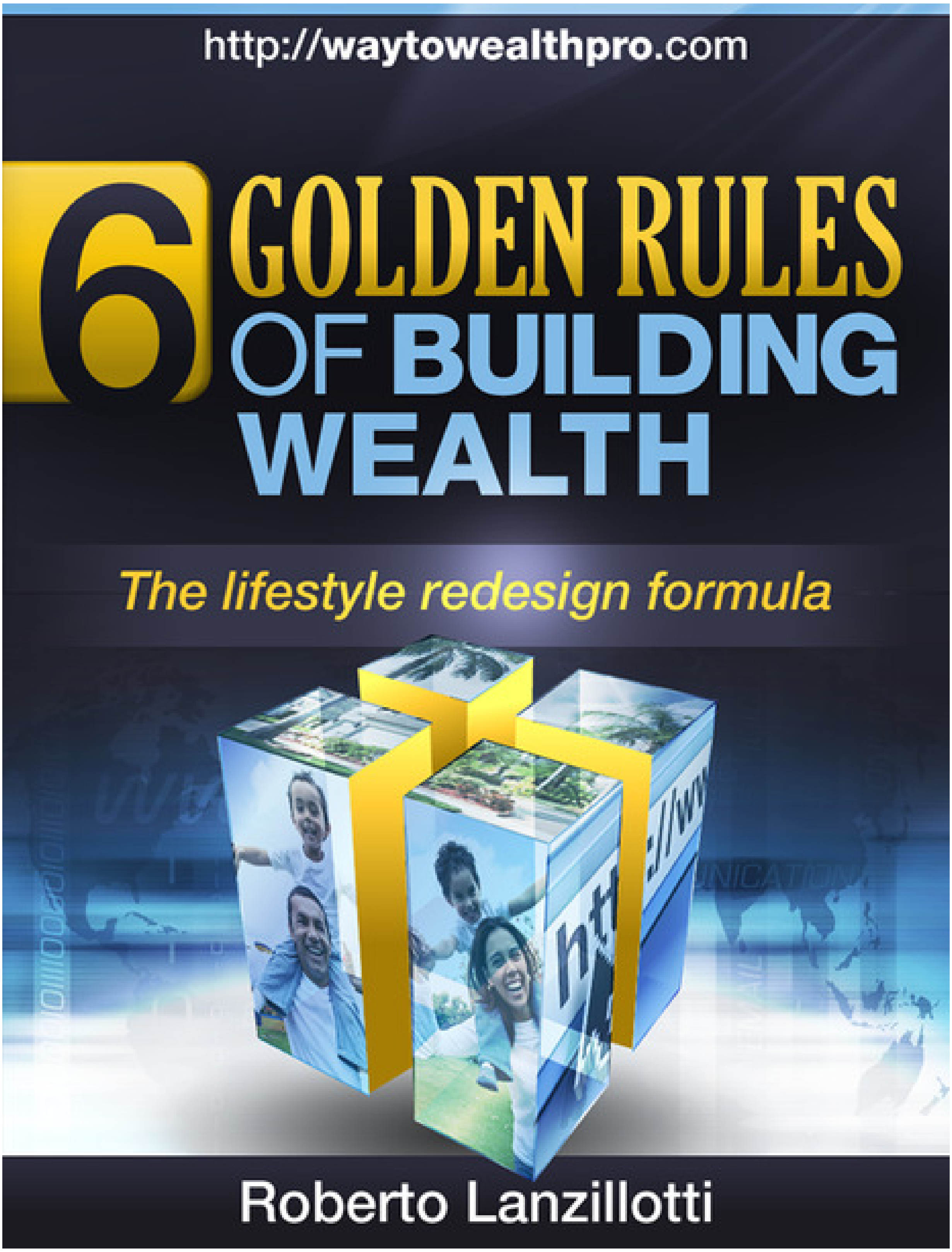
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6 GOLDEN RULES OF BUILDING WEALTH
The lifestyle redesign formula
Roberto Lanzillotti

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6 Golden Rules of Building Wealth

Reveals

Principle lessons on building a successful wealth creation business

Roberto Lanzillotti

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Wealth creation for a new way of living

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6 Golden Rules of Building Wealth

Introduction

♣ There are plenty of ways to build wealth. Which one are you relying on?

- The stock market
- A pension fund
- Retirement annuities
- A job
- A new business
- The Lotto

If wealth creation was so easy, why is it that less than 6% of South Africans retire comfortably? And if you believe this is only a third world country statistic, think again. Less than 1% of people around the globe are wealthy.

♣ Financial freedom is the ability to sustain your chosen lifestyle without ever having to work again. If you want to become financially free, you cannot rely on:

- A high paying job
- Investing in managed funds
- Playing the stock market or forex trading
- Businesses that require your physical presence every day

♣ The truth is that we are lead to believe that traditional products like pension funds and retirement annuities will land us on the easy street. The facts tell us completely otherwise.

I believe the recipe for building true wealth rests on 6 golden rules, which I've outlined in this eBook.

My wish for you is to apply the information I've shared and above all to prosper.

Rule # 1: Use passive income to build time

Financial wealth means different things to different people. It's simply a matter of personal perception. It may mean having the material things to fully enjoy life or having a stress-free lifestyle. What does it mean for you? Having a big house, a second home in the Swiss Alps, a fast car, flashy clothes or what about R1 million in your bank account? If you mentioned any of these material things then you haven't fully grasped the concept just yet.

Wealth isn't about money, it's about time and realistically the only way to free up time is to increase your income and reduce the amount of hours you work. Would you rather work eight to ten hours for a boss each day or spend more time at home with your family? How about dedicating more time to your hobbies, travelling or starting a business? Sounds great, but some of you may view this as wishful thinking considering that there are debts to pay and mouths to feed.

The essence of any wealth creation strategy is to have money work for you. Why work for money when you can have it slave away on your behalf for 24 hours a day, 365 days a year? Remember that overused cliché, 'Work smarter, not harder'. The 'secret' is to generate income without having to work for it. This form of income is known as **passive income** and the wealthy use it to create more time to spend living their lives. As a result, they are able to work on relationships with their friends and family, take their children to soccer practice, travel the world, start charities and work on new businesses.

Middle class individuals work eight to ten hours each day. They work for an income which functions on a no-work-no-pay basis. Income is linear in nature - the more you work, the more you get. Free time is limited and comes in the form of annual leave. Promotions mean more responsibility and more responsibility means higher stress levels. The bottom line is that the middle class work hard for little reward. So why invest time and effort in a lifestyle that **forces** you to get out of bed every morning?

Active income: Income earned when you work for yourself or somebody else. When you stop working, your income stops.

Passive income: Income earned without actively working for it. Examples include interest on your bank account, rental income, dividends, royalties and business income.

Robert Kiyosaki, author of the New York Times international bestseller ‘Rich Dad Poor Dad’, offers the following definition of wealth:

> *‘The number of days you can survive, without physically working (or anyone else in your household physically working) and still maintain your standard of living.’*

As the definition indicates, **real wealth is measured in time, not currency**. For example, if your monthly expenses are R10,000 and you have R40,000 in the bank, your wealth is 4 months (R40,000 ÷ R10,000). In other words, you can use your savings to maintain your standard of living for four months without earning an active income.

Note if you would like to follow the examples using your own currency visit http://www.xe.com/ucc/ for conversions.

Have a look at these other examples:

- **Jack**’s annual income is R1 million and monthly expenses R20,000. After following the advice of his financial planner he manages to save six months worth of living expenses (i.e. R120,000) in his Money Market Account. Jack’s wealth is about 6 months (R120,000 ÷ R20,000). Remember, the calculation ignores the fact that his job pays R1 million.

- **Susan** earns an annual income of R150,000 and has monthly expenses of R5,500. She has R80,000 in her Fixed Deposit Account. Susan's wealth is approximately 14.5 months (R80,000 ÷ R5,500). Compared to Jack, her wealth is almost two and a half times greater, however if you look at her standard of living, it's a lot lower.

- **Thabo** is a qualified artisan. He earns a salary of R100,000 per year and has living expenses of R3,000 per month. Thabo also receives a passive income of R3,300 from a few small businesses that his siblings run. This may come as a surprise to you, but Thabo is significantly wealthier than Jack and Susan. Technically speaking, he is financially independent (more about this later). If he lost his job, his passive income will be enough to cover his monthly expenses. "For how long?" you ask? For as long as his business interests last. Bear in mind that Thabo has little financial room to increase his standard of living. But does this really matter? He may be very happy with his current lifestyle. His passive income is also linked to inflation so his wealth is sustainable.

- Consider **Nandiswa**. She is a 42 year old nursery school teacher and active property investor. Over the past 15 years she purchased 27 investment properties in Johannesburg CBD. Nandi's annual salary is R120,000 and rental income R580,000 per year. Her monthly expenses add up to R10,000. How wealthy is Nandi? She is rich! If Nandi stopped teaching today, her rental income would be enough to cover her current living expenses, any unforeseen costs and life's pleasures.

These examples highlight three important points:

1. Assets create wealth by generating passive income and time

The wealthier you are, the more passive income you have in relation to your expenses. That's all good but how does one create passive income? **The answer lies with assets**. An asset is anything that puts money in your pocket. So it goes without saying that the more assets you own, the more passive income you could potentially earn. If you're tossing your hard earned cash at furniture, vehicles, clothes, holiday homes, credit card debt or private jets for example, you're accumulating liabilities, not assets. Liabilities create debt (more specifically, bad debt) and more problems for you. What you should be investing in are income-generating assets, which may include cash investments, real estate, shares, royalties, franchises and businesses.

South Africans are really good at swamping themselves with debt. The average household's debt to income ratio is absolutely shocking - it's more than 70%! By nature, we are just not good at saving, not to mention investing. When it comes to passive income, people rely mostly on two sources, namely interest on savings accounts and pension fund payouts during retirement. If you're under the impression that life starts when you retire or that you can create financial freedom with a fixed deposit account, then I'm afraid to say that you're in for a nasty surprise.

Pension funds and cash investments are not sufficient to sustain your desired standard of living during retirement, and if it does, your funds may be depleted within a period of five years.

Over 90% of people today will need support from their government and/or loved ones to see them through retirement. Just ask today's retirees whether their pension payout is living up to their expectations. It is heart breaking to have people get to the end of their working days only to realise that they don't have enough money to live comfortably. Are you going to be one of them? Your way to wealth is highly dependent on you acquiring income generating assets.

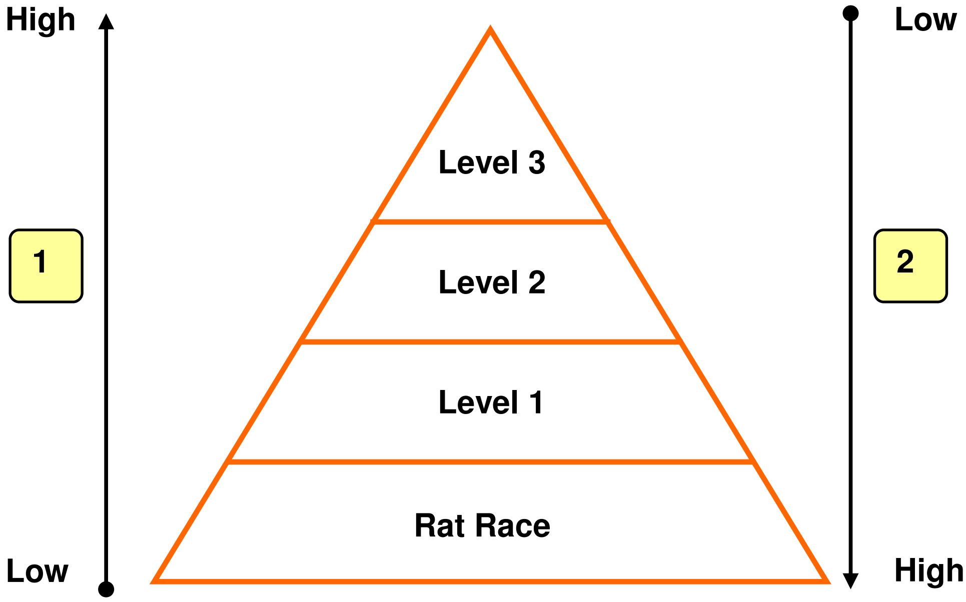
2. Wealth is relative

Wealth is relative to desire. Only when you become satisfied with what you have may you consider yourself rich. Some studies even show that irrespective of how wealthy you are, money is most rewarding if you have relatively poor friends. According to Jean-Jacques Rousseau:

> *'There are two ways to make a man richer: give him more money or curb his desires.'*

Happiness cannot be bought, so in my opinion the best approach is to **pinpoint your inner most desire and convert that into your life's purpose**. Once you get a handle on this, money takes on secondary importance.

To realise your desired standard of living, you will need to create a certain amount of wealth. There are three levels of wealth that you can aspire to.



***1**: Passive income relative to expenses (PI:E)*
***2**: Percentage of world's population*

Rat Race: This is where you'll find the majority of people. The 'rat race' is a term often used to describe work-life balance. It conjures up images of lab rats running around aimlessly in a maze. The implications are that people work long hours, have stressful jobs, spend less time with their families and view their jobs as purposeless endeavours with little reward. At this level, people struggle financially because they have no or very little passive income.

Level 1- Financial independence: If your passive income covers your monthly living expenses (Passive income: Expenses = 1:1), you are considered to be financially independent. The assumption is that your passive income grows each year to keep up with inflation. The problem comes in when you have unforeseen expenses like a medical emergency. If you do not have an active income, you will need to find the extra money from elsewhere to cover these additional costs.

Level 2- Financial freedom: You have reached *financial freedom* when your passive income is double your monthly expenses (Passive Income: Expenses = 2:1). Importantly, your source of income must be steady, sustainable and reliable.

Level 3- Financial riches: The ultimate goal for any wealth seeker is to be rich. You are considered to be rich if your passive income is at least three times your monthly expenses (Passive Income: Expenses = 3:1). Less than 1% of people fall into the category.

On which level are Jack, Susan, Thabo and Nandiswa? Have a look at the following table:

	Passive Income: expenses	Level of wealth
Jack	<1:1	Level 1- Rat Race
Susan	<1:1	Level 1- Rat Race
Thabo	1.1:1	Level 2- Financial independence
Nandiswa	4.8:1	Level 4- Financial riches

Level 1- Rat Race	***PI:E*** *<1:1*
Level 2- Financial Independence	*1:1 ≤* ***PI:E*** *< 2:1*
Level 3- Financial Freedom	*2:1 ≤* ***PI:E*** *< 3:1*
Level 4- Financial Riches	***PI:E*** *≥ 3:1*
PI:E *= Passive Income to Expenses*	

Nandiswa is rich, Thabo is financially independent and Jack and Susan are in the rat race. What is your passive income to expense (PI:E) ratio and level of wealth? More importantly, **how are you going to move out of the rat race**

and into financial riches? One cannot rely on an active income to become financially free because if you lose your job or become physically disabled your castle may come tumbling down very quickly, without the necessary provisions. **Simply increase your PI:E ratio**. There are two things that need to happen:

- Increase your passive income by acquiring assets.
- Reduce your expenses by cutting out unnecessary debt and spending.

Remember, this doesn't happen over night. Wealth creation is a journey which requires patience, discipline and focused implementation of a carefully thought out plan.

3. Wealth will only materialise if you plan for it

Every person dreams of making lots of money. Unfortunately for most people that's where it ends. **To become financially rich, you must have a plan**.

Step 1: Identify your purpose. This is your vision. Write it down on a piece of paper and stick it on a wall. Have a look at it every day to reinforce your purpose.

Step 2: Determine your desired standard of living. This will set the benchmark for the amount of passive income you'll need.

Step 3: Invest in yourself. Increase your financial literacy. Understand what it will take to achieve the level of success that you desire.

Step 4: Set concrete goals and be very specific. For instance, 'I need a new job' is not a goal it's a vague statement. Instead, your goal may be 'I need a new job in sales within the next three months'. Write your goals down and repeat them out loud to yourself every day.

Step 5: Identify daily action steps to realise your goals.

Step 6: Learn from your mistakes and most importantly. **HAVE FUN!**

Action Step

Acquire assets that generate passive income

WayToWealth™ Tip: Your first goal is to replace your active income with passive income

Rule # 2: Take control

Educated people have a greater sense of control over their lives. This is a fact. I'm certainly not suggesting that you rush off to your local institution of higher learning and register for a degree in accounting or finance. In actual fact that's probably one of the last things I'd recommend. Schools are very good at teaching people how to work for money. Pick any profession: medical doctors, molecular biologists, accountants or asset managers. They all work for money, whether it's for themselves or other people.

> *Have you come across a school, university or expert advice that teaches people how to make money work for them, growing passive income and building wealth?*

You may be thinking, "I have a great policy with a leading investment firm and they've taught me all about stocks, derivatives and the like. I'm set." Hold that thought for a second. There are a couple of things you need to know about the traditional approach to investing:

- Conventional products are structured in such a way that <u>the higher the risk the higher the potential return</u>. The word I want to emphasise here is *potential*. When you invest in pension funds, retirement annuities, unit trusts and other similar products, you are placing your money at risk for returns that may never be realised. This is because most **financial institutions have limited control over their products' performance**. If the markets go bang, your money goes bang. That's unfortunately how it works. So let me ask you, would you purchase a car knowing that its reliability or performance wasn't guaranteed?

- **It is not the experts' responsibility to ensure that your retirement is financially secure**. Understand that these companies are in business for profits. Whether you win or lose, they charge their fees and ascribe portfolio loses to normal market fluctuations.

- Traditional retirement strategies are based on capital growth. **Capital growth is based on mass emotions**. Let's say you buy some shares at R10 each and after 7 months the share price increases to R20. The share price has doubled and your return is 100%. You've just proved to yourself that this is a great investment. Two Sundays later over a cup of coffee and the Financial Times, you read an article accusing the director, of the company in which you bought shares, of some scandalous act. As a result, investors become nervous and start selling. Due to lack of demand, the share price drops back to R10 and your return is now negative 100%. Your emotions get the better of you and you decide to sell. Twelve months later, new leadership is in place. The company has landed a great contract and investors are happy. Share sales pick up, resulting in an all time high of R70. If only you held on. Think again. It's 2008 and the Sub-Prime crash has taken full effect. Credit is scarce, unemployment is up and South Africa enters a recession. The share price of your investment drops to 50 cents. Your latest pension statement also reveals that the fund has lost over a third of its value. You are fifty eight years old and retirement isn't looking that prosperous anymore.

You absolutely cannot, in any way whatsoever base your financial future on other peoples' emotions.

Lack of control is exercised in many ways. When it comes to finances, people:

- Blindly trust the experts
- Believe that jobs are a stable source of income
- Believe that formal education is the be-all and end-all of financial success
- Do not have a strategy or plan
- Get emotionally involved in their investments
- Believe that making money is all about IQ

- Believe that making money is difficult
- Believe that wealth is only for a select few
- Are financially illiterate
- Believe that managing investments is difficult

Control starts with you. You need to accept responsibility and be accountable for your future.

Educate yourself; become financially literate.

Start reading autobiographies of successful people, attend seminars and surround yourself with mentors. Knowledge is your catalyst for change and individuals generally pass through four stages when learning how to master a new skill.

Have a look at the following example. Let's assume that you want to learn how to drive a car.

Stage 1- Unconscious incompetence: At this stage, you are completely unaware of the knowledge required to become a competent driver. All you know is that you want to learn how to drive.

Stage 2- Conscious incompetence: You start doing your homework and become aware of what it takes to obtain a license. At this stage, you've gathered the necessary theoretical knowledge to operate a vehicle, interpret road signs, perform basic checks and determine vehicle roadworthiness. You are now ready to apply your new knowledge.

Stage 3- Conscious competence: After many hours of practice, you reach a level of competence where you can drive quite comfortably. However, you've been exposed to the basics and have not yet mastered the art completely. Intricate manoeuvres such as parallel parking still require attention and experience on wet roads is still shortcoming. One important point here: those who acknowledge their shortfalls and set out the time and effort to fill these gaps will proceed to a new level of competency- unconscious competence.

Stage 4- Unconscious competence: At this stage, you master the ability to drive a vehicle. The skill has now been incorporated into your subconscious. So instead of actively remembering to push in the clutch to change gears, you can now eat a strawberry muffin, chat to your mother-in-law and listen to the radio while changing gears in the background.

When people are faced with a skills gap such as investing money or building a business, most get stuck at stage one. Those who succumb to their fears will remain at stage 1 and rely completely on others. With knowledge and a bit of experience, anything is possible. Those who are willing to learn (and change) will educate themselves and move beyond their *perceived limitations*.

Remember, a fear or a challenge is only as big as you make it out to be. So unless you are willing to change - if you think that making money is difficult - then stage 2 of learning is beyond your reach.

Education creates knowledge which is essential for change.

Have you ever heard that quote, ‘Applied knowledge is power’? If you do not have knowledge you cannot apply anything. Most people feel powerless when it comes to building wealth and that’s because they don’t have that essential ingredient - knowledge. Would you feel more comfortable working with money if you understood the basic principles behind budgeting and investing? If money is so important to you, why not take the time and effort to educate yourself? It’s really up to you to initiate the change and dictate how others handle your money, not the other way around.

To become rich, you must apply your knowledge of wealth creation. There is no other way. “So are you suggesting that I become skilled in all money related matters to become the master of my own destiny?" Certainly not, that's impossible. What I am suggesting is that you equip yourself with a broader understanding of wealth creation so that you can design your own strategy and facilitate your journey to riches. You can use the services of experts like chartered accountants, bond originators, trust experts or stock brokers to get what you want. In return, the experts get what they want and that's your business. At the end of the day, you are in control. You know exactly what you want and instruct the specialists to act accordingly.

Compare this to handing your hard earned money over to financial institutions to invest on your behalf. If you feel more secure doing this and do not want to take on the responsibility of overseeing your investments, then this is a good approach. But do you see the problem? The 'experts' are not in control. What happens if there is another stock market crash or recession? Your plans could be wiped out. If you think you're in control because the experts tell you to follow a strategy of diversification, let me offer you the following thought. What's more effective: hunting buffalo with a shotgun or high powered rifle? By spreading your money across different financial markets, you are in effect diluting your investments. Winning some here, losing some there, doesn't really get you far. **Diversification is a strategy for those who seek security**. In actual fact, one of the world's most successful investors, Warren Buffet, says that it is risky to diversify your investments.

Rich people build wealth by focusing their efforts in businesses and property. It all boils down to control. Here's why:

- **You** know exactly where your money is. **You** can see and/or touch it.
- **You** can manage the growth.
- **You** can manage the risk.
- **You** can easily outperform the stock market.
- **You** can increase the value of your assets.
- **You** can protect your assets.
- **You** can use other people's money to purchase your assets.

- **You** can leave a legacy by passing real estate or businesses down to your children.

Wealth is all about **YOU.** Take control, educate yourself and '**Be the change you want to see in the world**' (Mahatma Gandhi).

Action Step

Become financially literate

WayToWealth™ Tip: Invest in yourself. You are your most important asset

Rule # 3: Focus, Focus, Focus

People in general are feeling more and more overwhelmed with life and work. Have you ever felt like this? There are many reasons for this. One that stands out is that people get caught up in situations where they have too much to do and not enough time and energy to do it. What do you think will happen when you try and tackle problem after problem or goal after goal without the proper planning? Your efforts will become scattered, you'll soon feel flustered and your sense of accomplishment will diminish. John Kehoe said it quite eloquently:

> *'Weak and scattered thoughts are weak and scattered forces. Strong and concentrated thoughts are strong and concentrated forces.'*

A common mistake is to set a number of big goals instead of narrowing down the focus. Goals must be specific, realistic and yet challenging. It doesn't help jumping from one goal to the next. If you want to be a famous painter, you need to focus on painting - not writing. If you want to be best selling author, you need to focus on writing - not painting. If you want to be financially free or rich, you need to focus on generating passive income - not active income.

So how exactly does one create '*Strong and concentrated thoughts*'? It's very easy. **Focus on setting goals by simply asking, 'How will I accomplish that?'** Let's say that your objective is to be financially free in ten years. How will you accomplish that? Add a goal to answer this, for example, 'I want to earn R1 million passive income per annum after ten years in today's time value of money. How will you accomplish that? Goal: Invest in residential property and sell intellectual property online. How will you accomplish that? Goal: Purchase ten properties every year and write an eBook. How will you accomplish that? Attend seminars on property investments and select a topic for your eBook. And so forth.

Believe me when I say this: it's not easy to focus. Nowadays we are faced with many choices and it is easy for us to get distracted. Successful people have the ability to focus on a single task until it is completed. It is one of the best ways to achieve results in whatever you do. Let me try and demonstrate the power of focus using a simple example.

Exercise: Take one or two minutes to think about your heart beat

Okay… you done?

What did you manage to think about? Did you *feel* anything during that time?

Now, I'd like you to repeat the exercise by following a few simple steps:

***Step 1*:** Get comfortable. Sit on a chair or lie down on your bed. Relax. Try and clear your mind.

***Step 2*:** Start by taking a few deep breaths. Breathe in slowly through your nose and exhale through your mouth. Hold the exhale for a few seconds.

***Step 3*:** As you breathe, focus your mind on your heartbeat. Continue to focus for the next two minutes.

***Step 4*:** *Feel* your heartbeat in your chest. Notice how your heart rate changes between inhalation and exhalation.

***Step 5*:** As your mind takes control, move the sensation of your heartbeat from your chest down your left arm and into your little finger. *Feel* your little finger throb. Wait a couple of heartbeats and move your mind back to your chest.

You'll find that the more you focus on your heartbeat the more profound it becomes. Ultimately with a bit of practice you should be able to feel beating sensations all over your body.

How did repeating the exercise *feel* when compared to the original 'just think about it' approach? As you applied more concentration, you became more aware of your heartbeat which enabled you to feel beating sensations in various parts of your body. It can be said that **the more your focus, the higher your awareness and the greater the results**.

Did you know that the human brain produces approximately 70,000 thoughts on an average day? That means we have a thought every 1.2 seconds. How can you expect to accomplish big goals if your attention is spread across tens or hundreds of different thoughts each day? If you currently have a plate full of tasks to complete or goals to achieve, you may want to step back a bit to refine your focus. In my opinion:

> *You must have one challenging (yet realistic) goal that aligns with your purpose, and work towards that goal every day.*

If your goal in life is to build wealth, you must focus on becoming financially free. To help you set your financial targets, there are two things you need to consider:

A. Decide how much money you want

How much is enough? Remember, wealth is relative so the answer is going to differ from person to person. Someone at a braai once told me he'd like to retire on R50,000 a month. What he's really saying is that when he stops working, he'll need R50,000 passive income each month for the rest of his life (linked to inflation) to sustain his needs. Why not R200,000 a month or R500,000 a month. Hell, make it a million a month.

Not so quick. Have a look at the scenario below to help you put things into perspective.

- **If you could retire today**, how much money do you need to cover all your expenses and maintain your desired standard of living? Let's assume that you settle for R50,000 per month.
- **When would you like to retire?** You are currently forty years old. After some careful thought you decide to stop working at the age of sixty. You also feel that you'll live for twenty years after retiring. This is a reasonable assumption, but bear in mind that you may be blessed with life well into your eighties or even nineties.
- **How much money have you already saved towards retirement?** After checking your latest pension statement you see that your fund is worth R300,000.
- Let's assume that inflation over the next few years is 7% and that your pension fund grows at 13% per year. That's a real return of 6%, which is pretty good for a conventional investment product.
- You currently contribute R2,500 to your pension fund each month.

What do the calculations tell us?

- In twenty years time, you will need to retire on about R193,000 each month. That's because R50,000 has to grow to R193,000 after twenty years just to keep up with inflation. This is not negotiable. If your investments do not keep up with inflation, you are losing money.
- When you stop working, you will need about R28 million in your retirement fund to sustain your desired standard of living for twenty years. In other words, R28 million is sufficient to supply you with R193,000 passive income each month for twenty years after retiring. If you live beyond eighty, you may find yourself in a bit of financial trouble.
- How much do you really need to save each month? You need to save about R21,000 to grow your current investment of R300,000 to R28 million after twenty years. Your current monthly saving is only R2,500, which is R18,500 short of the required amount. Does the situation look positive to you?

- Your monthly salary is R20,000. Do you see the problem? How are you expected to save R18,500 each month if you only earn R20,000? As a working professional, your monthly expenses will certainly be more than R1,500.

Let's summarise

1. You have R300,000 in retirement savings. You need R28 million to fulfil your retirement needs.

2. Let's assume you invest the R300,000 in a fixed deposit bank account. What interest rate must you earn on the account so that after twenty years you have R28 million? Time value of money tells us that you need to earn approximately 25% per annum. Knowing this, will you invest your money in a product that returns 15% or 20%? If you do, you can kiss your R28 million goal good bye.

Now you know that in this particular scenario you need to grow your money at 25% each year. The next thing you need to consider is how you're going to achieve this.

There are two options when it comes to making money: you can work for it or generate it.

B. Decide how you want to make money

Each option has its challenges, advantages, disadvantages and required skills. The method you choose depends on your own preferences, beliefs, strengths and weaknesses.

Working for money

This is the path followed by most people. It generally involves going to school, finding a good job, working hard and maximising your salary. Sure, you can make a lot of money as an **employee**, but I believe taking this route is extremely risky. The world is rapidly changing and full of economic uncertainty. The competition for jobs is escalating, companies are downsizing and becoming more streamlined. People are living longer and the cost of healthcare, energy and general living is increasing. Gone are the days where one could join a firm, work there for forty years, earn a cushy paycheck and retire on a defined benefit pension plan. Today, the risk falls squarely on your shoulders. Most households are less than three months away from financial ruin. There is an increased dependency on debt, lower savings and a greater reliance on other people's advice. As a result, the vast majority of South Africans are unable to retire comfortably and therefore have to rely on their families and/or government's social pension fund.

"If working for somebody else is as risky as you say it is, why do so many people do it?" It's quite simple. People are taught to seek job security, rather than financial freedom. I have met many people who have succeeded in their job roles. But I have also witnessed and experienced the drawbacks. The more you earn as an employee, the more responsibility is bestowed upon your shoulders and the harder you have to work. You end up spending more time on your company's laptop and less time with your family and friends. I'm certainly not saying that you should drop your job and leap into your own business. Why change something if you believe it's working well for you? The choice is yours. In my experience, working as an employee has taught me a number of valuable skills and I've used this as a platform to achieve greater things.

People can also earn money by working for themselves. As a **self-employed** individual you get to make the decisions, you get to do the deals, you get to hire employees, you get to pay the bills, you get to choose the suppliers, you get to organise finance, you get to…you get to…you get to. Is this way of operating any different than working for somebody else? If you stop working, your income stops. The bigger your business grows, the more responsibility you have, the harder you work and the less time you have.

There's no doubt that one can make a lot of money being your own boss. All I have to do is look at my family's specialist physician. He charges around

R4,000 per consultation and probably sees 10 patients a day (If I had to guess). That's means he earns R40,000 each day or about R800,000 per month. He is a multimillionaire. Besides, he loves what he does and he has the freedom to run his practise as he sees fit. But how easy is it to get to this level of success? The facts tell us that more than eighty percent of start-ups fail in the first few years. Most people don't have the necessary experience to run a business and finance is hard to come by. In my book, being self - employed is risky business.

"So you're basically saying that it's safer and easier to stay in a job". What I'm getting at is that you need to do what you think is best for you. **Do this on condition that:**

- **You achieve the necessary return to realise your financial goals**. So, like in the previous scenario, if you need R28 million at retirement, make sure your income grows at 25% each year.
- **Your level of financial risk is acceptable or kept to a minimum**. Do you lie awake at night worrying about your investments or finances? If yes, your risk level is too high and requires adjusting. Do you doubt your ability to start a business? If yes, your risk level is too high. You need to either change your perceptions or acquire the necessary skills (or both).

Generating money

If you earn passive income from your assets, then you're generating money. This can be achieved in two ways, as a business owner or as an investor.

Is your business able to sustain itself without your everyday involvement? If yes, then you're a **business owner**. Don't confuse this with being self-employed. If a business owner goes away on vacation and returns after five years, the chances are that he or she will have a bigger and more profitable business. What do you think a self-employed individual like a store owner will find after this time? There probably wouldn't be anything left to run.

Successful business owners build systems around their passions and employ the help of specialists to keep the system operational. Owner involvement is not a priority. Why answer the phone, market products, organise finance or manage your business when you can have somebody else do it for you? Look at Bill Gates, the software billionaire. He purchased the rights to market somebody else's product i.e. MS-DOS. Hardly billionaire stuff, wouldn't you say? However, his enormous success can be accredited to the organisation he built around selling the software. Where some may have focused on the idea of a better product, Bill Gates focused on system design.

To become a business owner, you need to:

- Stick to the basics
- Sell products and services that people need
- Build a sales system that leverages off people and/or technology
- Delegate and empower others
- Become a leader

Developing your leadership skills is probably one of the most important success factors. It's about inspiring others to achieve their full potential. It's about social influence. Ultimately, it's about people. I love the definition given by Robin Sharma:

> *'Leadership is about turning your team mates loose. People want to be part of an organisation that lets them bring their gifts to work and be fully alive.'*

There is another way of generating income, and that's as an **investor.** The field of investing may appear to be highly complex but I assure you it's much simpler than you think. The complexity comes in when you look at how much information is available – articles, reports, brochures, newspapers, financial magazines, the news, radio, financial institutions, products and a whole lot more. To make matters worse, everybody has a different opinion, including the 'experts'. On top of this, mainstream investors use their emotions, instead of the facts, to make decisions. For these investors, the lure of a quick buck is all too enticing.

To create wealth as an investor, there are a few investment principles that you need to be aware of:

- **Invest, trade or save:** **Investors** buy and hold assets to generate cash flow. **Traders** buy and sell assets in the hope of making a profit via capital growth. **Savers** put money away for a rainy day without giving much thought to profit or cash flow.

  During your working years prior to retirement, you will get to make a lot of monthly contributions to products such as pension funds and retirement annuities. Are you saving, trading or investing? Each and every month a small proportion of your salary is placed into a fund for a rainy day called retirement. You're saving. You're also trading. When you invest in conventional retirement products, you're hoping that the associated funds increase in value over time so that you can live off the gains. The big question is - are you investing? Bear in mind that investors purchase assets for their income generating potential. Now let me ask you:

  - Under normal circumstances, do you receive any income from your pension fund prior to retirement? **No.**
  - Do you receive any income from your pension fund after retirement? **Yes**, **but it's limited and unsustainable.**
  - Are you in full control of the risks and return? **No.**
  - Would you get involved in a business or project which required you to pay up for thirty or forty years, only to receive a monthly income lasting five or ten years (The assumption is that you use the income to maintain your current standard of living)? **I certainly wouldn't**.

  To generate money as an investor, you must be able to do three things:

1. Save. If you have trouble saving, how are you expected to buy and hold assets?
2. Trade. Traders know how to evaluate assets and when to buy/ sell their assets.
3. Invest. Investors know how to manage their assets over the long term, specifically growth, risks and cash flow.

- **Invest for the long-term:** Investing is like dairy farming. Farmers buy dairy cows for their milk. Milk means money. They keep the cows for as long as they produce milk. If the cows stop producing milk, why keep them? **Investors buy, hold and milk assets for the cash flow**. When or if the cash flow ceases, the assets are sold. This means that investing is a long-term strategy. It's not about timing the market (i.e. buy low, sell high), it's about how much time you spend in the market.

  Investing leverages off **compounding**. The more time you spend in the market, the more wealth you create. Compounding is basically the process of reinvesting the interest or return on your money to earn more interest. Let me demonstrate with a simple example:

  Suppose you invest R100 in bank account that pays 10% interest per year. After one year, you will have R110 in your account due to R10 interest (10% of R100). After two years, how much do you think you will have? The answer is not R120. In year two, you will earn R11 interest (10% of R110). The amount in your account after two years will therefore be R121. One extra Rand may seem insignificant to you, but if you have R100 growing at 10% you will have R4,526 in your account after forty years. What if you have R1 million growing at 10% or R10 million? See the potential?

- **Cash is king:** It is much easier and less risky to base wealth creation on cash flow than it is on capital growth. Consider the two following investment options:

	Investment 1	Investment 2
Initial investment	R100	R100
Investment term	3 years	3 years
Annual cash flow	R0	R10
Capital after year 3	R130	R100
Return	**9%**	**10%**

The table indicates the performance of the two investments over a three year period. If you invest R100 in option 1, your money will grow to R130 whereas with option 2 you will have no growth but get paid R10 interest per year. Which investment will you choose? According to the returns, option 2 is the better investment. Are you surprised by this? The 9% return generated by investment 1 is based on **capital growth**. The 10% return generated by investment 2 is based on **cash flow**.

Strategies that leverage off cash flow can produce far superior returns to those relying on capital growth. Cash flow strategies are also easier to manage and control. More importantly, if you control the cash flow, you control the return on your investment and the risk of you losing money is virtually eliminated. This means that asset selection is vital.

Why do you think the wealthy focus their investments in property and/or businesses? Because they get to control the cash flow and hence, the growth/ risk trade offs. When it comes to traditional investment products like pension funds, investors have no say over their capital growth. The markets dictate returns.

- **Investment approaches:** There are two types of investment approaches. With the **conventional approach**, 'investors' make use of professionals like financial institutions, brokers and planners to invest on their behalf. These professionals invest your money in packaged products such as retirement annuities, pension funds and equity funds. The return is limited and the risks may be high depending on the product. Astute investors follow the **unconventional approach**. They own assets and assemble deals to meet specific growth and risk requirements. This is the ‘playground’ of the rich (and mega-rich) enjoyed by individuals such as Warren Buffet, George Soros, Donald Trump and Robert Kiyosaki.

- **Use facts, not emotions:** Never make an investment decision based on emotions. The financially literate think in terms of risk and reward. If the return is good and risks acceptable, you have a winning strategy. **The key is to always do your sums first**. In the world of investing, money is made at the time of purchase, not at the time of sale. What do I mean by this? If you do your calculations first and invest wisely upfront, your assets will generate income over and above your expenses during good times and bad times. If you invest poorly upfront, you may experience significant losses during bad times and end up owning a liability.

- **Low risk, high return:** Conventional retirement planning uses ‘asset allocation’ to diversify investments. The idea is to spread your financial risk between different asset classes, namely cash, bonds, property and shares. There is no perfect mix, so the look and feel of your portfolio is set up according to your needs and risk appetite. The consensus is that the more risk you are prepared to take on, the greater your potential returns. Conversely, the more risk averse you are, the lower your potential returns.

The biggest problem with conventional retirement planning is:

The greater the risk, the higher the potential returns.

Asset allocation is structured so that the higher the risk, the higher the potential return. This is simply not true! Does it make financial sense to do this? **Absolutely not!** Why expose yourself to greater risk for a return that is not guaranteed? Why risk your money for something that may never materialise? There is a better way of doing things, and it goes against conventional teachings.

What the 'experts' fail to understand is that most wealthy people are in actual fact highly conservative. The principle of wealth creation is to do exactly that: create wealth and not more risk. So instead of adopting a high risk high return approach, I urge you to follow a **low risk high return strategy.** It's about optimising the growth on your investments while keeping the risk as low as possible. How are you supposed to create wealth if you're unable to manage or control the risks? Do you think it's wise to invest money in products where you have no say or control over the returns? That's exactly what we do with our pension funds. Yet we tend to overlook these points because we have been conditioned to believe that the conventional approach is the best approach.

Please remember, **financial risk equals ignorance**. If you are serious about your financial future it becomes your responsibility to educate yourself and take control of your money and investments.

Action step

Develop your wealth plan and work towards your goal each day

WayToWealth™ Tip: Do your calculations before investing in assets

Rule # 4: Use Leverage

Leverage means achieving more with less effort.

It's one of the most powerful tools that one can use to create success and wealth. Ever try and move a two ton boulder with brute force? Not the best approach, unless you're aiming to strain a groin muscle! A more sensible way would be to wedge a plank under the rock and use it as a lever (assume that dynamite and heavy machinery are not at your disposal). At the end of the day, a two by four can achieve what muscle alone cannot. This is the power of leverage - doing more with less effort.

Here are some other examples of leverage:

- **Tools:** Tools are used in many aspects of our lives to make things easier. Doctors use X-ray machines to detect broken bones or CAT scans to identify tumours. Electric kettles are used for boiling water and toothbrushes for cleaning teeth. Facebook and Twitter are nifty internet tools that one can use to communicate with friends and family members. The list is endless.

- **Other people's power (OPP):** Everyday, we use the time and expertise of other people to make our lives easier. Entrepreneurs use other people to run their businesses, mechanics service our vehicles, medical doctors treat our ailments, baby sitters look after our children, financial planners give advice on money-related matters and domestic workers help maintain our households.

- **Education:** Would you agree that it's a lot easier to find a good job in the corporate world if you have the relevant education? Education empowers us to make better decisions, gives us the confidence to start new ventures or teaches us basic life skills. This doesn't mean that uneducated people are at a disadvantage. They use different sources of leverage such as experience and personal networks.

- **Spare time:** Spare time is an important form of leverage, especially for working professionals seeking financial freedom. There are stories of many people who became rich in their spare time by writing books, investing in real estate or painting. Use your spare time wisely to leverage your talents.

- **Relationships:** Relationships are a great source of leverage. Remember that saying, 'it's not how much you know, but who you know'. People influence our way of being and it's essential to surround yourself with the right people. If your network consists of highly successful people, the chances are you'll also be successful one day. To help you achieve your goals, I recommend that you leverage your relationships using four groups of people:

  - Family
  - Mentors
  - Life coach
  - Your team of business and/or investment specialists

- **Failure:** We all set out to succeed. But did you know that failure can be a major contributor to success? Success is not about winning at all costs, it's about shaping your journey using lessons along the way. The following quotes sum up my view on failure:

> *Losers are people who think that losing is bad. A winning strategy must include losing (Robert Kiyosaki)*
>
> *The person who doesn't make mistakes is unlikely to make anything (Paul Arden)*
>
> *I haven't failed; I've had 10,000 ideas that didn't work (Benjamin Franklin)*
>
> *If we don't get lost, we'll never find a new route (Joan Littlewood)*
>
> *Of the 200 light bulbs that didn't work, every failure told me something that I was able to incorporate into the next attempt (Thomas Edison)*

There are two ways to build wealth using leverage:

1) **Use more forms of leverage:** Develop your network, become financially literate, use other people's power, develop the courage to act on good ideas, learn from failure and use your spare time to invest in property or start a part time business.

2) **Use financial leverage:** How long do you think it will take to save R1 million in a bank account that pays 10% interest per year? Let's assume that you open your account with R1,000 and contribute R500 each month without making withdrawals. It will take you approximately 30 years! How long will it take you to borrow R1 million at 10% interest and invest it elsewhere to earn a return of 30%? Do you see what's happening here? Average people try and use their own money to become wealthy, whereas rich people use other people's money to build wealth.

Financial leverage is about using debt to get ahead. Be careful with this one. When I say debt, I'm referring to **good debt** not **bad debt**. Do you know what the difference is? **Bad debt costs you money whereas good debt makes you money.**

South African households are renowned for piling up bad debt. On average, about eighty five percent of household income is used to service debt. This is one of the world's highest rates. Unfortunately, South Africans are more concerned about driving fancy cars and living glamorous lifestyles that they seem to overlook the importance of simple budgeting and saving. People also tend to borrow money to keep up with the Jones' and service existing debt. **Debt taken on to pay debt is a losing strategy**. It eventually spirals out of control and may damage all hopes of you ever becoming rich. Not only that, it's one of the primary causes of stress-related suicides and health problems. Bad debt is extremely expensive, so the best way to manage it is to avoid it.

Types of bad debt include:

- Credit cards with outstanding balances
- Personal loans for holidays, quad bikes or boats
- Retail store cards with outstanding balances
- Overdraft on your cheque account
- Vehicle financing
- Any credit used for financing lifestyle, clothes, food, gifts and other consumables

The following scenarios highlight two bad debt situations:

Scenario 1: Suppose you purchased the car of your dreams for R250,000. The bank grants you finance at 15% interest per annum over five years. Your monthly repayment is approximately R6,000. As soon as you drive the car off the dealer's floor, it loses about 20% in value. This is a bad debt situation as you need to cater for a depreciating asset that doesn't generate any passive income.

Scenario 2: Suppose you paid for a R40,000 holiday using your credit card. The debt will be paid over a three year period at 20% interest. Your monthly repayment is almost R1,500. After spending two weeks in Mauritius, you return home feeling refreshed and ready to take on the stressful world of work life. Besides bringing home two weeks worth of great memories, you still have to cough up R1,500 for the next 36 months. This is a bad debt situation.

How are you currently managing your debt? Are you managing your debt? You can use the pointers below to assess your own situation:

1) Be honest with yourself. Are you a conscientious spender or excessive spender?

2) Is your total monthly debt higher than your monthly income? If yes, you're on the road to financial ruin.

3) Start paying off bad debt today and pay more than the minimum amount required each month. Cut up all your credit cards, except one which will be used for emergencies only.

4) A debt counsellor may help you set up a plan to eliminate your bad debt.

5) Track your spending and budget. If need be, file all your slips and invoices no matter how big or small.

6) Downsize and get real. You cannot live in a massive house, use expensive toys or lead a luxurious lifestyle if you have limited income. You'll be surprised at how much cash you can free up by downsizing.

7) Devise a plan to acquire good debt and income generating assets.

Good debt is money that is borrowed from other people or institutions to purchase income generating assets. It may be a loan to start a business or purchase property. The rich use good debt as a tool to generate enormous wealth. However, it's a double edge sword. It can bring you great returns or kill your cash flow if you're not careful.

Here's why good debt is so powerful.

Suppose a property investor is interested in buying a flat for R100,000. He (or she) has the option of paying cash or borrowing money from the bank (i.e. using leverage). Let's assume he purchased the property with cash. What is his return after one year if he makes a profit of R20,000. His return is 20% (20,000 ÷ 100,000). Suppose our investor pays a R10,000 deposit and is granted a R90,000 bond. What do you think his return is now? After one year his profit is R12,000 (R20,000 less bond costs). His return is 120% (12,000 ÷ 10,000). Not bad considering that you're likely to get 13% from the stock market in the long term. Do you see how financial leverage boosts the return on your money? This is what you're after - **growth**.

The quickest and easiest way to become rich is to generate passive income without using your own money and time.

Action step

Use financial leverage to accelerate wealth creation

WayToWealth™ Tip: Take on good debt to produce great returns, but only if you know what you are doing

Rule # 5: Build a surplus

People struggle financially because they don't know how to work with money. Would you believe that a corporate financier who earns R900,000 a year is well off? She owns a beautiful home in Sandton, four cars, three holiday flats in Balito and travels frequently. At first glance, maybe. Would you be surprised if I told you that over 80% of her income is used to fund the debt that supports her lifestyle? What do you think would happen if she lost her job or the company went bust?

The harsh reality is that money creates financial problems. For most people, the more money they have, the higher the debt and the poorer they become. If I give you R5 million today, what would you do with it? Some of you may quit your job, pay off your bond and go on a permanent vacation. Others may leave it in the bank and live off the interest. The chances are that in five or ten years the average person will be in the same financial position or worse off. If you quit your job and start spending, your money will soon run out. If you leave the R5 million in the bank the cost of living will catch up with you.

There are many stories of people who inherited or won a large sum of money only to end up bankrupt or on the streets. I like to think of it this way: it's impossible for a mountaineer to summit Mount Everest without acclimatising to the thin air. Similarly, it's impossible to become financially free without learning how to take control of your money. **Creating wealth is not about how much you earn, it's about how you manage your surplus income or extra cash.**

In order to get to where you want to go, you need to know where you are financially today. By analysing your personal income statement and balance sheet, you will begin to understand the state of your financial affairs. An income statement shows how you are performing financially by giving a breakdown of your income and expenses. It shows you your net cash flow which may either be a surplus or shortfall. A balance sheet reflects your financial position at a given point in time. It provides details of where money is invested (assets) and methods used to acquire finances (liabilities). It indicates your net worth which is equal to total assets less total liabilities.

Income Statement	Balance Sheet
1. Income *Sources of cash inflow*	**1. Assets** *Things which can be converted into cash*
2. Expenses *Sources of cash outflow*	**2. Liabilities** *Things owed by you*
Net cash flow (1 minus 2)	**Net worth (1 minus 2)**

Income Statement	
Income	
Gross salary	
Net salary [1]	
Other income [2]	
Rental	
Interest	
Dividends	
Other	
Total	
Expenses	
Rates and taxes	
Bond payment(s)	
Car payment(s)	
Credit card payments	
Store card payments	
Other loan payments	
Living expenses	
Insurance	
Other	
Total	
Surplus/ Shortfall	

Balance Sheet	
Assets	
Cash [3]	
Property [4]	
Investments [5]	
Other [6]	
Total	
Liabilities	
Credit card balances	
Store card balances	
Outstanding bonds	
Vehicle financing	
Other loans	
Total	
Net worth [7]	

***Notes:* 1.** *Net salary = gross salary less deductions.* **2.** *Other income refers to passive income.* **3.** *Cash refers to interest-bearing accounts such as money market accounts or funds, savings accounts, checking or current accounts, 32-day interest accounts and fixed deposits.* **4.** *Market value of investment properties and primary residence.* **5.** *Investments include bonds, shares, retirement annuities, unit trusts and other funds.* **6.** *Other items may include your pension fund, provident fund and cash surrender value of your life insurance policy(s). Personal items such as vehicles, jewellery, clothing and furniture should be excluded as they are likely to be worth little from a resale perspective.* **7.** *Net worth = assets minus liabilities.*

Exercise: Draw up an income statement and balance sheet for Mary using the information below. What is Mary's net worth?

1. Mary is 32 years old and works as a nurse at her local hospital. She earns R240,000 per annum and takes home R14,000 after deductions.
2. Her monthly living expenses are R4,000.
3. Each month she donates 10% of her net salary to charity.
4. She has R100,000 saved in a fixed deposit earning 10% interest.
5. Mary contributes R500 each month to a retirement annuity. Her portfolio is valued at R50,000.
6. Her home is valued at R600,000 and has an outstanding bond of R250,000. Her monthly repayment is R3,200.
7. Mary has an overdraft facility of R10,000. She makes a payment of R550 each month to avoid interest charges.
8. Mary has three credit cards with a total outstanding balance of R6,000. Her monthly repayment is R800.
9. Mary's Toyota Yaris is valued at R85,000 and has an outstanding balance of R50,000. Her repayment is R2,000 each month.

Income Statement	
Income	
Gross salary [1]	R20,000
Net salary [1]	R14,000
Interest [4]	R833
Total	**R14,833**
Expenses	
Living expenses [2]	R4,000
Charity [3]	R1,400
Retirement annuity [5]	R500
Bond repayment [6]	R3,200
Overdraft [7]	R550
Credit card payment [8]	R800
Vehicle [9]	R2,000
Total	**R12,450**
Surplus	**R2,383**

Balance Sheet	
Assets	
Savings [4]	R100,000
Retirement annuity [5]	R50,000
Property [6]	R600,000
Total	**R750,000**
Liabilities	
Bond balance [6]	R250,000
Overdraft [7]	R10,000
Credit cards [8]	R6,000
Vehicle finance [9]	R50,000
Total	**R316,000**
Net worth	**R434,000**

Calculations: *3. Charity = R14,000 × 10%. 4. Interest = R100,000 × 10% ÷ 12*

Basic analysis of Mary's financial statements

- Mary's **Passive Income ratio** (passive income ÷ Gross salary × 100) is equal to 4% (R833 ÷ R20,000 × 100). Your first goal when creating wealth is to generate enough passive income to replace your salary, which is an indication of financial stability. In other words, you need a ratio of at least 100%. In Mary's case, she would need to earn R20,000 passive income.

- Mary's **Passive Income: Expenses (PI:E)** is 0.07:1. For every rand she earns as an employee, Mary generates seven cents passive income. This is extremely low. Remember, a PI:E < 1 is typical of people in the rat race and should be at least 1:1 for you to be regarded as financially independent.

- Donald Trump is worth billions of dollars. Mary is only worth R434,000. **Net worth** represents the difference between your assets (what you own) and liabilities (what you owe). It is a measure of wealth as it represents everything you own after settling your liabilities. The higher your net worth the better. If negative, you owe more than you own. You can increase your net worth by cutting back on spending, paying off bad debt and increasing your asset base through saving and investing.

- **Surplus** is the amount of cash you have available for investment over and above your expenses. If there is not enough income, a shortfall exists. You can increase your cash flow by eliminating unnecessary spending and by increasing your income. A positive cash flow (i.e. surplus) can be used to purchase assets and pay off bad debt. It's needed to begin the process of wealth creation and without one it's impossible to become rich. You can initiate the process by following three steps:

  Step1: Free up income by cutting out unnecessary expenses. You should also draw up a budget, track your spending, buy second hand, downgrade you car and/or home and negotiate lower interest rates.

Step 2: Use your surplus to generate more money, either as an investor or entrepreneur (or both).

Step 3: Decide what the return on your assets must be and how much risk you are prepared to take. Use these criteria to make your selection.

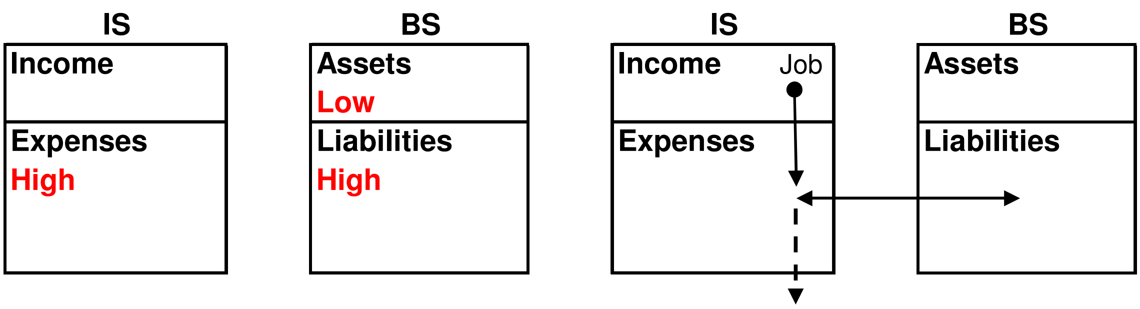
Exercise 2: Draw up your own financial statements. Ask your accountant or financial planner for assistance. Once completed, you will have a better idea of your financial security and net worth.

Types of cash flow patterns

Wealth creation relies on efficient cash flow management. You must organise it in such a way that more money flows in than out. The surplus is then used to purchase assets that generate passive income; this is the fundamental basis for wealth creation.

There are two ways to set up cash flows.

Cash flow pattern of the middle class



IS: *Income Statement*
BS: *Balance Sheet*

The middle class organise their financial statements and cash flow as shown above. Defining features include:

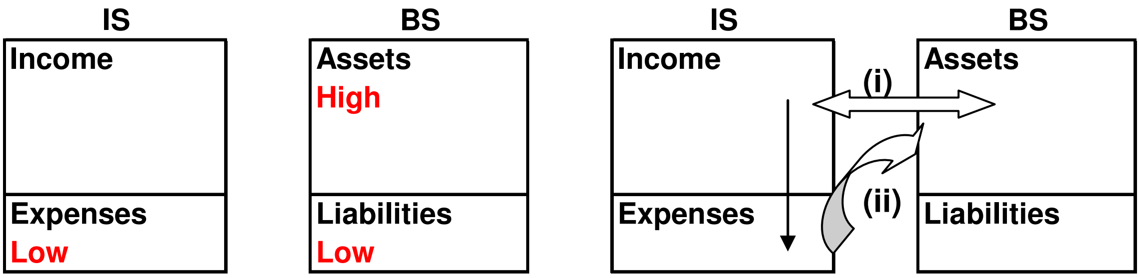
- The middle class work to fund their lifestyles. We live in a society that promotes instant gratification. Many people struggle to save and generate a surplus because they feel that they deserve a ‘little’ luxury. You need to change your mindset.

Wealth creation is about delayed gratification.

- Income is limited and derived primarily through wages. Income growth is dependent on salary growth, which may be 0-6%.
- Preference is generally given to the highest paying job.
- As income goes up, expenses increase.
- The need for life’s ‘little comforts’ result in high liabilities or bad debt. Poor people do not create long term debt. They blow whatever income they earn on consumables (indicated by the dashed arrow in the figure).
- Income is mostly used to cover interest charges on bad debt.
- There is limited investment in income generating assets. The middle class treat their homes, pension funds and retirement annuities as their primary assets. But are these ‘assets’ really assets? Do they generate an income for you during your working years?
- Financial indicators

Passive Income Ratio	< 100%
Passive Income to Expenses	< 1
Net worth	Low
Surplus	Low (or non-existent)

Cash flow pattern of the rich



IS: *Income Statement*
BS: *Balance Sheet*

The wealthy organise their cash flows as follows:

- The rich focus on acquiring income-generating assets. They do this by paying themselves first (**i**). What you normally find is that people use their monthly income to first pay their expenses (including entertainment) and use whatever is left over for saving and investing. Unfortunately, this approach is not geared towards wealth creation as there is either no surplus or it's limited. First set aside a percentage of your salary to buy assets and then pay all your expenses. If you're worried about not having enough money, this is a good way to motivate you to budget, curb your spending or find creative ways to generate additional income.
- Income is derived primarily through assets (**i**) and is indexed to inflation. Each asset is treated as a separate business and receives the necessary attention.
- Preference is given to the highest income-generating asset.
- Expenses and bad debt are kept to a minimum. Surplus income is used to maintain investments or purchase additional assets (**ii**). As a result, assets outstrip liabilities.
- Financial indicators

Passive Income Ratio	> 100%
Passive Income to Expenses	> 1
Net worth	High
Surplus	High

Action Step

Generate enough of a surplus to kick start your wealth creation process

WayToWealth™ tip: Prepare your income statement and balance sheet to evaluate the state of your current financial affairs

Rule # 6: Follow your life's purpose

Have you ever wondered why some people are good at making money? Remember that odd-looking kid with serious halitosis in high school that seemed like he'd drop out at any stage? He received the D's and you the straight A's? In your mind you were destined to be great and that other kid, well, not so great. Yet, ten years down the line he lands up being a multi-millionaire. Where the hell did things go wrong?

You're at the local Woolworths store, hoping to fill up a few gaps in your kitchen cupboard. Cash is tight and instead of your usual list of forty plus items, your wallet has restricted your shopping to a few essentials. At the check out line you run into an elegant looking woman. You recognise her as that weird kid at school who used to bum lunch money off you. It turns out that she's highly successful and owns over eighty investment properties. And there you are counting every cent while she's planning her next family trip to Switzerland. Once again, where the hell did things go wrong?

While some people live glamorous lives, the rest work hard and struggle financially. For them, the rat race seems never ending.

- So why do some people cut it and others not?
- Why is it that some people live their dreams and create abundant wealth while others battle to make ends meet?
- Why is it that some 'uneducated' people make it big while others (with years of studying behind their names) end up confining their talents to a monotonous day job?

There are many reasons that may explain these differences, but I'd like to offer you the following thought. **Successful people have chosen to play their biggest game, and it all begins with purpose.**

According to Patanjali,

> *‘When you are inspired by some great purpose, some extraordinary project, all your thoughts break their bonds; your mind transcends limitations, your consciousness expands in every direction and you find yourself in a new, great and wonderful world. Dormant forces, faculties and forces become alive, and you discover yourself to be a greater person by far more than you ever dreamed yourself to be.’*

So **what is your life’s purpose**? Ask yourself: “What do I truly love to do? How could I use my talents to create something great or make a difference?” Even better, “How do I make money from what I love doing?” These are tough questions, I know, but **without a philosophy that reflects the way you want to live- how will you ever be able to play your biggest game or make the right choices**? It’s like planning your next vacation to ‘somewhere’. Unfortunately, too many of us get stuck worrying about transportation to the airport or which clothes to pack, rather than uncovering where that ‘somewhere’ is.

Most people go through life without understanding their purpose. It’s like trying to manage a project without knowing the ultimate end goal. As a result, they start relying on others for support, follow their beliefs and eventually become part of the crowd. We do this because as human beings we seek comfort and security and besides, it’s much easier to follow someone else’s recipe than build our own from scratch. In effect, society has become the commander in chief of our destinies.

Think about the advice you received from your parents and other people when you were growing up: ‘go to school, study hard, get distinctions, go to university, study hard, get a good job, work hard, earn a good income, save money every month, take out retirement annuities, retire at sixty five and live off your pension fund one day.’

Sound familiar? Remember, this is society’s plan for you, but what is your plan? Is this way of living compatible with your dreams? Then why are you willing to follow them? **The secret to happiness is simple** according to Robin Sharma's 'The Monk Who Sold His Ferrari':

> *'Find out what you truly love to do and then direct all your energy towards it. Once you do this, abundance flows into your life and all your desires are filled with ease and grace.'*

These are powerful words, and you have two choices.

Choice #1: **Discover your life's purpose and actively pursue your dreams.** Once you connect emotionally and intellectually to your higher calling, believe me when I say that there will be renewed energy and passion in your life. These are the very ingredients that '*invite our biggest selves to come out to play'*. You will begin to feel good about yourself and unleash new standards of excellence. Opportunities will flourish and you'll begin to set goals and take calculated risks to get what you truly want. Sounds fluffy, I know, but believe me, there is a very big difference between simply reading or understanding something and ***feeling*** it.

Choice #2: **Use society's plan**. Yup, society has a plan and I like to call it, 'Follow the crowd'. This plan undoubtedly creates stagnation and dishonours your talents. To follow this philosophy is to follow a life filled with worry and regret. We end up playing it small and falling victim to mediocrity- a place where we have forgotten to dream. Understand that years of education have exercised the part of your brain that controls logical and rational thinking. You've basically lived your whole life in your mind- analysing, calculating, resolving, planning, controlling, organising and judging. What happened to that part of you responsible for dreaming, having fun and leading with your *feelings*?

My **life coach** said it well when she spoke about establishing balance between one's head and heart centres. Have you ever thought about leading from your heart and not your analytical self? **Your heart** is the source of your dreams, desires and passion. **It's how you *feel* about success**. Have you ever had a *feeling* that went beyond excitement? How about a strong hunch or gut feeling that you had about something? Some people refer to this as your sixth sense. It's so important that you start listening to these signals. It will eventually lead you in the right direction and establish your life's philosophy.

Your mind has an equally important role to play. **It's how you *think* about success**. What's the point of having direction if you don't have the confidence or self worth to make it a reality? What you say to yourself, how you say it and what you envision in your future has a powerful influence on the end result. If you think life is a drag, then it is a drag. If you think wealth creation is difficult, then it is difficult. If you envision failure, then you will fail. According to Mark Hansen and Robert Allen,

> *'If your mind can see it but your heart can't feel it and get excited about it, it ain't gonna happen. If you've always wanted something but you can't imagine yourself doing it, likewise, no can do.*

I like to think of it this way: where your *feelings* dictate direction, your logic maps out the journey by filling in the details required to succeed. In other words, once you connect with your purpose, you will notice opportunities and find the means to realise your goals.

"What's that you say? Think positive thoughts? Chase your dreams? I've read a fluffy piece like this before". Just a second, there is real power here. The fact is that **success follows purpose**. Successful (and wealthy) people do not dedicate themselves to chasing money they dedicate themselves to chasing dreams. During the process, these people:

- Formulate a clear vision of what they are trying to create
- Find ways to minimise or eliminate negative emotions
- Ask challenging and empowering questions
- Develop self-discipline
- Develop personal (and professional) excellence
- Develop a **heightened sense of altruism**

You may find the last point interesting and somewhat confusing. **One of the most powerful tools that you can use to create success is devotion to enriching the lives of people around you**. They may be your suppliers, your customers, your friends, your partners, your family or even complete strangers. By helping others get what they want, you create enduring relationships, friends, word of mouth marketing and goodwill ambassadors that help you get what you want. According to Robin Sharma:

> *'Money is the unintended byproduct of life spent helping others get what they want. Money is nothing more than payment rendered by the universe in return for value you have added to others.'*

There's absolutely nothing wrong with setting goals that encompass making money or owning luxury homes. In actual fact, making money is an essential priority if you plan on living your biggest life. However, as important as money is, do not make the mistake of making it your primary commitment. You can create enormous wealth by pursuing something that you feel passionate about, by doing what is right for you or by adding value to the lives of people around you. The alternative is to make money through ventures that may be perceived as uninspiring and only because they make financial sense. But why drag your butt out of bed every morning to do what you think is right for your money? Is this how you want to generate wealth? **Wealth creation should be about waking up each day feeling excited about your cause.** This is what you're after.

How did they make it big?

Remember that odd ball with the bad breath who earned straight D's in high school? Let's call him Steven. How did he create his wealth? The answer is simple. He devoted his time and energy to what he loved most. Steven developed a love of garlic from a very early age (at least that explains the bad breath). In his early twenties, Steven kick started his lucrative empire by opening a store that specialised in the sale and distribution of garlic-based products such as sauces, jellies, mustards, oils, books, videos, repellents, seeds, braids and garlic breath neutralisers. The concept was a smash hit and resulted in the establishment of over one hundred stores in thirteen different countries. I'm not sure about you but who would have thought that garlic held Steven's key to fortune (or anyone's for that matter)? Oh and by the way, Steven came from a very poor family. So if you're purporting that it takes money to make money, you're dead wrong. There are many people who have made something from absolutely nothing.

Let's have a closer look at that 'poor' kid who used to bum lunch money off you. Let's call her Jenny. It turns out that the money she borrowed from you was used to buy lunch for her less privileged friends. So what makes Jenny so special? She has a passion for helping people and, not surprisingly, this has landed her on top of South Africa's most successful social entrepreneur's list. Oh and by the way, her monthly salary is only R20,000 which hardly smacks of mega wealth. Jenny's real source of wealth lies with her property portfolio. She owns over eighty investment properties, which pays an annual passive income of R3.3 million. Do you see what she has managed to accomplish? Jenny recognised and exploited the opportunities in property to extend her business interest in helping people.

Like Jenny and Steven, **it is vital that you cherish your vision(s)**. I firmly believe that you have the ability to bring your dreams into fruition. It requires introspection, hard work, patience and dedication. Yes, there are bumps and challenges along the way, but you can handle them. People get disappointed very easily. Instead of learning from temporary setbacks, they conjure up images of shattered dreams and failure. Uncertainty is inevitable and part of your journey requires you to develop the courage to face your fears. How do you think Jenny and Steven felt about starting their new businesses? Considering that eight out of ten start ups fail in the first five years, I'd say they were pretty anxious?

According to Martin Luther King:

> *'The ultimate measure of a man is not where he stands in moments of confidence but where he stands at times of challenge and controversy.'*

You can make a fortune doing what you love and it begins with becoming more in tune with yourself. Have a look at the table below. These questions will help you build self-awareness and uncover the source of your inner strength. Try and answer each question truthfully. Use your answers to decide what path you are meant to follow and how to spend your time and money each day. It may take some time before you find the answers. Don't worry. What matters is that your life's purpose is waiting to be uncovered.

Question your mind	Answer
1. Why do you do what you currently do? **2.** What gets you up in the morning? **3.** What is your passion? **4.** What do you wish for? **5.** What do you dream about? **6.** Do you believe in your dreams? Why/ why not? **7.** What is important to you? **8.** What do you love doing that isn't work in your books? **9.** What feels right to you? **10.** What hobbies are you drawn to? **11.** What things are you curious about? **12.** What kind of people are you drawn to? **13.** What are you good at? **14.** What things do you do that receive compliments?	

<u>Action Step</u>

Discover your life's purpose and develop the courage to pursue it

WayToWealth™ Tip: Use a life coach to help you discover your hidden talents

Thank you for reading '*6 Golden Rules of Building Wealth*'.

Roberto Lanzillotti

Roberto Lanzillotti

WayToWealth™ Fin-Quiz

The WayToWealth™ Fin-Quiz will test your financial literacy or understanding of basic wealth creation principles.

- There is no pass or fail mark.
- You will not be profiled and placed in a clever or not-so-clever box.
- This test is for your own personal information and development.

There are 26 questions in total. You may only select one option. Answers to each question have been provided at the end of the quiz.

Good luck!

1	**An asset:**
A	Puts money in your pocket
B	Has value
C	Is money working for you
D	All of the above

2	**Which one of the following is an asset?**
A	Lotto earnings
B	Your primary residence
C	Money Market Account
D	Audi TT Coupe

3	**When buying an asset, it is important to look at:**
A	Aesthetic value
B	Return
C	Risk
D	B & C
E	All of the above

4	**I should buy assets in:**
A	My personal name
B	Depends
C	A trust
D	A company

5	**Types of income include:**
A	Active (i.e. your salary)
B	Passive
C	Portfolio (i.e. investments)
D	All of the above

6	**My net worth is:**
A	A fancy way of saying 'I'm rich'
B	The value of all my assets
C	An indicator of my financial well-being
D	The value of all my debt

7	**A liability:**
A	Includes credit card debt
B	Costs you money
C	Includes the home loan for your primary residence
D	All of the above

8	**My primary residence is my greatest investment.**
A	True
B	False

9	**A good education and job will ensure my financial freedom.**
A	True
B	False

10	**Effective wealth creation boils down to:**
A	Assets
B	My will to succeed
C	Passive income
D	Other people

11	**Traditional financial planning relies on:**
A	A high risk high return approach
B	A low risk high return approach
C	A high risk low return approach
D	A low risk low return approach

12	**A wealth creation strategy relies on:**
A	A high risk high return approach
B	A low risk high return approach
C	A high risk low return approach
D	A low risk low return approach

13	**A successful wealth creation plan depends on knowing:**
A	Where you are today
B	Where you want to be
C	What you want out of life
D	All of the above

14	**A pension fund is an effective way of:**
A	Saving money
B	Creating wealth
C	Long-term investing
D	A & C
E	All of the above

15	**Listening to your financial advisor is the best place to start when creating wealth.**
A	True
B	False

16	**Financial freedom is having:**
A	More active income than your expenses
B	More passive income than your expenses
C	More good debt than bad debt
D	No debt

17 **Choose the incorrect statement:**

A Wealth creation demands your full commitment
B An ideal time frame for wealth creation is 15 years
C It is near impossible to build wealth without relying on other people
D The end goal of wealth creation is financial freedom

18 **Obstacles to attaining financial freedom include overcoming:**

A Fear
B Laziness
C Cynicism
D All of the above

19 **Which of the following are good ways to start creating wealth?**

A Work harder
B Invest in property
C Get a second job
D Start a part-time business
E B & D
F All of the above

20 **Wealthy people:**

A Are high risk-takers
B Have a high financial IQ
C Are calculated risk-takers
D Don't believe in risk
E B & C

21 **To become a successful wealth creator, you must learn to:**

A Invest
B Save
C Work with people
D All of the above

22 **Financial experts:**

A Know best
B Are always right
C Know how to plan for my financial freedom
D Are there to help guide my decision-making

23 **A high financial IQ:**

A Will guarantee me financial riches
B Means that I know a lot about money matters
C Enables me to ask the right questions
D A & C

24	**The 2008 credit crisis is an example of peoples' emotions interfering in the market place.**
A	True
B	False

25	**Financial leverage:**
A	Is using other peoples' money to get ahead
B	Is always a good thing
C	Is a powerful wealth creation technique
D	A & C
E	All of the above

26	**Property is an attractive business option because you can:**
A	Generate passive income
B	Leverage the money you invest
C	Offset your income against expenses
D	All of the above

WayToWealth™ Fin-Quiz Solutions

1.	D
2.	C
3.	D
4.	B
5.	D
6.	C
7.	D
8.	B
9.	B
10.	B
11.	A
12.	B
13.	D
14.	A
15.	B
16.	B
17.	B
18.	D
19.	E
20.	E

21.	**D**
22.	**D**
23.	**C**
24.	**A**
25.	**D**
26.	**D**