MONEY MATTERS

CREATING AND RETAINING WEALTH

By Jacob Ansel

CREATING WEALTH IS IMPORTANT, but retaining the wealth you create is even more critical. It's a long process and takes years to get where you financially want. Once there you really only have two options: retain your wealth or spend the wealth you created.

Getting where you want financially is a matter of patience and time. Winning the lottery, although a nice pipe dream, isn't a realistic road to wealth. So what does it take to create wealth? Assuming you have a well-paying job and are able to save money it's simply a matter of being diligent and consistently saving a percentage of your income. If you can save 15% of monthly income, do it automatically. Don't put that 15% in a savings account to grow nominally over time. Invest it in the market in funds that over time will grow. Watch your investments monthly and don't panic when the market takes a dip. Patience is extremely important to becoming wealthy.

Pension accounts must be set up and you should never miss a year adding to the account. From the day you start work until the day you retire, max out the pension plan no matter what. Pay yourself before you pay other bills. It doesn't matter what you earn; deduct your pension contribution first. You'll learn to adjust accordingly. You need the compounding effect of the market to make your money grow. The S&P 500 has an average return over the 25-year period 1987 to 2012 of 9.61%. Returns like this double money every 7.5 years.

> ***Amassing a fortune requires finesse. The bestselling The Millionaire Next Door, written 21 years ago, revealed that most millionaire households do not have extravagant lifestyles. Spending less than you earn, avoiding status objects, and investing wisely are key to creating and keeping wealth.***

Invest in rental real estate in an area where you expect values to rise over time. When you evaluate a rental property make sure there's positive cash flow of at least 10 to 15% monthly. Purchasing rental property for the cash flow alone isn't a good reason to buy the property.

Buy bonds. Corporate bonds and municipal bonds are a safer investment than stocks. You should buy at least two bonds every year. Whether they're $10,000 or $100,000 each doesn't matter; just buy them and hold to maturity. Use the interest from bonds to buy more bonds. It's easy to create wealth by never touching the interest the bonds earn until you retire. Your money makes money and then use that money to make more money.

Create a laddered portfolio of tax free municipal bonds which earns interest. Use that earned interest to buy a life insurance policy, whole or variable universal life, policies that build cash values which can be used as a tax free vehicle to withdraw money. Paying the premiums from earned interest means the principal balance of your bonds remains the same so you create wealth as well as have an insurance policy with a death benefit.

The simplest way to create wealth is to spend less than you earn, a very obvious way that most folks forget. Reduce expenses as much as possible. Do a quarterly review of bills to determine what you can cut. Do you really need all those cable channels? The U.S. personal savings rate is just 5.3%, which means far too many of us are adjusting spending habits to align with our income rather than finding ways to save money and invest for the future.

Minimize your tax liability. Two smart ways to minimize taxes are to hold investments for the long-term to take advantage of lower long-term capital gains tax rates, and seek out tax-advantaged retirement tools that can give you an edge. A Roth IRA, for instance, allows investment gains to grow tax-free as long as you don't make any unqualified withdrawals.

Building wealth is so simple it can be explained in just two sentences: Make more than you spend and invest the difference wisely. Develop simple daily habits that result in wealth accumulation. There are a few obvious things you must not do which get in the way of accumulating wealth. Don't get into debt; never spend on 'stuff'; and not having years of cash on hand. Financial planners suggest three months of cash, but that may be a bit low to create financial freedom especially with prolonged unemployment which is not uncommon. The bottom line is building wealth takes patience, proper guidance, and a bit of luck. But diligent investment building and saving as much as you spend will get you there. ❑

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