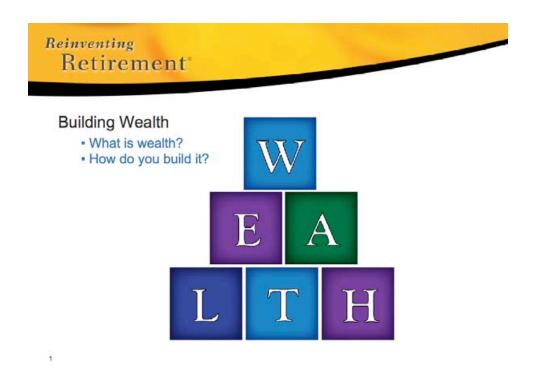


Welcome to our Fifteen Minute Finance presentation on Building Wealth. What does the word "wealth" mean to you? Does it give you a mental picture of a fancy car and a nice home and maybe a second home by a lake? Luxury goods? Being a millionaire? What does wealth really mean? It might represent different things to different people, depending on your goals and priorities.



Basically, wealth involves *saving* money, rather than *spending* it, and *owning* things that *grow* in value, or *appreciate*, rather than *decline* in value, or *depreciate*. The more you own and the less you owe, the wealthier you are. And people don't usually become wealthy overnight. It's unlikely you're going to win the lottery or write the next Harry Potter series or become the next high-tech billionaire. To build wealth, you need to develop ongoing good financial habits that steadily move you in the right direction.

Here to break it down for us in a tangible way are John and Sue, a fictitious couple that we use to give life to the strategies and situations that we discuss in these presentations. In this seminar, we see that while Sue and John can be serious about trying to be financially responsible, they're also a fun-loving couple. While they know the right things to do to manage their money well, they also know how to enjoy life. It's a question of balance and smart trade-offs.



Your Wealth: Your Net Worth



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**John:** You know, Sue, we make good money. In fact, I think we're among the wealthiest people in the country. I saw a table recently that showed we're in the top 10% of the United States in terms of household income.

**Sue:** Yeah, John. You're probably right about being in the top one-tenth of income earners. But you know the difference between earning a lot and building wealth, right?

John: Well, if I don't already, I bet I will once you share what you're about to...

**Sue:** You may think you're wealthy and feel and look wealthy. After all, you're driving a beautiful convertible sports car for half of the year and a luxury sedan the rest of the year. And we live in a nice neighborhood and have traveled to some great destinations. But that's not necessarily wealth. The definition of wealth is simply what your net worth is.

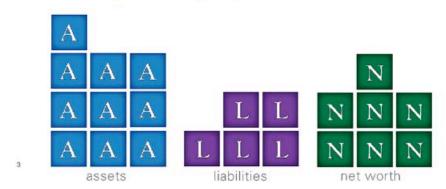
**John:** Ok. I know the formula. Assets minus liabilities equals net worth.



To Build Wealth, Build Your Net Worth

Ways to build your net worth:

- Add to your assets
- Decrease your liabilities (debts)



**Sue:** Yes, John. That's right. It's pretty simple, but, of course, it takes some work and some time to build your wealth. You just need to keep adding to your assets, or what you own, while subtracting debts, or what you owe. There are a few basic ways to do that.

**John:** We could simply save money by spending less than we earn.

**Sue:** Right. If we're able to do that regularly by sticking with good habits and using self-discipline, we'll see our assets grow. Meanwhile, we can work on the other side of the equation at the same time.

**John:** Pay off debt and try to limit new debt, right?

**Sue:** Yup. That means paying off credit card balances and paying down loans.

To Build Wealth, Build Your Net Worth

## Ways to build your net worth:

- Add to your assets
- Decrease your liabilities (debts)
- •Own assets that may create wealth—investments, a house...



**Sue:** In addition to those basic ways to add to what we own and subtract from what we owe, we can be selective about the assets that we own. Some things, like a house, although not guaranteed, tend to gain value over the long run – that's not just because of rising property values. It's also paying down your balance and building equity.

**John:** And saving regularly— for example, in your retirement account — is a great way to build your wealth steadily.

**Sue:** Exactly, John. Look at ways to add to your investments or pay off your mortgage. Those actions will make a difference over time.

Now compare that to a luxury car that you might pay \$60,000 for. Did you know that a new BMW 550 Sedan that costs \$60,000 today will be worth just \$37,000 after a year and just \$20,000 after five years? That's what I read at on a website about car values online.

John: That's unbelievable! Are you sending me a subtle message, Sue?

**Sue:** Believe it, John. So, from a perspective of building wealth, you'll probably be better off buying a nicer house or investing more, and driving a less expensive car. And if you're receiving an important message, who am I to stand in the way?



### Take a Snapshot, Make a Plan, Watch Your Progress

- 1) Where are you now? What's your net worth today?
- 2) Where do you want to be? What is your goal?
- 3) How will you get there? What steps will you take toward your goal?



**John:** All right, Sue. Now I'm beginning to see that money can't buy me love or even happiness, necessarily. But money can lead to more wealth if I use it wisely and well.

**Sue:** You got it, John. And it can be pretty simple. As easy as A-B-C.

**John:** Jeez, Sue, you had to say that! Now I have the Jackson Five's song playing in my head.

**Sue:** [humming/singing] Buh-buh-buh-buh-buh-buh ... A-B-C ... as easy as 1-2-3 ... as simple as do-re-mi ... Ok, John, I'll spare you my singing voice.

But listen to this. It really isn't rocket science. First, take stock of what you own and subtract what you owe today. That's your net worth now. Then, set a goal. And then figure out what steps you'll take to do that. Now, think about how you can accomplish that by steadily adding to your assets and subtracting from your liabilities.

**John:** Wow, Sue. You really do make it sound pretty easy.

Take a Snapshot, Make a Plan, Watch Your Progress

- 1) Monitor your progress—take annual net worth "snapshots"
- 2) Review and reassess your financial picture
- 3) Set a goal, make a plan, take steps to reach it



**Sue:** Well, I wish it WAS easy, John. I think it's simple and straightforward. But if it were easy, a lot more people would be better at it. Building wealth does seem to be a challenge, especially when the economy has been going through a rough period and some people have had a hard time just paying their bills. But as you see, building wealth means adopting some basic good habits and maintaining a steady focus. Because building wealth is a long process, you should monitor your progress. At least once a year tally up your assets – what you own – and subtract your liabilities – everything you owe – and see what your net worth is.

Because many things go into your financial picture, take a step back and try to be open to changing anything that might help you build wealth. Every year, do a personal financial inventory that goes beyond your assets and analyze how you spend your money and how you save it, and where you could do a better or more effective job in managing your money.

#### **Build a Cushion**

#### Build your emergency fund

How much emergency cash do you need?
3-6 months' worth of expenses

 Why do you need it?
Cover expenses in the event of a job loss, medical emergency or other large expense



**Sue:** John, there's something else that's an important part of the mix in building wealth. That's to build a cushion of emergency cash. By having money set aside to deal with any emergencies, we can protect our savings and avoid the risk of racking up high-interest rate debt. The money in our emergency fund would be available in a bank account, certificate of deposit or money market account – something we could access right away if we had to.

**John:** How much money should we have in that? And what's it for, other than the obvious – in case of emergency...?

**Sue:** The experts say it should be big enough to cover three to six months of living expenses. So, let's assume we typically spend \$6,000 a month on various things. That means we should have between \$18,000 and \$36,000 in our emergency fund. It's a special account set aside to cover emergencies or a sudden financial need. Let's say one of us loses our job or we have a medical emergency or illness of some kind that isn't covered by our health insurance. We could just dip into that fund rather than put it on a credit card, take out a loan, or withdraw from a retirement account.

Reinventing Retirement<sup>o</sup>

Keep Building Your Retirement Accounts



**John:** That emergency fund sounds like a solid defensive move. And I'm glad you mentioned our retirement accounts. We need to be mindful of the need to keep building our retirement savings, right, Sue?

**Sue:** Absolutely, John. It's all part of building wealth – bolstering the base of short-term savings along with the long-term retirement savings that will probably form the bulk of our wealth over the years.

**John:** I see there's a lot to do. Now I'm fired up. I'm going to use that financial snapshot as a baseline. But I need practical steps. What can I do now – or what can we do together –to build wealth now?



**Sue:** Ok, John, let's lay out some basic steps. First, saving money begins with living within your means. You know – simply spending less than you earn. In order to know that you're doing that, you have to track your expenses – for at least a month or two. Know how much you're earning and how much you're spending. But not just that. If we know *where* we're spending our money, we'll be able to cut back on some of our non-essentials.

Once we know that, we can spend less than we earn and we can make a point to save regularly. We can make that an expectation for ourselves. That could mean planning to save a certain amount each month or making it automatic, like you do in a workplace retirement savings plan, where money is taken out of your paycheck before you see it or can spend it. And that touches on another important point: Pay yourself first. Put the money into your short-term savings account for emergencies or your retirement plan regularly. If we can always do that, we'll be able to keep building our assets. That will come before the opportunity to spend the money.

And to reiterate what I mentioned before, by paying down the mortgage, we're able to build equity in our home. Paying down debt rather than buying expensive items that depreciate quickly will help us in the long run.

And on top of that, making good investment decisions, including investing some money into our retirement plan accounts and diversifying our investments, can help our money potentially grow long term.



**Narrator:** Once you begin to build a substantial sum of money, make a game plan to protect or maintain your wealth.

There are some helpful tools, calculators and online worksheets you can use for determining your net worth and budgeting.

To find your net worth, go to <a href="http://money.cnn.com/tools/networth/networth.html">http://money.cnn.com/tools/networth/networth.html</a>.

And there's a good budgeting tool at www.kiplinger.com/tools/budget.

And there are numerous retirement saving and planning calculators online, including this one from money.com, which shows you how quickly your savings can grow.

This seminar is focused on building wealth, but there's another presentation that tells you how to maintain your wealth. I encourage you to attend that seminar when you're ready to learn more. Meanwhile, see if you can put some of these exercises to work for your future.

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# Thank you

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