RICH DAD® COACHING

THE ULTIMATE GUIDE TO GROWING AND PROTECTING YOUR ASSETS

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Determining the Right Investment for You

There are numerous ways to invest and build wealth. And with each investment choice, there comes a number of decisions to be made about how to grow your investment portfolio along with protecting your assets and taking advantage of the tax benefits. When it comes to assets (investments that put money in your pocket), you have many choices. What you invest in is a personal decision, but in order to make an educated decision, you need an understanding of all the asset classes.

Each asset class has pros and cons and requires different levels of time, effort, and education. Eventually, you'll want to invest in all the asset classes to achieve true diversification (something that can't be achieved by investing in just retirement funds or a 401k regardless of what your financial planner or advisor may tell you). But to start off, here are some of the most popular asset-classes and what you should consider when making your investment decision.

Paper Assets

Take a poll of where the average investor puts his or her money and you'll find that most people invest in paper assets. Paper assets are investments like stocks, bonds, and mutual funds. Retirement accounts where you can invest in stock options, stock futures, and foreign exchange are another variation. Paper assets also include real estate investment trusts, or REITs, and exchange-traded funds (ETFs). Whether you are investing for capital gains or for cash flow via stock dividends, there are many choices for paper assets.

The Pros and Cons of Paper Assets

While paper assets represent an easy asset class to get in and out of, for the average investor, knowing what to buy and when to buy it can be a difficult skill to master; in fact, most investors are only making an educated guess or following the advice of a friend or financial advisor. Many find it difficult to beat-the-market on a consistent basis for any length of time. Additionally, money invested in a stock is tied up in that stock and will only provide you cash flow if the company chooses to pay a dividend.

On the plus side, technical and fundamental analysis methods—like those taught in the Rich Dad Coaching Paper Asset program—can help you make more informed investment decisions. Learning how to read charts, identify trends, and dissect a company's financial statements are all ways to enhance your investment research. Add option trading to the mix and you will understand how to make money not only when the market is going up, but when the market is going down as well.

The Value of Analysis

Everyone knows that the key to successful investing is "buy low, sell high." The only problem is that it is a lot easier said than done. Sure, in bull markets most people can make money as prices go up and up, but what about when markets go down? What about when prices stay the same?

Analysis in the form of both fundamental and technical seeks to provide answers to these questions.

Understanding Fundamental Analysis

In the simplest terms, *fundamental analysis* is the practice of determining the intrinsic value of a company. Investors accomplish this by examining influential forces such as financial growth, profitability, and future financial trends at the national economic level, the industry sector level, and the individual company level.

By examining these forces, fundamental analysis allows investors to forecast these forces and then use their forecast to help determine the likely price paths of the analyzed companies' stocks. By determining which companies' stock prices are most likely to rise and which are most likely to fall, investors (so the theory goes) are able to make investments where the chances of profitability are greatest. In addition to determining the price paths of a company's stock, fundamental analysis is also used to identify undervalued or overvalued stocks. The thought being, if a stock is currently undervalued, they can take a position in that stock hoping that gains will occur as the undervalued stock eventually rises to its true value (and, hence, to a higher stock price). Conversely, if a stock is presumed to be currently overvalued, they can sell the stock short hoping they will be able to capture the downside profits by selling the stock high and buying it back at a lower price. In either case, by using fundamental analysis, investors seek to invest *before* the rest of the market discovers these potentially profitable opportunities.

The Process of Fundamental Analysis

While there is no one generally accepted "best practice," fundamental analysis typically proceeds in a top-down manner, as follows:

- **Analyze the overall economy,** including current economic indicators and trends and broad-based economic forecasts to determine whether the economy is likely to be growing, declining, or stagnant over the ensuing 12 to 18 months.
- **Assess major industry groups,** performing a similar analysis to that employed on the general economy to determine which industry groups are likely to prosper in coming months and which are likely to sag.
- **Evaluate specific companies.** Company analysis involves an assessment of a company's fundamental strength, which includes such factors as its current, past, and projected financials; the credibility and skill of its management team; the vibrancy of its markets; and the quality and market leadership of its products.

The above process creates a shrinking funnel, in which only the most promising companies "fall out" as investment candidates in the end.

The Benefits and Shortcomings of Fundamental Analysis

To understand where and how fundamental analysis fits within your investing "tool box," you must recognize that just like any investing approach there are strengths and shortcomings to fundamental analysis. The key lies in furthering your financial education in this and other methods, so you can minimize risk.

Some of the benefits of fundamental analysis include:

- Appropriately executed fundamental analysis is excellent for spotting longer term economic and industry trends. Those traders whose focus is exclusively on "hot buys" or microscopic price movements are likely to miss these larger trends and so deprive themselves of a very powerful means of quickly identifying entire *groups* of stocks that are likely to perform exceptionally well.
- Fundamental analysis is also very beneficial for those investors who are investing for the long-term. Over the long-term, when the fluctuations of daily or weekly price swings are smoothed out, the most fundamentally sound companies are the ones that are most likely to produce and sustain rising price levels.
- Fundamental analysis, when engaged in over an extended period of time, makes it easier for you to *intuitively* understand how specific sectors and stocks are likely to perform under given national economic circumstances and to be able to more quickly identify the most promising investment candidates.

Those benefits notwithstanding, fundamental analysis does possess some shortcomings that make it difficult for investors to rely on this approach alone. Specifically:

- Despite the fact that it provides invaluable business and investing intelligence, fundamental analysis is extremely time consuming. While this is true even for national economic analysis, it is particularly the case for fundamental analyses of specific industry sectors and individual companies, each of which often require customized research and analytical protocols. The enormous time requirements demanded by fundamental analysis (1) severely limits the breadth of research that can be performed and the number of companies that can be covered, (2) makes it difficult to deploy the analysis on a real-time basis, and (3) makes it impractical to update the analysis on a frequent basis.
- Fundamental analysis is highly subjective. Not only do the criteria employed to conduct fundamental analysis differ from analyst to analyst, but the definitions of these criteria within a given analysis can be imprecise. Moreover, many of those who conduct fundamental analysis for a living (such as professional stock analysts) either have a vested interest in providing bullish reports on the companies that they cover or else rely too heavily on internal company information, either of which tends to bias their findings.

- Finally, while assessing company strength is clearly valuable, the idea that fundamental analysis can routinely identify undervalued or overvalued stocks must be regarded with a large dose of suspicion. The premise of this assertion is that a single analyst can somehow unearth hidden value (or lack thereof) in a company that has escaped the notice of millions of market participants and thousands of financial journalists. While this might happen on occasion, it is not reasonable to expect that it will take place very often.

Understanding Technical Analysis

Technical analysis attempts to determine future stock market or individual stock behavior based on previous price movements. Technical analysis employs knowledge of past trends and conditions to forecast what is likely to happen in the otherwise unforeseeable future. In other words, technical analysis attempts to understand the market by studying the market itself, as opposed to its components as fundamental analysis does.

The Foundation of Technical Analysis

To some, technical analysis can leave the impression that it is little more than organized guessing. However, further study reveals that technical analysis is actually founded on the cornerstone of economics—*supply and demand*. Because the stock market is characterized by millions of almost simultaneous, highly comparable transactions and because the associated information flows are nearly perfect, supply and demand conditions that take months to form in the consumer marketplace can materialize within minutes on the stock market—enabling technical analysts to generate reasonably reliable future forecasts.

In order to create these forecasts, technical analysis relies on a set of three core principles:

- **Stock prices represent the sum of the market's knowledge.** The price of a stock captures everything that the market knows or believes about the value of a given stock—that there are no "hidden secrets" waiting to be unearthed. As the sum of knowledge, stock prices are the best source of a stock's previous and likely future value.
- **Price movements have meaning.** Stock prices are a reflection of the market's underlying supply and demand pressures—and that understanding these supply and demand fluctuations establishes a rational basis for forecasting future price movements.
- **The "why" doesn't really matter.** Rather than trying to sort through the often hidden and highly unpredictable variables of a stock such as company news, earnings projections, or other factors that affect the fundamental value of a company's stock, technical analysts simply ask "what" is happening to the price and subsume the infinite array of fundamentalist explanations under the conditions of supply and demand.

The Rationale for Technical Analysis

There are many reasons to recommend fundamental analysis as a guide to wise investing. After all, inherently strong stocks are likely to rise in price and intrinsically weak stocks to fall, right? One would think so. And, in some cases and over long periods of time, that does turn out to be the case. But every day, theoretically strong stocks plummet in value and supposedly weak stocks rise—often without any rhyme or reason. And if professional stock analysts are at a loss to explain these price movements, there is surely even less hope for the beginning investor.

In fact, even if it could be implemented in a highly reliable fashion, fundamental analysis suffers some flaws as a primary tool for day-to-day stock investing—especially for traders looking for short- or medium-term gains. This isn't stated to discount fundamental analysis, but to create awareness so you can choose the appropriate analytical type for your investing objectives. Some of the more notable shortcomings of fundamental analysis are:

- Its value and insights notwithstanding, fundamental analysis can consume a great deal of time, with often hours or even days required to evaluate a single stock.
- The optimal methods for fundamental analysis typically vary from industry sector to industry sector—sometimes even from company to company—imposing a very steep and changing learning curve.
- Because so much of the information used for fundamental analysis differs from company to company, a great deal of subjectivity is involved in the practice, making it hard to compare conclusions across companies, industry sectors, or analysts.
- Because the bulk of information used to support fundamental analysis comes from either the company itself or from market analysts with a vested interest in a stock's performance, there are often good reasons to suspect the reliability or accuracy of fundamental analyses.

Technical analysis suffers from none of these problems. While far from simple, technical analysis is based on a limited range of principles that can be learned within an equally limited period of time. Stock prices—the key parameter of technical analysis—are objective measures, easily and openly available, and immediately comparable across companies and industries. As such, stock prices are not subject to interpretation, hidden variables, or analyst bias and so serve as a reliable and accurate basis for valuing a given stock.

The Key Benefit of Technical Analysis

Now, technical analysis doesn't turn you into a fortune-teller. It needs to be emphasized: *no one can predict the future of the stock market or the future price of any single stock*. But, technical analysis does the next best thing by identifying and analyzing historically reliable signals of stock price increases and declines and then providing insights and guidance for investing in advance of these price changes. Because there is a high probability that these signals will turn out to be correct, technical analysis allows you to win considerably more often than you lose.

But fundamentalists rely on data as well—company strength, earnings predictions, and so on. So why does technical analysis succeed where fundamental analysis might fail? There is one key distinction:

- **Fundamental analysis takes place "before the summation."** Fundamental analysts must take on the impossible task of trying to sum up the reactions of hundreds of thousands of investors to company news and other information and predict how these reactions will affect supply and demand and hence stock price. Even when performed diligently, this analysis is inevitably fraught with error because there is no way to know how hundreds of thousands of investors will react or how to reliably "sum up" this collection of opinions.
- **Technical analysis takes place "after the summation."** As noted, technicians rely on price as the primary unit of analysis. But price is nothing more than the summation of all investors' opinions as reflected in the market's aggregate supply and demand. In other words, technical analysis *begins* with the summation—eliminating most of the imprecision and guesswork of fundamental analysis—and giving you uniform, quantitative benchmarks against which to assess your predictions.

These benefits notwithstanding, technical analysis is conceptually much more difficult to understand than fundamental analysis. And it can be much more difficult to apply because many of its indicators are much more esoteric. For instance, most investors have heard of such key fundamentalist measures as "market capitalization" or "price to earnings ratio," but very few have heard of such rarefied technical analysis standards as "bearish engulfing" and "doji candlesticks." Still, venturing into this arcane world of technical analysis can be highly beneficial because it can transform the unpredictable and dangerous minefield of fundamentalist investing into a challenging but much more predictable technical investing landscape.

Using Stock Charts

The foundation of technical analysis is the stock chart. A stock chart is simply the historical record of the price of a stock over time. Stock charts can be created for (and hence technical analysis performed on) stocks, indices, commodities, futures, or anything that is traded on an organized exchange. While stock charts are commonly displayed with prices calculated on a daily or weekly basis, they also can be presented on an intra-day basis, with price movements demarcated in units of a few minutes to hours.

Stock charts can employ a variety of formats, ranging from simple, conventional line graphs to more complex and esoteric charts such as "candlestick charts."

Understanding Stock Trends

Essential to the process of technical analysis is the well-known concept of trends. To explain the importance of trends, let's return for a moment to the world of chance.

When you flip a coin, the probability that heads will turn up is 50%—and it is 50% whether you've just started flipping the coin or you have flipped 100 heads in a row. The result of flipping a coin is purely random and is completely independent of what occurred before. While there may be apparent "trends" in coin flipping, such as five heads or five tails in a row, the trends are illusory and are the result of nothing but chance.

On the other hand, if a football team that normally wins 50% of its games loses five games in a row, will that "trend" of losses affect the outcome of its next game? Almost certainly. Depending on the team, either the players will become so dispirited they will start to give up, or they will be so angry they will be energized to victory. In either case, what happened before *will* affect what happens in the future. There is no guarantee of the direction in which the effect will operate—for its impact will be influenced by a variety of factors—but only the assurance that there *will be* an effect.

The patterns of stock supply and demand are similar to the patterns of a sports team's wins and losses because both patterns are the sum of individual attitudes and expectations—of investors in one case and of athletes in the other. Trends—whether up, down, or sideways—are the result of the accumulation of these influences. Sometimes trends strengthen as they go on, and sometimes they weaken or reverse. The primary goal of technical analysis is to understand, based on what has happened in the past, how a current situation is likely to resolve itself.

Your first task, of course, is to identify the patterns taking place in stock prices. But your second task is equally important: to understand what the human emotions are behind these patterns and how they are likely to evolve as trends strengthen or wane.

Trends and Reversals

There are three primary types of stock trends: (1) up trends, or a "bullish market"; (2) down trends, or a "bearish market"; and (3) sideways trends, or "trendless trends." While there are many variations of these larger patterns, these are their primary forms.

As one might expect, trends can do one of three things: (1) they can continue or even accelerate; (2) they can wane and flatten out; or (3) they can reverse and head in the other direction. In addition, sideways or "trendless" trends can suddenly begin to move up or down.

It is with regard to the stock price trends and patterns that the principle of "buy low, sell high" comes into play. If you can reliably predict that a down-trending stock is going to stop declining in price and begin ascending, you can buy at the point of inflection and sell when the up trend is about to end—making it a theoretically simple matter for you to earn a profit. Likewise, if you can reliably predict that an up trend is about to end and a stock is about to decline, you can profit by "selling short."

Technical analysis gives you these capabilities. While technical analysis is far from perfect, a skilled technical analyst can make reliable predictions with regard to future stock price movements that, more often than not, will actually transpire—and will appear almost like magic to the untrained eye. It is being able to identify and forecast these changes in trends that the roots of profitable technical investing reside.

Business

Starting or buying a business is an investment option that people are becoming more aware of due to popular television shows like “The Apprentice” or “Shark Tank.” While you can invest in your own business or someone else’s private business or company, the whole point is to generate a return back to you, the business and your investors and/or lender. Just be sure to do your due diligence and analyze the project, the partners, the financing, and the business and management team before making a business investment.

The Pros and Cons of Business

The ability to work hard and be a self-starter isn’t necessarily a pro or a con, but just a reality of the asset class. Starting out, your business will only grow at the speed by which you grow it.

Investing in a business isn’t for the faint of heart. If you crave the security of a steady paycheck that comes from being an employee, you’ll need to come to grips that your income can fluctuate. There will be dry spells and times when your resources are stretched to their breaking point. All of this is part of being an entrepreneur.

You are your own boss. The success or failure of your business rests solely with you. What separates the winners from the losers however is the path you take. Though there are many paths that eventually lead to success, some are more direct and have fewer bumps. While no one who finds success as an entrepreneur does so without encountering obstacles, there are five things to keep in mind to help you navigate and overcome all that comes your way as you build your business.

Start Small, Dream Big

Here is a simple truth: It does not take any more effort to dream big than it does to dream small.

Perhaps we do not want to appear greedy or materialistic. Maybe we doubt our ability to make great things happen. Or, we may feel that we do not deserve what life has to offer us. Regardless of what the reason may be, when we are starting out there is that little voice in our head telling us not to dream too big.

The successful entrepreneur has developed the ability to control the little voice and has replaced it with an inner dialogue based on grand visions of what can be.

By developing this ability within yourself, you will see opportunities that no one else sees. While others are quick to point out why your vision will not work, you will have the motivation to prove them wrong.

Now, while you will never want to scale your dreams back, you will need to make them a reality one-step at a time. It may sound contradictory, but when realizing your big dreams, you need to remember to start small.

When you dream a big dream, it is easy to get excited and have the desire to live it right now. However, before you quit your job, develop a plan that lays the groundwork for your venture and begins realizing positive cash flow. Just because an idea is good does not mean that it will create cash flow on day one. In fact, many new businesses are around a long time before they start to turn a profit.

Moreover, if you let the cash flow from your venture dictate when you will quit your job, you will find yourself more aware of where every penny goes. You will be motivated to keep expenses under control so the day you can walk into your boss's office comes sooner rather than later.

Identify Your Priorities, but Be Flexible

In the process of dreaming big and starting small, it will be apparent what the key items are that will bring about success. These keys are your priorities and you must pursue them relentlessly.

One of the major reasons investors and entrepreneurs have a difficult time evaluating opportunities is because they have failed to prioritize their work. By separating the good from the best, you create the freedom and flexibility that would not exist if you pursued everything that is asking for your time and attention.

As you begin building your business, take time to identify the essential pieces of your business or investing pursuit that will sustain your venture and provide the necessary cash flow.

Another trap that keeps entrepreneurs and investors from being as nimble as they need to be is underestimating the time and costs required to successfully execute their plan. Overtime, you will develop a sixth sense for how long something will take or how much it will cost, but until then you need to do your due diligence. Talk to people who have firsthand experience in what you want to accomplish. The wisdom and insight they bring to your project will keep you from painting yourself into a corner, where you have neither the time nor the money to complete a task successfully. Going over budget and being behind schedule is one of the quickest ways to deplete your capital reserves. In addition, the time and attention you will spend fixing the situation will draw precious time and resources away from other necessary pursuits needed to generate cash flow.

Fitally, if you do not prioritize correctly, you run the risk of taking on too much and doing nothing well. Every venture has critical pieces that create the successful outcome. It is when you focus more on the support tasks than the critical ones that you begin watering down your best work. Designing eye-catching packaging for your product may help you stand out from the competition, but if you have neglected the necessary legwork to get your product on the shelves in the first place, it will all be for naught.

Fail Fast & Fail Often

Most entrepreneurs and investors are not risk adverse. If they were, they would still be playing it “safe” in their 9-to-5 jobs. However, in order to be successful, you need to experiment and take chances that may frighten you at first.

If you are reading this article in the hopes of not making any mistakes, then there is your first mistake. Do not look at mistakes as something to be avoided at all costs, but as unique learning opportunities custom-tailored to you, your circumstances, and your business. The more lessons you can learn from in the quickest amount of time will help shorten your learning curve and place you in a position to grow your business.

By adopting the mindset of “fail fast and fail often,” you begin to leverage the power of iteration—the process of repeating and refining a process in order to meet a goal.

The ultimate goal for your business is to stay alive and ultimately to thrive. In order to accomplish this goal, you must iterate until you find the “breakthrough” that makes your business a self-sustaining entity.

When you are starting a business, speed is critical for success. The tighter you can run experiments and the faster you can iterate, the more chances you will provide yourself to find that winning combination. It is that winning combination that helps you become scalable. And scalability is what allows you to realize your big dream.

So do not be afraid of making mistakes. Fail fast, fail often, and learn even quicker. You have to try, make mistakes, learn, and try again. If you try, make a mistake, and give up, you will never be the success you could have been.

Create a Solid Team

One of the main characteristics that separate the B’s and I’s (Business Owners and Investors) from the S’s (Self-employed) in the CASHFLOW Quadrants is how they approach a task.

S’s like to roll up their sleeves and do it themselves. Their grit and determination is admirable. But they are severely limiting themselves in what they can accomplish and will never realize their big dream because ultimately one person can only do so much.

As you start-up your business or investments, you must accept the fact that you cannot do it alone.

From a listening ear to bounce ideas off of, to a seasoned professional who has helped hundreds before you, no role should be overlooked.

Steve Jobs had Steve Wozniak. Bill Gates had Steve Balmmer. Mark Zuckerberg even had the Winklevoss twins (depending on who you ask). The bottom line is that if your business or investment venture only has one "founder," it probably means you are unable to talk any of your friends into starting the company or investing with you. In other words, it is a vote of no confidence.

Another benefit of building a solid team is that venture capitalists cite those on your team as among the key investment criteria for their decision to fund a business.
As you pursue your dream, you will probably need to go back to the drawing board more than once. An experienced team can assist you in making small adjustments that will payoff down the line when implementing radical shifts to the existing plan. This requires the team to have the talent and mindset that will compliment your vision.

F.O.C.U.S.

If being an entrepreneur or investor were easy, everyone would do it. The truth is that while it is extremely rewarding it requires hard work, sacrifice, and determination.

Robert has taught over and over that to be successful as a business owner or investor, one must F.O.C.U.S.

F.O.C.U.S simply stands for:

Follow
One
Course of Action
Until
Successful

We live in a day and age of instant gratification. As a result, most people are unwilling to stick with something if they do not see immediate results. As mentioned earlier, beginning to see a positive cash flow from a business can take a while. Because of this, you need the ability to stick to your plan day-in and day-out, trusting that the results will come.

People who realize their dreams have mastered their craft. Mastering does not come in an afternoon. Mastering does not come from taking the path of least resistance and then hitting it hard in the eleventh hour. It is the epitome of 24 hours a day, 7 days a week.

In addition, if you have the typical personality type of an entrepreneur, you will need to F.O.C.U.S. so you do not litter your landscape with an unending stream of unfinished projects.

Most entrepreneurs are visionaries with the drive to get things started. However, they easily get bored and are quick to move on to their next conquest. They have a tendency to move on to other projects before they have tied everything up on the present one. As a result, if the entrepreneur or investor does not have a team that keeps projects afloat and moving towards resolutions or implementation, then these projects often languish and die.

By developing the ability to F.O.C.U.S., you learn to hold yourself accountable to yourself. By knowing you have to answer to yourself and your team within the context of your dream and priorities, you will find yourself able to better determine whether your latest idea is the one that will take your venture to the next level, or is simply a new diversion to stimulate a bored mind.

Real Estate

Real estate is a favorite investment class for many—including Robert and Kim—because it fits a tried and true formula for financial freedom. Real estate investments either provide cash flow from rental properties or capital gains from buying and selling (flipping) a property.

As an investor, you can choose from four different types of property: residential, industrial, commercial, and undeveloped land. When choosing one of these investment vehicles, you should be knowledgeable about the local real estate market, general economic forecasts, and tax realities. If you are getting started, working with a Rich Dad Coach can help you not only know how to find this information, but know how to decipher it.

The Pros and Cons of Real Estate

Like any investment, real estate possesses its own set of risks that you need to account for in order to be successful. To begin with, real estate isn't liquid. Selling a property takes time. However, if you have purchased wisely and the property is producing a positive cash flow, you probably won't want to sell it.

Many people will tell you to stay away from real estate because of having to deal with bad tenants and property repairs. (It should be noted that the majority of these naysayers have never actually invested themselves.) While these types of risks are real, there are ways to help minimize their impact. A good property manager can help you screen for and find the type of tenants you want to rent your properties. In addition, a trusted property manager can help stay on top of needed repairs all while minimizing your day-to-day involvement with the property.

One of the biggest pros of real estate is that you can use leverage, or the ability to use other people's money (OPM) to purchase the asset. For a relatively small amount of money, you can end up buying more real estate than you could with any of the other asset classes. For instance, if you had $10,000, you could buy $10,000 of stock or you could use that same amount as a down payment for a $100,000 investment property and use the bank's money to fund the rest. Granted you'll be taking on a $90,000 liability to purchase the investment property, but when you consider that rents from the real estate purchase will help pay down the mortgage, real estate keeps looking better.

Adding Value to Your Real Estate Investments

Regardless if you are using other people's money or your own, your main focus should be your return on investment. When you are working with real estate, if you are not careful, the renovation and fix-up costs you incur trying to raise your return can cut into your profits more than just about any other area. The key becomes how to make your property attractive and desirable to tenants and potential buyers without sacrificing the bottom line.

By using the following five ideas, you can add value to your investments without getting carried away and losing precious profit to upgrades that do not justify the cost.

Little Things

Even if cash is not an issue, you still need to keep a tight rein on expenses in order to maximize your returns. By improving the "little things" on a property, you can make some meaningful upgrades to a property's look and feel without breaking the bank and diminishing your profits.

SWITCH PLATES

One of the cheapest "bang-for-your-buck" upgrades is new switch plates. Getting rid of old and ugly switch plates are a quick inexpensive fix. More often than not when a room is repainted the old switch plates are reinstalled. For some houses, the switch plates are decades old! A prospective tenants/buyers will noticed a clean, fresh, switch plate as they turn the light on when walking into a room. From a $.50 cent "cheapie" to a high-end brass switch plate, a replacement will provide a huge bang for your buck.

TRIM

Even if the interior walls of your property do not need a new coat of paint, chances are the trim is a little worse for wear. Repainting or replacing can add a nice finishing touch to a room. Moreover, if you decide to use a pre-painted trim, you can save yourself time too.

DOORS AND DOOR HANDLES

Changing doors and door handles is another inexpensive fix. Prehung interior doors will cost around $50. Upgrade the doorknob to a door lever for another $20 and you will have a great first impression as your prospects walk into every bedroom and bathroom in the house.

If you really want to make a good first impression, consider replacing the front entry door while you are at it. A decorative doorknocker, new hardware, and a brass kick-plate are all nice accessories to make the property more inviting.

TILE

As long as we are on the subject of the front entry, you may want to consider tiling the front entry. Most rental properties—and quite a few homes for sale for that matter—have linoleum in their entry way. A nice floor tile that covers a small 8'x 8' area can have a big impact.

Curb Appeal

If you invested in a distressed property, typically one of the areas needing a lot of work will be the property's curb appeal. Even if the property is not distressed, some TLC out front can provide a great return on your investment.

It almost goes without saying, but if the property needs a fresh coat of paint, this is the first place you should start. A freshly painted exterior will make your potential tenant or buyer excited to see the interior. If the paint is still holding up, consider pressure washing to let the property's true colors shine.

When most people think about curb appeal, they think about landscaping. Landscaping makes a huge impression when someone first pulls up, but landscaping is also where investors can go over budget in a hurry if they are not careful. Mowing the lawn, cleaning out flowerbeds, and trimming back bushes are all quick fixes whose only cost is a little sweat equity. Once you have cleared the flowerbeds and trimmed the bushes, a few well-placed colorful flowers with some pine straw or wood chips will give a clean simple look.

If you decide to plant a tree, opt for one that will bloom brilliantly and look good year around. Removing existing tree limbs that touch the house and/or roof is a good idea as they tend to scratch paint and in extreme cases cause damage to the roof. While the ladder is out, it might be a good idea to clean the rain gutters and check for any damage too.

Consider upgrading or replacing the mailbox if that makes sense. Also, repair, paint, or stain an existing fence if necessary.

Rehabbing Kitchens & Bathrooms

You can easily get carried away rehabbing a property's kitchen and bathrooms. After all, this is one of the most important areas for a tenant or potential buyer when making a decision. And who doesn't like a beautiful, modern, updated kitchen and bath with top-of-the-line appliances and fixtures? Unless you are living there, you don't!

Do not let personal preferences, tastes, and wishes get in the way of making the most from your investment. For practical purposes, you can bring plenty of new life to a kitchen and bath for minimal cost by simply giving the cabinets a quick and easy facelift.

By following a three-step process of prep, prime, and paint, you can make a great impact.

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You will want to start by properly prepping the cabinets. Otherwise, you will not get the bang-for-your-buck that you are after. Start by removing all hardware from the cabinets. Next, wipe down all the surfaces with white or distilled vinegar using a sponge or cheesecloth. This is very important for kitchen cabinets where years of cooking will have covered the cabinets with oil and grease.

The second step is to prime. Using 200-grit sandpaper, lightly go over the surfaces. Your intent is not to remove the stain, but to take the gloss off. After sanding, you will need to wipe everything down to remove the dust from your sanding. Once the sanding is complete, apply an oil-based primer in order to give your cabinets a good seal coat. If you skip this step, oils will seep through and ruin the cabinets look.

Finally, you are ready to paint. A latex semi-gloss will provide a surface that is easy to clean. As far as color is concerned, ultimately, the choice is up to you, but white cabinets will look new and make the room feel larger.

Add a Bedroom

Depending on the property, this next tip may cost a little more, but it can definitely create a huge payoff.

When looking at the floor plan, is there an existing area that can be converted into an additional bedroom? Typically, an attic or basement has the potential for turning existing space into an additional bedroom. By building a small closet in a spare room, you can gain an additional bedroom quickly.

A quick check of rental rates in your area will help you quantify the potential increase in rental rates of changing a two-bedroom home to a three-bedroom home. More than likely, you will find that the cost of adding the room is made up for in the increased rental revenue.

Assemble a "Value-Add" Team

As you invest in more and more properties, you will want to expand your resources in order to help you add value to your purchases. Assembling a "value-add" team can be a great way to leverage the talents of specialists across a number of properties to help you be quick and nimble with your upgrades. Another benefit of creating a team is they can offer a reality check when upgrading a property. In other words, if you establish a budget, your team can tell you what is realistic for the price. This in turn helps you prioritize your list of upgrades.

An architect can help you creatively use the space you have and is essential for larger remodeling projects. When searching for an architect, be sure to check out his or her work. View examples of projects he or she has designed in order to get a sense of his or her style. Also, be sure to understand how the architect's fees are established. Is it a percentage of the construction costs or are you being charged by the number of hours worked?

An interior designer—especially if you consider yourself challenged in this area—can help create the look and feel for a space that makes people feel they MUST live in your property. Consider hiring a designer that will best meet your needs. Some designers specialized in renovations while others specialize in kitchens or bathrooms.

A good landscape architect/designer can help fix problem areas while bringing an aesthetic quality to the outside of your property. From fixing a low spot in the yard where water pools after every storm to choosing the right landscaping materials, a landscape designer can help create a look that will be beautiful yet easy to maintain for years to come.

Finally, a general contractor can help arrange and keep track of the moving pieces so your projects come in on time and under budget. Starting out, you will probably want/need to fulfill this role, but as you add more and more properties to your portfolio, a general contractor will become a must.

Which Assets Will You Choose?

When it comes to choosing investments for your financial freedom, it's a personal choice that depends on your specific goals in life. And while it might be overwhelming at first, start small. Set your goals, research and increase your financial education and then take action. Many people have changed their life for the better by investing in assets, and you can too.

Protecting Your Assets and Building a Tax Strategy

With a better understanding of the asset classes and some actionable suggestions to make them work, you are on the path to financial freedom. The key now though is to understand how you can keep more of the money you earn and protect your investments against others who might want to reap the rewards of your hard work. To that end, understanding tax and asset protection becomes paramount.

Understanding Your Entity Options

Choosing an entity is one of the most important decisions you will make. (You should also understand that doing nothing is also a choice. A choice that many wish that they had not made when they find out they are being sued and are faced with the prospect of losing everything.) Your entity decision will affect you in a number of ways. It will determine how you prepare your taxes. It will affect how you will keep your books. It will influence how much of your company's income you will keep and how much you don't.

As you can see, entity selection is a two-part equation. You need to think in terms of tax savings AND asset protection. The entity you select affects not just your asset protection, but influences your tax strategy. Add to this the fact that there is no such thing as a one-size-fits-all entity and you can see why you need to understand your options and more importantly why you must have qualified legal and tax professionals on your team to help you make the right decision. In addition to helping you make the right decision, they will help you navigate all the intricacies of the entity you do choose. This becomes critical, because how well you follow the established rules of your chosen entity will determine how well you are protected.

So let's take a look at the various entity options.

Sole Proprietorship

In order to cover all the entity options, we have included sole proprietorship, but for reasons that will become apparent, a sole proprietorship is the "bad" choice when it comes to protecting your assets. The reason it is the bad choice is that a sole proprietorship doesn't offer **any** asset protection.

A sole proprietorship is established when people don't bother to set up a different entity. Simply hang up your shingle and you are a sole proprietorship. There is no paperwork, no fees, and no filings that need to take place. If you are so inclined, you could apply for a DBA (Doing Business As) with your county, but your personal assets are still unprotected.

When it comes to taxes, your business activities are included on your personal tax return—just another blurring of the lines between you and your business.

The bottom line is that sole proprietorship allows you to get in to asset protection trouble just as easily as it was to set up.

General Partnership

If a sole proprietorship sounds unappealing, wait until you hear about a general partnership. A general partnership offers no asset protection just like a sole proprietorship, but puts all of the associated owners/partners on the hook for each other. In other words, you are not only responsible for your mistakes, but the mistakes of your partners. In addition, if one partner leaves the business or dies, the remaining partners are responsible for the company's debts and obligations.

If you still wish to set up a general partnership, you and your partner(s) will need to create a partnership agreement that at a minimum, includes the following:

- The type of business being pursued.
- The financial requirements each partner is to make to finance the business up front.
- What is expected of each partner (i.e. rights and duties).
- How disputes will be resolved.
- An established method of sharing the profits and losses.
- A system authorizing cash withdrawals and salaries.
- How the partnership will be dissolved.

With everything that goes into a partnership agreement, you'll want to think long and hard as to whether or not you would be better served spending your time establishing an entity that offers better asset protection.

Corporations

In the simplest terms, when you set up a corporation, you are creating a new legal person. It is the separation between you and the new legal entity that benefits you. This separation acts as a shield to you in that your liability is limited to the money invested to start the corporation.

A corporation can be formed as either a C Corporation or an S Corporation (the "C" and "S" refer to the corporate taxation sections of the IRS code). There are pros and cons to each, so it is important for you to know what makes sense for your situation and that your legal and tax advisors understand your plan.

When considering a C Corporation, one of the most important things to keep in mind is that a C Corporation's earnings are taxed twice. When the corporation turns a profit, it is taxed on its gains and then when a dividend is paid to the shareholders, they are taxed on their individual returns. In order to avoid the double taxation, one could elect to set up an S Corporation instead. An S Corporation allows for flow-through taxation. This means that profits are not taxed at the corporate level, but are instead allowed to flow down to the shareholder's personal tax return and as such, are only taxed once.

Now, you may be asking, "Then why would anyone want to set up a C Corp?" Well, S Corporations have their drawbacks too. Chief among them being the fact that you can't take an S Corporation public. If you have designs of taking your company public, you need to be a C Corporation. However, you can elect to switch from an S Corporation to a C Corporation if the need arises. However, you will have to wait 5 years to switch back from a C Corporation to an S Corporation.

Limited Liability Company

Relatively speaking, a Limited Liability Company (LLC) has been around a very short time, but it has become one of the most popular ways to do business and hold real estate because it offers superior asset protection. Couple that with the fact that an LLC combines the flow-through taxation of a partnership with the limited liability aspects of a corporation, and it is easy to see why people are setting up LLCs. (Remember though, there is no one-size-fits-all entity. Be sure to consult with your tax and legal advisors.) In order to maintain the veil between yourself and an LLC, there are certain things you must do. These include, but are not limited to the following:

- Maintain timely filings with the state where your LLC is set up.
- Prepare entity tax returns.
- Maintain a separate business bank account and do not co-mingle personal funds.
- Have adequate funding for the business.
- Hold annual meeting of the members and managers.

Limited Partnerships

Finally, a limited partnership (LP) is similar to a general partnership, but offers more protection. A LP has both general partners and limited partners as opposed to just general partners in a general partnership. General partners are exposed in a limited partnership just like they are in a general partnership. This means that a creditor can go after not only the business's assets, but the personal assets of every general partner. For the limited partner, however, they are only liable up to his or her contribution to the partnership.

Limited partnerships are required to have at least one general partner and one limited partner. Because the general partner carries a liability risk not shared by the limited partners, setting up an LLC or corporation to serve as the general partner in the LP allows the general partner's unlimited liability to be placed in a limited liability entity thus offering greater asset protection.

As you can tell, there is the "fine print" you need to be aware of when selecting an entity. It is a decision that will affect how well your personal assets are protect as well the taxes you pay. As a result, consult with the proper professionals to make sure you set up the solution that make the most sense for your unique situation.

Building a Tax Strategy

The first step to enjoying the tax strategies of the rich is simply to have one.

A strategy or plan, by definition, is a plan of action intended to accomplish a specific purpose. If your specific purpose is lowering your tax bill, then you need to know two things: 1) where you are and 2) where you want to be.

The first is easy. Pull out your tax returns and review. How much did you pay in taxes? Did you prepare your taxes by yourself? (This question is important in that it indicates whether you are trying to get rich by yourself or with the help of a team.) Look beyond just the final dollar amount and begin asking yourself questions that will lead you to examine not only your attitude towards money, but also your actions. If you really want to lower the taxes you pay, you will have to make changes in your life and start doing things differently. And it is what you need to do differently that will lead to your answers for the second half of your tax strategy equation.

"Where you want to be" will evolve overtime. As you become more versed in the tax strategies that can make you rich and as your tax advisor provides more advice for your specific investments and businesses, you will gain a sharper focus on how you can play the tax game like the rich.

For now, just remember your tax strategy needs to be flexible and look at the big picture. This will allow your plan to grow and develop along with your investment portfolio as well as with your education. As your financial acumen becomes bigger and stronger, so will your strategy.

Entity Set-up

As previously discussed, when it comes to entity set-up, the only way to find out which one is best for you is to discuss the details of your business and investing with your tax advisor. But regardless of what entity you select, you'll need to create a clear delineation between you and your entity.

Some entities can be treated as a completely separate taxpayer from you. Now while this has a host of benefits, it also makes it extremely important that you are not co-mingling personal funds with the entity's. (We'll cover what to do when personal funds must be used to fund your business in a moment.)

In order to take full advantage of your entity's tax benefits, you will need to have your entity be the one that your vendors and customers deal directly with, not you! For example, rent checks should be made out to the entity. If a property management company collects your rents, the agreement should be between the property management company and the entity. Expenses like utilities, insurance, management fees, etc. should all be paid by the entity. And never pay personal expenses with entity funds. If you do, you only serve to help the government prove that you and the entity are not separate, but that the entity is your personal checkbook.

So what do you do if you need to use personal funds to pay for entity expenses?

Any personal funds used for the entity, must be recorded in your personal bookkeeping as a loan or capital contribution to the entity. You will then need to track it in your personal bookkeeping as a reimbursement due from the entity. Then when the entity repays the loan, it will need to be captured in the entity's books. Anything less and you are asking for trouble.

Simply by creating this distinction between you and your entity, you will be helping yourself to reap the maximum benefits from your business entity.

The Magic of Real Estate Depreciation

Do you like free money? If so, you need to understand what real estate investors have been benefitting from for years. It is the "free" money given to them from the government in the form of depreciation.

Depreciation is a concept created by government tax-writers to account for a property's natural deterioration over time. The idea is that, as a building ages, the physical components of the building become less valuable. Depreciation is the way of recognizing these losses.

Now while the concept of depreciation doesn't sound all that interesting, the benefits are definitely something to get excited about. Since the government allows you to claim a deduction for something that doesn't cost you any money, depreciation is like getting free money from the government.

The basic idea is that over time, an asset or building will lose value due to wear and tear, physical deterioration, and age. This is treated as an expense and is a line item on the income statement. Each year, you can deduct a portion of this wear and tear based on the guidelines established by your government. If you are a wise investor that purchases properties that are assets (i.e. properties that produce a positive cash flow and put money in your pocket each month), then the cash flow gained from that real estate can be sheltered from taxes via the phantom losses of depreciation.

For example, you purchase a commercial property for $850,000. The land upon which the property sits is valued at $160,000 and the building itself at $690,000. Your tax advisor informs you that the current tax code allows you to depreciate commercial properties in equal annual amounts over 39 years. Basically, this means you can deduct almost $17,700 every year for the next 39 years. This deduction reduces your taxable income—and in some cases, you may even show a loss for the year—thus increasing your profit.

But wait, there's more! While you shouldn't invest in property with the hope that it will appreciate over time, the chances are that it will. So while the government is letting you realize the expense of wear and tear, the likelihood of you being able to sell your property at a future date for more than you paid for it is pretty good. Now it should be noted that depreciation would increase the capital gains tax paid by the investor when he or she sells the property by reducing the basis for figuring the gain or the loss on the sale or exchange. However, if your tax advisor is doing his or her job, he or she should be able to create a strategy to help minimize this impact.

Deduct It!

Finally, one of the most common tax strategies that can make you rich is learning what you can deduct and how to go about it.

The reality is that you can deduct almost anything given the right circumstance. As we said earlier, the government wants you as a business owner to stimulate the economy. They want you to create jobs and provide housing. The key then to maximizing your deductions is to legitimately make your expenses a business or investment expense. In other words, the purpose of the expense has to be to produce more income. So a business lunch, a trip to inspect a property, even the expense of going into business can be deducted.

Now this is shouldn't be misinterpreted as a green light to begin deducting anything and everything. There are specific criteria that must be met in order to deduct something as a business or investing expense. Work hand in hand with your tax advisor to first identify deductions you may have missed in the past and formulate a plan for deductions going forward. Discussing the latter will help you secure and retain the proper documentation so in case of an audit, you are able to provide the necessary information as to why you are claiming the deduction.

The Bottom Line

As you can see, becoming rich isn't as much about luck or circumstance as it is about knowledge. The rich understand how to make the most out of whichever asset class they invest in through wise use of their resources, understanding how to protect their assets, and using the tax code to supercharge their investing and entrepreneurial pursuits. They follow the advice of highly qualified legal and tax professionals and reap the benefits of doing so.

Whether you are just starting out or are an experienced investor, if you follow the strategies described here, you can make your money work harder instead of having to work harder for money.

As you become more experienced in these strategies as well as the others, you'll start to think more creatively about how you can maximize what you are currently doing and what has yet to be done. You'll more fully realize the benefits of being on the right side of the quadrant versus the left side. You'll see investing as a game that can be mastered with a little know-how and practice.

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