SECTION FOUR

INVESTING

WHERE IS THE ROAD TO WEALTH?

The Road to Wealth

- Insurance (Health & Life)/Assurance—Six Months of Expenses
- Emergency Funds— Three Months of Household Expenses
- Capital/Guaranteed—Low Risk Investment
- High Risk/Speculative Investments (Last)

Your stair step to Financial Freedom can be found above. If you follow this model and the other rules in this book, before you know it you will be stress free and on your way to the winner's circle.

Let's start out on the top with Insurance and Assurance.

Insurance is self-explanatory. It is good to have life and health insurance as well as home, auto, and any other insurance that will help you in times of need. Make sure that you shop around for the best prices as you have learned to do in this book. There are many

Internet sites that will give you quotes on all types of insurance coverage. Take time to research so that your expenses will be low and your coverage will be good.

Assurance means that you have saved six months of living expenses in case of some disaster. If you can't work for six months but all the bills are still due, how much would you need to make sure that you won't fall into financial ruin? If your household income and expenses are $3,000 per month, you can see that you would need to save $18,000 in Assurance. You need to keep this money very liquid.

One clever strategy is to purchase three bank CDs for $6,000 each as you accumulate the $6,000 increments. Purchase three-month CDs three months in a row, so that one will mature every three months and you will have your expenses taken care of in case of emergency. Keep the funds in any liquid means that you want, although I don't recommend keeping that kind of cash under your bed.

Emergency funds. This is an unreal term, because we really don't have that many emergencies. You know that those tires will be bald soon, and you know that elderly relatives will pass away; these are not unexpected occurrences or emergencies.

Many people tell me that the reason they are in debt is because they had several emergencies and that they had to charge their credit card to the max. When I asked what the emergencies were, they told me things like:

- "My transmission blew," but you knew you had 315,000 miles on that truck and that it was time for some maintenance.

- “Aunt Lula Mae passed away and I had to get a flight to the funeral and because it was last minute, the flight was $1,000 and I had to charge it on my Visa,” when you knew Aunt Lula Mae and all of her sisters were elderly and that you should have put travel money aside for the funerals.

- “I needed a vacation because I was under a lot of stress, so I charged a 7-day Caribbean cruise on my card,” and you came back more in debt and under more stress!

We can’t keep using excuses to hide our lack of planning. Put three to six months of living expenses away for irregular occurrences to keep from racking up credit card debt and interest.

Estimate a monthly amount in all of your expense categories based on what you spent last year, then add additional categories for your family, and multiply by 12 for the annual estimates. Take that annual total to see how much per month you will need to put aside for emergencies. If three months of living expenses is not enough, add additional months as needed.

For example, the Duncan family likes to take vacations. They have totaled up their so-called emergency expenses and determined that they need $14,373 per year to take care of things other than household expenses. Their life- style requires that they either set aside $1,197 per month for this fund, or cut down on their vacations and other noted expenses. If they continue to fund these irregular expenses without planning for them, they will fall deep into debt. Credit card debt is the most popular way to get deep in debt, so stop using them for things you can’t afford to pay for in cash!

Capital Guaranteed Investments

Capital guaranteed investments simply mean that if you put a certain amount into the investment; you will at least get that amount back. These investments are available in the states and offshore, but they are rare.

We will talk a little more about offshore investing in our section about what the wealthy do. However, some of us have noticed that the “powers that be” and the news media try to scare the middle class away from even thinking about investigating offshore by associating everything offshore with something illegal. If you put on your thinking caps, you will see that all of the wealthy families; the Rockefellers, Carnegies, Fords, and Kennedys have millions of dollars invested offshore directly and indirectly. If you look at what they are doing, how can you be scared into keeping your funds in losing instruments here in the States?

Investments that are capital guaranteed are better for the beginner investor who can’t afford to lose what has been invested. A good investment coach will tell you, “Never invest what you can’t afford to lose.” Many of us have been shell-shocked by smooth-talking investment gurus in Italian suits, telling us that their investment will gain us 5% per month. There are investments out there that will bring those kinds of returns; however, your job is to investigate and research these investments instead of just throwing your wallet at the person with the smooth presentation.

Doing your research and finding capital guaranteed investments at the start of your investment experience will keep you on the road to wealth without any sidetracks, such as those with pie in the sky numbers that make you lose your investment funds.

One capital guaranteed/low risk (usually) investment is real estate. Real estate is currently coming out of a free fall in the States, but real estate in other countries is another option that many here, even real estate agents and brokers, have not looked into. Countries like Costa Rica, Panama, Ecuador and Nicaragua are booming, and because of their weather, many retirees from all over the world rush in to buy land.

Look into real estate deals in areas in the States that are not declining much, but also look closely at international real estate, where you must learn the rules because they operate very differently in many countries. In some countries, a realtor can sell the seller’s house for a higher list price, give the seller what he asked for, and keep the rest!

I have friends who purchased a home in Panama, only to have the agent tell them one day before they left to move down there that their home was sold to someone else for $95,000 more than they contracted for, even though they put a down payment on the home and signed a contract! They received their down payment back, but they had to find another home, which took them two additional months!

Speculative Investments

Speculative (high risk) investments are just that. These are the high yield; high-risk investments that are offered mostly by companies that only deal with Accredited Investors.

Accredited Investors are people who have a million dollars net worth (excluding the value of a primary residence), or who earn $200,000 per year as a single person or $300,000 as a married couple. This designation, developed by the Securities and Exchange Commission (SEC), keeps the middle class from excelling in income investments. By deciding that middle class people are not smart enough to research and invest with wisdom, the SEC forbids brokers and investment advisors from showing high yield investments to people who don’t meet the criteria. Even if you have great investment knowledge, you can’t invest in certain investments if you don’t earn $200,000 a year and you don’t have one million dollars net worth. This is wrong on so many different levels that I just have to stop right here before I get angry all over again.

A stockbroker who is licensed and regulated by the SEC and the National Association of Securities Dealers (NASD) can have you in his office selling you on IRAs and Mutual Funds, and the very next hour have another couple in his office selling them on high-yield investments that you will never know about. Not all of these investments are high risk!

Another high yield investment strategy is to become a small venture capitalist who loans funds to small up and coming businesses that prove that they will make a profit. This method takes serious research. I know a man who makes a living investing in companies that show great potential. He does his research and if he can make money investing in these small companies, he invests and reaps large dividends, as opposed to throwing money into mutual funds that include failing companies that he knows nothing about. There are many ways for you to take advantage of some of these higher yield investments even when you have the funds but are not an accredited investor, and I will discuss those options in the next section of the book when we talk about what the wealthy do to become and stay wealthy. Speculative investments should be your last step, though; like it does for the wealthy, this is where your money makes money.

Questions You Need to Ask Before Investing

I talked earlier about how people go to investment seminars, get caught up in the hype of the smooth talking presenter and throw their wallets open, often without asking any questions about the investment offered. Before you invest anything, you need to ask these questions:

What is being offered/what is the product? If the presenter can't explain this clearly and in detail, you may want to turn away. I attended an investment conference in Cancun and another attendee had done his homework to the point that he ran circles around the presenter with his questions. I was embarrassed for the presenter, and she was as red as an apple by the end of her presentation. Needless to say, none of the attendees invested in the product she was offering.

Why do they need *my* money? Often, they really don't! Others could fund the opportunity they present, or they may have squandered money previously invested. In either case, you want to find out how much money the company has spent, and how the company spent it.

Who is in charge? You always want to know who is at the helm of the product or service being presented. The presenter at an investment conference in Greece was the actual product inventor and developer; he had put his life into the product, and I could feel his passion. He was an engineer and he did a great job developing and presenting the product, and I felt very comfortable with that investment.

Do they make money even if I don't? I don't invest in the stock market or use stockbrokers, because they make me broker and broker. Whenever others make money whether you make any or not, you are going down a dangerous road. Often when you trade stock, the broker earns money on every trade. Also, stock and insurance brokers earn differing commissions on different products, so they may offer you an inferior product just to receive a higher commission.

How much money does the presenter personally have invested? Presentations made by sales people are turnoffs to me; I want to hear from the owner, founder, or an officer who has a personal stake in the product or service. These are the people who have the real knowledge necessary to make prudent investment decisions. In my previous example, the presenter was a saleswoman who knew less than the attendee, and it showed when she couldn't answer questions that someone more intimately involved with the company would have been able to answer.

What market factors drive the amount of projected return? Market factors such as interest rates, economic growth, trade and capital flows, and merger and acquisition activity affect the amount of return you may receive on an investment. In addition, some products are manufactured in different places of the world. You need to know where the products are made and the political climate in that area. I lost thousands in an investment based in a South American country when corporate greed and government corruption tied the company's hands and stopped production. Who knows whether I will ever regain my principal investment?

What is the company's background? How long has it been in business? The shorter the amount of time a company has been in business, the riskier the investment. New companies need to work out their glitches before you invest substantial amounts of money; they need to earn your trust by showing growth and profits. Make sure that when you ask this question the answer includes **only** the amount of time the company has existed in its current state. I have heard presenters give longer existence dates for companies that started out with other names, but failed and re-opened with a new name. Many companies don't want you to know that they have a checkered past.

Will all or part of my invested principal be at risk? Earlier, we discussed capital guaranteed investments, in which you are guaranteed to get back at least what you invested. Some guarantee only to return part of your investment should there be problems or loss involved. Make sure you know the entire story and exactly how much is guaranteed, and get it in writing!

Can I or any other investors visit the company's facility? This is an important question, as some "fake" companies operate out of a private mailbox address, or even from someone's home. People tend not to invest in companies that don't have a brick-and-mortar presence, and some organizations try to hide the fact that they are small by renting a private mailbox on a busy street. I have seen some of them bring pictures of their supposed facility, which turned out to be pictures of someone else's business. Before many of my friends invest, they pay a visit to the company and have a talk with the partners and officers. Even if a partner or officer presented the investment, the investor validates concerns by visiting the actual facility and seeing the work in progress.

How often do investors receive updates and payments? When you are considering an investment, you need to know the company's policies and procedures. You want to know how often you will receive updates about your investment; some companies send out monthly or quarterly newsletters, while others only contact investors once a year. You also want to know when you will be paid; some investments pay out monthly or quarterly. I have heard about investments that paid out after five years and usually offer a higher rate of return because they have your money so long. If you want a long-term investment to generate college tuition for your teenager, this may be the way to go.

What is the exit strategy to recoup all of my funds? You should always know where the exits are when you are in a building and when you invest. If you don't ask, you may find out the hard way that you can't get your money back or at least not before a certain date. If you investin a product that has a high rate of return and claims that you will receive full principal and interest in five years, will you be able to get the principal back after two years if you fall on hard times, or will you forfeit part of the principal and interest earned by taking the money out early? You need to ask the hard questions, or you might end up in a bad predicament.

If someone asked these questions during “slick” presentations, most people in the audience would never invest unless the answers were true and acceptable.

I said all that about high-risk investments, but wealthy people put little into them. Wealthy people invest in “high-yield low-risk” investments.

While hanging around wealthy people I’ve learned some once classified information concerning wealth. This information permits wealthy people to stay that way. What I learned is that wealthy people only use a small percentage of their money on speculative investments. They first create and grow a strong financial foundation that’s secure and virtually totally protected against losses. Then they do research and find companies and opportunities in which to invest. Sometimes these investments are “long shots” and if they fail all of the invested funds are lost. However, if the investments pay off they bring high returns and the wealthy use part of these high returns to invest in other opportunities that are considered speculative. Wealthy people invest most of their money in companies and opportunities that they are familiar with, as opposed to throwing money into the stock market. They start businesses, take over good businesses with bad management and replace the management, and they constantly research to find solid opportunities. These investments bring them consistent cash flow, and if they decide to sell a company that they have started they usually earn millions of dollars.

From now on we must make sure that we carefully research before we invest or we will not be able to climb the stairs to wealth without falling backward.