DON'T GET CAUGHT IN THE TRAP OF CHASING RATES OF RETURN

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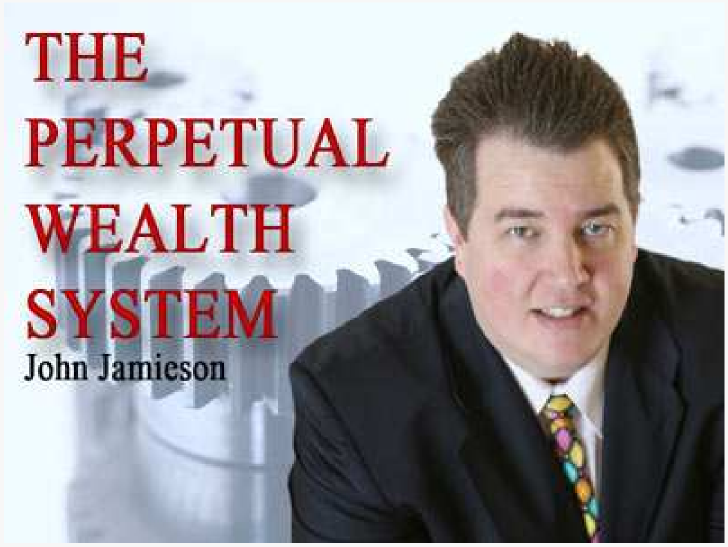
Since we turn about 12 years old we are taught that return on our investment is what matters. As we get a little older and enter the workforce and investment worlds we now focus on what interest rate our money is growing. As we mature we are looking for that 10% rate of return and chase funds and stocks in the hopes of achieving these seemingly elusive rates of return on our money.

Think of this game as a giant financial magic show where you are watching the greatest magician in history ply his craft. Any magician will tell you it is all about illusion and keeping you as the watcher focused on one hand while not paying attention to the other hand to see how the magic trick is really performed. You see, while focusing on if your funds are growing, your real wealth is being stolen from you every month without your knowledge. You are needlessly transferring your wealth from your family to others. This transferring of wealth happens whether you make money or lose money on your investments.



Perpetual Wealth System

Think of these as "wealth drains" that are robbing you of an early and abundant retirement. These wealth drains are many and are more important than what interest rate you may or may not receive on your investment monies. There are four main wealth drains:

1. Income and other taxes
2. Interest and fees paid to banks and finance companies
3. Market losses on your capital
4. Depreciation on major items such as automobiles, equipment, boats, electronics, etc.

While you are chasing returns and reading up on hot stocks, funds, and sectors your true wealth is being eroded very systematically by these 4 wealth drains. For example if you had $25,000 invested in a good fund and the fund went up 10% this year you now have $27,500 so you made $2,500 in profit which is fantastic.

However, during that same time you needed an automobile; you went out and bought a reasonably priced car for the same amount of $25,000. Let's assume you took out a 5 year car loan at 6% with reasonable payments. Remember this year your investment money received a 10% return so if you had to pay 6% on your car loan conventional wisdom says you are ahead of the game and actually making money on the spread. The spread being the difference between the money you are receiving in interest (rate of return) and the money you are paying out in interest. In this example you are making a 4% spread on the money. So in dollars and cents you made $2,500 on your investment in your mutual funds and you paid out $1,500 of interest to the bank for your car loan so you are ahead $1,000 on this transaction.

Here is where the magician is hard at work by patting you on the back for being such an astute money person. Now look under the table cloth at the rest of the picture. Not only did you pay the wealth drain of interest paid to the bank but you paid even bigger dollars in depreciation (lost money) on the automobile itself. So if the care depreciated 15% the second you rolled it off the lot and another 20% off of its original price the first year you owned that means its value at the end of year one is around $16,250 so you lost $8,750 plus the $1,500 in interest on the car loan that year for a total of monies lost of $10,250. So how did your overall financial picture do this particular year? You made $2,500 of growth on your money but you lost $10,250 in another part of your life. You lost $7,750 of your hard earned money over this year and you did not even know it happened!

Many "financial gurus" will tell you this could be avoided by buying a used car. This is correct to some degree because your depreciation percentage is less as years go by but it is still a financial train wreck. Some others will say well that is why I lease because I don't get stuck with the car's depreciation. On the contrary, the only thing you pay when you lease is the projected depreciation on the car for a period of time. So after your 3 year lease do you stop losing money on the car? Yes, as long as you don't need another vehicle. If you lease another vehicle that vicious cycle starts all over again and you end up making payments your entire life paying far more than you would have paid if you had actually ever owned a vehicle for awhile. So with a lease you pay less per month but much more over time.

In the previous example we assumed that your investment made $2,500 that year inside of your mutual fund. Let's now assume you lost just 10% instead of making 10% which as we all have experienced is very possible and will happen many times during your investment lifetime if you buy into the mutual fund investing road to wealth. Now your $25,000 is worth $22,500 and you still lost $10,250 on your car. Total losses for the year are $12,750 between your market loss, interest paid to banks, and your depreciation on that one asset. Three of the four wealth drains hard at work against your wealth creation efforts.

This is how wealth is lost systematically and without most people’s knowledge. That is the bad news but the good news is that there are solutions to reverse this trend and create systematic wealth for you and your family.

By John Jamieson John Jamieson is the owner of Perpetual Wealth Systems a total wealth strategy company showing investors how to stop their 4 wealth drains while funding their 5 circles of wealth. He is a sought after national speaker and the author of the #1 bestseller “The Perpetual Wealth System” available at www.theperpetualwealthsystem.com.

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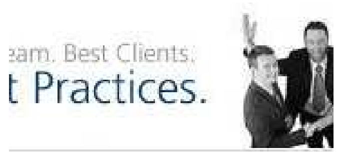

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