

# COVERING YOUR ASSETS



## DETERMINING THE RIGHT INVESTMENT FOR YOU

There are numerous ways to invest and build wealth.

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 of the asset classes to achieve true diversification (something that can't be achieved investing in just retirement funds or a 401k regardless of what your financial planner or advisor may tell you). But to help you get started, here are some of the most popular asset classes and what you should consider when making your investment decision.

### Asset Class #1: 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 exchanges are another variation. Paper assets also include real estate investment trusts (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.

### Asset Class #2: Commodities

Commodities include metals (gold, silver, copper, etc.), food (grains, corn, coffee, sugar, etc.), and raw materials (oil, gas, cotton, etc.). Commodities are generally a capital

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gains, or loss, investment, and you can buy future contracts of any commodity through the future exchanges. If you are new to commodities, start small and build your financial education. For example, purchase a silver coin and then watch its value increase or decrease in your daily news. Your financial IQ will go up.

### ***The Pros and Cons of Commodities***

Because the price of commodities is tied to supply and demand, this asset class can prove to be very volatile at times especially when compared to the other asset classes. For example, weather or sudden changes in the geopolitical landscape of a country can affect the prices of commodities. This volatility equates to higher risk, especially for the uneducated investor.

If you are trading in commodities futures (agreeing to buy or sell a specific amount of a commodity at a certain price on a predetermined date), you are making a bet that the price of a commodity will be higher or lower in the future. If you're wrong at the time the commodity is to be bought or sold, you can end up losing your investment and in some cases, need additional capital to finish the transaction.

On the plus side, commodities—gold and silver, in particular—are a hedge against inflation and the falling value of currency. As inflation causes the prices of goods and services to increase, the price of the commodities used to produce those goods and services can increase as well. As the commodity price increases, the value of your commodity investment increases as well.

### **Asset Class #3: Business**

This is an asset that people are becoming more aware of with television shows like “The Apprentice,” “Shark Tank,” and others. 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 is not 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.

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However, one of the biggest pros of investing in your own business isn't even financial. It is that you are pursuing your passion. Instead of spending your time and energy making someone else rich, your hard work is going towards building something that will help create the life you desire. The fruits of your labor will belong to you.

## Asset Class #4: 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.

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## What Assets Will Give You Financial Freedom?

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.

What one-step are you going to take today on your journey to financial freedom?

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