



116 – Stop Saving Money & Start Building Assets, Part 1

Episode Transcription

“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.”

Paul Adams: Once again, if Cory and I are talking to a large room and we were to ask everybody "Write down your definition of an asset," and 200 people all hand in these slips of paper, we will probably be reading out loud at least a hundred definitions of an asset. Here's the definition we found works really effective for our clients. 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.

Announcer: Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, and clients living across America, our host Paul Adams now brings directly to you.

Paul Adams: Yeah, he's brilliant and he brings a great edge to our show, which I think you're gonna hear in some of his stories et cetera, today.

Now, we're picking up a little bit on our last episode. This is Number 116, and what we're covering is this idea of, how do we go about getting away from the concept of saving money and the way it hurts people and get toward building assets?

Cory Shepherd: And all this is with a common theme of the idea of a White Coat Window. Capitalizing on your White Coat Window for our physician audience is particularly named after that time where your income jumps all at once, and you can make a set of decisions for your life and your finances that really set you on having every chance of setting on a wonderful path through the rest of your life. And then anyone else who's not a doctor can still think about those concepts of a White Coat Window and still have your window, and whether you're a doctor or not and you're past the early stage of your career, you can still reopen it.

Paul Adams: Yeah. What it comes down to is those habits and practices that we accept and adopt very early. What we're gonna talk about today is gonna lean a little bit on a quote you guys have heard me say about Jeff Miller, who's new to our team. He's a guy who made good income. We're not talking huge amounts of money, but like a good top 1% income as an executive. But what he did is he continued to save money, and he goes back to something his grandfather once told him, which is "Don't brag to me about how much money you make." This was after he got his first real executive job making good money, had a good salary package and bonus, and he's saying, "Lookit grandpa, I did this." And he says, "Don't brag to me about how much you make. Brag to me about how much you save. Anybody can make a lot of money."

While we're gonna kinda blow up the concept of using savings as a cornerstone of your language set around building assets, what I do want



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everybody to notice is how often people talk about what they can buy or the lifestyle they live. While we don't talk about money, everybody certainly has a lot of nonverbal expressions that all say money.

I was at this entrepreneur's event and there's people at the event ... One thing that was kinda neat, the guy from Shark Tank, what's his name? Daymond?

Cory Shepherd: Daymond John.

Paul Adams: Daymond John. Daymond John's speaking, and he's pretty confident in himself. Not a lot of humility on stage. There's no room for humility next to him. But he's doing his talk, and the audio wasn't great for the part of the room we were in, and a couple of us just wanted to get aside and have a conversation. So a few of us are sitting outside in a little, like vendor area where there's couches, all that, and we're just sitting around shooting the breeze. And one of the guys came out, he says, "Man," and something about, that guy's talking about all the things you can buy. And then he says, "He's usually the wealthiest guy in every room he's in, and I don't think he knows he's not the wealthiest guy in this room."

But what I did I see a lot of is, there's people that are in an accelerator program, to be able to come up and through, and become full-on members of the entrepreneur's organization. And what's amazing to me is how much signaling people would have in their stuff, even if they were not ... So one woman, I think legitimately sitting with her, it wouldn't surprise me if she's nine figures of net worth. She's almost three commas. Venture funding, et cetera, really neat background. And sitting right next to her is another woman that's kind of in this program to get up and running.

Well, who has all the signaling, with the really expensive bag, and the really cool watch, all that, is actually one who's the one that's on-ramping and the-

Cory Shepherd: The up-and-comer. Yeah.

Paul Adams: Yes. And the thing is that we have all this signaling that we try to do to show that we have a strong balance sheet, that are actually actions that lead us away from likely having a strong balance sheet. And we all are subject to watching that happen. So as we talk about some of this language, and what it means to build assets, we really want to be careful that we're building assets, not just looking successful to other people. Perfectly fine if that's actually something that makes you happy, is how you look to other people, cool. We don't want to get in the way of that. We don't want to should all over you, that you should or should not do that.

Cory Shepherd: Paul, I really always appreciated having you as the example of someone who cares very little about how you look to other people. It's been a real help to me in-



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Paul Adams: Just to be standing next to me in public, he likes it because of how good he looks standing next to the guy.

Cory Shepherd: But in all seriousness, in the early years of our firm when we had a large team of young advisors that we were trying to coach up, it was tempting for me to go and get the nicer, nicer car. The firm that I worked at previously, I did buy a car when I had a certain amount of success that was still way more car than I should have bought at that time. Got to Sound Financial Group, and kind of felt embarrassing to me at first to have a nicer car than the founder of the firm. And then it was an asset to us in showing all these young folks, like, "Look, you don't have to jump on that train just because everyone else says that you do. Follow what's important to you."

Paul Adams: Yes, absolutely. We're going to talk a little bit about the idea of the difference between saving and building wealth. Savings usually doesn't lead to building wealth, but cash flow control does. Even using the word savings can mess us up around cash flow control.

We're just giving you a little bit behind the scenes here. Cory and I are drinking some yerba maté. We've been working together all day today before jumping into this podcast. So would you hand me the hot water?

Cory Shepherd: Yeah. Oh.

Paul Adams: I'm just going to seep a little more. Yeah, go ahead and put that anywhere. I wish we had a shot of this. Cory just spilled his yerba maté all over. It is running right up underneath the Mac, and I would get up to help him, but frankly, I'm enjoying this right now. Can he keep it all on the table, even? I would use your t-shirt if I were you, to soak that up. Your t-shirt kind of matches the yerba maté. We can clean it up after. All right, guys. Sorry you all had to go through that little bit of trauma. Cory's not, because I made this particular set of yerba maté pretty strong, so-

Cory Shepherd: So strong.

Paul Adams: Yeah. It's a little bit like drinking gruel.

Cory Shepherd: My subconscious is rallying against that. Oh, man. Okay.

Paul Adams: So anyway-

Cory Shepherd: For anyone looking at my B-roll, the shot angle changed a little bit.

Paul Adams: Well you helped to get that Mac out of the puddle of yerba maté that had formed.

Cory Shepherd: Hopefully our editors cut to that earlier, and are going to cut again to my B-roll so you can see that sort of jump.

Paul Adams: Let's talk a little bit about what happens with this idea of saving. You walk into a bank, and I actually, I'll share onscreen for those of you



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“Savings is anchored in our American psychology as something we go spend.”

that are joining us via YouTube. If not, we'll give you this slides that you can download them later. But I walked into a bank, and I literally saw this up on the wall. And it's this woman, cup of coffee, ready to go, looks determined. "This is my year to start saving more."

Now I actually saw this while I was walking into my bank, right before I was going on stage to speak at a conference full of a bunch of ambitious, high-income executives and business owners. I was like, "Oh my gosh. Maybe they've changed their way of thinking," because I usually spend a fair amount of time deriding the financial services industry overall. Maybe they've changed their ways; it's been a long time. But sure enough, what are people saving for? And it's all over the walls. 38% are saving for travel, because they've got to spend the money. 24% for a home, because they want to spend the money on a home.

Now here's the thing. When I get in front of a room full of people, if I say, "What is it most people sometimes do with their savings?" What do do you think they tell me?

Cory Shepherd: Spend it. That's what every person that I've ever asked that question-

Paul Adams: Yeah, there's some version of, "Spend it." What we can see right here on the wall of the bank, they had stuff like, "56% are saving for an emergency," because they gotta spend it on the emergency. 29% for a car; 23% for a kid's education; 26% for home improvements. Now I don't know exactly how these surveys are done, because that adds up to like 190% or something.

Cory Shepherd: Well, you're saving a little bit here, a little bit there. Yeah.

Paul Adams: A little there. But these are the respondents to the survey. Here's the thing we need to be aware of. Savings is anchored in our American psychology as something we go spend. Now perhaps we could go lay on a couch, spend a lot of time with a psychiatrist, maybe a little hypnosis, whatever it would take to recast what savings means to you or to me or to Cory or your spouse. Odds are, though, that's way too expensive. So we're going to give you some new language, and we're going to stop using the term savings to refer to the amount of money sitting on the side getting ready to buy assets. Because we-

Cory Shepherd: I just thought of something about financial institutions. It's a good reminder that this bank, the bank's business model is not to help you put a lot of money away for yourself. Banks largely make money on the velocity of money, on money going from place to place. So you think about this encouraging people to put money in a savings account for a home improvement project. Actually what the bank is hoping you'll do is grow your savings account a certain degree, and then open a home equity line of credit-

Paul Adams: You bet.



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“Take your income, and then in advance choose how much money is going to go to build assets.”

Cory Shepherd: ... to then build your home improvement.

Paul Adams: I've had a chance to have these really frank conversations with CEOs of large banks. They want to help people; they want people to be more financially responsible; they want them to be more literate. And then they look at me kind of off-camera, or off the podcast, and go, "At the end of the day, we make our money by people borrowing." You see, the cost of goods to a bank is paying you interest on your savings account. The profit they get comes from lending money out. That's the part we have to stay really present to.

Not that it's bad; we need to use banks. Banks are great tools, but they may not be teaching us to use the bank in the most effective way it would be for us to use the bank. So then people want to go down the path of doing a better job with savings, which we know that in the current, in the way that everybody thinks about this is, we all float down the proverbial linguistic river together, it-

Cory Shepherd: Ooh.

Paul Adams: Yeah, do you like that?

Cory Shepherd: Alphabet soup.

Paul Adams: Alphabet soup. But we float down the river, and it's like, everybody seems to be doing the same thing. Here's the problem. We then try to increase our savings by budgeting. But the problem with trying to do that is that if we're trying to solve it by budgeting it's a little bit like teaching a 16 year old to drive a car by telling them to not hit the curb. Don't hit the curb; don't hit the curb; don't hit the curb. And they hit the curb every single time.

If you ever watch America's Funniest Home Videos, there'll be like the kid where the dad is like, you're riding your bike. It's this big parking lot. The only thing in the middle is that huge telephone pole. Just stay away from that. And the kid, it's like a magnet and they hit it.

Same thing with our money. See, here's the problem. This is one of the ... picture on the screen now is this most popular budgeting sheet on the Internet, in Excel, to be able to use for your budgeting. If you look at it, you have the income minus the spending equals the net, which is the savings, which means the savings is the residue. It's what's left over after.

Cory Shepherd: The income is fixed for most people, because they're just making whatever salary they make. And the leftover's the savings, so spending is the action point, the pivot, the catalyst, as we say here. Yeah.

Paul Adams: Indeed, yep. So this is how most people live their lives: income minus expenses equals savings. Here's what we want to do to make the amount of money you put toward asset building as your catalyst, okay? That is, take your income, and then in advance, choose how much money is going to go to build assets. Ideally, where we should want to get to is like 20 to 25% of



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gross income. That takes time. That's not an overnight; we talked about that a little bit before. But it's the idea that what we want to do is make sure you're in the position where you're setting aside enough money to one day be able to have your assets eclipse the amount that you need for passive income, so that you can have a work-optional lifestyle. That's the whole game we're after.

So if that's the game that we're after, then what we need to do as individuals is make it, not just a priority. We've all heard this, like, "Pay yourself first." And I think one of the reasons that doesn't resonate with us is, I don't want you to pay yourself first. I want you to put money on your balance sheet first. Because what do we do with money that we're paid? We spend. So you see where the language then interferes with our ability to actually be effective with money. What we want to do instead is have money going toward asset building as a priority, and that's going to come right after income.

So if you're somebody that gives consistently, say to a church or a synagogue, something like that, then that comes before even what you put aside there, should be a first fruits commitment. It doesn't matter what percentage you're doing; it should just be the first one, because that's the act of faith as a part of giving, as a part of your faith. But once that's done, next is asset building. After that, you have your life fit into what is left. I would say, "Pay yourself last," in this case. Pay your future self first.

Cory Shepherd: Right. That's what I was going to say, "Your future," yeah.

Paul Adams: And one thing I think a lot about is, think about, one day we're all going to meet our old self. Hopefully just as good looking as we are today, but maybe not. Maybe I'm hoping I age like a wine, not like a glass of milk.

Cory Shepherd: Out in the sun?

Paul Adams: Out in the sun, just cooking. Well, when it comes to our money, one day we're going to meet our future self. We owe them a bunch. And the bunch of money we owe them has to do with the amount of capital that has to be on our balance sheet so that they have enough income for the rest of their life, when they're no longer working. Which they may not have the choice to work or not anymore.

Cory Shepherd: Have you ever had someone owe you money and then not be able to pay, and how you thought about that? You just don't want that to be yourself 30 years from now.

Paul Adams: No. So here's what we're going to introduce, is a new concept. Not a savings account, but having you set up what we call a wealth coordination account. There's a few key components of it. And for those of you listening to the podcast, you can go to 116.sfgwa.com. That's 116.sfgwa.com. And when you go there, you'll be able to download some of the slides we're talking about today. And you'll just put in your email, and Lea has it set up where it'll email you directly.



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“One day we’re going to meet our future self... And the bunch of money we owe them has to do with the amount of capital that has to be on our balance sheet so that they have enough income for the rest of their life when they are no longer working.”

Cory Shepherd: Can we do that like the As Seen On TV, like, "And at the number below." Can we get that on the screen right here?

Paul Adams: Yeah. The info@sfgwa right at the bottom? Maybe. I don't know how they do all that. That's all magic to me.

Cory Shepherd: Yeah. Lea, can you do that?

Paul Adams: Yeah. My job is to talk into this microphone and try to look into the camera part of the time. So there's some key components to this idea of a wealth coordination account. One, it needs to be the first financial commitment we make every month. Two, it needs to buy assets. More on what an asset is in a moment. And part three is, we need to take any of the profits or proceeds, what we get from our assets, to go back to the wealth coordination account to buy more assets. And we'll explain that more in a moment.

Now, why does it need to be a checking account, Cory? What's important about it being a checking account?

Cory Shepherd: Well, I don't know. If I wanted to go buy a piece of investment real estate or buy a mutual fund, they're probably not going to accept an IOU. You'd need to write a check.

Paul Adams: Yeah. Or like, "Here's my savings account statement."

Cory Shepherd: No, great. Sounds good, Bucko.

Paul Adams: We need a check.

Cory Shepherd: Yeah. We need a check.

Paul Adams: So we know that if we're going to deploy money into other assets, you're going to require checks. So we should have our money positioned in an account that can do that, because the job of the wealth coordination account is not to build up a ton of cash. There's different reasons for that, like setting up and building up your savings should be in a savings account. Your regular household checking should be another account. This is a separate checking account that is your wealth coordination account. That wealth coordination account's job is to be the centerpiece, and even the barrier between you and some of the financial institutions that you deal with, so it's not blindly only sending money to your 401k, or a monthly bank draft to some IRA. Instead, these are active decisions you make every month to think about your long-term financial well-being.

Now, that definition of an asset. Once again, if Cory and I are talking to a large room and we were to ask everybody, "Write down your definition of an asset," and 200 people all hand in these slips of paper, we will probably be reading out loud at least a hundred different definitions of an asset. So here's the definition we found works really effective for our clients. 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.



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Say that again: 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.

Cory Shepherd: That lifestyle piece is so important, because you'll hear us say time and time again that money isn't math. It's math plus human behavior. Math is a cold, hard-

Paul Adams: That sounds like perhaps a free download people can get their hands on, Cory. Is that possible?

Cory Shepherd: Yeah. There is a white paper that I wrote last year called Money: Where Humanity and Hard Numbers Meet. You'll find links to that at 116.sfgwa.com.

Paul Adams: 116.sfgwa.com. But right, money is not math.

Cory Shepherd: And when that cold, hard mathematics equation gets coupled with human behavior and emotion, then that asset doesn't work so well anymore. It's kind of like if you put a gold coin and an orange on the table and came back 50 years later to see how both of them were doing, the gold coin would be sitting right there largely the same, and there may be nothing left of the orange whatsoever.

Paul Adams: Or, if that orange was cared for, there might be an orchard. It may have many, many multiplied. It may have had 20 years worth of harvest 30 years later. But to know what would happen with the orange, you'd have to know a lot more about environmental science, biology, agriculture, all that. It's just not static. And that gold coin is a lot more like the math. So in our case we want to make sure it's 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.

Now here's the bad news. That means your primary residence is not an asset. It's just not an asset. It is, maybe, a low-cost way to provide shelter for you and your family over extended periods of time. Still not an asset, because if you sell your house in San Francisco and you move to Gilbert, Arizona, you'll have some money left on the sidelines. But you had to change your life-

Cory Shepherd: But if you did it the other way around-

Paul Adams: But you had to change your lifestyle. It's a very different lifestyle if you're going to live in Gilbert versus San Francisco. So here's what I think we should do. We are going to wrap this episode, let part of this carry in the next episode for this reason: I want to make sure that we not only show you how to build what we refer to as the work-optional lifestyle, indefinite financial independence with the wealth coordination account at the centerpiece. But we also want to make sure that we take enough time to talk to you about the fact that you may have not enough in your emergency fund.



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You may have a little bit of debt on your balance sheet. And how do you orchestrate dealing with debt or building up emergency funds with buying assets?

And we'll just pick that up in our next episode.

Cory Shepherd: Can't wait.

Paul Adams: All right. We hope that this has been a contribution to you being able to design and build a good life.

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