Wealth & Wisdom
INSTITUTE

ELIMINATING LOSING FINANCIAL STRATEGIES

Why Traditional Thinking Fails To Reach Its Goals

Prosperity Intelligence
2118 Wilshire Blvd #1141
Santa Monica, CA 90403
Ph 310 587-1959
www.prosperityintelligence.net
www.wealthandwisdominc.com

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WEALTH AND WISDOM WITHIN REACH

www.ProsperityIntelligence.net

info@ProsperityIntelligence.net

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(310) 587-1959

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It is my opinion that in order to improve our lives I believe it is necessary to enlist a new thought process. The ten defining moments is a simple yet effective thought process that was designed to help you analyze your current situation and help create more options and opportunities in your life.

Many people are finding it difficult to get ahead in today's financial world. I would like to share with you why I feel "getting ahead" and meeting life's financial goals remain elusive to many. The reality is that right from the beginning; the deck is stacked against you.

I am not going to blame all the professionals in the financial services industry as there are many highly trained professionals out there. Some are better than others. Their job is very difficult because, whether they understand it or not, the deck is also stacked against them. If you need the services of a professional you might be better off working with one who can explain the challenges that both of you face. Traditional planning and thinking is not a science. If it were, no one would lose money. I feel it is far more important to use a common sense and logical approach in the attempt to secure your financial future. Even then it will be difficult to achieve your goals. You have to take a much deeper look at why this is such an elusive challenge.

Theories & Factors

Traditional thinking is mired in the thought that accumulation and rates of return are two factors that will determine your future success. Although on the surface these factors seem important they will not secure or determine future success. As I have discussed throughout this book I believe it is far more important to understand how your money works and the buying power of your dollar, and then, you can more effectively and efficiently use your money.

The Accumulation Factor

I believe that accumulating a lot of money is a good thing. Traditional thinking will establish goals of how many dollars you will need in the future to secure your financial success. Reaching accumulation goals are seldom achieved, which is not your fault or the fault of the planner. Here is why these goals are difficult to achieve.

The reality is that we live in a country that has a "flexible currency." Our currency is created by the Federal Reserve (the banks) and distributed by the Federal Government. The dollar in its creation has no real value. That means it is not backed by silver or gold that would give it value. The flaw in the flexible currency design is that it automatically creates an inflation factor. If the currency had real value from the start, there would be very little, if any, inflation. It is almost impossible to nail down the value and buying power of flexible currency at any time in the future. Simply planning to reach an accumulation level in the future is good but, achieving this may fall far short of your buying power expectations in the future.

The accumulation factor also offers you some guarantees. FIRST, in trying to accumulate and make your money grow...you are the only one at risk. SECOND, that growth will probably be taxed. At what level it will be taxed is anyone's guess. So the accumulation factor has a lot of moving parts, such as the flexible currency, its future buying power, risk in the market place and taxes along with the threat of even higher taxes in the future.

In the accumulation factor, the central thought is the more money you have the better it is. But, with all the hurdles, reaching fulfillment in this type of thinking is challenging. It is like a basketball coach telling his players that they better go out and score 200 points in the game because they have no defense in the challenges they face.

The Rate Of Return Factor

Another reason why traditional thinking and planning falls short of its goals is the rate of return factor. People are of the belief that if they can grow their money at a certain rate of return then all will be well in the future. Rates of return have been used by planners as a barometer of how you are doing over a period of time. They also use past performance rates of return as if they were some indication of the future. Although past performance is some indication of stability, management, and success, it really offers only a glimmer of possible performance in the future. When you buy an investment, your performance history starts that day not ten years ago.

Rates of return are a performance measurement. The reality is that you cannot spend rates of return, you can only spend money. Rates of return can be misleading and confusing when used for a measurement of your success. Everyone looks for that positive rate of return but those returns create a false sense of security.

What You See and What You Got

As an example let's take a look at a homeowner who bought a house nine years ago for $175,000.00. Over that period of nine years the value of the house rose to $250,000.00. The owner of the home looks at this growth and says WOW that is more than a 40 % increase. Although that statement is true, I wouldn't go out and buy that "I'm A Genius" tee shirt yet. The reality is that when you take into consideration the time frame of nine years, the real rate of return is 4.04% per year.

Another example of what you see and what you get will alarm you. In a time frame from 2000 through 2007, the Dow Industrial averaged 2.57%. That is the average of the average. Using that average for those eight years, one could assume that if they had invested $100,000.00 and received the average 2.57% rate of return, you would have accumulated $122,495.60. But...if a person had actually been in the market every year for those eight years and received the Dow's actual return, they would only have achieved a 1.80% rate of return not 2.57%. They would have accumulated $115,379.39. That is about 40% less than what the proclaimed eight year average was.

When doing future assumptions, and using a constant average rate of return, the assumption and what you get may be totally different.

Rates of return are flexible and unpredictable in the future. Rates of return are a measuring stick. Like a thermometer, it can tell you your body temperature and can serve as a warning that you may be coming down with a cold or the flu; however, it doesn't indicate specific serious conditions you may have.

Just as the accumulation factor, the rate of return factor has many variables and moving parts. Traditional thinking cannot control and predict a future outcome of all these variables successfully.

The Taxation Factor

The taxation factor is unique because we know it is going to impact us now and in the future, but we just don't know to what extent. Realizing that a 15% to 40% guaranteed loss factor due to taxation looms in our future, is a serious consideration that should not be ignored.

Our government tax policy is flexible (another moving part). It can go up and down depending upon your success. Not only is our income and savings taxed but the government has created layers and layers of non-income and growth taxes. A phone bill may have two or three taxes on it. Your cable bill, staying at a hotel, purchasing an airline ticket, the gas that you pump into your car all have two, three or more associated taxes. The government taxes businesses and the businesses simply pass on their taxation cost to the consumer, you and me, in the form of higher prices. Over all, tax rates have grown over 40% faster than our incomes over the last 20 years.

Many times in using accumulation and rate of return planning and thinking, the marketing and selling of these concepts and products glosses over the taxation factor. Once again the taxation factor has many moving parts that are unpredictable, as are the accumulation and rate of return factors.

The Market Factor

The market factor is really pretty simple. An average person on their way home from work or at the end of the day is likely to hear how the market performed for that day. The Dow was up 50 points or the Dow was down 35 points, the S&P 500 was up or possibly down, the NASDAQ had a good day or bad day, etc. With that 10 seconds of information the average person assesses that information into two categories, that all is good or oh well. The reality is that the markets are measured on volume, numbers of trades and the value of the trades (this is the simple explanation). The fact that the market went up or down has no bearing on the buying power that you control. The market indicators are a daily flexible measuring stick whose movement, if you choose to, can be watched by the second on television or websites. If you are making decisions based on market returns, you are betting that because it has done well in the past it will continue to do so (Enron, World Com, Fannie Mae, The Airline Industry) into the future. The hope is that the average person is smart enough, or should be, to understand that the slot machine that they are playing has paid off three times in a row, and will continue to win, right? No.

There are professionals who play the market game very well and they know their stuff, but even they cannot control the trends and flexibility of the markets. These professionals do not use past performances of a company to determine whether to invest in them or not. They use information based on the future opportunities that these companies have that will increase their revenues and earnings. The problem is by the time most of this good information gets to the public, you and me, a lot of the opportunity in gaining value is already gone. If you are a hunter, it is like shooting where the duck was.

The daily market results and averages should not be the sole foundation for your financial strategies. I believe you must first have knowledge of how your money works and understand the buying power of your dollar. Knowing how money works in your life will help you maximize your money supply, create leverage for your future dollars and eliminate many of the flexible pitfalls that come with traditional thinking. Learn to think for yourself instead of being told what to think.

The Human Factor

Let's face it, no amount of planning will ever prevent dumb luck. Unfortunately many people are involved in "Poverty Planning." Poverty planning takes no time, no money, and the results are pretty predictable. There is a reason why people are stuck in this mode. They have had little or no success with planning, they feel they are not knowledgeable, and/or, they are embarrassed to discuss their situation with anyone. They avoid and delay and simply hope that things will turn out ok. For some Americans, surviving and living week to week is difficult. Confusion and embarrassment aside, frustration is totally understandable, and the information and knowledge discussed in this book could give you a defining moment in your life.

The other part of the human factor is consistency. Many people, after suffering losses or continuing to follow losing strategies just give up. Some professionals do not know what they should know and many people do not know much at all when it comes to the financial world. These two ingredients are a dangerous combination in trying to produce positive results.

Moving Flexible Parts

I hope you now have a better understanding of what is happening in your life. With all the moving and flexible possibilities in traditional thinking and with all the possible variables and outcomes of the accumulation factor, rate of return factor, the taxation factor, the market factor and the human factor, you may have discovered why traditional planning and thinking fails to meet its goals. Any effort or attempt to plan for the future should be applauded, misguided as it may be. With more information you will be able to make better decisions. A new thought process will be your defining moment. I do believe some planning in your life, as confusing as it can get, is better than no planning. I also believe that what you know and understand today will shape your tomorrow, not only for you but also for the next generation. Seek out a professional who understands the defining moments and that will help you live the best life you can today!

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