"There's even some fun ways you can live in your wealth, like maybe you buy a bunch of original artwork, hang it up on the walls, let it appreciate for a few years, and now, because it's been on your walls long enough, actually getting a 2x return."

Paul Adams: What else could be an asset? Well certain kinds of collectibles could be an asset. You could go out and buy one of those collectible Corvettes. It's 55 1/2, it's in the garage, it's cared for, it's insured. Here's the thing though, if you decide to join the Corvette club, then you make a bunch of Corvette friends, and you all go down Corvette drives, now it's part of your lifestyle, no longer an asset. So it's a really clear delineation of when is it an asset and when is it not?

There's even some fun ways you can live in your wealth, like maybe you buy a bunch of original artwork, hang it up on the walls, let it appreciate for a few years, you buy it below market value, you let it stay on your walls for a few years, where it's seasoned, and now you donate it to charity at market value, because it's been on your walls long enough, actually getting a 2X return. That could be an asset, okay?

Other kinds of real estate, investment real estate, rental real estate, even if you speculate, that could be an asset.

Announcer: Welcome to Sound Financial Bites. Where we help you with bite size 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: Hello and welcome back, as always, here on Sound Financial Bites, my name is Paul Adams. I am your co-host.

Corey Shepherd: And my name is Cory Shepherd. I am your co-host.

Paul Adams: And together, we are ... I don't know, maybe we reassemble as Voltron. I don't know. That would be a childhood dream of mine come true.

Corey Shepherd: Monitron?

Paul Adams: Monitron? Moneytron? Sound-Financialtron? I don't know.

Corey Shepherd: Everyone tunes in late to this one.

Paul Adams: Yeah. Exactly. Maybe I'll just skip that intro.

Paul Adams: All right, well, in any case, we're so glad you could join us. Episode 116 where we're picking up on the concept of really stopping saving money and start building wealth. You see, to build wealth, we have to build up assets and we cannot help that as society, and many of the people that have controlled the advertising ... I'm not all black helicopter here but they-

Corey Shepherd: For right now, but yeah-

Paul Adams: Oh, yeah. I'll get there eventually, I'm sure, on this podcast. We do have plans for a very special podcast that is going to come up one of these days. And when that one happens I am not going to give anything away because nobody's done this before but if I do, what Corey has been discouraging me from doing, I will probably get a little weird at some point during that podcast. But, this is not black helicopter day. The banks, the financial institutions have all controlled most of the media that educates the general public and the advisors. Because of that, we fall into things like savings. We fall into things like, we save up to spend. We don't know why. So that's why we've established this idea of the Wealth Coordination Account.

So if you're just new to this idea of the Wealth Coordination Account, go back, listen to episode 116. You can go to 117.sfgwa.com and get some of the same downloads for episode 116. And I think it will really serve you to pick those up and be able to see some of these slides if you're just tuning in by podcast.

We've talked about the Wealth Coordination Account's job is to buy assets. If it buys assets it then needs to make sure that it takes the profit from those assets and puts them back in. And it also is the first financial commitment we make every month. The definition of what it would buy as 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. So let's look at some examples of what that might look like in practice. So for those of you joining us on YouTube, what you're going to see is this really well-dressed couple that clearly went to design school or something, between the couch they're sitting on and their perfectly coiffed hair.

But, in this case, they're making $400,000 a year, and they're saving $80,000. In this case, 20% of gross income, pretty simple. And something they could buy that'd be an asset that most people don't realize could be an asset is a vacation home. You could buy a vacation home as an asset. Because why, Corey? Why is that an asset but my primary residence is not?

Corey Shepherd: So, the first place I go is, "Are your clothes hanging in the closet permanently?" So, take your clothes out of the closet, make it a insert, online way to rent your house here, and now it's generating cash flow. You could use it from time to time just like you might use a hotel that you go to, or any other property. It's not actually changing your lifestyle, whether that's in your life or not.

Paul Adams: That's it, yeah. And the idea that it's providing cash flow now, puts money in your pocket now. And if you sold it, you don't change your lifestyle. It's pretty simple, you could just vacation there and rent the neighbor's house. Or, you could write into the sales contract, "I get to come back and have this property again the second week of May every year because it's family tradition". Whatever you choose. A couple episodes ago, Corey spilled a huge amount of Yerba Mate tea across the table and I just about did, just now. So if you heard the gasp while you're listening to the podcast, that is why.

Corey Shepherd: It was actually me, sad that he didn't. But I thought we were going to be even.

Paul Adams: Nope. I had drank mine down.

So, a vacation home could be an asset. What else could be an asset? Well, certain kinds of collectibles could be an asset. You could go out and buy one of those collectible Corvettes. It's 55 1/2, it's in the garage, it's cared for, it's insured. Here's the thing though, if you decide to join the Corvette club, then you make a bunch of Corvette friends and y'all go down Corvette drives, now it's part of your lifestyle. No longer an asset. So it's a really clear delineation of, when is it an asset, when is it not? There's even some fun ways you can live in your wealth. Like, maybe you buy a bunch of original artwork, hang it up on the walls, let it appreciate for a few years. You buy it below market value, you let it stay on your walls for a few years where it's seasoned, and now you donate it to charity at market value, because it's been on your walls long enough, actually getting a 2X return. That could be an asset, okay?

Other kinds of real estate: investment real estate, rental real estate, even when you speculate, that could be an asset. Life insurance, certain kinds of life insurance can be an asset. Certainly mutual funds, business ownership, 401Ks, IRAs, Roths, all the traditional financial tools

"We need to make sure that the things that produce income or produce profit, those assets we purchase, that that money gets dropped back into the wealth coordination account."

you'd be familiar with could all be an asset, and investing back in your own human capital; coaching, education, etc.

Corey Shepherd: Your health.

Paul Adams: Oh, my gosh, yes. Maybe this is a good side note to talk about that. There is no amount of income you're likely to earn that will be worth having trashed your health. Because many people throw their health down the toilet trying to earn their money. And then in their old age, they lose all their money trying to deal with their health.

So we are huge fans, we actually plan on having some naturopaths come on this year about really staying on top of your health. Not like any serious, woo, woo, burn-some-incense type stuff, but just simply taking really active care of your health so that you don't blow it and have to spend all your money trying to recover from it. And I actually know some young entrepreneurs who are really after it. And they've literally said, "Our strategy is, we may trash our bodies right now, but we plan on having hundreds of millions of dollars to fix it". And I'm like ...

Corey Shepherd: Hope so.

Paul Adams: You hope so.

Corey Shepherd: Hope so. Well, you know, because this is part of our early, season four, dedicated to the White Coat Window and physicians ... just all the doctors out there listening, I know that your profession, especially early in your career, is about helping other people find great health and it puts you in some compromising positions of making choices and taking it right to the limit on your own health. Just know that we feel for you and we're supporting you in doing everything you possibly can in the midst of all that to keep yourself and your body healthy. Because that's what all this is for.

Paul Adams: Yep. So, now we've gone out and we've bought assets. So, first place, we put money. Second, it went out and bought assets. Third, we need to make sure that the things that produce income, or produce profit ... those assets we purchased, that that money gets dropped back into the Wealth Coordination Account. Because otherwise, what happens? Let's say you did sell an asset. You sold a piece of property, something else. What account do people put the proceeds into right now? Their checking account. And you can't get away from the fact that it's super easy to look at your spouse and be like, "We're pretty flushed right now. We sold that property, got an extra $80,000 in cash and we've been thinking about going to Hawaii". And I'm not saying you blow all the money, but you know, if 10-$20,000 every time an opportunity like that comes in just gets lost in the sauce of life, that's a lot of money you ultimately don't have. So just to keep it all in the wealth building eco-system, we put it right back in the Wealth Coordination Account, and look for other assets.

"Basic accounting principles say don't commingle funds for different purposes."

Corey Shepherd: Like your business accounting class in college ... which, many people who went to liberal arts had to take some kind of accounting class even if you're not in business, basic accounting principles say, "Don't commingle funds for different purposes". So that's why this Wealth Coordination Account has to be a checking account that you can write straight out of, so you don't have to transfer into your other accounts all the time. You can keep that separate, kind of like planting out in your fields, not eating the seed corn-

Paul Adams: Yep.

Corey Shepherd: ... putting that back out in the field every time.

Paul Adams: And I'll give you one thing we've watched in just human behavior and the way people think about money. Most of you, if you're listening to this podcast, we hope that you've started with us at episode zero and you've just listened to every single week since then. That's probably not the case. You're probably parachuting in. This may be the first episode you've seen. You may have seen one of us speak at a conference or something, and you're like, "Oh, I'm jumping into it".

Well, here's the thing that's at issue. Most people spend less than two hours a year, every single year, taking care of their long-term financial decisions. What we've watched is, people will, quote, unquote, save money, but ends up automatically deferring into a 401K or some automatic transfer from their bank account.

The problem that causes is we're not conscious of our long-term wealth building. This has you making a active decision every month to put money aside to long-term wealth building. And what you cannot get away from is, given at least once a month ... even if it's for 10 minutes while you make the transfer, you're thinking about your long-term wealth building.

And you're thinking about, "Gosh, there's like, $20,000 in there now. What am I going to do with it?" It changes the way you think about long-term wealth building and actually it changes the way you think about long-term wealth building and actually increases your human performance and practices as it relates to wealth building. It's very difficult to get away from and super important.

"Most people spend less than two hours a year, every single year, taking care of their long-term financial decisions."

So we got now, money goes in first, money buys assets from the Wealth Coordination Account and the profits from those assets land back in the wealth coordination account. Well, here's the thing. This family's got $400,000 of income. They're setting aside $80,000. So, I don't want to be overly complex, it'll be pretty obvious if you're looking at the slides, but even if you're driving in your car right now ... hopefully not watching this on YouTube while you drive down the road, $400,000 minus $80,000 they're saving means somewhere in their life, lifestyle, taxes, whatever, $320,000 a year is being used.

So we don't want our clients to get to retirement. We've talked about that before. That's not our goal that you retire. Retirement is even a relatively recent invention. It's not something people used to do. We would retire an old animal, or retire an old piece of equipment. What we want to do is reach definite financial independence. So that we have a work optional lifestyle.

Well, how we get to DFI, or definite financial independence is have the passive income. What can be generated from the assets to be more than your household expenses? It doesn't mean that because you have enough money, you're going to walk. For most of you listening to this, you're probably making as a household, between that $300,000 to a $1,500,000 range. You don't earn that kind of money because you don't have some passion for what you do, usually. So you spend an entire career building up knowledge, building up networks, building up client base, building up employees in your company that can do it well. Or if you're a physician, building up the network of who you'd refer to to handle a-

Corey Shepherd: Series of accomplishments in either way, yeah.

Paul Adams: Yep.

I actually sat a conference once and the guy's entire purpose for doing his talk was, "I think everybody is doing what they're doing for a living so they don't have to do it anymore". And that was the cornerpiece for the work he does for his clients. And I was like, "What in the ...?"

We don't have any explicit versions of our podcast, yes, but, we almost did. That was close. But it's like, "What in the what?", as my pastor would say. Why would somebody want to spend their entire life getting super accomplished at something to know longer do it? That would be like my kids working really hard to learn to ride a bike to then be like, "Glad I checked that off the list", and never ride a bike again.

"Retirement is even a relatively recent invention. It's not something people used to do. We would retire an old animal or retire an old piece of equipment. What we want to do is reach definite financial independence (DFI) so that we have a work-optional lifestyle."

What we want to do is just get enough coming in that we can be secure because our assets can provide for our lifestyle which allows you to be at definite financial independence and that what you can do now is save 100% of your earned income. So whether you're a physician on staff with a medical group and you've got $450,000 a year coming in, or you're an entrepreneur that some years you make $200,000, but other years you make $1,200,000, if you're in the position where your assets can provide for you and your family's lifestyle, then 100% of your income can be set aside.

And we had Michael Michalowicz on the podcast not long ago and he talked about when he sold his first company and he said, "I didn't have enough to have F-U money", he said, "But I had F-me money".

And what you really want to have to have financial independence is it's not an amount of money, period. It's an amount of cash flow. And that Wealth Coordination Account, keeping money moving, making sure you're paying attention to buying assets can be one of the most important ways that you take advantage of your window. Whether you're an entrepreneur that's had a big bump in income, it's a great time to reset. You know, look at your spouse and say, "Okay, we're making enough money now. We've got enough to do this. We have a $10,000 bill due at the beginning of every month that goes to the Wealth Coordination Account. And that's what we're going to buy assets".

Now you and your family can have conversations about assets. You can have conversations about the future. You can have conversations about what is an asset, what is not an asset. And know that it's bringing you to a higher level of thinking around money than most people ever get to.

Corey Shepherd: And what I love about this strategy as simple as it is, it's very profound, and the benefits, you save $10,000 that month to your Wealth Coordination Account doesn't mean you have to do anything with that $10,000 that month.

Paul Adams: Right.

Corey Shepherd: It's a staging area, it's an on-deck, it's a pitstop, whatever metaphor you want to use, it keeps you in the constant habit of building assets every month until you have that muscle exercised. But you don't have to make a choice with the money every month.

Now this is especially valuable for the physicians in their White Coat Window that are listening, if you're still in school. Think about getting out of school, going into residency, you're starting to pay back your loans. They are income based, but that's still going to be a shock to the system. You've got to find a new place to live, you've got all these new expenses. You want to get in the habit of saving right away. You can do that to your wealth coordination account. It still has all the flexibility in the world, because it's your checking account, without committing it anywhere before you're actually ready, then you can start the habit from day one.

Paul Adams: And by the way, if you're listening to this and you're in a household where the money's tight for whatever reason, do $25 a month. It will change your life-

Corey Shepherd: Yeah.

Paul Adams: ... and I don't mean that as any kind of overestimate. There's a gentleman who was a CPA working for a municipality, very, very early on in my career. I probably worked with him 18 years ago and I was teaching this concept to clients even back then. And I talked to him ... I don't know if I've shared this with you Corey, about two years ago he called me and he's retiring from that municipality. He's a CPA, and he said, "You know what I'm going to do Paul? I'm going to teach other people about money. You teaching me about the Wealth Coordination Account 18 plus years ago-

Corey Shepherd: Wow.

Paul Adams: ... is what I'm starting people off on. I've been counseling people in my church, then I'm going to start charging for it, it's just my little extra income in retirement. But I am starting in the centerpiece of everything I'm teaching in this Wealth Coordination Account. That's how impactful this can be and change the way you operate with institutions.

Now, one thing you may be running into. You may have some credit card debt. You may not have the amount of cash in the emergency fund you'd like to have. Because if you are in that White Coat Window, I also like to call you HENRY, high earner not rich yet, HENRY. So if you're listening Henry, what I would say is, you want to orchestrate money you're putting aside for savings ... like emergency savings, money you're setting aside for credit card debt, pay down etc., and, not or, put some amount of money into your wealth coordination account every month. Because otherwise, what we watch happen is people focus on only paying down debt and they don't build up an emergency fund and they don't build a Wealth Coordination Account.

Hopefully, you already have a financial coach that can coach you through this. If not, email us, info@SFGWA.com and we'd be happy to have our philosophy conversation with you and let you apply to become a client. But here's the thing, if you don't balance that, you could get to the other side, all the credit cards are paid off and then an emergency hits. And because we don't have an emergency fund, where does the emergency get funded from?

Corey Shepherd: Right back on plastic.

Paul Adams: Yep. That's it. And we never get ahead. So It might take a little longer, this goes back to Corey's white paper about, "Money Is Not Math And Math Is Not Money". Your credit card debt, if we put it in a excel spreadsheet, you'd be much better off if it's going to take 12 months to pay it off, to just hammer hard and pay it off. But maybe we need to build some emergency fund and some Wealth Coordination Account. It's going to take 18 months. Did you pay more in interest? Yes. Are you better off financially by having built it in different tools, savings account, Wealth Coordination Account and debt reduction? Without question.

Oh, by the way, here's the thing that happens to us when we pay off debt. Let us think about it. Car. People have a car. They pay off the car. And what do they say when one car's paid off? It's time to do what?

Corey Shepherd: Get a new car?

Paul Adams: Get a new car. Because we have flagged mentally that amount of money every month as a consumer item. So we're flagging it as a consumer item, what we need to do is pull that back. Same thing when we pay off credit cards. We think it's a consumer item so we been crash dieting and now it's time to spend a little bit. But if we already have the habit of money going toward the Wealth Coordination Account, it's just like throwing the switches at a train track. We're just going to move the money from the "going into savings" to "cutting over", because now we have enough money in the emergency savings, we're cutting it over going into the Wealth Coordination Account and now our asset building ratio as a household has gone up.

So, with that, we have wrapped up the idea of what you do from an income perspective to stop saving money and start building wealth by making sure the money goes into a Wealth Coordination Account first.

Now in our next podcast ... we've been covering some real fundamentals, a little bit of it's philosophical, we're afraid we're boring you, in our next episode which is number 117, we're going to dig into why you should ... what is it? Invest like a nerd?

Corey Shepherd: Invest like a Nobel nerd.

Paul Adams: Invest like a Nobel nerd and impress nobody on purpose.

Corey Shepherd: Hashtag, boring is sexy.

Paul Adams: Hashtag, boring is sexy. We will see you on the next podcast. We hope that this has been a contribution to you being able to design and build a good life.

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