Episode 131 - Wealth Coordination Account: Big Wealth, Small Business

Episode Transcription

"One of the biggest wealth-eroders people have is when they choose to obligate their future income."

Paul Adams: Hello and welcome to Sound Financial Bites. My name is Paul Adams, Founder and CEO of Sound Financial Group, and I have with me not a guest of Sound Financial Bites.

Cory Shepherd: Alright, yeah, the fact that you're even bringing it up.

Paul Adams: President and partner of Sound Financial Group, and our co-host here on Sound Financial Bites, Cory Shepherd. I am always glad to have you with me.

Cory Shepherd: One day the fact that I was ever a guest on this will be just a long forgotten memory, but apparently, that is not today.

Paul Adams: That's why we don't take down all the episodes. I wanna make sure and keep people reminded that once there was before Cory, there was BC, before Cory.

Cory Shepherd: BC.

Paul Adams: Is that too much?

Cory Shepherd: Not to me.

Paul Adams: Alright, well, we just lost all of our fellow Christian listeners right there.

Cory Shepherd: I'm fine with it.

Paul Adams: So, well, today we're gonna be talking about the wealth coordination account, but specifically, big wealth, small business. The idea that if you own a business now, one of the things that we need to do in your life, or that you would wanna consider doing in your life, is putting in a mechanism that's before buying a financial product, that's before somebody selling you something, that instead, you've got something you take total control of, you've got something that you and your spouse can have total autonomy about, and that you can put money toward on a consistent, ongoing basis. The fundamental problem that most people have, we're gonna get to in this episode, is that too often they're not saving money unless somebody has said, "Here's the product, the 401K, the IRA, the life insurance policy, the investment account." That people then scrape together whatever they have in their savings and they deploy it. So what we wanna do is get away from that, give you and your family back your autonomy, and drive you to the point that you control what you set aside on a consistent, ongoing basis.

Cory Shepherd: And many, many of our clients have said that this is one of the most impactful strategies that we've shown them throughout our process. It's deceptively simple, so please stay tuned for that. But first, this week in planning, we're bringing you articles, news stories, events out there in the world that are occurring now, just as a fun intro to our podcast. And Paul found a great article for us this week, called "Five expenses derailing America's retirement savings".

Paul Adams: Now, you can find this on the Motley Fool website. Personally, I think that the name of the website is apt. So, I won't say anything more about the Motley Fool, except properly named. So...

Paul Adams: Let's start with the first thing that tends to derail people. They say that what happens to normal people is that unexpected expenses or emergencies derail them. Now, this is our first evidence, and this is the kind of critical lie we want all of our listeners and clients to be able to take in the way they look at the world. It's that, wait, right there, should be our first indicator this article is not for you. This is not for somebody who's a business owner, a household that's making between $300,000 and $2 million year. It's not for the people who are probably listening to this podcast trying to take an active role in learning more about their finances.

"An asset is anything that can put money in your pocket now, or has the capacity to put money in your pocket in the future, without changing your lifestyle."

Cory Shepherd: Like, if your spouse calls you right now, and they're at home, you're at working, and like. "Oh, the washing machine just broke. We're gonna have to get a tech and replace it." That's not gonna kill you. That's not gonna derail anything that was gonna happen in your life. This is what savings accounts are for.

Paul Adams: Yep, that we should have minimal amounts of cash to be able to handle those things, and at the level of income that you're probably at, it's not going to matter, even if you didn't have a sufficient cash that day, because it's gonna go on a credit card and next month it's gonna get paid off. Those little things, and the sorts of things they mention in this article, are absolutely the things that derail 90% of America. And this is no knock on 90% of America. We are one of the most income mobile countries in the world. Most of the people in the top 1% today, as the press demonizes the top 1%, most of our listeners, that they make it like, "Oh, those people are not paying their fair share." Here's the thing; there's high likelihood that you will not be in the top 1% from an income perspective for long horizons of time.

Paul Adams: And, if you're not in the top 1%, there's no better chance in any country on Earth that you will be in the top 1% than in the United States. So, keep in mind that when we're talking about these articles are appealing to the bottom 90%, that means it's probably targeting households that make well under $100,000 a year. And the average household income in the country is $45,000. Motley fooled me to a lot of clicks. They don't need high net worth people, or high income people reading their stuff. Next is, quality of life activities, is the next thing they mention. Now, here's the thing, let's just think about, this is not luxuries, this is quality of life, like, "I'd like to make sure we have a nice couch. I'd like to make sure that I have a decent vacation and some time off every year."

Cory Shepherd: A couple of date nights here and there. Things like that. Yeah.

Paul Adams: Yes. Now, over time, can that erode your wealth? Absolutely. And that's what we're gonna get to later about using a wealth coordination account to be able to make sure that you're aware of what's getting set aside consistently.

Cory Shepherd: Yeah, it's not those activities to me, it's, are you creating the appropriate ratio of how much you're allocating for assets for the future versus how you're spending for lifestyle now?

Paul Adams: Exactly right. And it's not the activities that do it. Keep in mind, one of the biggest wealth eroders people have is when they choose to obligate their future income. When you buy a car, nobody is lending you money with the car. If you don't pay your debt, then dinging your credit and taking your car is the consequence they deliver to you for not doing it. That is not... Like a bank doesn't take your car back and goes, "Yes, we got it." A bank doesn't re-possess a house and go, "Boom! We just nailed it."

"Money isn't math. Money is math plus human behavior."

Cory Shepherd: Gotcha!

Paul Adams: 'Cause all they could do is... Yeah, gotcha! Cause all they can do is sell it for the debt you owe anyway, and they have to give you back the remainder, minus any legal and transactional costs. So here's the thing, nobody's lending you money based upon your assets, except for a very slim segment of the lending world which is called "first trust deeds", we'll hit on in another podcast. In your case, they're just obligating your future income. That's where people get in trouble. Because A] it's so much easier. Let's just look at your balance sheet now. What would be a harder decision? To take and put together $130,000 and go write a check for a Tesla? Or, just obligate yourself to $1,400 a month for several years in a lease? Well, of course it's so much easier to make the first decision, but we make lots of little ones. These are not just quality of life decisions, they almost come down to some version of luxury that is going to eat away our capacity to accumulate wealth in the future.

Cory Shepherd: Next step is paying off credit card debt. Now, if you are in Motley Fool's target market, making under $100,000 a year, then yes, a broken washing machine might have been a big deal, might have gone on your credit card, and it might have taken you many, many months to pay that off. If you're in the demographic of the business owners that are listening right now, that's just probably not the same kind of burden.

Paul Adams: And not to mention that it comes from a limited mindset, the idea that there is a limited pie, zero-sum game, which unfortunately a lot of our society is going into that construct right now.

Cory Shepherd: It is, right.

Paul Adams: But what you can do... Think about this for a moment, that let's say you just like putting stuff on credit cards, and you like not paying it off every month, you like paying for the trip six months before you should, because you're... Or you take the trip earlier, so you're accumulating credit card interest. If you were setting aside 20% of your income to assets, and we're gonna talk about how to do that today, and how to take the money that's accumulating and let it grow, and never let it drip back to pay off debts. Well then, you're just choosing to be inefficient in your lifestyle spending, that matters not, as long as we set aside 20% of gross first.

Cory Shepherd: It's not derailing you. And thank you, Paul. So, I even got distracted from what the title of the article was. I'm like, "It's not that big of a deal. You're probably not even doing it." But that's not the point, doing it or not doing it is not the point. It's their claiming this is derailing your plans, and those... You have the luxury of some inefficiencies if you choose to put them in places. Like, that's not going to derail your plans. It's just like you can work on it over time.

“This is a mantra you can use in other areas of your world. It is the positive power of negative pressure.”

Paul Adams: And I'll tell you, what they could have done with this article... And by the way, this is why you see all these lists, and a whole bunch of horse stuff, when you try to go out and read, which is why it's important, as you read, "Does this apply to me? What are the facts?" And then bring it to your advisor or coach. If that's not us, bring it to whoever it is that does that, lay out the facts, and then make your decisions from the facts, not from the opinions because this whole article could have been, "What's derailing?" 'Cause remember the title of the article, "Five expenses derailing America's retirement savings." I will tell you one thing is, A] nobody wants to have retirement savings. See, everything we've ever talked about or written about, about work optional lifestyle, and definite financial independence. Nobody who's making, for the most part top 1% income, wants to one day not work at all. What they wanna be able to do is just have work optional lifestyle, build autonomy, so that they can choose what to do with their time. It's not appealing to most of our listeners, and frankly, I would say that top 5% of all income earners, and certainly not the top 1%, that what they would like to do is just go get a dog and a pick-up truck and go fishing every day, or play golf every single day. That'll get old in about six months.

Cory Shepherd: Yeah.

Paul Adams: And we want to make a difference. That's why you're probably earning the money you're making. You just might be doing it in circumstances that are a little harder than you'd like them to be on your body and your mind right now. So the whole article title could be, "One thing that's derailing America's retirement savings." And the one thing is, you're not setting aside 20% of your gross income. And then I guess, two would be, you don't know what an asset is. We'll talk about that today. And three, you periodically access those assets to pay off consumption. But it would all come down to first, setting aside 20% of gross income, and most people don't even know that number.

Cory Shepherd: There are a couple of other items on their list, like lifestyle expenses and children expenses, which are a subset of that, and I don't know if what they're actually saying is, you may wanna consider not having kids to not derail your retirement. It seems kind of funny. But you can check out the rest of the article. We're gonna link to it in the show notes. And Paul, anything more you wanna say about that?

Paul Adams: You bet. I would just throw out that there is a children expense that we really try to caution our clients about. And we're working on it right now. I don't wanna be unfair to our guest, but we may have one of the country's top advocates for 529 plans on the podcast to frankly go at it in front of all of you. That what we'll be able to do is have a real serious conversation with somebody that is an advocate, and we are gonna have a no-holds-barred debate about the ineffectiveness, inefficiency of that, and how it erodes wealth. There is one child expense that will usually wipe people out and they don't realize it. Take me, three kids, if I send each kid to a school that costs $70,000 a year, and I think I might have kids that are really willing to be diligent and squeeze four years of education into five years.

"I promise you, if you are not actively telling your money where to go, before too long you will start wondering where it went."

Paul Adams: So, I got at least a quarter of a million dollars of expense for each kid. If I go about paying for it the way that they would have me do it, I have erased from legacy forever, three quarter of a million dollars, plus all of the lost opportunity cost. If you want more on that, look in our podcast stream of Sending your money to college. Or check out our book, where I think it's Chapter 8, Sending your money to college. So, check that. I think that's gonna be a big deal. That one I'll grant Motley Fool.

Cory Shepherd: Yeah.

Paul Adams: That certainly one child expense will potentially wipe out your capacity to... And we don't want to use the word, retire, but I will say, it can significantly diminish your capacity to build wealth. And it's just important if you're gonna spend that much money on your kids' education, that you just let them know that you're gonna live with them one day, and that's okay.

Paul Adams: As long as they're okay with that.

Cory Shepherd: As they're okay. Will they take that deal? That is...

Paul Adams: Will they take that deal? And will they remember it 25 years later? I don't know if I want to take the word of an 18-year-old that they're gonna take care of me in my old age. So best that we put our mask on first, and then make sure we take care of the kids.

Cory Shepherd: You as the parent might not remember the deal that you made at that point.

Paul Adams: Yeah, at that point when you're ready to live with them.

Cory Shepherd: Yeah. Alright, so now we get to talk about one of my favorite conversations, the wealth coordination account. And this is something that, Paul, when I think you... I lose track of who invents what, and a lot of things I invent you think you did. But I'm pretty sure you invented this one.

Cory Shepherd: How long ago?

Paul Adams: Oh, 20 years ago. 20 years ago we started teaching this, and there was different iterations of it out there. There's a touch of Robert Kiyosaki in it, a little bit from a mix of some folks like Bobcat Loan and Don Blanton. But the idea that I really resonated with, and this is the thing nobody talks about in the financial industry, and why they don't talk about it even though this is probably one of the best wealth-building tools. Why? Because it's not about rate of return, it's about habits and practices. They don't teach it because it has you first be in control of your money instead of blindly sending it off to a financial institution whose primary rules are, get your money, second, get it on a consistent ongoing basis, then hold onto it for as long as possible, give it back as slowly as possible over the longest possible horizon of timing. And by the way, guess what? Edward Jones does not want you to buy rental real estate.

Cory Shepherd: No.

Paul Adams: Morgan Stanley does not want you investing with your friends in a commercial property. These companies don't want you to lend money into your business when necessary and pay yourself back a note at attractive rates. They don't want you to find uncommon assets, mine cryptocurrency, whatever your thing is, they don't want you doing any of that. What they want you to do is just consistently send them money, ideally via bank draft on a monthly basis. And when it comes to your enterprise, your business, too often... And I mean... Ah, I wanna just calm down here for a second, 'cause I do get excited every time I get to talk to our audience. But this is... What I'm about to say here is very, very serious. To my friends that are entrepreneurs and business owners that are listening to the podcast, it is all too easy and probably the biggest threat to your future, to rely on the value of your enterprise and one day being able to sell it, to be what you think is going to one day make you financially secure. I wanna say that again. This is something that plagues the balance sheets of business owners, is that you're in your business right now, and maybe you've even had an offer at some point in the past or had an appraisal done, or you'd kinda used some Kentucky windage.

Paul Adams: Then you just kind of say to yourself, "It's like, I'm making half a million dollars a year, usually businesses like mine sell for 6X. That's $3 million." And appropriately, like when you're applying for a loan with the bank, you had put down there a $3 million value for your business. There is no problem with that. The trouble is when that satiates us, when it tranquilizes us. Like, if you've ever watched anybody who's had to take something that tranquilized them, like a Valium. I remember when I had to take a half a Valium because I got LASIK surgery. Like, "This is just gonna keep your calm under the knife." All of that. I'll tell you, whatever would go on, if there was a threat, I don't think I would have reacted to it appropriately, 'cause I was tranquilized. When you have that extra money on your balance sheet, it's easy to not react to the threat that's in our future, which is one day somebody may not value the offer of our business, or they may not value the offer of us personally. And therefore one day we're gonna have to look back and say, "Wow, do I have enough water in my bucket now that I'm not near the source of the water anymore?", meaning the income.

Paul Adams: And that is the thing that just throws people off. So the first thing we want you to think about is that don't... Your business is awesome. We are not diminishing that at all. It is driving an amazing income for you. You're creating jobs for people. Most of us that are business owners are also mentoring people, changing the lives of the people that work for us, because there is a type of engagement and mentorship that can happen when somebody gets a chance to work for you as the tip of the spear of the person that risked everything in your life to be able to build the business that you have. It's incredible. And as a result, you have enormous impact. I would never diminish that. I would never diminish the value of the business to your community, to your family, to your income. But I do want you to intentionally suppress its value for the sake of your autonomy and freedom, and that's this, and these are the things that got us featured in Forbes, in Ink and Entrepreneur years ago, was us saying, "You will never have financial independence on that business balance sheet. Your actual independence one day will happen on the personal balance sheet."

Cory Shepherd: And the wealth coordination account works for all of our clients, people in any walk of life. But for a business owner, it's a particularly helpful step. If it's the first dollars that you're taking out of your business, it helps because it's not committing you to any one action. So here I wanna start with what this thing is called, the wealth coordination account, and then Paul's gonna talk to you about how to use it right.

Paul Adams: We've just been teasing people for 20 minutes. And if they're a new listener, "What the heck?"

Cory Shepherd: Yeah, yeah, yeah. Is it a double straddled collar mutual fund index? No, it's nothing like that. A wealth coordination account is a checking account in your name and your spouse's name, if you're married, that sits at your bank, in your name, controlled by no one else. This is a deceptively simple strategy that creates so much value as a linchpin for your financial coordination.

Paul Adams: And I just want to... How simple and how long-lasting the impact of this is before we get you further in the mechanics, is this: I had a client that we taught this concept to like 18 years ago. He called me about two years ago. I remember exactly where I was at. I was at Sea-Tac Airport. I was flying somewhere, and I think to an

Entrepreneurs Organization event. And by the way, if any of our listeners have ever wondered about joining something like the Entrepreneurs Organization, do not hesitate to send us an email info@sfgwa.com. I'd be happy to share my experience and point you in the direction of a chapter that's been incredible influence on my life.

Paul Adams: But you look and say, I got this call and he says, "You know, hey I'm retiring now and I've been... I'm actually just gonna go full-time into just helping coach people with their money." This guy was a CPA, he worked for a large county. And he said, "You know, I really appreciated that." And he was able to recount to me, because this concept is so simple, 18 years after our last conversation, he was able to recount to me what he's doing, and the difference that he's working on making for people that he wants to just do something in retirement, part-time with the knowledge that he has. Like, Oh, by the way, that speaks to the not retirement as the goal, just financial independence, work optional lifestyle.

Cory Shepherd: So, a wealth coordination account, very simply, is a checking account you start at your main bank, or perhaps another bank, to have a little bit of separation from some of your other money. And the whole purpose of this account is to be designated as an account to receive money, that then is used to buy assets.

Paul Adams: Now, let's pause there for a moment and talk about what is an asset?

Cory Shepherd: That becomes very important.

Paul Adams: Because, my goodness, if you guys can kinda picture this for a second; if I'm room speaking to 500 people in the audience, if I had everybody write down on a slip a paper, "What is an asset?" And they just wrote down whatever they thought at the time. Now, think about this for a moment, we have to have assets to build our financial future, but most of us do not have just a practical definition, an actual definition, that can build the future that we want. If I sat there then on stage and read all 500 of them, and then put them in the stacks of the ones that are similar, I might run out of room on the stage for the stacks, because they would be so dissimilar in nature. So here's the definition: The definition is, an asset is anything that can put money in your pocket now, or has the capacity to put money in your pocket in the future without changing your lifestyle. And that's key.

Cory Shepherd: Super key.

Paul Adams: Without changing your lifestyle. Now, let's talk about that for a moment. So something like your 401k, that's an asset. It doesn't put money in your pocket now, but it can in the future, and it doesn't change your lifestyle to do so.

Cory Shepherd: In fact, many people can forget for long periods of time that they even have a 401K happening. What is that? How did I get there? Yeah.

Paul Adams: I cannot tell you how often we have gathered data from clients, and getting ready to do their planning. They've written their check, they've engaged us, signed our agreements, and we've gone through our scope of work document, and there we are four meetings in and they go, "You know what? I got another statement. I totally forgot about this 401K that I had from an old employer."

Cory Shepherd: 100...

Paul Adams: "With $100,000 in it." Happens all the time. So, that is an asset.

Cory Shepherd: How about something like, a fun one for me is a boat. I ask people all the time, "Is a boat an asset for the purposes of this wealth coordination account?"

Paul Adams: No.

Cory Shepherd: And most people get it right away, 'cause they say the best days in a boat owner's life are the day they get it and the day they get rid of it. Boats are expensive.

Paul Adams: Mm-hmm.

Cory Shepherd: They take money out of our pocket on a regular basis. And so, most folks say, "Oh no, that's not, that's not an asset." And then, I always add on. "And, if you sold the boat, you wouldn't be taking the family out on the boat on the weekends. You wouldn't be hanging out with your boating friends anymore." Lifestyle is key because money isn't math. Money is math plus human behavior, and that human behavior starts making funky equations if a valuable thing has to serve as an asset, our day-to-day proclivity can't be a part of that equation.

Paul Adams: And what I would have you do is, if you're in consideration about it or thinking about that, that Cory just used that key phrase, about money not being math, if you need to know more about that, I would encourage you to go to sfgwa.com/131, and that's gonna give you the show notes to this episode, the stuff you can tweet, everything else. And that's gonna put you in the position, you can very simply download Cory's white paper and be able to be in a position that to understand about money being math or not being math, to better take care of your future. Now that one's easy. Usually, Cory, people don't wrestle with that one. They're never in an argument about it, etcetera. What's the one people struggle with, where they think it's an asset and they don't know it's not?

Cory Shepherd: The tough one for everybody, because it's part of the American Dream, and it goes along with football, apple pie and your mother, is your home, owning a home.

Paul Adams: Mm-hmm.

Cory Shepherd: And so, I ask it very carefully when I'm in a conversation with someone. So...

Paul Adams: Because Cory's nice.

Cory Shepherd: Yeah. Paul's nicer than you think he is. He's actually very... If you think you might wanna have a conversation with Paul Adams, please reach out to us at info@sfgwa.com. Do not be afraid. He will take really good good care of you, but he likes to... He'll just take you to some places...

Paul Adams: I like talking a good game on the podcast.

Cory Shepherd: Yeah. Yeah, yeah, yeah, yeah. So, I tread really carefully with folks, and they may or may not agree at first about the home being an asset, but here's what I will say.

Paul Adams: And specifically, the home not being an asset.

Cory Shepherd: Correct.

Paul Adams: That there's distinction.

Cory Shepherd: Correct. A home, like if you can put together the financial resources to buy a home versus renting your house for long periods of time, for many, many people, it will frequently work out as a lower cost way to provide the housing to your family that you need, versus renting. But lifestyle is so huge.

Paul Adams: I was gonna say, "And".

Cory Shepherd: Yeah, "and".

Paul Adams: Like, that's key. It may be the cost of renting. I think what happens too often when people hear your home is not an asset, they automatically default to, "Well then, I should be renting."

Cory Shepherd: No.

Paul Adams: No.

Cory Shepherd: No. It's just that your clothes live in that closet and you're always gonna need a closet for your clothes. Like, we're always gonna need a place to live. And so, the ironic thing is that when your home is not treated as an asset right in the midst of your financial plans for the future that you're gonna need to lean on for retirement income, it has so much of a better opportunity to actually be a really good financial decision for you. And I think that's really, really key. So, what we're after is having folks have the most efficient housing situation that they can, and separately, be putting an appropriate amount of money away for assets for the future to create that future lifestyle.

Paul Adams: Yeah Cory, the other thing that occurs to me is, we just talked about things that people think are assets that are not assets, but let's talk about something that people might not consider as an asset that could be. Now, I don't remember what it is, what year, but it's like that Stingray Corvette. Certain collectible cars can go up in value over time.

Cory Shepherd: They're beautiful, yeah.

Paul Adams: And there's some people that have those cars, keep them in pristine condition, they constantly worry about whether or not their kids are gonna run their bike into them, all that stuff, and they take great care of them. Those are going up in value over time. That could be an asset unless it breaks the second part of a rule, which is, a change in lifestyle. So, if you keep it and you care for it, and you just kind of like doing that, you like caring for the car, but it's not a big part of your lifestyle, then that could be an asset. But if you are a member of the Corvette Club with your Corvette friends...

Cory Shepherd: Do all of your friends own Corvettes as well? Then it may be an asset. This is like, "Are you a redneck?"

Paul Adams: Yeah, yeah, exactly right. Now, you might not have an asset. So, that's the distinction. So, pieces of art work that are not part of your balance sheet, that are only a part of your balance sheet, not part of your lifestyle, could be an asset. And I think that that is probably the most key component is understanding, one, we need to put money in every month consistently. So the other things that are assets are all the normal things you'd think about. Like, real estate investing can be an asset. Like, raw land could be an asset. It doesn't put on your pocket now, but it could later when you sell it. All the typical things like...

Cory Shepherd: Mutual funds, 401Ks.

Paul Adams: Stocks, bonds, yeah. And even certain types of life insurance can qualify as an asset. So, we need to make sure we put money in for the express purpose of buying assets. And now we have created a space between you and your regular cash flow, your income, and the decisions to acquire assets, because we put it into this account, it's a checking account, we don't care about the interest it earns you, 'cause it's purpose isn't to languish there. And the other reason is checking account, is when you buy an asset, people want checks to be able to buy those assets. So, we've got the ability to put the money in to buy an asset, and put you in the position that now you are ready to take some kind of action. And if you do nothing else from listening to this podcast, but set up the wealth coordination account, fund it, what you will find is you will eventually figure out how to get good financial advice, because now a bunch of money is sitting aside that's not your emergency fund. Also key, I didn't make that distinction, this is not your emergency fund. This is your wealth coordination account. It's the place you're gonna buy assets from. And I would rather our clients run up credit card debt than invade the wealth coordination account.

Cory Shepherd: Which sounds like... You might be listening and say, "These people are crazy. You would rather have 18% credit card interest than rate a 0%, essentially 0% checking account?" Well, that's not the whole story, right? There's a lot more going on in this equation and that's how valuable this is, 'cause the financial industry wants you to buy some things quickly. It wants you to just get products going. And the value of this is disassociating you from the act of saving and the act of buying something. It gets you in motion without having committed to any kind of strategy. And I think that's really, really huge.

Paul Adams: That's right. We're building, 'cause think about how often, as you're listening now, that you've kind of associated the ability of building assets with somebody proposing or selling a product to you, needing to appropriately greet that with a great deal of suspicion. And now our society, primarily because the financial services industry since the 1960s, has built their entire basis upon what was originally called "Financial Opportunity Sales". And you guys, like we've all seen it in movies, like somebody calls and says, "Hello, I've got a stock for you."

Cory Shepherd: Glengarry Glenn Ross.

Paul Adams: Yeah. That's a great example. And that is, we need to disassociate anybody else from our capacity to set money aside to buy assets, and notice we're calling it setting money aside to buy assets, not savings. Cory, when we ask a large room of people, "What is it most people sometimes do with their savings?", what do they say?

Cory Shepherd: 100% of the time they say something along the lines of, "Spend it."

Paul Adams: That's exactly right, and I will give one exception. It's a 100% of the time for people that are born and raised in the United States.

Cory Shepherd: Ah.

Paul Adams: For our client that are first generation here, they give different answers, but it's so deeply inculturated in us here that money gets saved up to be deployed or spent somewhere. And even the marketing campaigns...

Cory Shepherd: The American culture, like our language, we talk about saving up. That's the phrase we use. I'm gonna save up dot, dot, dot to buy X.

Paul Adams: Yeah, yep, not to... Think about that. We're saving up to buy X, not to build anything.

Cory Shepherd: Right.

Paul Adams: Right there, it's a spending deployment, not an asset deployment. So, that's why we talk about the wealth coordination account is there for us to put money in, to later figure out what assets we're gonna buy. And frankly, for many people, it's really important that you put that stutter step in, so that you take the agency and control in your own life in choosing how much money is gonna be set aside, and it's not because of a sales pitch from the 401k enrollment person. It's not from a somebody out there who's saying that, "Hey, I've got this great limited partnership you should invest in." Or somebody out there saying, "I should manage your money." Or you're not... Think about this, how many people have started saving only because some advisor showed them some financial plan, that by the way, was incomprehensible, 80 pages long, maybe it was in a nice folder, and somebody flipped through the pages and colored graphs and charts, and that's what got them started? The thing is, and the reason we work with our clients all over the country, why we do it all right on web, why we do it in a way that you can understand every decision, is so that you are taking the agency in your financial decisions. That's what we wanna encourage our clients to do. It's the first criteria of this account, is it only buy assets, period, end of story, and know what an asset is.

Cory Shepherd: The one thing that I think a lot of people might be thinking right now is, "Well hey, I'm disciplined, more disciplined than the average bear. I could just keep this all in my one checking account that I already have. I don't need this other extra account."

Paul Adams: No chance, and here's why: All of the clients that we have met who have already set aside a significant amount of money, we always hear this. We explain the wealth coordination account, and they say to us, "Oh, I'm actually already doing something similar to that." That is, in 20 years of... 18 of teaching this specific concept, but 20 plus years of witnessing people's balance sheets, this is what they're doing, even if they're not doing it consciously, that they have separated in some way their household spending and emergency and the money that buys assets, and they set aside money first and deploy it later. Here's the thing: We don't need to solve the psychology of Americans and why savings equal spend. Like all that, just forget by trying to cure that for yourself. We have just figured out that this is a mechanism you can put in place. You don't need an advisor. You don't need to call us. You don't need to do anything to do this. You could do it today on your way home from the office, or call your personal banker and say, "I need another account." Get it done today, walk away with, at minimum, just getting a wealth-coordination account set up.

Cory Shepherd: Yeah. And our cognitive capacity, our decision-making capacity, is a battery that gets drained relatively quickly as we make multiple, multiple decisions. So, even if you're the most disciplined person in the world, just the fact that you would mentally have to do the math about what money in your checking account you could spend or not spend and is for the future, just puts you in a position where you're gonna deplete your best resource for making effective decisions throughout every day. So, we want a physical separation so your brain's not fighting to make that separation every single day, and you can make those decisions based on what you see in front of you. So, with that, we're gonna take a commercial break. You're gonna hear a message from the Sound Financial Group, and be back to continue talking about how to unroll and use this wealth coordination account strategy on your balance sheet.

Paul Adams: Alright, so let's talk about the number two component of your wealth coordination account. Now, this may lead some of you to need to go back to listen to episodes 105 and 106 now, because we're gonna talk about what happens every month with your wealth coordination account. It ought to be the first bill you pay every month. Now, this is the personal balance sheet component of the book. Like when I met Michael Michalowicz the first time, read his book "Profit First", it was not strangely enough recommended by clients who had built wealth coordination accounts. They'd say, "You've gotta read this guy's book. He's doing for businesses what you've been telling us to do on our personal balance sheet." And so, in Michael Michalowicz's book, he talks about taking profit out of your business first, taking some percentage, always deploying it to your personal balance sheet, because as entrepreneurs, we often put everybody else ahead of us. But whether you're an executive or a business owner listening to this, you wanna take a chunk of every single month's income, and drive it straight to your wealth coordination account, because the only job it has after that is to find a home in an asset somewhere, but you control it. That's part one.

Cory Shepherd: I like to call that the positive power of negative pressure, and whether it's...

Paul Adams: Yes.

Cory Shepherd: Inside your business and you're unaccustomed to taking money out of the business, or that you're looking at your personal balance sheet and the money that you pay yourself and you're unaccustomed to setting money aside every month. I like to tell clients like, "Think about amount of money that you think is doable but slightly scary to take out of your budget, and put into your wealth coordination account every month, and then just go do it." And the reason why we can say that is it's your own checking account, this is a testing ground, you can undo it if you need to, right? It's not an irrecoverable decision.

Paul Adams: And it stops people lots of time, say, if you have a mutual fund and you're sending it to an advisor every month right now, or you've got some no-load or whatever you got going, you tend not to wanna set aside as much every month as you could because you're sending it off to some variable asset, it could go up and down. Maybe it's an IRA, and you can't personally tolerate being fully separated from the dollars. So that makes sense that you could get worried about setting your money aside, but it doesn't help. Here's a thought experiment I want all of you to walk yourselves through. Everybody listening to this podcast has had months where there were expenses you didn't expect, okay? Let's say you had an expense that was $4,000 for a transmission, a car accident that caused you to need to pay some deductibles and medical bills, you had to re-roof your house. All of those things are unexpected expenses, some of them tremendously expensive, like re-roofing a house.

Paul Adams: But what you'll notice, despite having had these large expenses that you didn't expect, you managed to pay all your bills that month, you didn't trash your credit report. And if you had set aside $3,000 or $4,000 that month in your wealth coordination account first, first bill that gets paid every month, you still would have paid all your bills, you would have been fine. And that is what Cory is talking about. And in case anybody missed it, this is mantra you could use in other areas of your world. It is the positive power of negative pressure. We talk about the importance of designing and building a good life at Sound Financial Group. We design our mindsets too, that we're putting a negative pressure on your cash flow by making sure some money goes into these accounts every single month, but that creates positive power in the direction that we're heading.

Cory Shepherd: I promise you, if you are not actively telling your money where to go, before too long you will start wondering where it went.

Paul Adams: If you guys think about what Cory just said there, if you don't tell it where to go, you're gonna wonder where it went. I don't think that's a future state for most people. That is something that you struggle with every day right now, and I hope that what Cory said at least have the opportunity to land with you. You're in your car, you're working out right now, if you didn't hear that, go to your podcast app right now and jump back like one minute, so you can make sure to hear Cory say that again; that if you don't tell it where to go, you will be asking where it went. And what's important here is we have to build our personal balance sheet. We've talked about this a lot on the podcast, we're gonna continue to talk about it because it disagrees with the current and the way everybody's thinking, and that is, we must build our personal balance sheet. If we do not, you will never have financial independence on that business balance sheet.

Paul Adams: And I wanna dig in on that for just a moment with my friends who were entrepreneurs. I was speaking to a large entrepreneur group, and this is just last month. And when I did, there were a couple of guys in the audience that had... And this is no exaggeration, nine-figure exits, like in the last couple of years. One was $150 million exit, the other was a $250 million exit. And while I was talking about the importance of building your personal balance sheet to this group, I got my first heckler ever.

Cory Shepherd: I really wish I was there to see it. I've heard a little bit about it, but man, I wish I was there to watch it.

Paul Adams: Well, and there's... I really am nice to clients. I just... I get passionate and I love this stuff, and I come along side and know that the same way that you hear the passion here, if you're a client of ours, then that passion is happening in our conversations, except my front is not turned towards you, like it might feel here. My back is turned toward you, and I'm exerting that passion on every other force that could erode your capacity to build financial independence.

Paul Adams: But in this case, this guy said, "Well, if I'd done that, I never would've had this exit." And again, he was living in the world of either/or. Like, I either build this business balance sheet or build my personal balance sheet. And so with the room, we talked about that a little bit, and we talked about the importance of making sure that it would work out. And the thing that happened that was amazing is, this guy had this big exit. And all of us as business owners know somebody who has had a large exit. The person that's maybe on their third business, and they've got a great life and a great lifestyle and everything's going well, but here's the thing, what they don't think about is that they are the unicorn, they are the survivorship bias illustrated, they are the one person. I've illustrated this point to this group of folks, that for 50 people to be in the room who all have at least a million dollars of annual income, and for all of those folks to be in that position today, 5,000 businesses had to open.

Cory Shepherd: Jeez.

Paul Adams: Now think, it was only like 180 or so statistically speaking businesses that needed to open 10 years ago for them to still be in business in some way, but for them to be in business and have over a $1 million in revenue, it was 50, to have 50 it would have been like 5,000... Technically like 4,500 that needed to open. But just be with that for a moment. And as we all sat in that room thinking about our future, thinking about our finances, talking about our businesses, we are totally not present to how many people fell along the way. And it's not that they have a job somewhere now or whatever, or they never got over the million dollar mark of revenue to be in that room. But in reality, it's like we're just not present to how many people don't make it. And you can't count on your unique or unicorn exit to be in that position. And then, and I don't know if I remembered to tell you about this, Cory, his friend, the guy with the 250 million exit said... Now, by the way, the reason I called him a heckler, is he said, "I'm not meaning to heckle... I am heckling you, but I don't mean to heckle you." That was his words, I don't mean that derogatorily to him. It actually, I think, brought something really great to the conversation into the talk that I gave.

Paul Adams: His friend then started defending him. This is the guy who had $250 million exit. And as he talked through it, he said, "You know, well, I did everything you're saying. I built my balance sheet, and I had my investment properties, and I had all my investments, and everything else, and then in 2009, my business really took a big hit, all of that, and I had to actually go put loans against some of my personal stuff to save my business so that then about six or seven years later, I could have this huge exit." And I was listening and I was kinda quiet, and I said, "I think you just made my point that you want to build." And I didn't say my point, I said, "I think you pointed out the fundamental mechanic that I'm attempting to point to, and that is that if you build your personal balance sheet first, if you had not built your personal balance sheet in that case, you wouldn't have had your nine-figure exit." And he goes, "Oh, you're right." And the funny thing is, like it is...

Cory Shepherd: You did not tell me about that man.

Paul Adams: In many group situations like that...

Cory Shepherd: We gotta do this podcast more often.

Paul Adams: And everybody... #Neverdaily. When you look around at the group, you could see that everybody else in the room got it before either of those guys did. And what those guys don't realize is they made a huge contribution to everybody in the room to be sure that they would be in a position to be able to take better care of their finances for the long run. So let's hit our third and last point of being able to set up the wealth coordination account.

Cory Shepherd: The final piece of the wealth coordination, account. So for a business owner, the real problem, the real problem is actually if your business checking account gets too much money in it. You should never be too happy about the balance of your business checking account, because that means we're in a sense of like we have all the money in the world, we're just gonna throw money at problems to solve them, we want to create a little bit of that tension so that we're solving our business problems without just throwing money at them, and we get that out first. So the wealth coordination account is that place to put that money, and it's also the place to re-capture any of the dividends or income that might come off of the different assets that you buy in that account, so that when you're planting those dollars as a seed, you can re-invest, re-harvest, and have the power of compounding over time.

Paul Adams: And to make that point, let's just talk about what happens now. Without a wealth coordination account, what very easily occurs is that you and your spouse buy an asset. You and your spouse invest in a real property, you and your spouse put yourselves in a position where you have had something go well. Like, I don't know, you bought a piece of art work and turned out it's worth $40,000 and you off-loaded that thing. Where does the check get deposited is your regular checking account. It's just totally normal. But when it gets deposited in your personal checking account, what will almost always occur is that you will be put in a position where you're gonna feel flush, you're gonna feel like you got a little more wiggle room, and you're gonna put yourself in a position where you look at your spouse and say, "We've been meaning to buy the kids a new car. We've been meaning to take that vacation. We've been meaning to fill-in-the-blank."

Paul Adams: And this is where you have a chance to have some of that money get lost in the sauce of life. We're not talking terrible, this isn't awful stuff, but people get lost in it and don't realize it. Let me give you one example, if you don't believe about money getting lost in the sauce of life, I'm gonna give all of you an example that I think will shock you. Whether you're an executive or a business owner, but you're making and paying yourself W-2 wages, you are likely to be in a position every year where you end up with about a 15% pay raise and you miss it. And the money just laying somewhere in your balance sheet. Now, for an executive working for somebody else, it's like seven-and-a-half-ish. We'll just call it seven to be round. And for a business owner, it's about 14%. Now, why is that? It's because the social security and FICA are 7.5% on the personal side, 7.5% for the employer side. And I think for 2019, it's like $132,000.

Cory Shepherd: Is the wage base.

Paul Adams: Yeah, the wage base for social security. So they stop deducting it. Now, by the way, for those of you that maybe don't pay that much attention to politics, our listeners should pay a lot of attention to them increasing the wage base. It would change everything. Our prior administration really took on that what they were gonna do is totally get rid of the cap on the social security tax. Put that in perspective, that would be for those of you making half a million dollars a year, you would pay an extra 15% tax between what the employer side pays and what you pay all the way up to your max of your income.

Paul Adams: Now, many business owners pay themselves, say, 200 W-2, and take the rest in K-1 income. The K-1 income escapes this trap. But the money that's paid to you via W-2 doesn't. And every year you get this pay bump because FICA is no longer deducted from your paycheck. And where does the money go? Lost in the sausages, lands on your balance sheet, and that's not only selling assets and making sure that the profits go back to your wealth coordination account to be redeployed into an asset later. Because why? 'Cause all we're working toward is making sure that all of our assets have built up enough that their income off of those assets can pay your expenses, and the moment that that happens, we refer to as DFI or Definite Financial Independence. That's when you've crossed the line into work optional lifestyle, doesn't mean you stop working, it just means that you have the autonomy and freedom to choose.

Paul Adams: And by being able to re-capture to the wealth coordination account it built... Like, another great example is you put some money out and you bought a commercial real estate property. That commercial property, after it pays all its expenses, throws off $2,000 a month. Well, that $2,000 a month should land back in the wealth coordination account and go out and acquire other assets, further building your balance sheet. So, let's just do a quick short review of everything we learned today, and then we're gonna close out this episode and send you guys off in your week, hopefully with some new ways of thinking about wealth coordination account, what is an asset, and something that you can practically employ as soon as this podcast is done, call your banker and get this set up.

Paul Adams: First is, we want you to take away is that either get a separate checking account or take an existing checking account that you have and repurpose it to be your wealth coordination accountant. Then it needs to only buy assets with the definition being an asset is anything that puts money in your pocket now, or has the ability to put money in your pocket in the future without changing your lifestyle. Then it needs to become the first bill you pay every month. I would encourage everybody to go back, re-listen to podcast episodes 105 and 106 with Michael Michalowicz being interviewed about "Profit First", especially Episode 105. Episode 105 really covers the mechanics of getting money out of your business as a priority, and getting it on your personal balance sheet.

Paul Adams: Then get it to your wealth coordination account and deploy it elsewhere, by other assets, by assets outside of your primary business. And then, when those assets are profitable, making sure those profits get deployed back to your balance sheet. And what this will do in nearly every situation is put you in a position that you take agency and control away from the financial institutions that are marketing your products, and instead in a relationship with you, your spouse, and your financial coach, put you in the position where you can understand your decisions fully before you make them, and deploy all of that money for the future purposes of what you want for your future and your life. Anything else, Cory, before we get on to our featured podcast review this week?

Cory Shepherd: Just that everyone take the time to put this simple strategy in place, and you will reap the dividends over the long term of the greater effectiveness of your balance sheet. So this is one of my favorite topics. I'm really glad that we got back to it.

Paul Adams: Well, and that really goes right to about the dividends, if you will, that can be paid from being able to implement a strategy like this, and that is... And I actually know who this is because of something he says. So I think I will quickly... I wanna make sure I could refer to his podcast episode. I'm just realizing as I read this who this is, and it is a guy named Tyler Paris. Now, if you haven't had a chance, you go all the way back to Episode 9, back before Cory was even a guest. Before he was a twinkle in a podcaster's eye, he... Back in Episode 9, not 109, number 9, we had Tyler Paris on, and he talks about the importance of executives and business owners really building out a staff position called the Chief of Staff. He's got a great book I think everybody listening would enjoy.

Paul Adams: He wrote, "This is a terrific podcast that covers a variety of topics from technical financial techniques that you can geek out on, to layman's explanations of some of the most counter-intuitive strategies to general leadership and life topics. The Aviv Shahar episode is one of my favorite podcasts of all time. I might be biased because I was a guest on Paul's show, and even as a host, he asked insightful questions, which helps listeners get takeaways they won't find many other places." So for that, because he mentioned he was a guest, I realized who this was from. Thank you Tyler so much for making that recommendation. And for all of our listeners, I wanna encourage you, go out, write one of these reviews, it helps us a ton, but more importantly, it helps other people out there get exposed to solid financial knowledge. It's well-grounded, it's not driven, that's why we don't have anybody advertising on us, despite the fact that there are lots of asset management firms who would love to get in our door as a firm, and would pay good money to us to be on this podcast, and we do not do that.

Paul Adams: What we want you to be able to do is take away this kind of knowledge. You doing a review, you rating the podcast, and just give us that honest review, and take a screenshot of it, email us at info@sfgwa.com, and we will send you Michael Michalowicz's book "Clockwork". You will find that that book will help you as a business owner better determine what's the secret sauces is in your business. And if you're not a business owner and what you'd like to do instead is get one of our other books, we will make sure that you get Cory's book, "Cape Not Required" or "Sound Financial Advice". And if you already have "Clockwork", but you wanna give away a copy, do the review anyway, and then give the copy to your friend. It will make a difference for them. We are always glad you were able to tune in. And what we hope is that this was a contribution to you being able to design and build a good life.

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