Wealth & Wisdom
INSTITUTE

# ELIMINATING LOSING FINANCIAL STRATEGIES


## *The Money Matrix*

### *Understanding How the Components of Money Work for You*

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# The Money Matrix

## *Understanding How Money Works: Living the Best Life You Can Live*

Of all the opportunities that you have discovered in your life, which were the most important? Of these opportunities, which ones changed your life forever? Now ask yourself one question: how would the opportunities that you're not even aware of, change your life? If you were given one wish, one gift that would fulfill your life, what would it be? Happiness, wealth, health, love, there are many ways you could answer that question. In a very simple way, I would wish to live the best life I could live. Think about that for a second. If given the opportunity, I would like to maximize the gifts I have been given so I could enjoy my life and share with others. Your answer to what you want in life may be different from mine but understand one thing, the gift and opportunities you have in life are already inside you but you just can't see them. Discovering these gifts and opportunities is simple. Look for them and when you find them learn about them. Your life will change. It's time to live the best life you can live.

There is enough stress, worry and concern in your everyday life that you may think that changing your life will take a lot of time and energy on your. But to change only takes thought and some knowledge. The real truth is that your everyday struggles take up all you time and you have been enslaved by them. In your financial world the answer to many of your problems is understanding how money works. It isn't fair that throughout your life you have not been given the opportunity and the knowledge to improve your financial life.

Your financial health is centered on much more than simply trying to pick a winning stock or mutual fund. There is no one product that you can purchase that will solve all your financial problems. The solution comes when you understand that everything you own has financial value. When you discover that everything has value, then you can start to understand how you can use your assets as financial tools. These steps will help you create more options and opportunities in your life. Many people are mistaken that the only future dollars they have are their retirement plans and government programs. This is a very narrow approach to the problems you will be facing.

By discovering the Defining Moments you will develop a thought process that will not only aid you in your everyday financial life but also that will become the foundation of the major decisions you will need to make in planning your financial future. Traditional thinking has put limits on what your thought process can be, and in turn, the outcome will also be limited. The solution to these challenges, the Defining Moments, comes when you understand that everything in your life has value. Future value. When you discover the value of everything you have, then you can start living the best life you can live, right now, today.

In living the best life you can live, you need to view everything in your life as a series of banks, pools of money, that you own and control. With each bank or pool of money, you have the ability to drive the value of your banks higher. Since you own and control all of these banks, you need to make sure all your banks are healthy and well maintained. You need to know how each of your banks work, and also how each bank can work for you. Understanding this will create balance in your financial future. You will then know how to leverage the least amount of money to create the most amount of wealth.

Everything in your life has value and future value. Each one of your banks or pools of money might have different rules than the money in your house. Each one of your banks could have different tax consequences attached to them. All of your banks will have different value and different growth potential. Each one of your banks, or pools of money will have different exit strategies if you wish to use the money. And you need to know how to use each one of your banks as financial tools. Most importantly, you need to know how to drive the value of the banks or money you own, even higher.

If you consider all the value in your life you may start to rethink your traditional approach. Let's take a look at some values, banks or pools of money that may already be in your life. The most obvious pools of money that you may already have are the ones you hear about all the time. You may be involved in a qualified plan for your retirement. This type of bank or pool of money could be called a 401K, an IRA, a SEP or some type of company retirement plan. These types of plans have rules attached to them. Even though they all are retirement programs, some of the rules inside these programs may be different. The rule for these programs that everyone seems to know, is that when you retire, the money you receive will be taxed upon withdrawal. The obvious question is this: Will taxes be lower or higher in the future? Another rule of qualified plans is that if you take the money out before retirement or before age 59½, you could face a 10% penalty on the money you take out, on top of having to pay taxes on it.

As for the idea of using this pool of money for anything else other than for retirement income has always been viewed as some kind of financial sin. But you must remember, if one of the deterrents of using this money before you retire is that it will be taxed, the truth is that it will be taxed anyway – now or later. The ten percent penalty is real and is a consideration that should be explored before using retirement money prior to retirement or age 59½. The 10% penalty can be avoided in an IRA if this money is taken out over a lifetime period in equal disbursements according to 72T of the Internal Revenue Code.

The value of your qualified plan will be determined by the results of your investments. Remember, you are the only one at risk in your investment choices. I am not condoning simply cashing in your qualified plans, but you need to understand that this is still your money and if needed, you can get to it. Breaking the traditional thinking that this pool of money should never be used before retirement, is a step to opening doors and opportunities you didn't know existed before.

As a financial tool, qualified plans can play a big role. As a bank or pool of money you must understand the rules of these programs, understand how and when your money will be taxes and understand that these programs can be used before and after retirement.

## *Home Banking*

Another financial tool in the average person's life is the value that is inside their home. Traditional thinking has always held that the value of one's home is sacred ground. The changing housing market and potential collapse of real estate values should instill caution in the way anyone purchases and pays for a home. Most of the problems that occur financially in owning a home are created with the purchase of a home, when the buyers fail to realize that taxes and insurance and maintenance costs on this property will continue to increase over the years. But in most cases, over a period of time, equity will build up in one's home. This can occur in a couple of ways: Either the value of the property increases, and/or; the payments on the house reduces the debt owed, creating equity. Much of the equity in one's home is tax-free money. Learning the rules of this equity is very important. It has value and it is tax-free within the guidelines of the IRS. Equity in your home could act as a bank for you. If the equity is borrowed, it is paid back with interest, but in many cases the interest that is paid back is tax deductible. Now, I am not suggesting to take all the money out of your home and invest it. You can see how this pool of money is different than your 401K money and other qualified plans you might have. An interesting question would be: would you rather have $250,000 in your qualified plan, or $250,000 of equity in your home? Having $250,000 in your qualified plan means you have to pay taxes in order to get it. Having

$250,000 of equity in your home means you would have to refinance your house and pay interest in order to get $250,000 of tax-free money. Just imagine if you could trade your taxable qualified plan money for the tax-free money that is inside your home.

I have had many discussions with people about families buying the homes of their parents and the parents using the money to increase the value of the legacy that they can leave behind for their children and grandchildren. With proper planning and the use of life insurance, this legacy would transfer tax-free to the next generation of the family.

## *The Family Fortune*

Many opportunities in life pass you by simply because you weren't aware of them. These opportunities are so critical to your financial future. I feel I have an obligation to share this with you, even if it is to just give you an opportunity to say no to the idea.

The family, your family, may be one of the most powerful financial tools that you have. Traditional thinking neglects to share with you the opportunity that could be created if you were to view your family as an untouched wealth opportunity. You may be surprised to learn that the value of a legacy can be driven higher, wealth can be created, and taxes can be avoided when using your family as a financial tool. I have shared this concept with many readers in my book, The Family Legacy. I have traveled the country sharing the power of the Family Legacy with thousands of people. Earlier, we discussed how rich people think like rich people, and poor people think like poor people, in Defining Moment #8. The opportunity of using the family as a tool to create wealth could change your life forever.

Just as your qualified plan money and the money in your home has value so does the value of your family. Don't allow this conversation about the family to be cast off as uneasy or uncomfortable. Find a qualified professional who is trained in the family legacy to help guide you through the opportunity. You see, how can you say yes or no to ideas you don't even know exist? Just as it is possible to increase the value in your qualified plans and your home, you can also increase the value of your family. The difference is that most of the money from the family can be tax-free. In your qualified plan and the money in your home you spend and invest a dollar and hope it goes up in value. It is possible that when investing in the family you can use the least amount of money to create the most amount of wealth. That is what we call leverage.

## *The New and Old Invest-a-Testament*

Another pool of money that many people have, are investments in stocks, bonds and mutual funds. While we are at it, let's include your bank savings also. These investments are different from your qualified plans (IRAs, 401Ks, etc) when it comes to the rules and taxes. In many cases, your investments, such as stocks and mutual funds have something in common with your qualified plan: You are the only one at risk. By investing outside of a qualified plan, you shed some of the rules that qualified plans have. Currently, and I mean currently, the tax issues are different in qualified plans, from taxes and capital gains taxes that are paid on most investment gains that you might experience. Qualified plans are taxed at an income tax rate while capital gains tax rates could be a lot lower (check with your tax advisers).

Traditional thinking is of the belief, almost religiously, that investments always go up in value over a period of time. Well, that is true, but not for the reason they want to believe. You see, the stock market must go up because it too reflects inflationary trends. As an example, two thousand years ago, a one ounce gold coin would buy the average Roman a nice toga, a very nice pair of leather sandals, and a nice leather sash. Today, for the value of one ounce of gold, you can purchase a very nice suit, a nice pair of leather shoes, and a nice leather belt. The value of gold really has not changed over two thousand years, but the value of manmade currency has. The inflationary aspects of our currency appear to drive the value of what we have skyward.

So far, everything that we have talked about in this chapter can be viewed as pools of money that can contribute to future income in your life. As you can see, everything has value and can be used by you to create your best life now.

## *Bet On Your Life*

Another source of money in your life could be your life insurance policy. Professionals of all sorts have opinions, and in most cases they are only opinions, about life insurance and the type of policies people should have. It always cracks me up when I hear someone ranting and raving about the types of policies people should have without knowing anything about the person they are talking to. Just like everything else in life, cheapest may not necessarily be the best. Although the "cheapest" sounds frugal and wise, you wouldn't want to apply that theory to, let's say, your kid's education or to your heart surgeon. There is a time and place where value is important. There are different types of policies that you can purchase and they all have different rules, values and results. The most important lesson about life insurance that you should know is this: That life insurance policy you own allows you to spend more of your money now, while you are alive. What I mean by that statement is this: Instead of paying all your debts off as fast as you can so you can be debt-free, why not buy a policy that will pay off all your debts when you die? If you do this you can pay off a lifetime of debt for pennies on the dollar and enjoy the life you deserve while you're alive. Think about it, if you could magically create a document that would pay off all your debt at the end of your life, what kind of life would you live now? Many people look at life insurance as a conversation of avoidance but really when put in the proper light it becomes a conversation of opportunity.

The different types of policies out there today have different types of rules, benefits, values and costs. Term insurance sounds cheap, and if you die your beneficiary receives income tax-free proceeds from that policy. Rule number one here is: You have to die for there to be a benefit for anyone. If you're on a tight budget and can't afford anything else, buy term insurance. The other really important thing you should know, is that by definition, term insurance lasts for only a specific term of time, such as 10, 20 or 30 years, then it expires. If the term policy expires before you do, then there is no benefit and the policy no longer exists. Buying term insurance at older ages can get very pricey and cost prohibitive.

There is a different set of rules, values and benefits for cash value life insurance. The first thing you will notice is that it is more expensive and this is what term insurance sales people emphasize most. But there is more to cash value life insurance than simply the cost. In these policies, cash value accumulates and grows over a period of time. These values grow tax-deferred. When it comes to the values in these policies, the premiums that you have paid becomes what is called the basis for the values inside them. Let's say you paid over a number of years, $20,000 in premium and now the cash value in the policy is $20,000. All of that money is basis and are tax-free values. These policies, if designed right, would have death benefits that increase over the years. Also, if ever needed, these policies can provide tax-free loans to its owner. Cash value policies can also be used as collateral for personal and business loans. The money or values in these types of policies can also be used as a tool for generating additional income in a lump sum or withdrawn on a yearly basis. Remember, these values have some tax friendly advantages.

It will be up to you when deciding what type of policies you should own. It might be in your best interest to find a highly recommended professional who represents not only term, but also cash value types of policies.

Your policy can become a very valuable tool for you in the future. Rich people know how to use these tools. As I mentioned in an earlier chapter of this book, rich people think like rich people and the “cheapest” is not always the best.

## *There’s No Business Like Your Business*

If you own your own business, you need to understand that your business is a unique opportunity. Not only does your business provide an income for you, but also the opportunity is there to grow and drive forward the value of your business. The secret of owning a business is developing an exit strategy for your business when you decide to retire. Many small businesses simply close their doors when the owner is ready to retire, and with it goes thirty years of experience, good will that was built up in that business, and a possible client base. All of these aspects of a business have value. Many business owners fail to see these values and simply shut their business down. Develop a continuation plan for your business after you leave. Your business could be a great investment for someone else, and create more future dollars for you. Like everything else in life, more time and energy should be spent on exploring the exit strategies for our lives.

## *The Money Matrix*

To understand how money works you need to apply a litmus test to measure the effectiveness and usefulness of your money. It is important to remember that way too much emphasis is put on the “rate of return” mentality and too little on how money can work for you. The litmus test for money contains a series of questions that will define the most effective types of money that you currently have, and guide you towards other types of money that you might want to have.

There are a number of categories that the money you have right now may fall into. You can have IRAs, 401Ks, Roth IRAs, defined benefit programs, SEPs, bank savings programs, CDs, stocks, your home, real estate, your business, possible inheritances and life insurance. You may be able to think of more but these are the most general categories of money that you might have. If you take each one of these categories and list them in a column, and ask the following questions of each one of your money categories, you will discover the efficiency, effectiveness and safety of the money you have.

## *The Questions*

RISK: DOES THIS CATEGORY OR TYPE OF MONEY INVOLVE RISK? Can you lose your money? As an example, can your 401K lose money? Can your home lose value? Are stocks or brokerage accounts subject to losses? Can your bank saving program lose money? There are different degrees of risk. Some things may be more risky than others, so when it comes to each of your categories, mark each one "H" for high risk, "M" for medium risk, or "L" for low risk. If this category or type of money has no risk, write "NONE." Ask the risk question of all the types of money you have.

## *Next Question. . .*

GUARANTEES: DOES THIS CATEGORY OR TYPE OF MONEY OFFER GUARANTEES? Is this category or type of money assuring you of a controlled positive result in the future? Some guarantees may have a stipulation attached to them like keeping your money in an account for a certain number of years. Does an IRA have guarantees? Does the money or equity in your home have guarantees? For every type of money that you have, simply answer: yes or no.

## *Next Question. . .*

PENALTIES: DOES THIS CATEGORY OR TYPE OF MONEY HAVE PENALTIES ASSOCIATED WITH IT? This question is an important one that you must understand. Many types of your money might have penalties attached to them. An example may be: Are there penalties for early withdrawal of an IRA? Are there penalties for not taking enough money out of your IRA during retirement? Are there early withdrawal penalties for a bank CD? How about a penalty for paying your house off too soon? Are there any penalties in annuities? For each category or type of money simply write yes or no if penalties exist.

## *Next Question. . .*

LIQUIDITY, USE AND CONTROL: DOES THIS CATEGORY OR TYPE OF MONEY GIVE YOU THE OPPORTUNITY TO GET TO YOUR MONEY IF YOU NEED IT? Do you have access to your money? Can you get it when you need it? Answering simply yes or no will give you a clearer view of whether you control this type or category of money. Do you have an equity line of credit on your business or your home? Can you sell off your stocks? If money is quickly needed, what type or category of money would you turn to? So you have liquidity, use and control of this type of money, yes or no?

## ***Next Question. . .***

PROTECTED: IS THIS CATEGORY OR TYPE OF MONEY PROTECTED FROM CREDITORS? If you were to get sued, what types of money would be protected against law suits? Money you have in the bank? The equity in your home? Your investments? Your 401K? This is important to know. Many people are at great risk and don't even know it. Simply answer yes or no to all of the types of your money that may be exposed to law suits.

## ***Next Question. . .***

LEVERAGE: DOES THIS CATEGORY OR TYPE OF MONEY USE LEVERAGE? Does this type of money create the most amount of money for the least amount you invest? We discussed leverage earlier in this book. When someone invests a dollar, the hope is that dollar will grow over a period of time. It doesn't create increased value or increased net worth the next day. Simply compounding the value of a dollar may also increase or compound the taxes due on it. The thought of leverage is not typically centered on rates of return but more on controlling and creating wealth or value. As an example, if you had $200,000 in the bank today that would be good. The next day you bought a $500,000 home and put the $200,000 down as a down payment. So in a day, you went from doing well with $200,000 in the bank, to being $300,000 in debt. Did this person leverage the least amount of money to purchase this home, or leverage the most amount of money? What's the rate of return on the $200,000 of equity in this new home? Why, its zero. You might be thinking your monthly payment will be lower and it would be, but you also lost the time value of the $200,000, as well as what it could grow to in value. Once again, Donald Trump would not put the most amount of money down on a piece of property, he would leverage the least amount of money to gain control of the property. Another example of leverage would be someone whose net worth is one million dollars today and the next day they bought a million dollar life insurance policy for one hundred dollars a month. Their life value doubled in one day for $100 per month. Leverage. . . it can create wealth. Are you using the least amount of money to create the most amount of wealth?

## ***Next Question. . .***

TAX DEFERRED: DOES THIS TYPE OR CATEGORY OF MONEY GROW TAX-DEFERRED? Very few things in our lives escape taxation. Many types of money are taxed on their growth on an annual basis. A typical CD at a bank is taxed on its growth on an annual basis. Is this true of an IRA or 401K? No, these are tax-deferred. These are taxed when you take distributions from them. So the tax on them is deferred to a later date and possibly a higher tax table. Ask yourself, does your money or a particular type of money grow tax-deferred? Yes or no.

## ***Next Question. . .***

TAX-FREE: DOES THIS TYPE OF MONEY GET DISTRIBUTED TO YOU TAX-FREE? Better yet does the type of money you have get distributed to you or your heirs, your family, in the event of something happening to you, tax-free? Is an IRA tax-free? How about a bank savings program? On your chart or list of types of money you can have, how many of them are tax-free at distribution? Yes or no.

## ***Next Question. . .***

COLLATERAL: CAN THIS TYPE OR CATEGORY OF MONEY BE USED AS COLLATERAL FOR LOANS? Sometimes lending institutions will grant loans if there is some type of collateral or hard asset involved. A home could be used as collateral for a loan but how about an IRA or a 401K? Can stocks or brokerage accounts be used as collateral? Collateral typically has value that is relatively safe and assures a lending institution of controlling value while lending your money. If money was needed by you or your family, what assets do you control that could be used for collateral? What assets or types of money could be used to get a loan which could increase the value of let’s say, your business? Do the types of money you have, have value to anyone else? Think about it. . . yes or no.

## ***Next Question. . .***

TAX DEDUCTIBLE PAYMENTS: ARE THE PAYMENTS FOR THIS TYPE OF MONEY TAX DEDUCTIBLE ON YOUR INCOME TAXES? Some types of money are tax deductible from your income. Within the guidelines of the IRS payment to 401K and IRAs are tax deductible. How about an annuity or a bank CD? Interest payments on some types of money are also tax deductible. A principle payment on your home is not tax deductible but the interest portion of that payment is. Try to think if any other types of your money that have tax deductible payments. Yes or no?

## ***Next Question. . .***

DISABILITY BENEFIT: IN THE EVENT OF AN ILLNESS OR ACCIDENT IN YOUR LIFE WILL THIS TYPE OR CATEGORY OF MONEY CONTINUE TO MAKE DEPOSIT OR PAYMENTS FOR YOU WHILE YOU'RE DISABLED? Will your company continue to make your 401K deposits for you even if you're not working? Will your investment broker continue to make monthly payments or deposits into your account for you while you were injured or sick? Would the bank make your mortgage payment? What types of money do you own that would make the payment for you if you were disabled? Will the company you're dealing with deposit or make the payment for this type of money? Yes or no.

## ***Next Question. . .***

WEALTH TRANSFERS: WILL THIS TYPE OR CATEGORY OF MONEY TRANSFER TO YOUR HEIRS TAX-FREE? In the event of your death how will the type of money you have be taxed or transferred to the next generation or family members or heirs? Will someone else have to pay the tax on your IRA if you die? How about your bank CDs? Does the government forgive the taxes on the investment you left behind? Does this type of money you have create real tax-free wealth for your family kids or heirs? Apply this question to all the types of your money. Simply answer yes or no.

## *Your Answers*

Your answers to these questions could be very eye opening when it comes to how your money works. If you had the ability to create the perfect investment for yourself, how would these questions be answered? Would there be a lot of risk involved? Would there be some guarantees? Would you create an investment where there would be penalties? Would you like liquidity, use and control of your money? Would you protect it from creditors? Would your perfect investment create leverage? Would it grow tax deferred? Would you make it tax-free when you decided to use the money? Would you design it so that it can be used as collateral to secure loans? Would the money you put into it be tax deductible? Would there be a disability benefit on the payments? Finally, would the money you have transfer tax-free to your heirs?

You will discover when creating the most perfect investment, that the answers you gave are far different than the money and investments you have right now. The types of money that you have are far from perfect. Remember there are only three types of categories that your money falls into, lifestyle, accumulated and transferred money. One final question you should ask yourself is: if given a choice, would you want your money to be fully taxed, partially taxed, or tax-free? While this question really answers itself, why is it that we ignore what is logical and expose most of our saving and investing efforts to full or partial taxation?

By listing the types of money that you have and asking the important questions that we just discussed you will get a clearer view of the money that is in your life and how it works. The money matrix measures each type of money that you may have by:

RISK
GUARANTEES
PENALTIES
LIQUIDITY, USE AND CONTROL
PROTECTION
LEVERAGE
TAX DEFERRAL
TAX DISTRIBUTION
COLLATERAL
PAYMENTS
DISABILITY CONTINUATION
WEALTH TRANSFER

## *Your Approach*

Everything you do in life and the results of your actions will depend upon how you prepare. If you wanted to become a doctor, you wouldn't prepare for this career by studying all the art courses you could in college, unless of course you were interested in having the fanciest waiting room in the world. To be a doctor you would study all the appropriate courses and then enter into medical school.

Your money is no different. You need to apply a thought process to where you want to be in your financial future. Heading into that future without a clue of how your money will support you, will expose you to too many unintended consequences. Now is the time to understand how your money works and all the opportunities that might be right in front of you. The defining moment in your life will occur when you are no longer "out of control" in your financial life.

The information in this book will help you analyze your financial situation and help give you a clearer view of the choices open to you and will help you make better life decisions in the future.