed that many valuable, historical cultural works; and, secondly, that even amid such a level of persecution, the people – human capital – allowed the family to keep thriving afterward.

P.P.S. This report and the sample investment ideas within are for informational purposes only. Please discuss any of the ideas within this report with your team of professional advisors to make sure they are appropriate for you.

GENERATIONAL WEALTH

SPECIAL REPORT

How to Build Generational Family Wealth

If you've ever studied the history of the Roman empire, you might ascribe to the theory that its "founding fathers" were Romulus and Marcus Furius Camillus. Some of the tales of the two border on folklore, but Romulus, the first king of Rome, is credited with establishing social, political, religious and legal institutions after which modern philosophies and organizational structure are modeled to this day.

In modern Western civilization, there remains much of what Rome first established. The ideals and innovations the very early Romans put forth into the world, starting around 750 B.C., have served humans for thousands of years. In fact, Romulus and Camillus can be considered the bridge between the ancient mythical times and the reality of a more modern age.

By the time Augustus Caesar became the first emperor of Rome, maybe officially launching what is known today as the actual Roman empire, a great many ideals had already been established for centuries. Augustus can be seen as an extension of Romulus, and, if you're the first emperor of what becomes a centuries-long dynasty, you deserve your due.

But if you ask some historians, Augustus – as important as he was – would not be considered a "third founder" of the Roman empire. Some historians will argue that the third-founder title belongs to Gaius Marius.

Marius was born in 157 B.C., about 500 years after Romulus. He came from a wealthy family and was well-educated, studying in Greece among some of the top teachers in the world at the time.

He became a general in the Roman army and is known for his strategies that helped win two wars that established the Roman army as it eventually came to be known. He was a hands-on guy, too, creating the Roman version of the javelin, which helped give an advantage to Roman troops in battle. He's viewed by some as the "third founder" of the empire because his efforts kicked off the military aspect of the Romans. Rome became a world-conquering force in large part because of Marius's command.

Along the way, he perhaps invented a financial tool that is still prevalent in the world, thousands of years later: life insurance.

Gaius Marius confronted by his troops

Marius instituted what were known at the time as "burial clubs." If you were a member of the Roman army, you could contribute to a fund that would pay for the proper burial services of any fellow militants who died in battle, with a stipend going to the family of the deceased.

If you were a Roman soldier at the time, you'd chip into a fund so that if the guy next to you died in battle, his family would be taken care of. If you died in battle, your participation in the club would ensure that your family would be taken care of, too. The concept was essentially the birth of life insurance. The saying goes that the two biggest inevitabilities in life are death and taxes, and the Romans were great at both.

Today, the concept sounds less morbid. "Life insurance," as it's generally called now, is a more friendly term than "burial club." But the basis is largely the same: You pay into a fund so that in case you die, your beneficiaries get paid.

The personal-finance website Nerdwallet defines life insurance as such:

> "Life insurance is a contract between you and an insurer that pays out a sum of money upon your death to those you designate as beneficiaries. You, the policyholder, pay life insurance premiums in exchange for the coverage. Life insurance companies invest the premiums they receive from customers, hoping that returns on their investments will yield a profit before they have to pay out a life insurance claim."

There are basically two types of life insurance these days: term and whole life, although whole life policies can come in various forms. Term life is what you might call "pure" insurance – you pay set premium amounts, and the policy covers you for a set number of years.

Whole life differs in that there is no set number of years. As long as you keep making premium payments, you will have coverage for the duration of your life. Also, whole life policies have a cash value that accrues over the years and can be withdrawn from or borrowed against while the policyholder is still alive.

It's that cash value that can make whole life insurance a family wealth-building (and wealth-transfer) vehicle.

Remember, the entire life insurance business model is based on insurance companies collecting premiums, investing those dollar amounts, and hoping to turn a profit before having to pay out a death benefit to the policyholder's beneficiary.

If you have term life insurance, it's basically a race to your death for the insurance company. They hope to continue collecting monthly premiums from you, investing those payments over the length of the term, and want you to survive that term so that they never have to pay out a death benefit. If they don't, every premium payment you make, and any investment returns they earn on your premiums are pretty much pure profit for the insurer.

To give you some idea of how the numbers might look, here's an example.

In the second quarter of 2022, the average monthly premium for a healthy 40-year-old male on a 20-year term policy with a death benefit of $250,000 was $29.05, according to industry website policymutual.com. If you paid that premium over the full term, it would cost you $6,792 ($348.60 annually for 20 years).

Hopefully, you can see what the risk is for the insurer. They can collect, at most, $6,792 from you but might have to pay your beneficiaries $250,000. The industry is willing to take that risk, however, because it uses the premiums to make more money.

Here’s what it would look like if your $29.05 each month compounded at a 10-percent annual rate over 20 years:

As you can see, your total premiums paid triple in value for the insurance company over 20 years, so long as they average that 10-percent rate of return.

Whole, or “permanent” life insurance policies are different in that they, too, provide a death benefit but also carry a cash value that may serve as a savings account of sorts for the policyholder. Because the risk to the insurer is greater – they know they’re likely to eventually pay a death benefit – the premiums are much higher than term policies. Whole-life premiums can cost anywhere between 5 and 15 times term policy premiums.

But they also offer more than term policies, such as:

- Living benefits
- Tax advantages
- Legal protections
- Liquidity
- Large contribution amounts
- Guarantees
- Compounding growth
- Tax-free retirement income
- Tax-free transfer to beneficiaries

With whole life insurance, the policyholder is guaranteed a cash value, and any contributions above the insurance costs of the death benefit are invested on their behalf. In other words, both the policyholder and the insurance company benefit from compounding over time. In fact, whole life policies traditionally come with a guaranteed annual dividend, which in low-interest environments are generally about 3 or 4 percent.

In the 1990s, the life insurance industry invented what it saw as a solution to sagging policy sales because of declining interest rates that drove down guaranteed dividends. The solution was called Indexed Universal Life (IUL), which instead of paying a guaranteed dividend, guarantees zero loss while offering a more aggressive approach to investing premiums. The returns paid out to policyholders track the performance of funds such as the S&P 500 index.

The rates paid to the policyholder are capped, limiting earnings to usually somewhere between 10 percent and 15 percent annually. In a bull market, where the S&P might gain 30 percent over a year, the insurer and the policyholder would at best split those gains, 15 percent each.

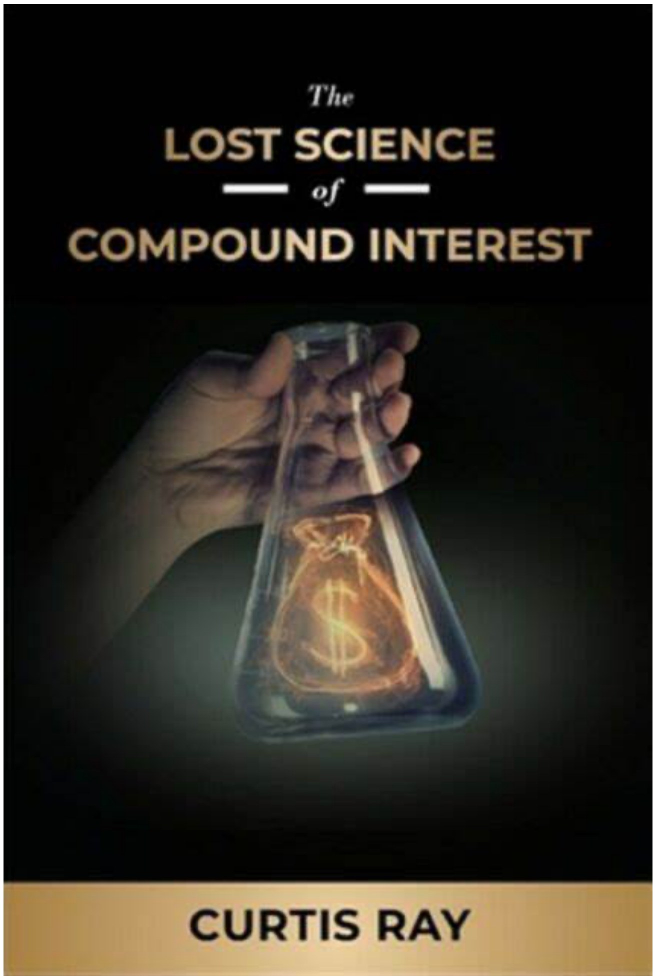
Obviously, an individual could invest on their own and pocket the whole 30-percent profit. The tradeoff for sacrificing some gains in bull markets is what occurs in down years for the market. **In 2008, when the S&P lost 37 percent, IUL policyholders lost zero of their cash value.**

In his book "The Lost Science of Compounding Interest," social media influencer and best-selling author Curtis Ray points out that in the last 90 years of the S&P 500, the call-option investment strategy some insurance companies use for investing IUL premiums would have provided the policy holder strong returns. In the other 26 years, they would not have. But remember, the policyholder doesn't lose money, just the cost of the gains they're getting in typical years. Ray writes:

> "This is the only strategy I have found, after six years of research, that offers a perfect balance of conservative risk-taking. First, eliminating the strikeouts (never lose) and then focusing on maximized growth. Yin and Yang of investing! This strategy has produced net returns of 7-8% over the last 30 years."

Ray promotes a plan he calls "Maximum Premium Indexing" (MPI), which utilizes the tax-advantaged IUL structure as a retirement plan. The idea is to provide relatively high returns for a secured growth instrument, using the power of compound interest over time to grow your cash value. Then, in retirement, you'd borrow against the cash value to provide income. When you eventually pass, the insurance/investment "nest egg" is passed on to your family tax-free.

It's a strategy many high-net worth families have used for quite some time. Ray notes in his book that the Rockefellers still employ life insurance as a means to transfer wealth from generation to generation.



Ray believes the plan works so well because of the zero-loss guarantee. He refers to such an investment as "secured growth" as opposed to high-risk growth that stocks and mutual funds typically offer.

He points out in his book a calculation that compares secured growth at 7 percent annual gains to a higher-risk growth account that averages 12 percent returns per year. Over five years, if you contributed $10,000, the secured-growth account would be worth $61,532, and the higher-risk growth account would be valued at $71,158.

That's a difference of $9,619, which in the course of five years, is not an insignificant sum of money. But Ray writes:

"For 'potentially' an extra $9,600 over 5 years, you were willing to put your money at extreme risk."

You might be able to infer from the title of his book that Ray is a big believer in the power of compound interest. And that makes sense; compounding is a wealth-building tool available to everyone – from the largest billion-dollar corporation to the modest individual investor.

The reasoning, then, for being so friendly toward secured-growth investments is the notion that a loss – especially early on – can severely damage the compounding structure. Not "striking out" or taking a step back during the early years of an investment can be instrumental in growing the investment.

Think about this: If you had $10,000 in an S&P index fund that lost 37 percent of its value in one year, your cash value would be $6,300 the next year. If things returned to “normal” the following year, and you earned – for the sake of simple math – a 10-percent return, you’d make $630, 10 percent of your investment’s current value.

But if you had $10,000 in a guaranteed zero-loss account, you’d earn $1,000 the year after the market drop. That $370 difference, compounded over time, could be huge. In short, Ray posits that not losing – especially early on in the compounding process – is likely more important than occasionally winning big.

In baseball, swinging for the fences every time you’re at bat could result in more home runs but also lead to striking out more often. Ray contends that, for investors, a guarantee to not strike out is often more valuable than relying on the occasional home runs. That’s kind of IUL as an investment vehicle in a nutshell: by never losing, you’re winning.

The power of compounding at a 10-percent annual rate of return leads to a doubling of your money in about the first seven years of any investment. With a zero return in one of those years, versus a loss, your worst-case scenario is you’re set back one year. But if you lose money, you can put yourself behind by several years.

As an example, if you invested $1,000 at an annual rate of return of 10 percent, your value would be about $1,949 in seven years. But if your cash value dropped because of a loss to $670, you’d have only $1,305 after the same seven years. In each subsequent seven-year cycle, your cash value would become progressively worse compared to the same cash value that never lost money, even if you never again suffered an actual loss.

At 10 percent, $1,000 becomes about $7,400 in 21 years (three compounding cycles). At the same rate, $670 turns into $4,958. Extrapolate those numbers to a $10,000 cash value, and you’re looking at $74,000 versus $49,580.

Because of how compounding works, an early loss in just a year or two can be a major setback. A secured-growth investment protects against that.

To be fair, it’s a valid argument that IUL could be more a wealth-protection vehicle than a wealth-*building* vehicle. Accepting a rate cap of 7 percent to 10 percent in exchange for never losing money DOES seem to align more with what might be the goals of those who already have wealth versus those who are attempting to build it. There are, however, some arguments to be made for using life insurance to build wealth. It just gets a little more complicated.

One of the features of IUL is that it allows for flexibility when it comes to the death benefit. Unlike term life, for which the death benefit is permanent once established, the benefit in a IUL policy can change.

This can be advantageous because if you're, say, 25 years old with no mortgage or dependents, you might not need as large a death benefit as someone older with more debt and people to provide for. With IUL, you're able to choose a lower death benefit, which comes with lower expenses, and adjust it upward in later years as it becomes more necessary.

Why is this a wealth-building feature? Well, if you have $10,000 each year to invest in life insurance, more of that annual contribution will go toward investment rather than insurance costs if you have a lower death benefit. If at a young age you can contribute $10,000 per year to life insurance and only, say, $1,000 of that goes toward premiums, then $9,000 is invested in the secured-growth piece of the program.

If you invested $200 per month instead of $100 per month at 8 percent over 10 years, your cash value would be $35,200 at the end of those 10 years, versus $17,600 had you invested the $100. In 10 more years, **even if you stopped contributing entirely**, the value of the $35,200 would grow to $76,000, and the value of $17,600 would be about $38,000.

The same would occur in the following 10 years. Doubling your monthly contribution early on would ensure that your cash value doubles every 10 years indefinitely, regardless of whether you continue to contribute. That's simply how the power of compounding works. IUL can be regarded as a wealth-building tool because the flexibility of the death benefit allows the policyholder to contribute larger amounts to the investment portion of the plan early on.

The other major advantage a IUL policy has over at least one traditional method of investing is that it's a tax-advantaged strategy that does not limit the amount of after-tax contributions the policyholder can make each year.

In terms of saving retirement funds, that's a lot different from a Roth IRA, probably the most-popular form of non-employer-sponsored retirement plans. Both grow tax-free, but a Roth IRA caps annual contributions at $6,000.

With an 8-percent annual return, here's what the difference between investing $10,000 versus $6,000 would look like in 10 years:

Annual investment	**Total contributions**	**Cash value**
$6,000	$60,000	$99,873
$10,000	$100,000	$166,397

The extra $40,000 in contributions leads to an extra $66,524 in cash value at the end of 10 years. That might not seem like a life-changing figure, but consider this: If a 35-year-old had $66,524 parked in a secured-growth account that NEVER LOST VALUE and grew at an average of 8 percent annually, <u>it would be worth $455,588 when they turned 60.</u>

In other words, the difference in investing the $4,000 per year a Roth IRA would not permit <u>for just the first 10 years</u> could be worth almost half a million dollars by retirement age.

The more you can invest at the beginning of a compounding cycle, the better off you'll be in the long run. In his book, Ray writes:

> "Investing more in the beginning is the most profitable choice you can make to speed up the time required to produce wealth through compounding … So money you invest today will produce its own compound cycles, doubling according to its growth, making it the most powerful and valuable investment of your life. Investments you make in Year 2 will be the second most powerful and influential in your pursuit of wealth and freedom."

Investments in Year 3 would be the third-most valuable and so on. Again, IUL policy investments don't cap contributions like other tax-advantaged retirement plans do. You are able to contribute more during the earlier days of the investment.

The other component of IUL as a wealth-building tool centers around what's called the General Fund and Participating Loans.

The General Fund is where the insurance company deposits all its collected premiums. It's where the cash value of your policy is parked with its zero-loss guarantee. The fund is an investable asset, so it's constantly growing in value, which is why you earn compound interest.

A Participating Loan is a way for the insured to withdraw funds from the account. Unlike withdrawing from an IRA, which might come with taxes and/or penalties, a policyholder can instead borrow from the insurer using the cash value in their account as collateral.

Participating Loans are actually the vehicle for which Ray advises you fund your retirement, borrowing each year from your cash value to pay living expenses. You don't make payments on these loans; any outstanding loan amounts would be deducted from the policy's death benefit when it's paid out.

As a wealth-building tool, a Participating Loan can be used to increase the interest rate your cash value is earning. The reason is because the interest rate you'll pay on the loan is almost always going to be lower than what your money is earning in the general fund.

An example would be borrowing $10,000 from your policy at an interest rate of 4 percent. If your cash is earning 7 percent in the general fund, really all you're doing is reducing your net interest rate to 3 percent on that $10,000.

Some IUL policies provide a way for policyholders to invest, from their cash value in the General Fund, into other investments. Ray's company, for example, uses a call-option strategy that invests in stocks and can provide a larger return than the General Fund does.

Theoretically, you could borrow that $10,000 as a Participating Loan from your policy, "pay" the net 4-percent difference against the 7-percent going rate, and re-invest the $10,000 in the General Fund, which would then invest that $10,000 into a more aggressive strategy.

You could also borrow that $10,000 from your policy, essentially, and invest it on your own. In that scenario, you'd still be ahead by at least a net amount of 3 percent (loan interest rate vs. the secured rate in the General Fund), but you'd be subjecting that $10,000 to risk in the market. In other words, you could lose money.

But if you re-invested the same $10K from the General Fund, you'd be provided the zero-loss protection afforded by the General Fund. You might earn 7 percent or so but not have the risk of ever losing money. Ray, in his book, illustrates the path of that $10,000 as this:

Cash Value Compound Interest

Cash value	Rate of return	Loan rate	Interest earned
$10,000	7%	0%	$700

Leveraged Compound Interest

Cash value	Rate of return	Loan rate	Interest earned
$10,000	7%	4%	$300

Cash-Option Compound Interest

Cash value	Leveraged value	Earn rate	Interest earned
$10,000	$10,000	10%	$1,000

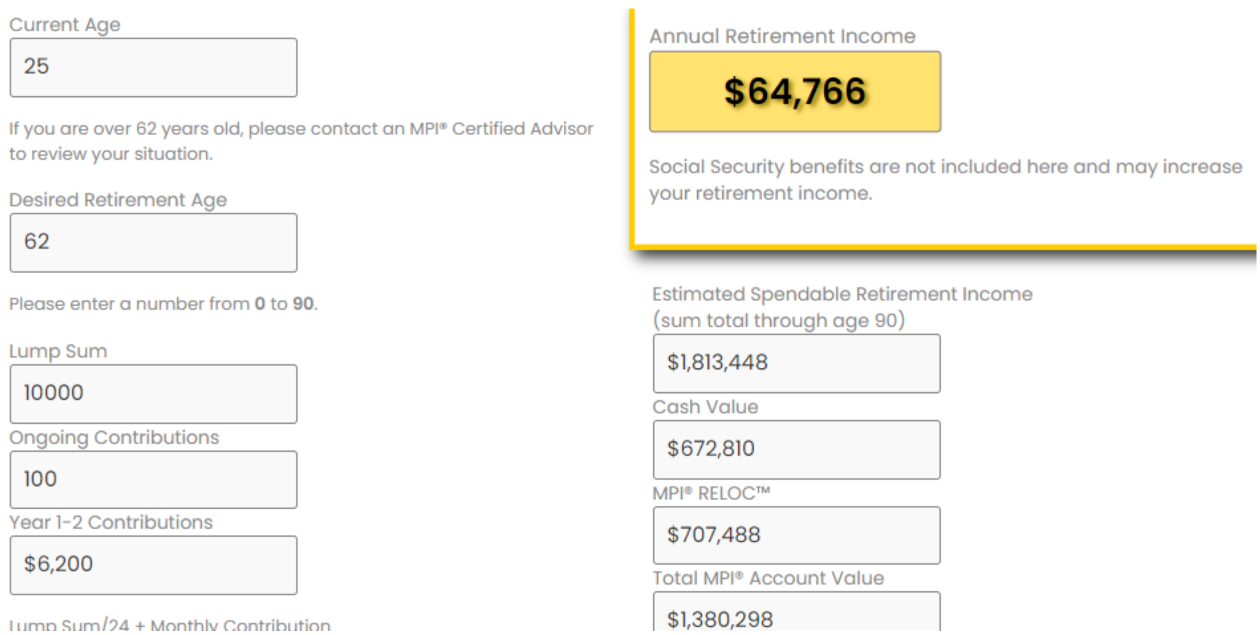
Ray compares the scenario to investing in income-producing real estate. You use leverage (a mortgage) to invest in a property that provides a rate of return greater than the interest rate you pay to acquire the property. Regardless of the mechanics, the principle is the same: You're using someone else's money to finance your own wealth-building. If you do it within a IUL structure, yes, your growth rate is capped, but you also enjoy the luxury of the zero-loss guarantee.

Many investors would consider the prospect of using other people's money, without risking the loss of any of their own money, as the ultimate win.

Consider the alternatives when it comes to "safe" investments. These days, a "high-rate" savings account pays about a half-percent in interest and in many cases requires a starting balance of $25,000 or more. If you had $25,000 in cash lying around, would you want to earn a half-percent on it or 10 percent with about the same level of security vs. risk? With a death benefit that pays your family, tax-free, when you die?

That's the sort of question wealthy families have been asked and have answered for at least decades. And for those who wish their own families could have the same opportunities as wealthy families, IUL policies might be just the thing. They are available to almost anyone and everyone.

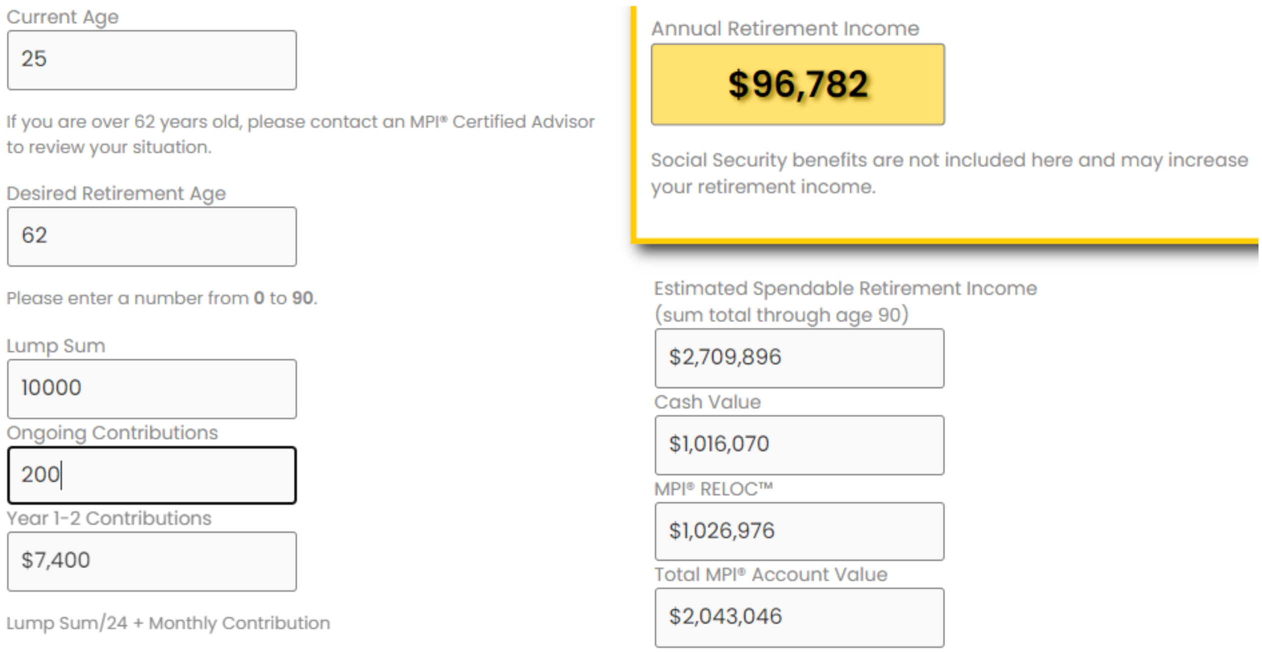
Here's a screenshot from Ray's "MPI calculator." The example is of a 25-year-old who initially invests $10,000 in an IUL and then contributes $100 per month:



If you retire at age 62 and have no mortgage payment, you could almost assuredly live on $64,766 per year pretty comfortably in many places. Ray's IUL plan kind of subscribes to the "4-percent" rule widely regarded as the standard annual withdrawal amount in retirement, which dictates that you can safely withdraw from an adequate retirement plan about 4 percent a year indefinitely.

Ray's MPI calculator takes into account the "zero-loss" feature of IUL vehicles. In real life, there's virtually no period of time between the age of 25 and the age of 62 when the market – and therefore the indexed growth – won't take a step back or two. An account that doesn't lose value during those periods compounds more quickly and steadily. The $10,000 initial investment in the example above also ensures compounding is fast early on.

But also keep in mind that the graphic above illustrates only a $100 contribution per month after the initial investment. Obviously, someone who could afford to or chose to contribute more would end up with a larger retirement figure in the end. Here’s what it would look like if you bumped the monthly contribution to $200 per month:



As you can see, your account value totals go up significantly, and your annual retirement income jumps by 50 percent. Again, when compounding occurs over such a long term, little differences can add up to big results.

Now, there are some important things to know before considering using IUL as a wealth-building vehicle. These are the big ones:

Insurers’ cap rates can fall

A good portion of the MPI plan relies on the spread between what insurers pay out in interest/dividends and what it costs to borrow against the cash value of the policy. In the examples used in this report, it’s 7 percent versus 4 percent. But if the insurance company drops what it pays out and/or borrowing rates rise and that spread becomes smaller, it’s not as effective a strategy.

There’s no employer match

Remember, it can be very important to maximize contributions to a wealth-building plan early on. This is because the way compounding works, larger amounts contributed early build to greater value faster than the same amounts invested little by little over time. Starting with a larger amount can mean speeding up a compounding cycle.

With that in mind, an investor just launching a retirement account might be better off contributing enough of their salary to a company-sponsored plan with an employer match. If you can maximize that match, it's like getting free money to invest at the start of your compounding.

Here's an example: If your employer matches 50 cents on the dollar for every dollar of your own retirement contributions – up to, say, 6 percent of your salary – you could be turning down quite a bit of investable income in order to instead finance a IUL policy.

If you make $60,000 a year and can contribute 10 percent ($6,000) of your salary to your 401(k), your employer would kick in ($3,000) annually. That's a 50-percent increase in contributions, in "free" money, early in the compounding cycle.

There are higher-earning investments out there

With IUL, you're definitely trading potentially higher rates of earning for the "zero-loss" guarantee of secured growth. That might be a great scenario for some – "Never lose money" is a solid rule of investing – but for those with some risk tolerance, you can probably build wealth faster outside a IUL and just pay for term life insurance to have a death benefit.

For example, if you're a healthy 25-year-old male, the average cost of a 20-year term policy with a $250,000 death benefit is about $12 per month. If you had $200 per month to spend on life insurance and retirement savings, as in the earlier example, you could use $12 to purchase term life and invest the other $188 each month in an investment of your choosing.

If you selected a low-cost index fund that performed better than a IUL's 7 percent average annual rate of return, you would be ahead. Even just a 2-point better rate would earn a fairly significant difference in your wealth-building.

Here's a breakdown of how $188 invested each month for 20 years at 7 percent compares to the same $188 per month at 9 percent:

Monthly	Total contributions	Rate	Value
$188	$45,120	7%	$93,213
$188	$45,120	9%	$116,471

Ray might say you're putting the principal at risk for an extra $23,258, but $23,258 at 9 percent would grow to $130,347 in another 20 years, without ANY MORE contributions.

Of course, this approach would require a lot of discipline. You'd have to contribute your $188 in policy savings toward a retirement account each and every month, through bull and bear markets, for 20 years. It's kind of like renting versus buying a house.

If it costs less to rent and you invest the difference, you'll probably come out ahead compared to buying home and paying down the mortgage while it appreciates. But if you don't have the discipline to invest that savings every month, buying a home can become a valuable "forced savings" strategy that pays at a lower rate but is more automatic.

Any whole life policy that accrues a cash value and earns interest is similar – a type of forced savings that instead of providing shelter provides a death benefit with a solid retirement savings plan attached to it.

Keep in mind that this strategy, which plenty of financial advisors would recommend, is eventually going to get more expensive. When the term ends, it will be pricier to re-up for another 20-year term when you're 45 instead of 25. And after THAT term, it's even more expensive, if available at all.

How much wealth do you have to transfer?

The last important point to make is that while there are probably ways to build more wealth, more quickly than with an IUL, there might not be a better way to transfer wealth.

Remember, death benefits are not taxable and with IUL, the amounts are flexible. If you amass a significant amount of wealth, it might make sense to increase your death benefit as high as you can afford, so that upon your death, wealth is transferred easily to your heirs – without estate tax. Any outstanding loan amounts, plus interest, will be deducted from the cash value of the account at the time of your demise, but that death benefit will remain the same unless the policy lapses.

They might not be for everyone, and as with any investment, there is a lot to consider before jumping in. But IUL policies offer certain advantages when it comes to security, steady growth, access to funds *before* and during retirement, and tax-advantaged, simple transfer of wealth to the next generation.

Life insurance sure has come a long way since the days of Roman burial clubs.

To Your Success!

-Rob Minton
Cashflownaire

P.S. Term life insurance is much cheaper than any whole life policy, at least at the start. But once your cash value in a whole life account grows to a certain level, the policy can start paying for itself. If you have, say, a cash value of $100,000 earning 7 percent a year, the insurance portion of the investment would be covered. You could stop contributing, and, yes, you'd slow your wealth accumulation, but you would also pretty much have "free" life insurance for the rest of your life.

P.P.S. Please discuss the ideas in this report with your team of professional advisors to make sure they are appropriate for you based upon your personal circumstances. This report and the sample investment ideas within are for informational purposes only.

HOW TO USE BUSINESS ENTITIES TO PROTECT FAMILY WEALTH

SPECIAL REPORT

How to Use Business Entities to Protect and Pass on Family Wealth

In March of 2017, there was a pretty bizarre case of alleged hit-and-run between two 18-wheelers in Georgia.

According to federal court testimony, James DeFrancesco's rig was parked at a rest stop, and he was sleeping inside the cab when another semi-tractor trailer, driven by John Stevens, struck his. According to DeFrancesco, Stevens's truck got stuck on his own, the fenders and bumpers locking up.

Stevens then began rocking his vehicle back and forth, attempting to get unstuck, DeFrancesco testified. As this went on, DeFrancesco jumped onto Stevens's truck and was eventually knocked off from the rocking as Stevens continued to attempt to free his truck.

Eventually, the trucks were uncoupled, and DeFrancesco jumped in his, getting ahead of Stevens and blocking his exit from the truck stop. Stevens denied knowledge of hitting the other truck and denied attempting to flee.

DeFrancesco, who was injured after being knocked of Stevens's truck, sued Stevens's insurance company over the incident. The jury in the case awarded him $750,000.

Now, $750,000 is a small amount for an insurance company to pay out. Of course, that's why the insurance company – and not Stevens – was named in the lawsuit. But imagine if a trucker who was an independent contractor WERE to have a $750,000 verdict rendered against them. What if insurance DIDN'T cover the entire cost? It could be financially catastrophic for the independent driver.

And $750,000 is practically nothing these days for the trucking industry. According to a 2020 report from the American Transportation Research Institute, the average jury award in trucking tort cases rose from $2.3 million in 2010 to $22.3 million from 2010 to 2018, almost a 1000-percent increase in just eight years. That far outpaces inflation.


Jury awards in trucking lawsuits have risen astronomically over the last decade.

And the trucking industry is microcosm of civil suits in general. Average awards in negligence, malpractice and product liability cases have at least quadrupled since 2010. All businesses are exposed to higher jury awards against them if they're sued.

Yet, according to business stats aggregator BizStats.com, about 70 percent of business owners in the United States operate without incorporation or within what's known as a limited liability company (LLC). Those sorts of entities protect the owners or partners in a business from personal liability in the event the business goes south.

The truck driver, Stevens, would be an extreme example because he had insurance on his truck, and the insurance company likely paid out the award. But what about an contractor or a sole proprietor in another line of work, one that doesn't require insurance?

If you're a sole proprietor or contractor who gets sued, you very well could have personal financial liability. Establishing your business as something as legally simple as an LLC would significantly reduce – if not eliminate – your personal liability. Here's a good example:

If John Doe is a sole proprietor and is sued for, say, $100,000 and his business cannot pay the award, his personal assets are at stake. This vulnerability could mean paying cash out of his personal bank accounts and/or liens against his home. Losing $100,000 worth of personal assets could be a significant blow to his family's overall financial picture – all because of something that happened within his business.

Meanwhile, if Jane Doe has established an identical business as an LLC, her financial liability is limited to the business's assets. No one can attach to her personal bank accounts or go after her home in order to satisfy the court's award. In other words, she could lose her business assets but NOT her personal wealth or her house.

You might be saying to yourself: "OK, but a sole proprietor could just buy an insurance policy for their business." It's probably not a bad idea, but what if – in this era of exponentially escalating award amounts – there's a judgement against you that exceeds the amount of insurance coverage you have?

A good example is a rental property. If you own a rental property, you will almost certainly secure insurance on it. It being a rental property, your lender or insurer might even insist that you have a certain amount of liability coverage. If that liability coverage is $1 million dollars, and someone injured on your property is awarded $2 million in a lawsuit, someone is going to have to make up that $1 million shortfall. And it's not going to be the insurance company.

If that rental property is titled to a corporation or LLC, the shortfall that must be met is limited to that LLC's assets (hence the LLC name). You might have to forfeit the rental property and any other assets held by the LLC, **but your own bank accounts, investment accounts, personal residence and wages would not be at stake**.

NOT protecting a business by organizing it as a separate legal entity is like <u>playing blackjack and telling the dealer that, if you lose big enough, they're not just entitled to the chips on the table but also any money you might have in your wallet.</u> Who would do that?

Hopefully, you can see how big a difference one legal entity can make when it comes to protecting your family's wealth.

There are multiple legal entities you can use to organize your business, and it's not a one-size-fits-all proposition. So, it can be important to understand the various ways to organize a business and the differences between the several solutions available for business owners. Here are the main ones:

General Partnership

A general partnership is much like a sole proprietorship. But instead of profit and losses being shouldered by one individual, they are split between two or more people.

Unfortunately, there is no protection of personal assets. Your own assets are still exposed, and the only difference is that your partner(s)' personal assets are also exposed. If you lose a $100,000 court case, the good news is that your own assets would only be on the hook for $50,000 of it.

A drawback is that each partner is responsible for the liabilities of the other partner. If your partner gets sued for $100,000 for something they did in the business, you'll still have 50-percent liability.

Limited liability company

For the most part, an LLC is exactly what it sounds like: a business structure that limits the liability of its principals. Here's how the financial website Investopedia defines it:

> "A limited liability company (LLC) is a business structure in the U.S. that protects its owners from personal responsibility for its debts or liabilities. Limited liability companies are hybrid entities that combine the characteristics of a corporation with those of a partnership or sole proprietorship."

Setting up an LLC is a fairly simple process. Though it's usually advisable to contact an attorney whenever legal expertise is required, just about anyone can go online and complete the necessary steps to legally establish an LLC in most states.

Income from an LLC is treated as "pass-through" income, which essentially means it's personal income that has some tax advantages, and you do not have to file the business with the IRS as an independent taxable entity.

The Investopedia entry includes the language "hybrid entities that combine the characteristics of a corporation with those of a partnership," so it's helpful to know the characteristics of those structures, too.

Corporation

A corporation (though there are various types) offers the same kind of personal liability protection for its incorporators but comes with more regulatory requirements.

To incorporate, you must draft articles of incorporation, file as a separate identity with the IRS, name shareholders, hold regular meetings, file a separate corporate tax return and more.

It's a more complicated way to separate personal liability from the business's financial exposure and might be best for larger businesses with multiple ownership stakes.

Limited partnership

A limited partnership basically allows for two types of partners: a general partner who's responsible for managing the business and is usually personally reliable for the business's obligations; and a "limited partner," whose liability is limited to their investment in the enterprise.

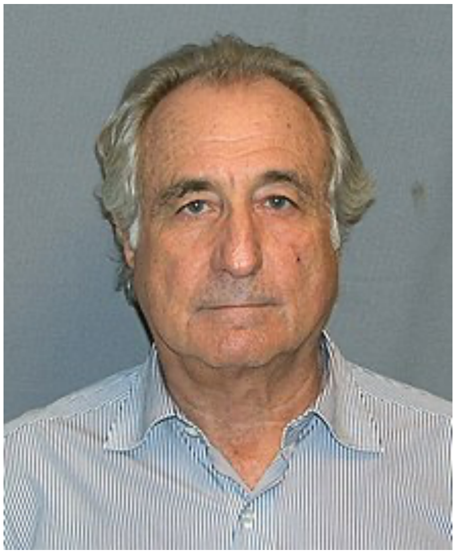
For example, if you're a limited partner in a business that faces litigation, you might lose your investment in the business if things go awry, but your personal assets are safe. Meanwhile the general partner, who likely runs the business, is more vulnerable.

Think of it in terms of what's known as a "silent partner." You can be a silent partner in a business and have no involvement in the business whatsoever. If that business is sued, you, as a silent partner, do not have your personal assets at risk.

Unlike a general partnership, for which a handshake agreement might suffice, to establish yourself as a limited partner, you must file a Certificate of Limited Partnership with your state's Secretary of State's office. If you ever agree to be a "silent partner" in anything, it's probably worth it.

Keep in mind that there are limitations to the protection these various entities afford their participants. You can't, for example, set up an LLC or corporation then go out and use that entity to commit crimes.

Bernie Madoff, convicted for perpetrating a $50 billon Ponzi scheme, did so with an LLC and was held personally liable.


Bernie Madoff

In fact, it was Madoff's sons who turned him in, ostensibly because his involvement in criminal activity (securities fraud) put their own personal wealth at risk because they worked at his firm.

The fact that Madoff operated an LLC, at which his sons worked, did not protect any of them from financial liability because there were crimes committed. It's another extreme example, but it's important to note that there are liability exceptions when it comes to the behaviors of the legal entities.

And although things like trucking accidents and fraud can financially expose business owners and partners to litigation, it's far more common that something less innocuous does so.

Let's say you're an independent contractor who uses leverage to flip homes or do remodeling. You borrow a bunch of money to acquire distressed properties or to remodel homes, and you suffer an injury that prevents you from working. So you can't pay back the borrowed money. If you default, your creditors will seek the money you owe. If you've not protected yourself by organizing your business in a way that limits your personal liability, your personal assets are at stake.

It's far more common for a business to be legally pursued by creditors than by the general public over a particular incident. If you want to limit your financial exposure to those creditors of your business – and keep your personal assets off the table – it's imperative to set up a legal entity that will accomplish that.

In his instructive book "How to Use Limited Liability Companies and Limited Partnerships: Getting the Most Out of Your Legal Structure," business attorney and best-selling author Garrett Sutton writes:

> "The key nowadays is to protect you and your family from wrongful creditor attacks. By holding your assets in an LP (limited partnership) or an LLC, you gain significant asset-protection benefits.

> As well, an important asset-protection strategy is to keep a low profile. By using nominee officers, directors, managers and general partners, you may initially defer a potential plaintiff from even defining you as a high net-worth individual.”

By “nominee officers,” he means that you can name others beside yourself as the listed officers, managers, directors, etc. By doing so, you keep your name out of the public record and, by extension, off the internet. Limited liability companies and the like can help you and your family keep a low profile, which helps guard against attempts against your personal wealth.

Sutton separates litigious attempts to go after wealth into two categories: inside “attacks” and outside “attacks.

An inside attack involves events that occur within the scope of your business, such as a lawsuit for breach of contract or default on a loan; or liability for an injury, such as someone falling in your business or rental property.

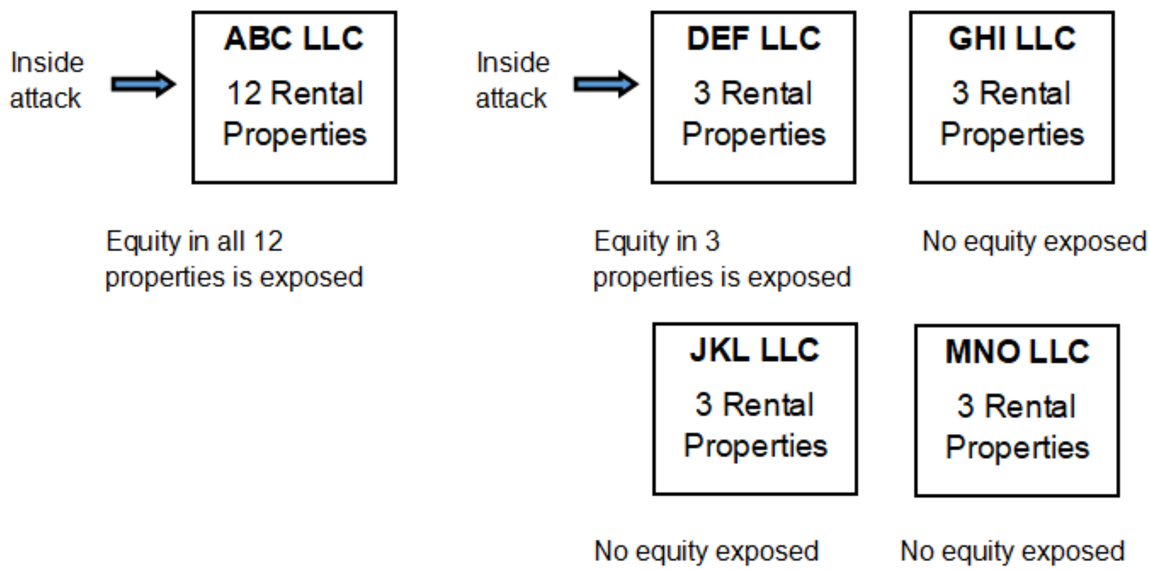
An outside attack is one that doesn’t occur within the scope of your business. A good example could be someone suing you after a car accident. In either category, protecting assets in an LLC is advisable. In the case of the outside attack, having a low profile – keeping your assets anonymous with the “nominee officers” can be very helpful.

Who is a car-crash victim and their attorney more likely to go after, the regular Joe, or the person who’s listed as owning a profitable business?

In fact, Sutton recommends setting up separate legal entities to hold as many assets as you can. In the event of an outside attack that doesn’t fall into the scope of your business operation – such as that car crash – the more assets that are held by you personally, the more vulnerable you are. Sutton suggests setting up LLCs or trusts for even your brokerage account, primary residence, vacation home and more.

Basically, the **more layers between you and your assets – and between the assets themselves – the better-protected your family’s wealth will be.**

As an example of layers between the assets themselves, think about owning an LCC that controls 12 rental properties. If someone suffers a serious injury on one of the properties and sues, your equity in all 12 rental properties is exposed because they are all held by the same LLC. But if you were to divide the properties into more LLCs, you would limit your exposure. Here's how that might look:

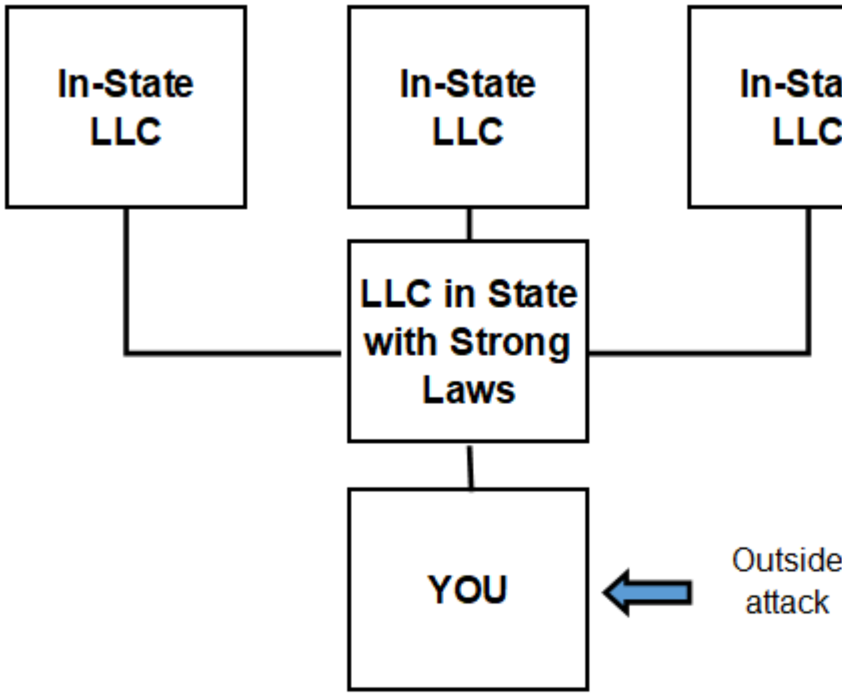


If you had six LLCs with two properties each, your exposure would be reduced even more. If each rental property were inside its own LLC, only one property at a time would ever be at risk. It's actually not that uncommon for rental property owners organize their assets this way.

It can get a little more complicated when you're trying to protect assets from an outside attack. In the event of a car accident, for example, a good attorney might be able to track down your assets inside LLCs, even if you've set them up with some anonymity. They would come after those LLCs because they're coming after you, personally, and you own the LLCs.

However, some states have much stronger laws than others regarding LLCs and their protection from creditors and judgement holders. Wyoming, for example, makes it difficult for plaintiffs to attach to equity in an LLC in the event of a lawsuit. Other states, meanwhile, make it pretty easy.

A solution, then, is to establish your LLC in your own state, then establish an LCC in a state with stronger laws and put the original LLC in the out-of-state LLC. It would look like this in an outside attack:



In this situation, the attorney would have to decide whether it would be worth it to sue you in the state with stronger protection for assets inside an LLC. It's an added layer of protection that doesn't cost much to put in place.

It's no fun to think about getting sued and having your family's assets threatened. The good news is, however, that legal entities like LLCs and LPs can also be used to transfer wealth. Moving onto that cheerier topic should probably start with what **for many people is their biggest asset: their primary residence.**

Your home is definitely worth protecting – and worth making estate plans over – but not many attorneys, financial advisors or tax professionals would recommend putting your primary residence in an LLC. It can be done, and it might shield you from outside attacks on your wealth, but it normally comes with tax consequences that are rarely worth it.

That doesn't mean there aren't ways to protect your home from some creditors, including nursing homes that might try to seize it should you need long-term care. Perhaps the best way to protect your home is to place it in a trust.

Unlike an LLC, transferring ownership to a trust does not trigger the same tax liability that transferring it to an LLC would. If your state has a homestead exemption for property taxes, for example, you can transfer title to a trust without losing that exemption. With an LLC, you would lose that exemption. You could also lose your capital gains exemption with an LLC, whereas a trust allows you to keep it.

Investopedia defines a trust as: “a fiduciary relationship in which one party, known as a trustor, gives another party, the trustee, the right to hold title to property or assets for the benefit of a third party, the beneficiary.”

There are primarily two types of trusts – revocable and irrevocable. A revocable trust – sometimes known as a living trust – can be changed or canceled by the trustor. An irrevocable trust is one that cannot be modified or canceled (revoked) without the beneficiaries’ consent.

Both types of trusts can reduce the necessity of having a will. When setting up a trust, the trustor (or grantor) lays out the provisions for what will happen to the assets in the trust when they die. Having a trust in addition to (or rather than) having a simple will is advantageous for two reasons, especially when it comes to the trustor’s home, often a large asset:

1. Having assets inside a trust keeps them out of probate court upon the trustor’s passing. Avoiding court proceedings means that your assets are quickly and easily passed onto your heirs.

2. Having a home (or other assets) inside a trust usually offers some tax advantages to your beneficiaries, including – in the case of large estates – avoiding expensive estate taxes.

While there are some reasons one would use a revocable trust – mostly in order to control your assets while you’re still alive – an irrevocable trust often makes more sense for asset protection and wealth transfer. The are two big reasons for that, too:

1. Assets in a revocable trust are taxable. If valuable enough, the estate tax can be triggered, AND assets received by the beneficiaries can be taxable for them. Irrevocable trusts remove those tax burdens.

2. <u>Revocable trusts DO NOT offer protection from creditors.</u> Assets

in a revocable trust can be liquidated, whether the trustor is alive or dead, in order to satisfy obligations to creditors. Again, that could include long-term care facilities. Irrevocable trusts are protected from creditors.

For those who seek to keep a low profile, as mentioned earlier, it should be noted that, unlike a will, a trust is NOT a public document. Assets in a trust will be kept private.

As Sutton points out in his book, every single person in the United States has a succession plan. That's because without a will or a living trust, a deceased person's estate will be sorted out in court. If you want to have a say in how your assets are distributed, want the process to be simple and quick, and want to save your beneficiaries expense, avoiding probate court is highly desirable.

He also writes:

> "In the coming decades, $30 trillion worth of assets will be transferred from one generation to the next. This is not a typo. It is trillions, not billions. It will be the largest transfer of wealth in the history of mankind. Given the enormity of this issue, the importance of proper estate planning cannot be overstated."

Estate planning is the process by which you establish how your assets are distributed after your death. Not establishing an estate plan will result in the probate-court hassle and can waste a lot of money. There are quite a few things to consider when estate planning, including:

- Who will maintain control of the assets?
- If there's a family business, will it continue operating?
- Can assets be consolidated?
- What will the next generation's asset protection look like?
- How can family disputes be minimized?

You've probably seen movies or TV shows that tell the story of a wealthy family whose next generation argues over who gets what role in the family business, who controls what, and so forth. The more people involved, the more complicated it is. If a married couple are transferring wealth to, say, five children, there are simply more personalities in play than if the heir was an only child.

If you've seen the HBO series *Succession*, you know that the larger the asset (or assets), the bigger the stakes. And disputes can arise even before the next generation takes ownership of the assets.

The show is about what occurs among a wealthy patriarch's heirs when he wants to step down from the massive media company the family owns. There are questions about his health, and though each of his children have different personalities and varying levels of involvement in the family business, each is vying for a piece of the wealth pit. It can get downright ugly.

To avoid the ugliness, determine the fate of a family business, and decide future control of all assets, it's a good idea to get everyone involved and try to achieve some sort of unity.

For many families, a simple gifting plan is a way to transfer wealth to the next generation without triggering tax consequences. In 2022, the IRS allows each person to gift $16,000 per year per person without owing a gift tax. So, if a married couple has three children, they can gift each one $32,000 per year ($16,000 from each spouse). In 10 years, the couple would be able to transfer $960,000 to the next generation.

It would actually be more if each of the children were married and/or had children of their own, as each spouse and grandchild could also receive up to $32,000 a year tax-free.

It's not uncommon, especially if your children want nothing to do with controlling the assets upon your death. If you own a business or rental properties that your children don't want to operate when you're gone, you could simply liquidate the assets and gift the proceeds to your children each year. The next generation doesn't have to lift a finger other than to deposit an annual check or set up a direct deposit or wire transfer.

The biggest drawback of simply gifting away assets is mostly reserved for high-net worth families. The gift tax was instituted by the IRS so that wealthy individuals couldn't just give away all their money on their deathbed to avoid the 40-percent estate tax. The same 40-percent rate kicks in on gifts that exceed the annual allowed amount ($16,000) OR after the normal estate tax exemption is met.

Under 2022 tax law, the first $12,060,000 of an individual's wealth is exempt from the estate tax. For a married couple, it's double -- $24.12 million. So, you have to have a sizable net worth to worry about estate taxes.

But if you DID have an estate worth more than that, things could become difficult. Say, for example, you had a $40 million estate. If you could gift away even $2 million a year, it would take you 20 years to transfer all that wealth. And since the gift tax exemption, like the estate tax exemption is capped at $24.12 million for a married couple, there'd be a tax bill on $15.88 million of your fortune.

That $15.88 million is taxed at 40 percent, so the tax bill would be $6.35 million. Ouch.

Using legal entities to transfer wealth cannot only help reduce tax liability, but it can also accelerate the gifting process. The big reason is that you can gift away percentages of interest in entities such as LLCs or LPs. It can get a little complicated, but if speeding up the process and avoiding taxes are important to you, it could be well worth it.

Here's an example, modeled after one Sutton uses in his book.

If you had a commercial property valued at $500,000 that you eventually wanted to pass on to your children but wanted to maintain control for now, instead of liquidating it and gifting the proceeds over the years, you could instead gift percentages of interest in an LLC it's held in.

If you have three children, you can gift away $48,000 per year (three children x $16,000/year each) without tax consequences. Since each percentage of ownership is $5,000, you could gift each child 3 percent ownership of the LLC ($15,000) each year and be under the gift tax threshold. That's $45,000 per year, which means you'd be able to complete transfer of the entire LLC to the next generation in about 11 years. Keep in mind that the more people you gift to, the faster the process will go because you can transfer $16,000 more per person, per year.

The other way to complete the transfer process faster would be to give more money per year, per person. Usually, that would trigger the gift tax. But using legal entities, there's a way around that.

The IRS allows for the transfer of discounted shares in entities. In other words, there are circumstances by which shares of the above LLC can be worth less $5,000 each, even though the property is worth $500,000. The basic reason is because you're transferring shares of the LLC, not any equity in the property.

It happens in real estate all the time. Say somebody wants to sell you interest in a million-dollar apartment building owned by a partnership. If there are five partners, math would normally dictate that each 20-percent stake would be worth $200,000.

But would you invest that $200,000 into an asset you don't control? Owning only a 20-percent stake could mean your $200,000 is tied up in what could become an indefinitely illiquid investment if none of the other partners ever wants to sell. The building could *lose* money and you still might not be able to pull out your $200,000.

It might just make more sense for you to go buy a $200,000 property that you have complete control over instead of putting it into something over which you have zero control.

So, the partners might discount the ownership interest in order to attract your investment. Instead of a $200,000 buy-in, they give you the same one-fifth ownership at $140,000. They'd be discounting the shares in hopes of making the lack of control more palatable for you.

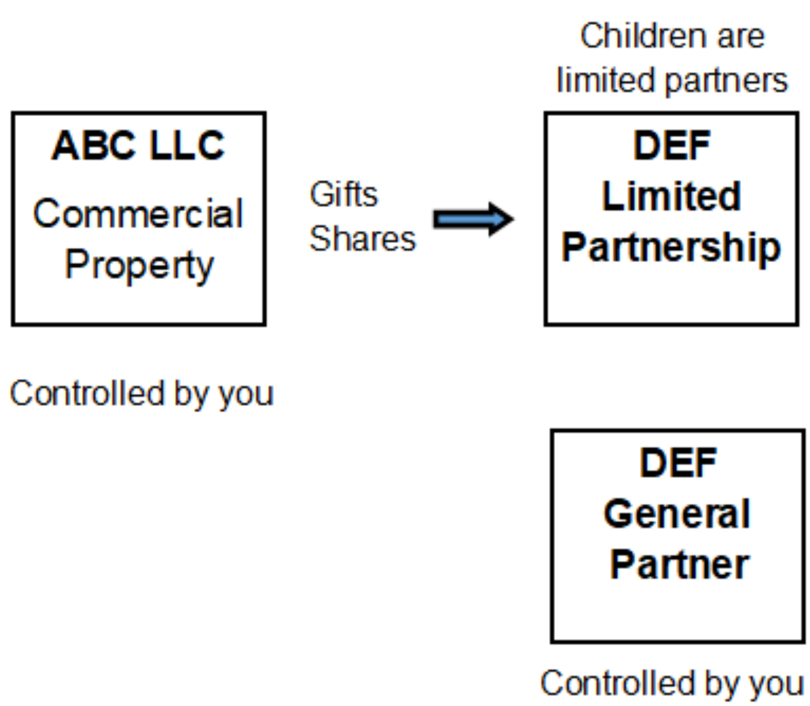
You could do a similar thing with the shares of the LLC your $500,000 commercial property is held in. By discounting the shares, you could transfer more of the actual value of the property without triggering the 40-percent gift tax on amounts over $16,000.

If each 1-percent share is valued at $5,000, a 30-percent discount would make the price each share $3,500. At that value, you would be able to transfer 4.5 shares per year, per child, without going over the annual gift-tax exemption. With a market value of $5,000 each, 4.5 shares are equal to $22,500. That allows you to gift away $6,250 more in value per year, per child, than simply gifting dollar-for-dollar shares.

That would knock four years off the time it would take to complete the transfer – seven years compared to 11. However, there's a catch.

In order to transfer discounted shares, the giftee has to be in the position of not controlling the investment. A way to maintain that position – and thereby the gift-tax exemption – no matter how many shares of the LLC they gain, is to gift the shares to a separate entity.

In his book, Sutton recommends establishing a limited partnership in the children are the limited partner. You or another LLC you control would be the general partner, eliminating any control by your children. It might sound confusing. Here's what it would look like:



Set up this way, you'd be able to continue with ownership of the building, hopefully earning income from rent, while conveying ownership to your heirs over time. By gifting shares of the LLC to the partnership, which is held by a general partner you control, you're able to gift shares of the LLC at a discounted value, which conveys complete ownership more quickly.

Remember, in the original example, the next generation was made up of three children. If you wanted to transfer the asset even faster, you could include spouses in the limited partnership and gift them shares, too.

In the case of grandchildren who are minors, it might be advisable to set up trusts with them as beneficiaries. You would then fund the trusts with gifts of shares in the LLC. Because it's a trust, you would be able to determine when they acquire ownership of the shares. In most states, it's also possible to transfer ownership shares to a custodian who holds the interest until the minor reaches a certain age.

Hopefully, you can see the advantages provided by establishing legal entities for your assets, combined with some estate planning. Those advantages include:

- Protection of assets from creditors, clients, customers, tenants or anyone else who files a lawsuit against you.

- Favorable tax positions in the form of pass-through income treatment by the IRS, as well as reduction or elimination of estate or gift taxes.

- Quicker transfer of assets to beneficiaries by avoidance of probate court, which can be cumbersome.

- Control over how assets are distributed upon your death

- Reduction or elimination of family disputes regarding family wealth upon your death

You might think that establishing trusts or holding investments in LLCs are things that apply to only the very wealthy. But remember that right now, there are more billionaires and millionaires than ever before. And remember that about $30 trillion is going to be transferred from one generation to the next in the coming decades.

And, finally, remember how much jury awards in lawsuits have skyrocketed in recent years. <u>EVERY family's wealth is potentially one lawsuit away from serious jeopardy.</u>

If you've worked hard, invested wisely and built wealth over the years, it only makes sense to protect what you've built for you and your family. Creating an organization of business entities can provide protection for what you've built AND aid in a smooth transition of that wealth to future generations.

To your success!

-Rob Minton
Cashflownaire

P.S. This report is informational and should not be construed as legal or tax advice. Consulting with an attorney and tax professional is advisable when structuring business entities or doing estate planning.

HOW TO **INVEST** LIKE THE

WEALTHIEST UNIVERSITIES IN THE WORLD

SPECIAL REPORT

How to Invest Like the Wealthiest Universities in the World

The 1969 graduating class of Harvard University's business school was the first in the school's 333-year history to not be required to wear jackets and ties on campus. The youngest MBA graduate in that class was a young man named Jack Meyer.

After graduating from America's oldest university, Meyer went to work at the oldest private investment bank in the country: Brown Brothers Harriman & Co. After three years there, he became the deputy controller of New York City, eventually moving on to a position of treasurer and chief financial officer at the Rockefeller Foundation.

By 1990, Meyer had 20 years' experience in managing huge sums of other people's money. And 1990 was when he took over as the President of Harvard Management Company (HMC).

HMC was founded in 1974, an extension of sorts of the University created to manage Harvard's sizable endowment fund and related financial assets. As you might imagine, the oldest and perhaps most prestigious school in the country by then had amassed quite a fortune.

In case you are unfamiliar, a majority of U.S. institutions of higher education maintain endowment funds, which are sums of money that are invested for equity and income that help pay a school's operating expenses and ensure long-term financial stability. Financial endowments often involve schools' pensions, donor funds, real estate holdings, stocks and bonds, tuition aid, and more. Meyer was hired by HMC to oversee all of it.

And to grow all of it. And that he did.

When Meyer took over HMC, it had a value of about $4.8 billion. By the time he stepped down in 2005, Harvard's endowment was worth $26 billion. Even with a couple of steep market declines near the end of his tenure, Meyer's guiding hand helped provide the endowment a 16-percent average annual rate of return. Harvard went from being a very wealthy institution to being a very, VERY wealthy institution.

HARVARD MANAGEMENT COMPANY

So, what changed? Harvard was founded in 1636, and as of 1974, its endowment was worth $4.8 billion. If it took over 300 years to get to that mark, how did it quintuple in value over the next 15 years?

Some of the explanation is simple math: Because of compounding, it's faster to multiply $5 billion than it is to go from zero to $5 billion. But it's also fair to say that Meyer changed the endowment's trajectory, too.

Prior to his arrival, Harvard's endowment was managed much the way other long-term investments were – a 60/40 split between stocks and bonds. That split had long been advised by financial professionals as a way to make short-term equity gains yet hold onto safer, slower-growing assets.

That was not necessarily Meyer's philosophy. While he realized that he was charged with protecting the endowment's wealth, he also knew that to build additional wealth, the fund would probably have to take on additional risk.

Under Meyer, HMC began to break away from the 60/40, stock/bond model. Part of the reason for that was cost-effectiveness. Because of its association with Harvard, HMC is a tax-exempt entity. It doesn't pay tax on income generated within the fund, nor does it pay capital gains tax.

What HMC always HAS paid, however, are transaction fees. Most times its funds were to be used for operational expenses, HMC would divest equity shares to supply cash. The gains realized on whatever securities it sold were non-taxable, but the fund incurred transaction fees whenever it provided cash to the university.

Meyer's idea was to generate income from existing holdings to contribute to the university's operating expenses. That way, HMC could provide cash to the school without moving from its equity positions in preferred stocks. It would still pay transaction fees, but generating income from existing assets would help offset those fees, as would retaining equity by not divesting shares of held assets.

How Meyer set about accomplishing that was to use the endowment's largesse to get into the futures market. Because of its cash holdings and AAA credit rating, HMC could use leverage to take calculated risks that provided income. This is an excerpt from a late-90s profile on Meyer:

> "Meyer focuses on finding market anomalies and taking large, hedged, leveraged bets on them. A comparable for-profit fund could not trade as frequently as does HMC, because it would have to pay capital gains taxes on every profitable transaction.
>
> A classic arbitrage maneuver typical for HMC: It buys a Japanese bond that looks undervalued relative to the bond's futures, and simultaneously sells the futures. HMC's expectation is that the two securities will converge in value; the bond will rise, and the future will drop.
>
> Theoretically, this arrangement allows for zero market risk. Although HMC's percentage profit may equal only one basis point, its dollar profit will be significant because HMC can invest such a large sum in the trade."

The buying of assets and simultaneous selling of futures is something anyone with an online brokerage account and a laptop could today do from their couch. When a large institutional investor does it on a massive scale, there's a name for it.

Yes, the Harvard endowment was one of the first hedge funds.

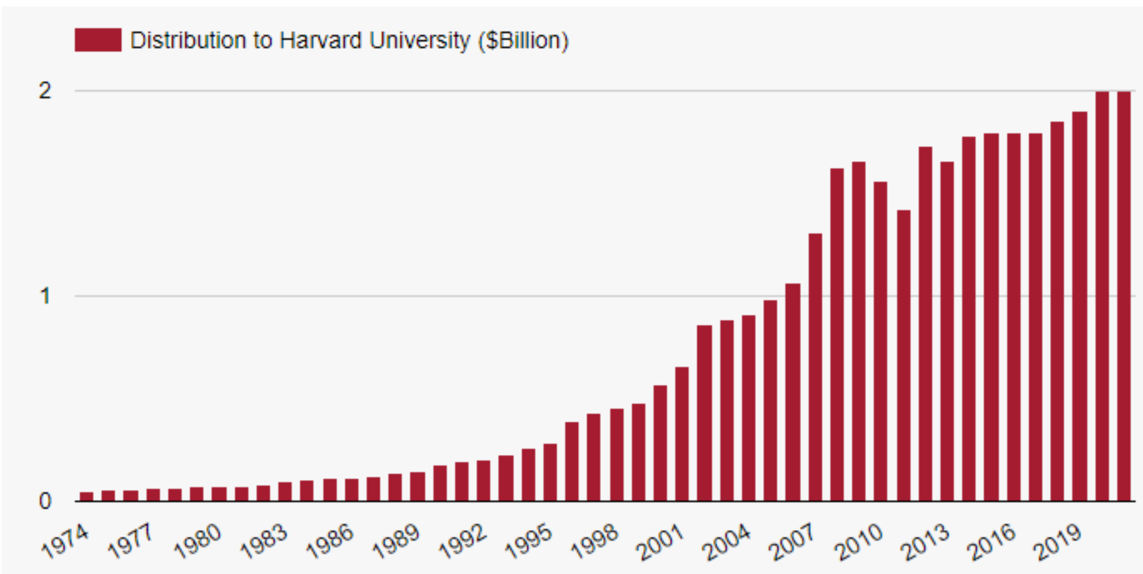
Hedge funds tend to be risky, using borrowed money to make trades that generate immediate returns. But at the time, it was a way for Meyer to use the endowment's borrowing power without risking much of its equity positions. It was a way to generate income that offset transaction fees and maximize the endowment's status as a non-profit, which – ironically – made each hedged bet more profitable than any typical fund could execute.

If you could sum up Meyer's guiding philosophy at the time, it might have been:

"Use a tax-advantaged status to generate short-term income while retaining as much as your long-term equity as possible."

And hedged bets were not Harvard’s only source of income under Meyer’s direction. In addition to being a hedge-fund pioneer, HMC also was an early private venture capital investor, taking dividend income and buying and selling shares in startups. HMC also invested in real estate that provided income, such as timberland. The shift in focus from that old 60/40, stock/bond model to one that provided both income and long-term growth allowed Harvard to begin using its massive wealth to subsidize its immediate objectives.

Here's what Harvard’s endowment has contributed to the school’s operating budget over time. You can see how Meyer’s start in 1990, kind of got the ball rolling:



From 1974 until about the time Meyer took the helm at HMC in 1990, the distribution from HMC toward Harvard’s operational budget was mostly flat, in the tens of millions of dollars early on. By the time he left in 2005, it was close to a billion dollars. Of course, it has surged to double that now. In 2022, the endowment provides Harvard with more than one-third of its entire operating budget. Among the nation’s colleges and universities, that figure is almost unheard of.

These days, Harvard remains the wealthiest school in the United States. The endowment is worth somewhere around $53 billion and gained about $11 billion in value between 2020 and 2021, all the while contributing more cash to the school’s operating budget.

If you think about it, isn’t that what a household’s financial goals might be?

Increasing short-term income to cover the day-to-day expenses while at the same time maintaining a long-term focus on building equity? To that end, colleges kind of provide a model. They might represent the "happy medium" that many households pursue. There is almost undoubtedly value in delaying gratification – it's a tenet of wealth-building – but isn't there something wrong with contributing the maximum amount to your 401k each paycheck, staying out of debt, yet shopping at the dollar store for ramen noodles?

There are plenty of people who are saving for retirement AND living the lifestyle they want right now. It's easy to say that those people have it made; they have high-paying jobs or inherited money, or don't have a family to support. But it's not necessarily so.

Without going into debt – also something plenty of people do – there are basically two ways to afford some of the "wants" in your life. Those "wants" could be vacations, the occasional dinner out at a nice restaurant, newer shoes for your children, whatever. The two ways to achieve those wants are:

1. Reduce your everyday expense obligations so that you have money "left over" from each paycheck.

2. Increase your income so that you have money "left over" after paying your expense obligations.

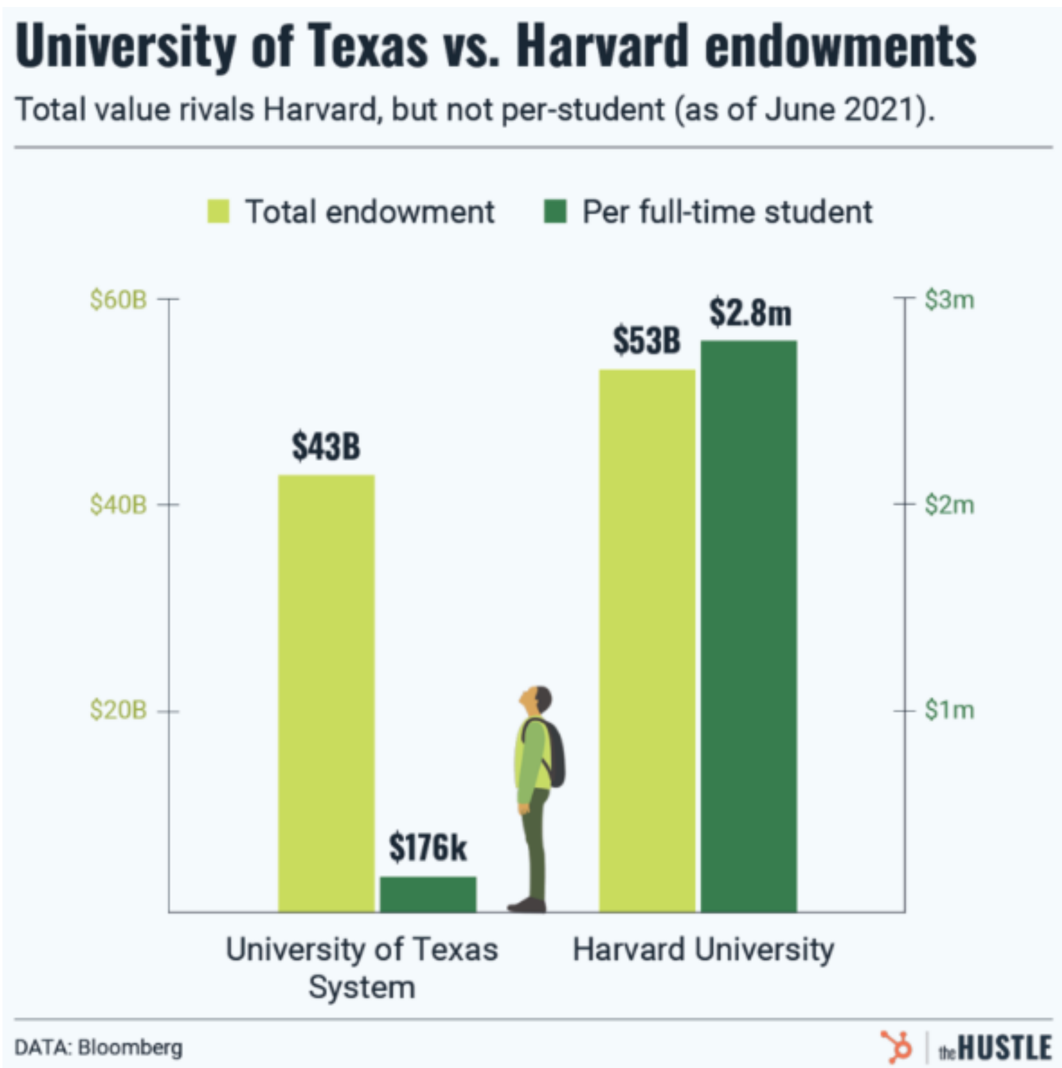
Reducing your normal living expenses might mean little things like reducing your cable or streaming bill, shopping for lower insurance policies, or driving less to save on gasoline. Or it could mean big things, such as moving to more affordable housing or getting rid of a car payment. Any combination of those things could free up discretionary income each month.

Of course, the harsh reality is that some must do those things in order to just get by. Households have had to cut costs to put food on the table. If you're looking to reduce your recurring living expenses in order to enjoy life a little before retirement, you should probably consider yourself fortunate.

Whether you're well-off or not-so-well-off, you probably realize common ways to increase your income: You can ask for a raise or get a better-paying job, take on more overtime or a second job, or start a "side hustle," which can be like getting a second job but setting your own schedule and being your own boss.

The thing that all those ways of increasing income have in common **is that they all require more of your time.** And time is a precious commodity. Nobody – rich, poor, or in-between – can replace time once it's spent. Money is totally replaceable. So, the key to getting more out of what you want in life could very well be <u>increasing your income without increasing the amount of time you spend working</u>.

Perhaps that's where Meyer and Harvard's endowment come in. Remember, the amount the endowment contributes to the school's operating budget (akin to a household's living expenses) significantly increased when Meyer set about a shift in investment philosophy toward income. Consider this graphic from "The Hustle" newsletter:



The UT system is much bigger than Harvard's, so the per-student value of its endowment doesn't come close, but the overall net worth of the school’s endowment approaches Harvard’s. Long the wealthiest school in America, Harvard’s title in that department is in jeopardy. UT’s endowment worth approaches Harvard’s and is gaining daily. Why?

Because for as much as can be made about Meyer’s emphasis of investing for income changed things at Harvard, Texas has maybe even been more committed to investing for income. Bloomberg reports that the university owns over two million acres that it leases to energy companies for oil drilling as well as wind and solar power generation. <u>It's estimated that those land leases earn the school about $6 million **a day.**</u>

When most people think about investing, they conform to the idea of equity: acquiring assets now that appreciate in value over time and can be sold later to generate a profit. But it’s sometimes difficult, even impractical, to convert growing equity into usable liquidity. Equity doesn’t necessarily “pay the bills.”

If the University of Texas is earning $6 million a day without touching its equity positions or depending on the value of that equity, it can certainly pay some bills!

And if you want to increase your income without spending more time working, it’s not unreasonable to think about shifting your own investment philosophy. You, like a college’s endowment, could focus on investment income that helps “pay the bills” now while at the same time maintaining long-term positions.

How does an individual, or a household, shift toward an income-driven investment focus? There are several ways.

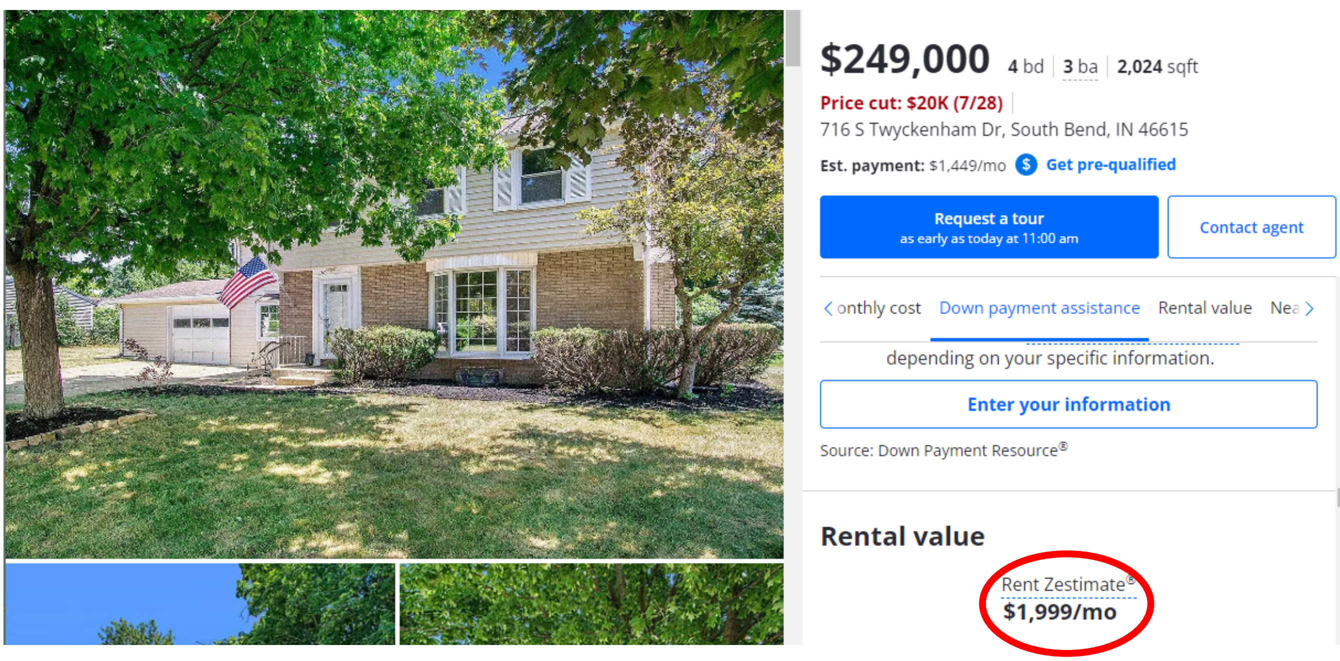
You could, like Meyer did at Harvard, control an investment account and actively trade futures and options. Instead of relying on the old “buy-low, sell-high” approach of equity trading, you could generate cashflow by placing hedged bets – as Meyer’s HMC did – on futures, exercising options and cashing in on undervalued stocks. This approach requires both time and some expertise.

You could, alternatively, invest in securities that pay handsome dividends. Instead of the typical “buy-low, sell-high” strategy, you could instead pursue securities that pay dividends. Essentially, you’d own stocks and funds that pay you for owning them. High-dividend securities can be seen as income-producing assets. Whether you actively trade futures and options, creating income from transactions, or invest in dividend-paying stocks, you'd be turning your focus toward income rather than appreciation.

Or you could take the University of Texas approach and invest in property that pays you with every passing day. You might not be in a position to acquire 2 million acres of drillable oil lands, but you probably could acquire a rental property that at least mimics the same objectives.

A rental property provides you income with every passing day, and the income it provides is not dependent on you divesting your interest in it. In other words, you can short-term "pay the bills" while still controlling the asset, which is most likely appreciating in market value over the long term.

Real estate is extremely expensive in cities like Boston and Austin, Texas, where Harvard and UT are located. But here's a look at a listing of a home for sale in South Bend, Ind., near Notre Dame University, which is sometimes called "Harvard of the Midwest":



As you can see, the listing price on this four-bedroom home is $249,000. With 20 percent down and a 30-year, fixed rate mortgage, a buyer's monthly payment (including taxes and insurance) would be about $1,449 per month.

As you can also see – it's circled in the screenshot – Zillow estimates the rental value of this home at $1,999 per month. That estimate is on the low side for a home close enough to Notre Dame's campus to be used as student housing. Other 4-bedroom homes nearby are renting for as much as $2,500 per month.

But even if it did rent for "only" $2,000 per month, with a $1,449 monthly payment, you'd have positive cashflow (net income) of $550 each month. With a down payment of 20 percent and some closing costs, your total upfront investment would be around $53,000.

With net income of $550, per month, your annual net income would be $6,600. That's an annual rate of return of 12.4 percent – not quite Jack Meyer-fund performance territory, but still an impressive rate of return.

It fits the mold, too. You're acquiring a (probably) undervalued asset that generates income, AND you will maintain control over it for the long term. Hopefully, the property will appreciate over time and will be worth more in the future. <u>But even if it doesn't, it's still providing a nice return because of the income it generates</u>.

Even if you put aside $50 of the net rental income each month in a reserve account for repairs and maintenance, you'd still have $500 per month in "extra" income that you didn't have before. It would take just eight years to get your entire initial acquisition cost back; after that, all the income you receive and all the equity in the property are "house money." Your money is off the table, and anything you do with your income or equity is paid for with other people's money.

Rental real estate is one example of an investment that provides constant, recurring income. It might take a little bit of time to manage a property yourself, but not as much time as getting a second job or launching your own business.

A more passive way to invest for income is to acquire stocks that pay dividends. Again, because the average person thinks of the stock market as a "buy-low, sell-high" proposition only, not everyone takes advantage of the income that stock dividends can provide.

Also, many investors in dividend stocks automatically reinvest any dividends paid into acquiring more shares of stocks or funds. This is a way to ramp up the power of compounding, as the money your money is earning is then put to use to earn more money.

Investing in dividend stocks or funds can be tricky. It’s important to look at dividend yields (dividend per share divided by price per share), but it’s also important to look at a company’s payout performance and its stock price history. Has it reliably paid dividends over the years? Is the dividend yield high because the stock prices have been extremely volatile? Remember, you’re investing for income, but you still don’t want to invest in stocks that could lose all their value.

Here's a look at a company called Enterprise Products Partners (EPD). As you can see, it has a dividend yield over 7 percent and in August was only down $2 per share off its 52-week peak:

Day’s Range	$25.88 - $26.4	Enterprise Value	$86.50B	Beta	0.65
52-Week Range	$19.32 - $28.13	Total Cash (Recent Filing)	$229.40M	Next Earnings	Nov 01, 2022
Previous Close	$26.25	Total Debt (Recent Filing)	$28.22B	EPS Forecast	$0.63
Volume	3.48M	P/E Ratio	11.9	Last Dividend Ex-Date	Jul 27, 2022
Average Volume (3M)	6.19M			Dividend Yield	1.85 (7.07%)
Market Cap	$57.45B				

At the end of July, EPD paid a dividend of 47 cents per share, which is solid but also illustrates a drawback to dividend-paying stocks when investing for income: The income just isn’t very high.

Here’s a hypothetical situation just for math’s sake: If you were to take the same $53,000 used to acquire the rental property in the above example to instead buy shares of EPD stock, you could buy 2010 shares at the share price of $26.36 shown in the screenshot.

With 2010 shares, your quarterly dividend in July 2022 would have been $944.70. That’s not bad for completely passive income, but it’s far short of the $1,650 in rental income the rental property would provide over the same three months.

This isn’t to say that one income-producing asset is inherently better than the other. There are a lot of variables for the investor to consider.

For example, a real estate investor could make their investment more passive by handing off management of a property to a third party, which might come at a dollar cost that makes the rental property’s net income not much more than a dividend-paying stock’s income.

On the other side of the coin, a stock’s volatile value on paper might dissuade an investor from making that investment, passive or not. Further, you can’t really control the dividend a stock will pay, but if you own a rental property, you CAN raise rental rates to increase income. And if there were a third side to a coin, it’s instructive to realize that you won't ever have to paint or put a new roof on a stock.

In other words, there are a lot of things to consider when comparing asset classes. You must think about risk vs. reward, short-term vs. long-term, active vs. passive, and the level of control you want to have over an asset. Those tricky decisions are why fund managers like Jack Meyer get paid big bucks.

If you have an employer-sponsored retirement plan and diligently sock away a percentage of every single paycheck into that plan, you mostly do not have to make those kinds of decisions. When the plan is set up, you might be asked about whether you prefer income or growth funds, or a mix of both, but after that, you’re pretty much at the mercy of the fund managers who control those things.

But when you’re investing outside of a structured retirement plan, the decisions are more up to you. Remember, college endowments’ overall goal is to provide short-term income to contribute toward operating budgets while also ensuring value growth of the underlying assets so as to ensure long-term viability.

So, if it becomes a question for the individual investor of income vs. equity growth, the college endowment answer would be: "both." The income investing question of real estate vs. dividend-paying stocks would probably also be answered with: "both."

You might hear all the time about how vital it is to have "diversified" portfolio of investments, and it's the same thing for college endowments. Nobody charged with the task of providing immediate income AND ensuring indefinite equity growth long-term would put all their eggs in one basket, so to speak.

With that in mind, here's a look at a screenshot from HMC's 2021 annual financial report:

Asset Class	Allocation	Return
Public Equity	14%	50%
Private Equity	34%	77%
Hedge Funds	33%	16%
Real Estate	5%	13%
Natural Resources	1%	(1)%
Bonds/TIPS	4%	3%
Other Real Assets	1%	1%
Cash & Other*	8%	---
Endowment	**100%**	**34%**

**Cash held alongside equity index hedges used to reduce risk.*

According to this filing, HMC's holdings are divided among eight types of investment classes. As you can see, about two-thirds of the endowment's assets are split between private equity and hedge funds. Private equity tends to be a long-term play – ownership stake and future growth are traded for cash – and hedge funds are more an income investment in which hedged bets are actively traded for immediate cashflow.

In other words, two-thirds of Harvard's endowment is split pretty evenly between aggressive income and equity growth.

If you want to further split asset classes, about 12 percent of the endowment's portfolio is in "safe" positions of bonds and cash. Another 14 percent is public equity, which is an income position – the fund is selling ownership stakes to the public – and 5 percent is in real estate, which is a combination of income and growth.

Keep in mind that when you're talking about Harvard's endowment, 5 percent in real estate means holdings of about $265 million, not small change.

The takeaways from a cursory analysis might be:

- 67 percent of the endowment's holdings are in fairly aggressive positions – split about in half between income and equity growth

- Another 14 percent is in public equity, an income position

- Another 12 percent is in "safe" positions of bonds and cash

- 5 percent is in real estate, which is a blend of income and equity potential

Frankly, the asset allocation probably isn't far off from what a professional financial planner might recommend for a wealth-building household that's focused on short-term income and long-term sustainability. In the report, HMC CEO N.P. Narvekar wrote that as strong as the fund's returns were in fiscal year 2021 ($11 billion and a 33% percent increase), they could have been even stronger had the endowment not actively sought to reduce risk. He wrote:

> "During FY21, Harvard enjoyed tremendous returns, but also experienced the opportunity cost of taking lower risk. As readers of previous letters will recall, determining Harvard's risk tolerance (and therefore the appropriate risk in the portfolio) has been a topic actively discussed between HMC and the University, starting with my arrival in December 2016. Over the last decade, HMC has taken lower risk than many of our peers and establishing the right risk tolerance level for the University in the years ahead is an essential stewardship responsibility."

The gist of it is that the university has indicated to HMC that it would prefer lower-risk investments and would like the fund reduce its exposure to riskier holdings. Perhaps it's because they see an economic downturn occurring, or maybe the fund is large enough now to simply protect what it has and allow it to grow slowly but surely rather than by leaps and bounds.

When you have a nearly 400-year legacy and over $50 billion, it makes sense to be in protection mode. And with $50 billion, simply compounding safe investments will mean a lot of money earned.

Of course, there aren't many U.S. households tasked with protecting 400 years of wealth while at the same time ensuring that wealth lasts indefinitely. And, unlike HMC did in 1974, not many households get to start with $4 billion.

Still, there are parallels that can be drawn between building and maintaining household wealth and building and maintaining a college endowment. The objectives can be very similar, actually:

Assess your position and set goals

N.P. Narvekar's tenure as CEO began with HMC in a different place than when Harvard hired Jack Meyer. Back then, the school thought the endowment could contribute more to the University's operating budget, which it knew would only increase over the years.

That's a big reason why Meyer focused on creating income. He did so while growing the overall long-term value of the fund, and HMC over the years contributed more and more to Harvard's budget.

The school is in a different place now. The fund is so large that protecting the massive fortune is a priority over rapid growth. An individual investor or household should – before investing a penny – assess their position, like Harvard did, then set specific goals.

If you're young and starting out, you can afford to be more aggressive than someone who's middle-aged and has already built some wealth. If you're nearing retirement and have a nice retirement fund, your top priority, like Harvard's in recent years, might be to protect it rather than swing for the fences on growth.

Focus on income

Remember, HMC covers over a third of Harvard's operating budget these days and still has a LOT of money "socked" away for the future. The main reason is because Meyer turned to income as an investing strategy.

Also remember that the University of Texas is fast approaching Harvard in the size of its endowment because of investments that generate large amounts of income. As far as school endowments go, Meyer began a trend that has helped make many other schools wealthy.

Contributing the max and amassing a large 401(k) balance is a fine plan for your eventual retirement, but your 401(k) isn't paying the bills right now. It's not allowing you to work less right now. Accomplishing those things requires acquiring income-generating assets.

Don't spend the principal

Warren Buffet, regarded often as the greatest investor of all time, has said that his No.1 rule is: "Don't lose money." Another, similar, phrase that you might often hear is: "Don't invest more than you can afford to lose."

That sentiment is why some investors, once they double their money, take out their initial investment. To put it into gambling parlance, they take their original chips off the table and let their earnings – "house money – ride.

College endowment funds have operated the same way. No institution of higher learning can afford to lose the principal, the "nest egg" they started with, and individual investors can certainly apply the same strategy.

Going back to the $53,000 down payment in the rental property example: You could earn enough income in eight years to get your original investment back. If you set aside that repayment – taking your chips off the table – you basically cannot lose. The money you made is making more money; there's no further risk to the principal.

This is how college endowments are essentially forced to operate because they must last indefinitely, and it can be instructive to individual investors and households seeking to build AND protect wealth.

Diversify to spread risk

College endowment funds, tasked with providing both short-term and long-term results, split their investments so that all their eggs are never in the same basket.

Think about the University of Texas. What happens to its income positions if all the oil dries up or if regulations change so that they suddenly can't lease 2 million acres for fossil-fuel profits? The answer is that, while extremely profitable, UT's land leases for oil drilling are

NOT the only investment providing income and/or growth. The situation can be similar to households or individuals.

If you have all your money in the stock market and it crashes, then what? If, say, in 2007, you had all your money in residential housing, which crashed, then what? If you're 62, and all your money is in a retirement account that loses half its value, then what?

HMC's balance of risk vs. reward and income vs. growth might not be the same balance that's right for you, but there should be SOME balance you maintain to build and protect wealth. Going all in on one thing or another isn't the way to do that.

Long-term focus

One of the investing advantages that colleges have is that they're almost forced by circumstances to have a long-term vision. If you're Harvard and want to be around another 400 years, you MUST make decisions that support that goal.

It's easy to scoff at the ubiquitous personal finance articles that tell you that skipping that latte every day will solve all your money problems. It won't. But there is some truth to the concept that every $3 you spend on coffee can be much more expensive than that in opportunity costs over the years.

If instead of spending $100 each month on $3-plus coffee each day you contributed $100 a month to a low-cost index fund earning a realistic and relatively safe 8-percent rate of return, you'd have about $137,000 in 30 years.

A hundred bucks a month equals $1,200 per year. Over 30 years, that's $36,000. Investing that instead, you might say: "Wow, I can put an extra $100,000 in my pocket with just $100 a month."

But to have that thought, for the simple math to have meaning to you, requires a long-term focus. NOBODY can make wise, wealth-building choices without seeing the big picture, the long-term benefits.

Institutions of higher learning with endowment funds MUST do that. For you, it's a choice. And it shouldn't be a choice between now or then; it should be choice that allows now AND then. That's how college endowment funds operate, and others can certainly copy that lesson.

It would seem that colleges can provide an education about finances whether or not they ever bestow a degree upon you!

To your success!

-Rob Minton
Cashflownaire

P.S. It's a common perception that Harvard is unaffordable for most. And while it's true that standards to get accepted are rigorous, the huge amount of financial aid HMC provides means that it can be affordable for those who are qualified. It's part of the reason why Harvard is able to continue to churn out the Jack Meyers of the world. Talent above circumstance.

P.P.S. Real estate and the other investment ideas in this report contain risk. You can lose money in any investment. Your ability to be successful depends on many factors, including the systems you use, your experience and your support system. You can minimize risk by building a solid team of experienced professional advisors, including a real estate professional, real estate attorney, and real estate tax advisor and through appropriate insurance protection. This report and the sample investment ideas within are for informational purposes only.

Special Research Report

THE ART OF WEALTH PRESERVATION

How European Families Stay Wealthy for Generations

The Art of Wealth Preservation: How European Families Stay Wealthy for Generations

When Cornelius Vanderbilt died in 1877, his family's fortune was an estimated $95 million. In today's dollars, that would be worth more than $2 billion. He was perhaps the wealthiest American at the time of his death, and his family's fortune was one of the largest in the entire world.

Ten years after his death, things were even better. Cornelius had left most of his money and business interests to his son, Billy, who in a decade just about doubled its value. At that point, the Vanderbilt fortune was no longer considered "one of" the largest in the world.

It was THE largest.

But it didn't last long. In his 2013 book, "Fortune's Children: The Fall of the House of Vanderbilt," Arthur T. Vanderbilt II (a descendant of the fortune-builder) wrote that in a few decades, the family had wasted a ton of it. From the book:

"This fabled golden era, this special world of luxury and privilege that the Vanderbilts created, lasted but a brief moment. Within thirty years after the death of the Commodore Vanderbilt in 1877, no member of his family was among the richest people in the United States…. When 120 of the Commodore's descendants gathered at Vanderbilt University in 1973 for the first family reunion, there was not a millionaire among them."

Think about that. The Vanderbilt family was the wealthiest in the entire world, and by the time the 30th anniversary of his death rolled around, they had spent most of Cornelius's money. To put it in modern perspective, this would be like Bill Gates' family going broke by 2047.

How could this possibly happen?

The Biltmore Estate

The downfall of the Vanderbilt fortune is owed to a combination of things, one of which was the lavish lifestyle his heirs chose to live. One of the monuments to this excess is the Biltmore Estate.

Situated near Asheville, N.C., the original property consisted of 10 square miles. The mansion that sits on this vast land is a mind-boggling 178,000 square feet. It cost about $5 million to build, which in today's dollars would be almost $140 million.

It was one of six massive country homes built by Cornelius' grandchildren and great-grandchildren, and they were just that: country homes. They were hardly even used by those who built them. They were mostly for show.

This behavior actually stands in stark contrast to the lifestyle of Cornelius, whose nickname was "Commodore" because, as a teen from a modest family, he borrowed $100 to buy a small boat and began a tiny ferry business. That, of course became a good-sized shipping business and eventually a railroad empire.

It might be easy to blame the descendants of this self-made wealth-builder for blowing the whole thing, and they undoubtedly should shoulder some of the blame. But there was one main culprit to the massive loss of massive wealth within the Vanderbilt family: Cornelius Vanderbilt, the Commodore himself.

Why? Because it seems pretty irresponsible to set up the biggest fortune in the world and NOT set up your family to hold on to it once you're gone.

The Vanderbilts are a cautionary tale – the "What not to do" of wealthy family fortune-holders. But, fortunately, there are history lessons with much happier results, families who hold onto and pass down wealth for generations. And one of the best places to look for these lessons is Europe.

The United States of America was only about 100 years old when the Commodore died in 1877. By contrast, Europe had been around for centuries before that. And the structure of societal hierarchy set up many of Europe's oldest wealthy and noble families a long, long time ago.

But studies show that the retention of wealth in longstanding European families is more likely than in the rest of the world. **The number of wealthy Europeans whose fortunes last for generations is statistically significantly higher than other regions.**

A recent Forbes research project reveals that the longest-living of these fortunes involve mostly privately held, family businesses (67 percent), and more than half (57 percent) of the biggest fortunes in Europe are held by third or fourth generations. That number is particularly astonishing because global historical statistics peg the rate of business survival at 30 percent for second generations and just 6 percent for third generations.

These statistics also contradict other research done on inter-generational family wealth. Most of it is focused on the relationship between wealthy parents and their children, who do enjoy a socioeconomic leg up, but the prevailing opinion is that any advantages the second generation enjoys compared to the rest of the population are typically melted away by the third or fourth generation.

In other words, yes, you get a head start if your parents are wealthy. But your children and grandchildren, while presumably comfortable, don't get advantages comparable to the ones you got.

It was with this knowledge in mind that a 2016 study was started. It was conducted in Italy, where the city of Florence had just made available on digital media all its tax records back to 1427. That's almost 600 years ago and 450 years before Vanderbilt passed on his wealth to his children.

The results of the Florence study were not what the researchers expected. Using surnames and comparing tax records from 1427 and today, they found that the top five earning families and the bottom five earning families had the same surnames both then and now. As the study put it: **"The top earners among the current taxpayers were already at the top of the socioeconomic ladder six centuries ago."**

So what does Europe know about keeping wealth in families for generations that America does not know? What are the differences between families like the Vanderbilts, whose fortune is gone in 30 years, and the richest family in Florence, who have held that designation for 600 years?

In studying the cases of long-held family fortunes and families who have let wealth slip away, it's fairly easy to identify four key differences in how these family fortunes were handled the right way. They can be summed up in four "Fs":

1. Frugality
2. Functional and controlled investments
3. Financial lessons for children
4. Family estate planning

If you notice, the above four things are not unique to wealthy families. You don't have to be a millionaire or billionaire to secure the financial future of your own family using the four "Fs" listed above. So let's look at each one of these items in terms of European families, our cautionary-tale Vanderbilts and an everyday family in current times.

Frugality

You know about the six ridiculous country homes the Commodore's heirs built. But truly wasting money was one Vanderbilt's absolute specialty. That would be Alva Vanderbilt, wife of one of Cornelius' grandsons.

At that time, the Vanderbilts were regarded as "new money" because the railroad industry – responsible for much of the huge fortune – was in its infancy. As wealthy as they were, the Vanderbilts were not with the "in" crowd of the old-money families. Alva Vanderbilt set out to change that.

She built the largest mansion in New York City at the time. It took three years and more than $70 million of today's dollars to do it. It was her way of forcing the Vanderbilts' way into the New York elite.

But it didn't work – not by itself anyway. So she spent $250,000 to host a gigantic, ridiculous party for the who's-who of New York. That's $2.8 million in today's money. Can you even imagine what kind of party costs $2.8 million?

It worked – the Vanderbilts became among the elite – but between the house and the big party, Alva paid about $78 million to be part of the "in" crowd. And that's not what people who hold onto their wealth do.

Michael Otto is the chairman of the Otto Group, founded in Germany by his father in 1949. His privately held company owns Crate & Barrel as well as shopping centers and extensive other real estate holdings in both Europe and North America. He's worth about $14 billion, putting him 61st on the Forbes list of the world's wealthiest.

Yet Otto is known for his frugality, and even though he's tech savvy, his iPhone and iPad aren't the latest versions. He doesn't live a flashy lifestyle. He spends more money on charities than on himself. Here's part of what he told Forbes in a recent interview:

> "It makes more sense to me, and also for me it feels better to do intelligent things—perhaps it's too much to say good things—with money rather than just spend it on things that are not very interesting for me."

In the same Forbes report, Dr. Stephan Schmidheiny, whose conglomerate, Swiss Eternit Group, has been around for four generations, told Forbes in the same report:

> "A relatively thrifty lifestyle and a sense of responsibility to the community have helped to preserve and increase the family wealth over good and bad times."

That doesn’t sound much like Alva Vanderbilt’s approach, does it?

And while the rest of us might not ever have the opportunity to blow money the way Alva did, just about anybody can apply the principle of frugality in their own life. Most people don’t drop millions of dollars in order to hob-knob with fancy folks, but many regular people DO fall into the trap of “Keeping up with the Joneses.”

As income and net worth rise, people adjust their spending upward, too, in order to have the nice things they see others possess. This is much more the Alva Vanderbilt approach to wealth than the European inter-generational wealth model.

The wealthiest European dynasties aren’t trying to impress anyone. They live comfortably, no doubt, and have more luxuries than the average family, but they know that the best way to retain wealth is to not spend it all!

Functional and controlled investments

According to Forbes, there are 53 European family fortunes that have been around for at least 25 years and are worth $1 billion or more. The top six primary businesses among these fortunes are:

1. Retail
2. Food and beverage
3. Automotive
4. Banking
5. Media
6. Real estate

These top six categories make up 70 percent of the 53 family fortunes on the list. The top category, retail, leads with a whopping 30 percent of those families. It’s perhaps not the first category you’d think of when examining long-term wealth.

But we’re talking about big, established, well-known retail here. Aldi, which owns tens of thousands of stores and the real estate they occupy worldwide, is the source of wealth for the Allbrecht family. The world’s largest grocery retail company by revenue, however, is Germany’s Schwarz Gruppe, also a family business. Groupe Auchon, owned by the French Mulliez family since 1961, has 340,000

employees and footholds in 16 countries around the world.
So when you hear "family-owned retailer," we're not talking the mom-and-pop store on the corner.

And well-known, large brands are a staple of these fortunes. You're not likely to see many tech companies or service firms on the list. They are all established brands – Volkswagen (second-largest company in the world), Aldi, BMW, L'Oreal, Bennnetton – **that provide the things that people have always wanted and needed, and always will want and need.**

This is kind of Warren Buffett's approach, too – buy companies that will stick around because people will always want or need what they provide (for example, Pepsi). In Europe, almost all of the long-lasting fortunes have employed the functionality of investing in things people will always want and need.

They also invest in businesses they control. Again, many of these are private companies, including some that have gone public and were brought back into the private fold. These European families tend not to give up control of their companies to anybody outside the family. Companies like Fiat and BMW in the automotive segment have been around for 100 years and have always been headed by a family member of the Agnelli and Quandt families, respectively.

So between function and control, it's understandable why real estate is such a desired investment for Europe's billionaire families. It's both **functional** in that people will always want and need a place to live, AND it's an investment that can be **controlled**. Real estate can be divided, improved and easily passed between generations. It offers a lot of control.

And real estate has long been a staple of the European families with longstanding wealth. The Grosvenor family of Great Britain, for example, started developing land early in the 18th century. That's three hundred years ago. They were among the first real estate investors to build up London, England, and some surrounding areas.

Later, the family's real estate empire grew to Vancouver, Canada, where the Grosvenor Group was responsible for a large part of downtown development. After that, the company expanded into Australia, other parts of Europe, and Asia. It's one of the largest real estate investors in the world, and it's been in the family for over 300 years.

Even the families whose fortunes aren't *explicitly* the result of real estate hold substantial real estate investments. Remember, the Allbrecht family, controllers of the gigantic grocery retailer, has substantial real estate holdings all over the world. The grocery business could somehow totally fail, and they'd still have substantial wealth with just buildings and land alone.

The Agnelli family, which has operated Fiat for over a hundred years, is listed under "automotive" in the list of top six categories of business, but it also owns New York-based Cushman & Wakefield, another one of the world's biggest real estate companies.

Real estate is an ideal investment for passing on wealth to future generations because it:

A. Almost always appreciates over time
B. Can earn income the entire time it's held

Think of the Grosvenor family, which has held that London real estate in its portfolio for three centuries. How much has that land increased in value over that time? How much income have its occupants paid to the Grosvenor family in rent over that time? It's no wonder the Grosvenor family fortune is one of the largest in the world.

Contrast this to Vanderbilt approach, which was to sink massive amounts of money into massive country homes that mostly just sat there. They were hardly used, and they were not rented out for income. That's hardly a functional investment.

So if you could choose, would it appeal to you to be like the Grosvenor family and invest in real estate for income, then pass that property on to your heirs? Or would you rather take the Vanderbilt approach and spend money on non-functional property?

Remember, while not everybody has the opportunity to start the world's next huge grocery chain or car manufacturer, just about anybody DOES have the opportunity to invest in real estate, just like the wealthiest European business families do.

Financial Lessons for Children

Speaking of family businesses, one might think that a businessman like Cornelius Vanderbilt – who went from teenage ferry commodore to railroad magnate – might have imparted some of that business sense on to his children.

But if a good percentage of a huge fortune is frittered away within a generation or two, it's a fair indicator that he did not.

Even if he had imparted simple wisdom such as: "Don't spend the principal," he might have saved future generations millions or billions of dollars.

Instead, he left his heirs some money, one of his sons the company, and, truthfully, little else. Think about what might have been different had he just advised them to just put their money in real estate that actually has function and produces income. They might have fared much better.

The European billionaires whose fortunes have lasted must have imparted some of their knowledge on their children, or else they might have suffered the same fate as the Vanderbilt descendants. Just passing on that idea of frugality would probably make children think twice about wasting money on fruitless, lavish homes that nobody ever used.

The fact that these European family fortunes have so much wealth tied up in real estate, held for centuries in some cases, leads you to believe that even the families whose wealth didn't come directly from real estate taught their children the value of holding long-term, functional assets that they can control.

And real estate is a pretty good way to teach children financial lessons.

Investing in real estate and somewhat involving your children can be a way to allow them to learn and understand income and expense, budgeting, return on investment, balancing a checkbook, and more. And that can all be learned without having to also grasp the very specific knowledge of, say, the grocery or car-manufacturing business.

How many second generations of family businesses fail just because the next generation doesn't have the expertise or passion for the business? A family hardware store, restaurant or even accounting practice can go under quickly if the heirs don't have the same passion or expertise as the previous generation. Real estate mostly doesn't require the same intricate knowledge. Its success doesn't depend, in the same way, on the predecessor's skills or interest.

In fact, in the United States, there are investment vehicles that allow you to hold real estate inside retirement plans. A self-directed IRA, for example, opened in a child's name, could invest in real estate. The properties are held inside the IRA, and all income and expenses are handled inside the account.

Monthly statements, visits to properties held, scouting potential properties for more investment, and more can be ways to involve in family finances at a relatively early age without overwhelming youngsters with information or requiring much of them. The owner of a construction company can show his offspring the ropes of the business, too, but that might involve asking them to do physical labor.

The mostly passive nature of holding real estate as a family business venture can provide lifelong financial lessons that children can for the most part handle.

Take again the case of the Agnelli family, which has controlled Fiat, one Europe's largest car manufacturers, for a century. Cars have been the lifeblood of this family's fortune, yet, at some point, generations after the company was founded, one of the heirs decided to acquire Cushman & Wakefield, which is now one of the world's largest real estate companies. At some point, over the course of inter-generational wealth transfer, also transferred was the lesson that real estate is profitable and lasting. What a valuable lesson that has been for the current Agnellis, who'd be among the world's wealthiest families even if Fiat went belly-up.

Owning real estate is the oldest business in the world, and even those who make their fortunes in other industries participate in this reality.

Think about this, too: If the head of a billionaire family just taught his heirs the two preceding ideas – frugality and functional, controlled investments (such as real estate) – those heirs would have a leg up. That's what the billionaire families of Europe, whose fortunes have been passed down, have done.

If they hadn't taught relevant, useful financial lessons to their children along the way, all the future generations of heirs wouldn't have been as well-equipped to manage the family fortunes when it was their turn. It's great to pass on billions to your heirs, sure, <u>but if you don't also pass down the tools to manage those billions, they won't last</u>. History has proven that.

Family estate planning

It's easy to pick on the Vanderbilts because they are such a compelling cautionary tale, but it's fair to do so because of the massive fall of their financial empire.

It has thus far been unmentioned in this report, but Cornelius Vanderbilt, the Commodore, had 13 children. Forget for a moment your opinion of that fact in general, and just consider the implications of that many kids when you're trying to pass a gigantic fortune on to future generations.

What would you do if you had billions of dollars and 13 children? Well, what the Commodore did was leave almost all of it to one of them. And that led to hostility, resentment and lawsuits from the other 12. Good old Cornelius went on to the afterlife, but his kids stayed on this earth and fought for years in the courts about what would become of his money.

To be fair, he picked the right kid to leave it all to. Remember, his son Billy doubled the value of the family fortune in the 10 years after the Commodore's death. But picking the right heir to run the business and shutting the rest out, leading to acrimony and court battles, was – let's say – perhaps not the best plan of succession.

When it comes to the long-lasting fortunes of European billionaire families, they do have somewhat of an advantage over American families like the Vanderbilts. That's because some of these European dynasty families have been around much longer, and the European history of traditional nobility has certain built-in advantages.

One of the long-standing advantages of European nobility has been the opportunity to own real estate. That alone seems to pose a huge advantage. No matter what the "family business" of European billionaires has evolved into, the long-standing common ground has always been the privilege of owning property that the nobility has always held.

And that plays a role in family succession plans, to be sure.

A car business or retail conglomerate can have executive leadership transferred from generation to generation with one heir, or a small group of heirs, "in charge." But ownership of property can be transferred more easily, and with enough real estate making up a family's fortune, it can be divvied up among multiple heirs. The value of that real estate, remember, is not dependent on those heirs' talents, competence or passion for the family business. Real estate can provide equity and income almost completely independent of the owner's skill set. The same can't be said for the inter-generational transfer of leadership of, say, a large manufacturing, retail or railroad business.

To keep wealth in the family over multiple generations, it's critical to have a plan in place for how that wealth will be transferred. That's why having a will is obviously important, but it also helps to recognize that not everyone who eventually inherits what's in the will has the same abilities. It makes sense to leave heirs with something they can handle, doesn't it?

With a better plan in place, for example, perhaps the Vanderbilts wouldn't have all wound up in court – making lawyers wealthy instead of themselves – when Cornelius moved on.

With this in mind, think about why it makes sense to have real estate assets to leave to future generations. There are several reasons:

1. There is inherent value in real estate, and unlike a business that has so many moving parts in day-to-day operations, it requires no expertise on the part of the heirs to maintain that intrinsic value (equity).
2. It can produce consistent, recurring income also mostly regardless of the heir's skills or interests. So not only does the successor inherit the equity value, they also inherit a means to produce income indefinitely. In the worst-case scenario (no income derived from investment properties owned), an heir would at the very least have a free place to live (in the case of residential real estate).
3. It is much simpler to hold ownership of real estate in trusts than it is to keep control over a major company in a trust. Setting up trusts for real estate is a rather straightforward legal procedure, and trusts are a simple way to pass on wealth to future generations.

The bottom line is that having family estate planning in place is vital to wealth lasting through generations. And it would seem that owning real estate is a solid way to execute estate planning without future generations necessarily having to rely on the same expertise in running the family business that their predecessors did.

For the rest of us

You might be reading this report and thinking to yourself "What do European billionaires have to do with me?" But if you have a family, or plan to have one, isn't it important that they would be provided for even after you're gone? Most people would be more at peace knowing that the fruits of their wealth-building would continue benefiting their family after they're gone.

Which brings us back to real estate. Chances are, you're not going to launch a multi-billion-dollar grocery chain. You're probably not running a start-up car manufacturer that will last 100 years. Do you currently own a food and beverage company, like Nestle, that will be the dynasty of wealth for your future generations?

Those three industries make up about half of the wealth of the great European fortunes that have lasted for multiple generations. The rest of us probably don't have many opportunities to make a go of it in those industries.

But what about real estate? That's a business that just about anyone can get into. Even the Grosvenors, the British family that helped develop London 300 years ago, started with one property. Not everybody who ever invests in real estate will become the Grosvenor family, but ANYBODY can get their start the way they did: with one first investment property.

If you owned one investment property, you would:

1. Have an asset that will always be in demand (people will always need a place to live.
2. Have an asset that over the years can be paid off (if financed), allowing you to leave free-and-clear ownership to your children. They could use it for income or, if a residential property, have a free-and-clear home to live in.
3. Have an asset that consistently produces recurring income (rent), without having to be involved in full-time, day-to-day operations (like a retail business).
4. Have an asset that can be owned inside a retirement account or

trust, making it easily and cleanly transferrable to future generations.

You would have an asset with these four valuable factors of inter-generational wealth even if you were to invest in just one single-family rental property. So think if, over the years, you could add a second, then a third, and so on. You might not become a billionaire, but you could leave quite a bit to your children and even your children's children.

It could start with just one rental property.

If you're interested in investing in real estate, I can help you get started. I'm a licensed real estate professional who specializes in helping investors identify, evaluate and acquire profitable rental properties. In fact, my specialty is helping investors extract maximum income from their properties, something the billionaires of the world value (except for maybe the Vanderbilts).

If you'd like to learn more about different real estate investing opportunities, we can schedule a free 30-minute strategy session phone call where I can help you layout a plan to achieve your investing goals. I can also highlight a few good investing opportunities.

The only challenge is that I only have a few openings in my schedule for these strategy session calls. To check availability and schedule your call, visit:

https://www.DividendRealEstate.com/call

To your success,

Rob Minton
Author & Wealth Coach
EXP Realty

P.S. If you've never done it, I encourage you read about the Vanderbilts. The story doesn't have a happy ending, but it is interesting. And it's so instructional to learn about how such a great entrepreneur and smart businessman like Cornelius, who started wealth-building when he was a teen, could wind up making so many missteps when it came to keeping his great fortune in his family.

SPECIAL REPORT

SECRETS OF THE WEALTHY

WHAT THE WEALTHY KNOW THAT NOT EVERYONE ELSE DOES

7 Secrets of Success: What the Wealthy Know that Not Everyone Else Does

In 1978, a couple of 15-year-old friends in Wilmington, N.C., went to a tryout for the Laney High School varsity basketball team. One friend was a skinny, 5-foot-10 guard who could jump, shoot and dribble fairly well.

The other friend stood 6-foot-7 even at that young age, and, because the varsity coach was looking for tall players, Leroy Smith was selected for the varsity squad's lone sophomore spot.

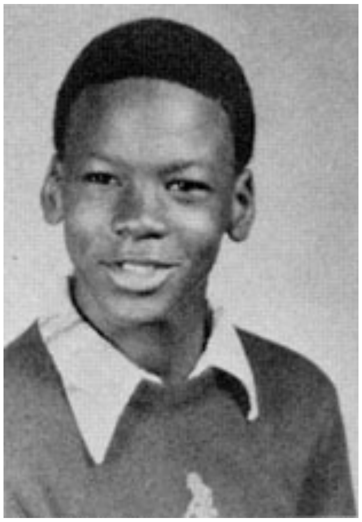
Smith had a good high school basketball career and earned a scholarship the University of North Carolina at Charlotte. It wasn't a big-time school, but by his senior year in college, Smith was team captain and led the Sun Belt Conference in rebounding. He wasn't drafted by an NBA team, but he did play professionally in several leagues around the world.

After his playing career ended, Smith went into business. He co-founded a tech firm and became the president of a film company in Hollywood. It's fair to say he's led a pretty successful life.

His friend, that skinny 15-year-old who was passed up for the spot on the varsity, locked himself in his room and cried after getting the news. Motivated by being relegated to the junior varsity, he scored 40 points in several games that sophomore year, and the JV team attracted crowds just as big as those at the varsity games.

Over a year, the skinny 15-year-old did what most teenage boys do: grow. He sprung up four inches and filled out a bit. But he also worked tirelessly on his game. He spent hours in the gym. He practiced shot after shot, day after day. And whenever he felt like quitting, he remembered the tryout when Leroy Smith was picked over him:

"Whenever I was working out and got tired and figured I ought to stop, I'd close my eyes and see that list in the locker room without my name on it," he once told ESPN.


Jordan in high school

The skinny 15-year-old who couldn't make the varsity was Michael Jordan. He's now a hall-of-famer – a six-time NBA champion and five-time league MVP. In any conversation about the best basketball player in history, his name at least comes up. Many consider him the best player of all time, hands-down.

He also, of course, made a fortune with the Air Jordan brand and Nike. He owns the NBA Charlotte Hornets in his home state of North Carolina, and his net worth is reportedly somewhere around $2 billion.

Now, if you've watched documentaries or read the magazine articles over the years, you might know that Jordan wasn't always regarded as a great teammate. At times, he expected everyone around him to be as driven as he was – probably an unrealistic expectation because few people are THAT driven.

During his hall-of-fame induction speech, Jordan brought up all kinds of perceived slights against him, going all the way back to high school. He brought up his Laney High coach and his friend, Leroy Smith, whom he invited as a guest in the audience. It should be clear to anyone who watched that Jordan for decades remained motivated by not making that varsity basketball team back in 1978.

You could argue that going through life with that kind of bitterness can't be a good thing. It's fair to question how "happy" Jordan was throughout an entire career with such a big chip on his shoulder. But taking all things into consideration, there are two big takeaways about Jordan's drive and motivation that could be useful lessons:

1. You don't become perhaps the best basketball player of all time simply by being physically gifted.

2. You don't go on to amass a $2 billion fortune simply because you were good at basketball.

Think about how many supremely gifted athletes never reach the pinnacles that Jordan did. Think about all the former athletes who made millions of dollars in their playing days and never owned a business, or, worse, went broke. Meanwhile, Jordan is the only former player to ever become a majority owner of an NBA team. Talk about rare air.

Jordan's story can provide insight for anyone hoping to achieve great things and/or build substantial wealth. In fact, the passion that drove Jordan to greatness is often common among builders of great businesses and massive fortunes. **People who build those things don't become passionate about what they've built; they're passionate about something, then go out and build upon that passion.**

Think about how difficult it is to come up with an example of someone who accomplished something BIG without passion for their endeavor. It took passion for introducing new technologies to propel Bill Gates and Steve Jobs to the top of their field. It takes passion for picking stocks to propel Warren Buffet. It took passion for Neil Armstrong to take the first step on the moon.

Frankly, if there are "secrets" to success among the most accomplished individuals in human history, passion would have to rank among them. If dreaming big and setting big goals are prerequisites for accomplishing big things – just about anyone can do those things – then passion is what keeps the big dreamers and goal-setters on the path to actual accomplishment.

In his 2000 book "What Rich People Know & Desperately Want to Keep Secret," businessman and best-selling author Brian Sher titled a chapter: "Passion Is the Secret Weapon of the Rich." He wrote:

> "Success is rarely, if ever, an overnight phenomenon. What you see as a success is invariably the result of years of effort, of failures and restarts, of hurdles cleared and problems avoided. The only things that can fuel such a long drive to success are passion and commitment."

If there truly ARE "secrets of success" or "secret weapons of the rich," the other lesson one can draw from Jordan is what Sher calls "the basics."

Jordan was tremendously gifted, physically, and his failure in 10th grade further fueled a passion for the game that was already there, but he became successful by improving the "basics." He spent hours in the gym alone, hoisting up shot after shot, in order to get better. Not everyone is as gifted, and perhaps not everyone has the same level of passion, but ANYONE could go duplicate the repetition necessary – shot after shot – to become proficient at what it is they want to become proficient at. Sher writes that the difference between extraordinary achievers and ordinary performers is often simply a matter of sticking to “the basics”:

> “Take time to observe the habits of great athletes. Sure, they may have talent we’ll never have, but what they do, and what we can do, is master the basics. They practice them over and over again, for hundreds if not thousands of hours, out of the spotlight, out of the view of a cheering crowd, until one day they are consistently brilliant. They do this until the basics become second nature, and they can rely on them under pressure and adverse conditions. And they return to them whenever they hit trouble.”

Isn’t that what Buffet does with buying stocks in companies? Isn’t that what Jeff Bezos does when pondering which next venture Amazon will dip its toe into? Isn’t that what Bono does when writing the next multi-million-dollar U2 song? The “basics” become second nature, and “they can rely on them,” as Sher points out.

In 1988, Jordan dunked from the free-throw line in the NBA’s annual All-Star weekend contest. It’s an iconic moment in the sports world.

There are few people, in the entire history of humanity, who could replicate this feat. It's impressive, no doubt. But it's also pretty impressive that Jordan was an 84.5-percent free-throw shooter for his career. That means that for every 100 free throws Jordan took, he made about 85.

His physical gifts might allow him the ability to take off from 15 feet away and dunk a basketball, but consistently hitting 85 out of 100 shots from that same spot, often under pressure and in front of thousands of howling fans who want you to miss, requires hours of repetitious hard work behind the scenes.

The basics.

There are hundreds, if not thousands, of books you can read and seminars you can attend that address the mindset of the super-successful compared to the average person. If you've read them, you probably realize that there's truth to that. The super-successful people of the world think and behave differently compared to the Average Joe.

The reality of the situation is that if there are "secrets" to becoming ultra-successful and/or ultra-rich, they're probably no longer truly secrets. More than two decades removed from Sher's book being published, it's tempting to believe that all the "secrets" have been revealed. But it can still be instructive to learn about the "secrets to success" – beyond passion and sticking to the basics – the wealthy keep close to their hearts.

Maybe it's better to call them "guiding principles" or wealth-building "rules," but there remain driving forces that the who's-who roster of successful people employ that less-successful people do not. So, there may very well be "secrets" to success that not everybody knows. Here's a dive into the seven most powerful of those "secrets."

Secret No. 1: Money is simple

Money is not magic. It has a specific purpose: It's a means to trade what you have for what you want and need. In many ways, money is no more complicated than, say, a fork.

A fork is designed to get food from your plate into your mouth. It's a proven, effective way to do that. And, theoretically, you could misuse it and stab yourself. If that happens, you've over-complicated things. Yet, many people tend to over-complicate money all the time. How many people don't invest because it's "too complicated," or don't properly establish a household budget because it's "too complicated?"

Wealthy people, in one way or another:

1. Earn more than they spend
2. Save some cash
3. Invest the rest

That's the simple formula. The ways they earn and invest money will differ, but there's nothing magical going on. It's a shame that schools don't do a better job of teaching financial literacy to children and teens, because financial literacy is a requirement of wealth-building.

The good news is that becoming financially literate should NOT BE INTIMIDATING once you accept that money is simple.

Secret No. 2: Own a business

Staying with the theme of simplicity, there are only five ways to make money:

- Steal it (fraud, embezzlement, etc. included)
- Inherit it
- Earn returns from financial investments
- Work for it
- Own a business

<u>If there's a "secret" in the simplicity of money, it's that owning a business and earning returns from financial investments tend to build the most wealth. Most wealthy people own businesses</u>. Sher wrote about why:

> "A well-run business can generate staggering profits and will outperform any other means of gaining wealth.

For example, if you invest $40,000 in a bank or in property, you may get between 4 and 20 percent growth on your money each year. If you invested well in the share market, you may even see returns of 20 to 30 percent. But investing the same amount in your own business can give you percentage returns in the hundreds or more. There is no comparison. If you want to be rich, your money should be going into your own business."

When people think about owning their own business, the appeal often is being their own boss or making their own schedule. But the reality of it is that owning a business is usually the best investment you can make.

But there are a few caveats. The first is that you have to know how to operate a business. You can be a great attorney, carpenter, accountant, landscaper, etc. and be terrible at running any of those businesses. The statistics around business that shut down within the first few years of opening are staggering. If you don't own a *profitable* business, you could wind up losing wealth instead of building it.

The second caveat is that, at some point, you'll want to own a business that operates profitably without you having to physically be there. You can have the most profitable business in the world, but if you must be there 80 hours a week, you also still have a job.

The term "financial freedom" is probably overused, but the truest meaning of it is: "Having enough financial resources to pay for your living expenses and allow you to afford many of your life goals without having to work."

Most people wait until retirement age to get to that point, and plenty of those nearing retirement age worry that they don't have enough money to stop working.

The wealthy get to financial freedom much more quickly, earning income from a business or businesses without being involved in the day-to-day running of them.

Secret No. 3: It’s not all about money

One of the reasons that financial independence is important to wealthy people is because it gives them something more precious than money: time. Money is replaceable. Time is not.

When you don’t rely on a job to afford your living expenses, you naturally have more time. That time can be spent on things you enjoy doing – hobbies, reading, writing, traveling, entertaining, visiting family and friends, etc.

The old Disney character Scrooge McDuck was portrayed as money-grubbing, mostly unpleasant fellow modeled after Ebenezer Scrooge in the old Dickens story “A Christmas Carol.” The Disney Scrooge had a vault full of gold and seemed to have a penchant for diving in and swimming in it.

To people who barely have enough money to get by – or those who aren’t getting by – swimming in money might be a real fantasy. But making money, having money, and spending money is not the end-all, be-all it’s sometimes made out to be. The wealthy understand that money makes things easier, yes, but it really just buys the freedom to spend your time how you want.

Sher writes that money is a tool to be used for getting things done, a means rather than the end. And people who get caught up in simply become rich financially often wind up with a lack of any richness in other areas of their lives. He wrote:

> “Money can certainly make life easier, more comfortable, more secure. It can open more doors, take you places you’ve never been, and allow you to meet people you’d otherwise never have met. But the bad news is that it cannot buy you happiness.
>
> Many unfortunate people have fallen into this trap and don’t realize it until it’s too late. They reach their goal of having a very big house but cannot call it a home—it’s an empty place with no warmth and no one to share it with. They have a big boat but no real friends to sail it with them. This is the ultimate punishment—a realization too late that they’ve wasted their lives pursuing the wrong thing.”

Being “rich” doesn’t mean being able to dive into a pile of gold. Money can help you achieve a rich, balanced life, but you probably must truly accept that it’s not all about the money.

Secret No. 4: Give people what they want

Author and motivational speaker Zig Ziglar once said**: “You can have everything in life you want if you just help enough people get what they want.”** It might sound a little altruistic, even corny, but that philosophy is a cornerstone of wealth-building.

No matter what your business is, the simplest factor of profitability is providing enough paying customers or clients with what it is they want. If you want $1 million in revenue, then you can have one $1 million client, sell one million people $1 products, or similar combination in between. <u>No matter what your product or service is, you simply must provide enough people with what they want in order to meet your goals.</u>

Logic follows, then, that there are two main necessities for building income from a business – whether it be a major corporation or a “side hustle" you start in your spare time. Those two necessities are:

1. Figure out what it is people REALLY want that you can provide.

2. Attract enough people willing to give you money for it.

Keep in mind that it truly requires both. For example, you could come up with the greatest invention ever for people who own, say, indoor swimming pools. But are there enough people who own indoor swimming pools for your invention to make money? Can you attract enough of those people to your business?

A great idea isn't enough. The equation is more like:

Great Idea + effective marketing to enough people = success

If you've ever taken a psychology class, you've problem learned about Maslow's Hierarchy of Needs. Dr. Abraham Maslow was a psychologist who through massive research developed five basic levels of human needs. Those need levels look like this:

The theory is that once one level of basic need is met, it's human nature to move onto the next level. For example, once someone has all their physiological needs met – food, shelter, clothing – they look to the next level. Once that level (safety needs) is met, they look to fulfill the next level of need, and so on. Sher wrote:

> "What does all this mean? The point is that it is people's needs that motivate them to buy, and to give you money. Successful people realize this and always focus on meeting and understanding customer needs.
>
> Because of the nature of their needs, people will pay you if you can do any of the following for them better than anyone else:
>
> - Make or save them money
> - Save them time
> - Supply them with food, shelter, or clothing
> - Provide them with security, safety, or comfort
> - Offer them leisure or entertainment, affection, friendship, or belonging
> - Give them status, prestige, or self-respect
> - Add value to their lives
>
> There are many businesses out there doing some or all of these things. If you study the most successful people and companies, they have simply done this better than anyone else and made a fortune in the process."

One of the biggest secrets pertaining to how wealthy people think <u>is that they tend to pay attention to how ALL people think.</u> Understanding how people think allows them to not only figure out what it is people really want, but also how to market to them.

Secret No. 5: Laser focus

When Michael Jordan failed to make the varsity as a sophomore, it was a defining moment. You could say he dedicated much of his life to proving people wrong and becoming the absolute best at what he did, which was basketball. It's an example of monumental focus – <u>a massive dedication to achieving a singular goal.</u>

That's another "secret" of ultra-successful people: laser focus. You've heard the phrase "eyes on the prize," right? The most successful wealth-builders NEVER take their eyes off the prize. They focus on what they are the best at and tune out everything else – distractions disguised as opportunities, people who don't contribute to their goals, and anything else that might divert their attention. Sher put it perfectly:

> "Most people are jacks-of-all-trades and masters of none. They're happy doing lots of different things badly; because they're easily bored, they can't choose, or they don't understand how important focus is. Focus is essential. You are always better off being an expert in one thing rather than average at everything."

You might be saying to yourself: "But what about Jeff Bezos? Amazon does a million different things." And it might seem that way on the surface. Amazon started as a bookstore, then started selling everything on the planet; got into TV and film production; electronic devices; web hosting; business services; book publishing; music distribution; and more. It might not seem like "laser focus."

But the truth is that Amazon is a delivery business. It has always been laser-focused on that.

When it was launched, Amazon didn't write or publish books; it delivered them. When they launched Kindle readers, and later Fire tablets, it was simply an advanced way of delivering books. When Prime Video launched, it was a way to deliver movies.

And today, they have a hundred million Prime subscribers who pay for two-day delivery – sometimes same-day delivery! – provided by their own fleet of trucks. Amazon delivers bandwidth for you to stream content, store your photos and Ring doorbell videos, and manage your kids' screen time. Bezos bought the *Washington Post* so that he can deliver your news, too.

<u>The laser focus has always been being the best at delivering all the that things people want.</u> You might say that Jeff Bezos is the Michael Jordan of consumer delivery!

Of course, Amazon isn't the only retailer that has laser focus. Walmart and the various dollar-store chains are successful because they have, over the years, maintained their focus on affordability. Brands like Mercedes and Gucci have never shifted their focus from luxury items. Kraft sells food. Nike sells athletic apparel. Stephen King writes horror books, and no brain surgeon is going to operate on someone's knee.

Successful people and businesses recognize and develop a core competency and stick to it with laser focus. Even when it appears that a super-successful company or individual is shifting focus, they're usually not.

Secret No. 6: There really are *three* constants in life

The old saying goes that "there are only two sure things in life: death and taxes." But the reality is that there is actually a third, constant certainty.

Change.

If you're reading this, you haven't yet experienced the inevitability of death. If you've ever worked, you HAVE likely paid your share of taxes. But regardless of those other two constants in life, you've certainly experienced a good bit of change.

How you spend your time has changed, going from student to employee or business owner as you've matured. Your body certainly changes as you get older. Your relationships with family have changed. Your friends probably have changed. Your jobs have probably changed. Your inventory of knowledge has changed. Your insights and philosophies might have changed. And all are still changing.

Think about your grandparents. If you're of a certain age, they never had the internet, a fairly recent modern development that has vastly shaped the world over a mere 30 years or so. If you're of a certain age, your parents might not ever have used a fax machine in their jobs, yet you perhaps have seen that technology both come and go.

Most people are resistant to change. New music isn't as good as old music. Kids are spoiled because they have color TV or more days off of school than you did. Paper boys don't toss the daily news onto your stoop anymore, and the milkman, well … there's no such thing nowadays.

Everybody’s nose is in their damn phone. Too many people work from home. Not enough people go to church or malls anymore. They want me to buy water in bottles, and then recycle them? And get my bills via email? Jeans are too loose. Jeans are too tight. What happened to the “good old days?!”

A Billy Joel song from the “good old days” contains the lyric: “The good old days weren’t always good, and tomorrow ain’t as bad as it seems.” It’s something to keep in mind as you consider this:

The ultra-wealthy do not resist change. They embrace it. They adapt. **They take advantage of the opportunities that change presents.** That’s one of their secrets. And it’s been going on since the invention of the wheel, the printing press, the combustion engine and the telegraph. And especially since the internet.

A good example of embracing internet change and adapting to it is now-billionaire Mark Cuban. He was just a college student when he realized that the internet was going to change broadcasting and founded a company that started doing sports broadcasting on the web. It was among one of the first companies to stream live events, revolutionary at the time, and he eventually sold his company to Yahoo! for $5.7 billion worth of stock.

That was during the dot.com boom, and even then, Cuban had a feeling the internet would evolve. He made purchases and investments before the dot.com bust and didn’t fare that badly when Yahoo! stock basically went belly-up.

Since then, he has invested in – and divested out of – many internet ventures as the world moved more and more online. These days, as an investor on the reality TV show “Shark Tank,” he’s hopped on the trend of internet-based startups and invested in about 85 hopeful companies. On a cash basis, he admits that he’s lost money in most of those ventures.

But he says he’s gained illiquid equity based on private valuations of multiple companies he’s invested in. He’s bought in on emerging technologies and e-commerce processes that he believes will be one day be more profitable as internet business continues to evolve. Along the way, he launched his own internet pharmacy, believing it’s the future of that industry.

In other words, Mark Cuban has placed bets on change. And he's rarely been wrong in the past. He knows the ins and outs of tech businesses, e-commerce and the "next-best thing." All involve the constant of change.

You can long for the "good old days" all you want, but history (and adaptable entrepreneurs) have proven time and time again that the real money is in leaning into change.

Secret No. 7: Education

When you hear the word "education," you probably immediately think about schools. You might even picture the world of the wealthy as it's often portrayed in films – private-school blazers with crests, ivy-covered campus buildings and stuffy professors lecturing future doctors and lawyers of the world.

And it's true that the wealthy send their children to quality schools. But they also understand that "education" extends far beyond classrooms and campuses. A degree from a good school might land you a high salary as an employee, but a lot of entrepreneurialism and business savvy are learned elsewhere.

Many self-made wealth-builders are what can be called "lifelong learners." They realize that learning doesn't end after high school or college but instead is ongoing over the course of their entire lives. They read books, study other people, have mentors, try out different careers – all in the quest for more knowledge.

And though wealthy people are usually not risk-averse, they DO tend to make sure they know everything they possibly can before getting involved in a something new to them. The desire for knowledge often separates them from the middle-class employee population, even those with well-paying jobs.

For example, how many people out there have money to invest in the stock market but don't and say, "I don't know what I'm doing"? High-achieving successful people would never say that. They'd teach themselves. They'd learn from others. They would become educated about investing in securities.

Take Warren Buffett, known as the "Oracle of Omaha" and sometimes called the greatest investor in history. He's over 90 years old and is still a voracious reader, spending hours a day in books and news publications. At the top of his profession, and at that advanced age, he is intent on learning new things every day.

Another example about learning and business might be the dentist, lawyer, accountant, or doctor who performs well working for an established practice – maybe even at the top of their field. They decide to strike out on their own, founding their own practice. But it's easy for that practice to fail if the person has no idea how to run a business.

Hiring and managing people, attracting clients through effective marketing, or setting and adhering to a company budget are aspects of a practice that aren't things they learned in school. They can only acquire those skills by continuing to learn – outside of whatever it is they specialize in – from others who DO know what they're doing.

Again, that learning can come from books, seminars, classes, mentors, mastermind groups, industry publications and simply studying people who have already done accomplished what they're trying to accomplish.

You might think: "Well, they can learn by doing," or "They figure it out as they go along." <u>But most high achievers learn BEFORE doing. They figure it out BEFORE they go along.</u>

Wealthy people also understand that once they gain knowledge, they can often apply it in many ways. For example, once you properly learn how to drive a car, you can pretty much drive ANY car that comes along. It's the same with running a business or managing investments. As they say, a little knowledge can go a long way.

That doesn't mean you have to be a genius to be wealthy. There are plenty of examples of both very smart people who are broke and very wealthy people who might be considered "uneducated." What you DO have to have is a <u>willingness to continue to learn.</u>

And that willingness to learn directly ties into the other secrets of the wealthy. For example, it's difficult to embrace change for profit without learning new things. It's difficult to realize the simplicity of money without educating yourself about its uses. And it makes very little sense to be laser-focused on something you know little about. Most of the other "secrets" require the "secret" of learning.

If you think about it, the fact that you sat down and read this report is a sign that you already have that willingness to learn!

To your success!

-Rob Minton
Cashflownaire

P.S. Throughout his NBA career, when Michael Jordan checked into hotels in various cities, he often used an assumed name. It's a fairly common practice for pro athletes who value their privacy. The assumed name Jordan frequently used? Leroy Smith.