



Sound Financial Bites 044 - Paul Adams

Episode Transcription

“Everybody that’s marketing to us right now, they’re experts. They are stone-cold experts at getting us to consume.”

Hello, Paul Adams here. Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life.

Hello, and welcome to Sound Financial Bites. My name is Paul Adams, your host for today’s episode, and president of Sound Financial Group. I’m so glad you could join us. Today we’re going to talk about the wealth coordination account as a centerpiece for you being able to build assets, and eventually build financial independence. Now, we did a talk on the wealth coordination account about six months ago. We’re going at it again because it’s that important. If you listened to our first podcast, this is a great one to get back into. That was episode one. Get back into it, in this episode. If you’ve never heard about the wealth coordination account before, it was a slightly different talk back in episode one. I would highly encourage you to go back and listen to that one again.

This is going to be one of those financial philosophy talks. As we talked about before, we have the financial philosophy, the analytical, going deep conversations about money. Then we have the career and business type talks. Then the design and build and a good life talks where they really deal with things like enhancing our marriage or biohacking, staying healthier, or being in a position where how do you build that work-life balance, and what do you do to make sure you’re enjoying the rest of your career.

As I think all of you should know by now if you don’t know already, if you’re not a client of our firm, if you’ve been curious about our firm, if you just have questions that you’d like to have answered, and you’re investing in yourself listening to this podcast episodes, then know that we’re committed enough to you that I’ll take 15 minutes with your absolutely no commitment on your part other than to show up and be willing to intellectually engage. We may or may not be a good fit for you and what you are up to in your life, or what you’re up to in your life may not be a good fit for us but what we’ll do is we’re going to make sure that you can connect with me, one of the advisors with our firm if that’s more appropriate, or we’ll give you the best takeaway we’ve got and we’ll just part as friends. Know that’s always available for you. You can email us at info@sfgwa.com. That’s Sound Financial Group, WA. Like Washington, located up here in the Pacific Northwest - dot com.

Let’s get to the wealth coordination account. Now, before we talk about the wealth coordination account, which is going to be the centerpiece of this conversation, I’m going to go deeper into the background of why it’s so important that we do this. Too often we mention it to people and they say “Ah, I do something like that.” But what we don’t do enough of is going to the deep background of what it is that is happening to us everyday with our own financial decisions, and all the information that is coming at us everyday from the current of media or the conversations we’re in with our friends, family members, coworkers who are all saying things that are basically in large disagreement with our ability to build wealth.

The wealth coordination account becomes what I would call a forcing structure. A forcing structure, I was taught about years ago by a coach of mine would be something like get a puppy and train a puppy to get its leash everyday and wake you up to take it on a walk. Now, if you did that, you’re not going to be able to help by go walking everyday because now this forcing structure, this -- picture the labrador retriever that pokes its nose at you everyday and says we need to go on a walk. The same thing can happen and we can do that with financial tools that create these strong forcing structures that do two things: One, the increase the positive behavior



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that we need to be in, number one, which will automatically anytime we increase a positive behavior, we're almost always decreasing a negative one, but we're focusing on the positive. The second thing it does is it reduces the amount of cognitive load on you as an individual that then has you be able to make better will power type decisions in other areas of your life. There's been a ton of research on this. Charles Duhigg's *The Power of Habit*, and we're learning that from books like Charles Duhigg's *The Power of Habit* that the will power is diminishing. It renews if we get a good night's rest, but it diminishes everyday. If you can take something like your wealth coordination account to produce cognitive load financially, you should be able to have more cognitive load available elsewhere in your life to get things done, to hold willpower and hold strategy.

Everybody starts with their money. Oftentimes, without being in the right decisions on a daily basis to be able to increase their accumulation. Now, what are the two fatal flaws that we see? One, people put aside money in savings account. That's fatal flaw number one. That is their beginning to wealth accumulation. Two, they budget so that they have more money leftover to save, okay.

Let's first examine fatal flaw number one, the savings account. When I asked a room full of people, so picturing yourself sitting in a large room full of people, all in your cars, or on a jog or at the gym right now listening, and if I were to say, what is it most people sometimes do with their savings accounts? What is it most people sometimes do with their savings? The inevitable answer we get back, an overwhelming answer we get back is some version of spend it. Some version of spending the money.

Now, I discovered this a little over a decade ago. What still amazes me is how ingrained that is. If you were raised in America, my experience after talking to thousands upon thousands of people, if you were raised in America and I were to say to you, what is it most people sometimes do with savings, they say spend it. I've seen people, not all countries but people who've immigrated here as adults will actually answer "go invest it". But for wide wide swath of people that are raised here in America, it's spend it. Now, I don't understand why this is, and I haven't thought it would make a good investment of time, energy, money or lost opportunity cost to go after understanding the psychology of why we answer that way. What we're going to do instead of being entrapped by that conversation and trying to fight it is we're going to step outside of it. I'm going to talk to you a little bit about how we step outside this idea of we save money so we can spend it.

Now, let's cutover the budgeting. You see, what most everyone is doing -- So we already know the savings account as an idea can be flawed, then what people try to do is they are budgeting their money to then be able to save. Well, number one, there is probably very very few of you on this podcast right now that are listening saying "You know I love budgeting. Man, I'm a spreadsheet fan." There is a few of you, I've got a few of you as friends, but for the most part if you are a listener to this podcast you are not saying to yourself "I love it. I absolutely love budgeting."

To start with, we're going to have to do something we don't like. Then, people are going through all of their expenses. You know budget typically looks like - you can go Google a bunch of them - what they almost always look like, it starts with the top with here's your income. Then, they subtract out all of their expenses. Then the very bottom is here's how much you have left to save. Then of course the expenses are never accurate so we're constantly bumping up and down the expenses, and it's cutting into savings. This leaves the amount of money that we're going to



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accumulate, the amount of money that we'll one day be our legacy as individuals and the amount of money that we'll create in income for us when we want to be financially independent and not have to work for money.

All of that is a residual output. All of that is being subjugated to Target, GMAC, Lexus Financial, Nordstroms, dinner at your favorite restaurant, vacations to Hawaii, like whatever those things are, all of those things are coming before us, before us as an individual. We heard that saying that you need to pay yourself first and all that. That's just not sufficient enough. There are many cute sayings but we need to go deep into our own psychology and realize what we're doing because we're putting everybody else before us. As I've talked about in some of our other episodes, I talked about the idea that watch what you say, it could be costing you millions. Same thing here. What you say or what you choose to do with your money, like I really want to drive this car, I really want to take my family on this vacation, I really want my kids to go to private school, whatever those things are, but they are all coming before the amount of money that you set aside for asset acquisition. Notice I'm not saying savings anymore. It's all coming before the amount of money you're setting aside for asset acquisition. What you might be saying is I'm willing to risk living with my children in my old age because I want to drive a Lexus. I'm not against the Lexus at all. I'm not against people taking vacations at all, and you are going to see how we make that all work here in a moment, to make people worldclass at putting money into asset building. And yet, we are absolutely, and I'm just not going to pull the punch around it, we are putting many many many things ahead of our ability to simply not live with our children when we are old, or put us in a position where they are going to have to come over and help us.

I cannot tell you the gift it is - my parents live one mile away from us - the gift it is to me and my family that my mom who is the primary breadwinner - I grew up, my dad stayed home with us - my mom was the primary breadwinner, took care of themselves well enough financially that they are perfectly fine and require no financial help whatsoever, they can get help when they need it. There so many that used to come over and yet I had the opportunity to assist my dad after really close call earlier this year. Perhaps in another podcast we'll talk about that and what that was like but I got to tell you what was amazing was it was my choice. My mom took good care enough of my mom and dad financially that that put us in a position where I got to choose to be in care for my dad in a way that was rewarding and intimate, reminded me of being a kid, and when my dad was helping me with things as a small child. All of that was amazing simply because my mom had been responsible enough with their money.

What are the things that we're putting above having that kind of relationship with our kids when they are adults where we're not dependent on them? Okay? But the real problem is, what we're setting aside for ourselves, the centerpiece of our financial life is being subjugated all these people that we're putting ahead of ourselves and here's the thing that this crazy about doing a budget and looking at all to spending. Everybody that's marketing us right now, they are experts. These people are compliance professionals. What they do all day everyday in research labs, in focused groups, in brain scans of consumers like us is they are absolutely stone cold experts at getting us to consume.

Now, I see this most to our children. We let them watch certain cartoons all that stuff, but we use streaming services to do that. Things like Amazon or NetFlix to be able to do those things. And where we notice it so widely is if we go on vacation, and we're in a hotel and we let them watch cartoons in a hotel, how quickly our children who have little to no experience with commercials for toys suddenly it is a dominating part of every vacation. So we've actually started bringing some of the devices we can stream from with us on vacation so if they want to watch a cartoon



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we can let them watch a cartoon without them seeing the commercials because it is that invasive in our psyche and we don't notice it because we're just taking it in all the time.

This second part that's a problem is not only all about residual but now we're trying to save money by focusing on the spending in a budget, so the savings account's flawed, the fact that any amount that goes to savings is residual after everything else subjugated to everybody else's concerns ahead of ours. But if you ever taught a 16-year old to drive and you are getting a little too close to the curve, what do you say? Watch the curve. Watch the curve. Watch the curve. Don't hit the curve. Look out for that curve. What do they do all the time? They hit the curve. You all have heard countless stories of the guy who is teaching his son ride a bike. "Whatever you do, I know there is that basketball hoop in the middle of the court here but just ride your back around this corner, just whatever you do just don't hit the basketball hoop." It's a huge concrete court and there goes the kid, four years old learning to ride his bike and just nails the pole dead on. Why? Because we drew their attention to it. We do that to ourselves when the amount of money we're going to set aside for the future is residual after the money we set aside.

Now, let's talk about the wealth coordination account and how it helps us to endeavour against all these information flowing at us, all the predominant conversations in our social circles so that we can do the best job of setting aside money toward assets with the lowest amount of cognitive load.

Let me just explain what the wealth coordination account first is as a structure. The wealth coordination account as a structure is a checking account at whatever your favorite bank is that you use. Just a regular old checking account. But the first thing we're going to do is we're going to create a brand new bill. We're going to take the amount of money that get set aside toward assets and make it catalytic because it's going to be the first thing. If you do budgeting, what we're going to do is move the savings from the bottom to the top. If you are somebody who ties with a person of your income, if you give 10%, it's going to be your income. Then what you give, and then right below that is going to be contribution or wealth coordination account. That's money to buy assets. We're going to talk about that in a minute. But it goes to a checking account. It's entire purpose is to buy assets. It should be an existing checking account that you designate not the household checking and not your emergency savings for your household. This is only to buy assets.

But now we're going to ask what is an asset because if I ask that room full of people again what is an asset, I will promise you I will get a room full of answers. Let me define an asset for you. If you're not driving, if you are sitting somewhere listening to this, if you are in the gym listening to this, I know some of you do, pause long enough to jot this down your phone. "An asset is anything that puts money in your pocket now or has the ability to put money in your pocket in the future without changing your lifestyle." Let me say that again. "An asset is anything that puts money in your pocket now or has the ability to put money in your pocket in the future without changing your lifestyle."

The first thing that should occur to you is there some things that we might think of as assets that are not assets under this definition. The first and sometimes most confronting to people is your primary home is not an asset under this definition. Now, it is an asset to the bank that's lending on it. To them it is absolutely an asset, right, because it is securing the debt that we have on the home, but our primary residence is not an asset because to have that put money in our pocket, we would have to move. That is absolutely change in lifestyle. If you go from living in a major metropolitan area to Gilbert Arizona. If you go to Gilbert Arizona, what you're going to find is



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much less expensive real estate but you're going to have a definite change in lifestyle. So what we have to think about is, is it an asset? For this to put money on my pocket I have to change my lifestyle. Cars, boat, RVs - not assets. Secondary residence. If this is a second home you have that you do not currently rent out, what I want you to think about is do you have your clothes in the closet? Is there an extra car in the garage? Is it your stuff in the drawers? Not an asset. Okay?

What is an asset? What are things that could be assets? What many things that you might normally think of are certainly assets? Things like 401(k) or employer sponsored retirement plans, IRAs, traditional IRAs, roth IRAs, mutual funds, academically allocated globally diversified passive structured portfolio like we teach our clients would be an asset. Certain types of life insurance could be an asset. Individual stocks, bonds, your bank accounts, all that stuff are assets. Rental properties can be an asset. A vacation home can be an asset. Wait Paul, you said secondary residence is not an asset. Right. But a vacation home is one that we go to periodically and we're taking our stuff with us to be in that vacation home. Meaning it's a home that we could easily rent the rest of the time that we're not there having a drive money into our pocket. Not to mention that it doesn't change our lifestyle necessarily to sell that property. In fact, in the sale agreement if you have a vacation property or renting, you could put in the sale agreement that you'd like to, if they are going to rent the home to rent that exact same home, the second week of May every year, or you could put yourself in a position where you just rent in the same community in another vacation property, not a change in lifestyle.

Now, first purpose of the wealth coordination account is to be catalytic. It's the first place money goes. The second purpose is to buy assets. Let's talk about the third purpose of the wealth coordination account. The third purpose of the wealth coordination account is to receive the profits from everywhere that you have decided to build assets. So it's pretty simple if you bought a rental property and it has profit because you sold it. That money needs to come back to the wealth coordination account. What is this preventing, you might ask. What is the big deal about that? What we've seen happening countless times is that people go out and they buy investments, other things and when they get a return on that investment, they end up with a check. Let's say they sold a collectible stamp or a painting or they even went out and just sold that rental property or got a big bonus that they intended to save. Well, if they don't have a wealth coordination account that always ends up hitting the family's checking account. And you feel a little more flush, you get a \$50,000 bonus or a K1 distribution from your company, you are feeling more flush it's pretty easy to go book that extra vacation to buy that other car you've been meaning to. Whatever the thing is that happens it actually puts us in the position where we go toward consumption unintentionally. You can just flag all of this under the idea of letting our money get lost in the sauce of life.

But here's the really great thing. If we had this consistent habit of having all of our profits land back in the wealth coordination account, then it's much more likely that that money goes back out to acquire other assets and does not get lost in the sauce of life. Lastly, when we talked about being able to build financial independence, how great would it be if you're looking at your wealth coordination account, you say to yourself "Well, you know I got a fair amount of, I got few rental properties, couple of businesses, I have operating partners in that sends in consistent money. I have some money I've lent people. I've got a portfolio of assets. And looking at us, it will probably take 4% off of each one of these assets back to wealth coordination account that pays all my living expenses." We just crossed the unique threshold. If all of your assets can produce enough cashflow to meet your living expenses, this is that unique moment that kind of that financial independence. Well, what you can do now is take 100% of your earnings and drop it into your wealth coordination account, which of course is going to start to significantly increase how much



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in cash flow your assets are going to kick off, you live off of the cash flow your assets are producing and you're not having to work for money anymore. I think we are wired up as human beings to have to work to where we get a great deal of joy from it if you see the super ultra wealthy even in other countries, words like dynastic. There is a tremendous amount of unhappiness in those people because I think as human beings we're wired up to do stuff, but now we can do the stuff that's going to most resonate with us.

One last note. That's our wealth coordination account. We're going to take an amount of money, we want to do whatever we can to get us close as possible to becoming a world class saver getting up to 20% of gross income going into the wealth coordination account, but I want you guys to listen for something if you hear yourself say it. If you say this, it probably means you don't have a strategy. It's not bad. People say it all the time. You're going to hear it in other people. Point them to this podcast if you hear them say it. It's people say "I can't afford that." or worst yet people tell you when it comes time -- "Yeah, we're all going to Hawaii. You could afford it. You should come." When people say the word afford, what they are trying to do is put you in the rest of the world strategy. They are trying to pull you into that current that they are stuck in, and they are saying "Get in here, the water is great. You're going to love it. You can afford it. Come on this extra expensive vacation or buy a property cabin over in this other city with us or whatever." It's the current trying to sweep you up. What you can do instead, what you can choose to do instead is know that you have a strategy. And if all you simply do is build a strategy, something as simple as a wealth coordination account, something as simple with working with an advisor with our firm, and then when somebody says that or instead of you being tempted to say I can't afford it. You think about that. Even when you say "I can't afford something." Think about how it makes you feel. It feels terrible. Society has shamed us into affording things. Instead you can look at those people or look at yourself and say "Man, that would be fun to do to get that car, to go in that vacation, to send my kids to whatever school." Whatever the thing is that's pulling on you. Instead just say that would break strategy for me and my family.

You see, if we're in the afford conversation, we are in the current with them. We are on their playing field. When we say that would break strategy for me, totally different conversation. What's the question? What is the question so that I now must ask you if you say I'll break strategy for me? I have to ask you what strategy? What strategy are you in? Now, it's so easy for us to say "Oh look over here at my field. I drew all the lines. This is the future my family and I want. This is what we're up to." We don't just share intimate details. We simply say I save 20% of our gross income into something we call wealth coordination account. I just can't go do anything that would interfere with my ability to do that. Oh! Right now we're not in the afford conversation. They don't have ammunition in our society to counter that which leaves us safe and leaves us doing what we hope all of our podcast give you the ability to do and what we endeavour to do in our work with you is to help you design and build a good life. I'm glad you could be here with us today.

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