YOUR BUSINESS YOUR WEALTH
POWERED BY SOUND FINANCIAL GROUP

Episode 150 - The Autobiography of Your Money
Episode Transcription

"But to say that you can just take more risk, that means that you can go ahead and log those big losses early because you can 'recover from them.' Except the problem with your 'recovery,' that puts you in the position it's actually a larger climb."

Paul Adams: Welcome to Your Business Your Wealth. My name is Paul Adams, CEO and founder of Sound Financial Group, joined by Cory Shepherd, who many people don't know, actually has a small tail. But despite his evolutionary...

Cory Shepherd: What? [chuckle]

Paul Adams: Degeneracy, he is just as bright as you would imagine despite having a full extra appendage. Cory, welcome. [chuckle] As always back as co-host to Your Business Your Wealth.

Cory Shepherd: Goodness. Goodness, I'd never know what you're gonna say. I gotta start opening us on a few more of these, so I can come up with a highlight reel.

Paul Adams: Yeah.

Cory Shepherd: The extra tail does come in handy in tennis, I keep a mini racket like a little ping pong paddle back there. So...

Paul Adams: That's right. [chuckle]

Cory Shepherd: It's the, yeah, secret chef.

Paul Adams: Secret weapon.

[laughter]

Paul Adams: Alright. Well, I gotta tell you, today is great because we're gonna talk about your money, the autobiography of your money. What is your real return? You see all too often, people aren't thinking about that. But right before we do that, we have to look at how the media efforts to massively confuse you, me and everybody else without telling us that they're trying to confuse us. So can we cut over to my screen, so the audience could see it?

Cory Shepherd: Alright.

Paul Adams: So here is the headline. So this is Fox Business, huge publication, whether you're a Fox reader or not, it doesn't matter, we could probably find a similar article on every other platform. But the key is this is one of the major networks websites, and the actual lead-in says, "Southern California home sales see record drop in prices, Hamptons not far behind." Now, Cory let me just ask, as you hear that, what do you think they're probably gonna talk about in this article?

Cory Shepherd: I think that they're gonna talk about both the Wall Street, big wigs in

Hollywood, stars having their homes be worth so much less than they bought them for, and it's gonna be this downward pressure in the market kind of story.

Paul Adams: Oh yeah, totally.

Cory Shepherd: It sounds like...

Paul Adams: That's what I thought too. It's why I saved the article to be able to talk to our audience about. Nope. So, let's just dig in. So, number one, this is why we can't let headlines influence what we're reading. And number two, why we have to be really clear about the financial information that large media companies are trying to give us. Now, as I scroll down, here is the big take-away, "New home sales have dropped, two months in a row".

"I always like to say to folks who say they own a property, 'Try stopping to pay your property taxes and see how long you get to continue to live there."

Cory Shepherd: Like the volume, the volume of sales?

Paul Adams: "The volume of new home sales has dropped." And as I scroll down a little further, where I'm looking for like, Gosh, aren't they saying something about prices? Well, "Prices on median home sales according to CoreLogic are up to 2.5% from the month prior and 1.2% year over year."

Cory Shepherd: Wait. Hold on, [chuckle] hold on, hold on. This is not just clickbait, is this irresponsible journalism that the headline is actually saying the opposite thing of the body of the article?

Paul Adams: Well, let's go back. You're the grammar, "Southern California home sales see record drop in prices, comma, Hamptons not far behind."

Cory Shepherd: "Drop in prices."

Paul Adams: It sure looks like prices instead of sales. But, it see... I don't think this is like fake news. What this is is probably a financial journalist that doesn't really know the difference between what they're communicating.

[chuckle]

Cory Shepherd: Right.

Paul Adams: Maybe 'cause most... What did most journalists do? They didn't go to business school to be a finance journalist, they went to journalism school, writing school. And then they pepper us all the time. And how are they judged? How many clicks do they get, how many people read their articles, read their books et cetera. So, literally, prices are up. Now, "Southern California isn't the only luxury market experiencing a slow down." To that point that you just said, "In Long Island, New York's pricey Hamptons also saw its second quarter, worst second quarter sales in eight years." Now, I don't know about you, but I've never been to the Hamptons, but I've seen them. They're pretty packed in. I don't know how they do new home sales in the Hamptons. They're not building a master plan community on that little patch of land.

Cory Shepherd: Right.

Paul Adams: But whatever it is, if any of our listeners know, please email us info@sfgwa.com, we'd love to hear from you if you know why that would be. But this is just an easy example of why it is that we get brought things in the news that may not be relevant or even accurate to our own financial affairs. So with that, we'll dust off our hands from looking at that article, and what we'll do is just cut back to our regular show already in progress. All right, back to our topic at hand. We have your money, doing things every day, whether it's in an investment or not, and too often where people focus is what is my rate of return, what is my rate of return in my 401 [k]? What's my rate of return in my IRA? What's my rate of return in my investment whatever? But what we're not looking at is how fast is our balance sheet growing overall, because we're looking at individual rates of return. And by the way, would we make mistakes? Like, say, we picked a bad stock to invest in early on in life, how much do we really hold on to those not working out? You see...

"When we calculate rates of return on our clients' investment accounts, we have to take into account all money coming in and all money going out."

Cory Shepherd: And I think it's also really important that people think... The other thing we're gonna get at is that this, a dollar that I invest versus giving it to someone else to invest, it's gonna behave the same, or the investment I buy, someone else buys it, it has the same rate of return. That's not true. That's is the autobiography of our money. We have very different outcomes in rates of return based on where we are in life, which is I think the other important part that we're gonna get to. And then...

Paul Adams: Totally.

Cory Shepherd: Paul, I think, you're gonna start with lost opportunity cost and that...

Paul Adams: Yeah. Just simply saying, here's what I'd like everybody think about. We don't even need to show the calculator here. I just wanna give everybody a sense of this. If what you were to do is, let's say, just reflect and think about if you deployed money into some venture business one of your friends, to start something, he needs $50,000. And you're doing good, you're early in life, you take $50,000 and throw at that at age 35. Now it doesn't work out. Here's the problem, number one, if I were to ask you, just listening right now. I want you to sit there and just answer this for yourself, what is the worst rate of return you can get on your money? Like what's a really bad outcome? And the first thing... Because zero is pretty bad for most people, the first place we go is zero rate of return, but that's not right. The worst we could do is negative 100%, the loss of our capital is the worst we could do. And if we deploy...

Cory Shepherd: And sometimes in an investment depending on the investment, it could be worse than negative 100%. If you're in a real estate investment and then you get sued for something that happens and now you're out your original investment and whatever that lawsuit was.

Paul Adams: Oh man.

Cory Shepherd: It's not... Yeah.

Paul Adams: Roof repair, negative cash returns, having to sell the property at a loss after owning it for six years, which we see all the time. You just don't hear about it at the cocktail party. That person is not super excited about talking about that over a glass of Cabernet. What they'd rather talk about is the other thing they did that worked out well. Well, here's the easy one, if you lose $50,000 in that investment at age 35. And let's just use 6.5% as what we would call your cost of money rate. Meaning, if you didn't lose that money, you could have had that money growing somewhere on your balance sheet at 6.5%. Okay, pretty easy. That $50,000 does not cost you 50,000, that money cost you 453,000 by your age 65. And if you think that your family is healthy and that you're going to stay healthy, I'm gonna give you the extreme version, the loss of that $50,000 over your lifetime, if you lived to age 95, would be almost like $2,947 less than 3 million. $3 million wiped off your balance sheet because of an investment you made at age 30 that lost 100% of its value. That's... And here's the super devious thing that happens on our balance sheet is what? That we never think back to it, we're never reflecting on it, we're never saying to ourselves, "Oh, it cost me this much money." What are we saying? We're like, "Oh yeah, I had some bad... I made some bad investments in the past. They're all gone." That's it. That's all we reflect on.

"Know the costs and the real returns of the things you're going to do before you go in, both the internal and external rates of return."

Paul Adams: Now, why I talk about this with such conviction? I've seen me do it. In fact, as a business owner, entrepreneur making really good money at a young age, all kinds of opportunities come at you. I have invested in banks that have gone bust, I have invested in First Trust deeds that have gone bust that we finally sold the real estate that was underneath them for about a 10th of what we originally lent on the property 15 years later. I have invested in a bulletproof set of publicly traded companies, one that was creating the MRAPs that were deployed overseas, we first started fighting in Iraq and Afghanistan and IEDs were a major problem. MRAPs are the super Humvees with the V bottom. And also an undefeatable new treatment for insulin that allowed, totally FDA-approved, allowed diabetics to not have to use needles anymore, they could do it via an inhaler. Tell me that shouldn't have just killed it. Anyway, all those companies totally bust, lost almost all the money literally over six figures when it's all counted up, and I don't get to not have those losses now aggregating against me in my overall wealth building profile. They are a part of my money's autobiography.

Cory Shepherd: Thankfully my autobiography is being a few years younger than Paul and getting to meet him and hear about all those experiences before I have a chance to get

"And, I'm not just talking about money. If your balance sheet is currently twenty percent inefficient, that's twenty percent of baseball games you didn't have to miss, twenty percent of anniversaries you didn't have to miss, twenty percent of great vacations with friends and family that you had to sit out on cause you needed to work."

into them. So thank you for adding back to my balance sheet that way.

Paul Adams: Well, and speaking of which though, there are things that you have been around that you've noticed people around you do that similarly creates significant loss on their balance sheet.

Cory Shepherd: Well, buying a new car... When I bought my first grown up person car as I was getting successful in my career, all I got from the people around me at work at the time was, "Hey, congratulations, good job." Although I was spending more than I should have at the time for that car definitely. But if you think about someone buying say a new BMW that let's call it an $80,000 BMW or you're paying 1280 a month if you're gonna finance it for a few years. Think about me as a young person at say 25, when I might have wanted to do that versus someone at 65. Buying that $80,000 BMW is more expensive for me than for the 65 year old. Because I have more time to compound that loss. Paul just talked about lost opportunity cost of money and if my opportunity cost rate is six and a half, and so it's six and a half for that 65 year old. Well, I don't know how long either of us have to live, but we're both gonna guess that I have a few years longer, if everything goes well for us. So I might have 30 years of compounding, 60 years of compounding at that 6.5% loss. He's only got or she's only got however many years they have left. So literally, where we are in our own biographical timeline has an impact on the cost and rate of return of things for us.

Paul Adams: And we probably talked about this over 100 episodes ago. The idea that while the big box financial retailers, the financial media would tell you, young people could take more risk, older people shouldn't take as much risk. That's not a rule that you should follow. And here's... Not that you couldn't maybe tolerate additional volatility and academically allocated globally-diversified portfolio.

Cory Shepherd: Sure.

Paul Adams: That I think is accurate. But to say that you could just take more risk that means you can go ahead and log those big losses early because you can "recover" from them. Except the problem with your "recovery" those are my scary quotes for those of you just listening today, that puts you in a position, it's actually a larger climb. It's a larger climb to get out of the lost opportunity cost because it's ticking against you longer. Number one, number two, when it comes to either buying the BMW or the losses, well, the person in their 50s is much more likely if they have been implementing principles that have them, not by a BMW new until their 50s puts them in a position that now they have enough other money on their balance sheet so if they do log a loss of $50,000, or buy an $80,000 car, hopefully they will have five or $6 million on their balance sheet to put you in the position that the loss due to the car, the loss due to the bad investment does not mess you up like it would the 30-year-old. But the 30-year-old just keeps charging ahead blinders on, paying no attention to all the lost opportunity cost they create behind them a little bit like a speed boat going through the river just creating wake for people around them. You're creating wake, not in a good way, that is jostling every other financial decision that you're making.

Cory Shepherd: And let's look at it in terms of mutual funds, a lot of people might do a Yahoo Finance or Google Finance look at the mutual fund that they're invested in to say, "How is it doing?"

Cory Shepherd: Or like your rate of return on your 401 [k] statement, one year two year five-year 10 year yeah.

Cory Shepherd: Yes, perfect. That's even better 'cause we get those in the mail all the time. The problem is the rate of return your mutual fund is getting is not necessarily the rate of return you're getting and almost assuredly is not 'cause those one three and five are probably calendar year, January to January. And where you got in along the year, matters a whole heck of a lot in your rate of return. We have clients, when we're looking at their accounts, just one account, versus another moving into the market a couple of days apart, has some meaningful differences in rate of return, sometimes, and they say "Why are all the... There's accounts that are all invested in exactly the same thing. Why am I getting different rates of return?" It's 'cause the market was doing this all along the way. And whenever your accounts actually landed impacts your rate of return.

"Recovering costs, recapturing inefficiencies, is the equivalent to tax-free gain."

Paul Adams: Yeah, I think that is key. And it's the same thing with real estate. So we're gonna cut back over to my screen here, give me just a second. All right, I think you've got Zillow loading up. I have picked a home in one of the hottest real estate markets of the country. This is a suburb of Seattle, called Kirkland. And I just grabbed this house that was 1595 million so $1.6 million is its current sale price. And we can see right here, thank you, Zillow for giving me the price history on this property. So shout out to Zillow. Not a sponsor, but a much appreciated purveyor of financial data around real estate. And we can see the home was bought in July 2009, at least according to this for $594,900. And today it's getting ready to sell. They hope although they did just drop the price, but we're gonna go with 1.6, million, the current list price.

Cory Shepherd: The tripling, little more than tripling in 10 years.

Paul Adams: Oh my gosh, yes, and Cory I think that is all too often forgotten that people see and the way they relate to it is I bought this real estate... Or maybe they missed it, maybe they went and bought something else, and they go back, drive by the property, then they pull it up on Zillow, they're like "oh my gosh, it's nearly tripled in value", and that's how they relate to it. But what we're not doing much like that article could make you feel like Southern California real estates dropping through the floor despite it actually climbing at the time of the writing of that article, you could also take a look at the tripling of the price of real estate and think that real estate's the best possible investment, you should be in it, which I'm not making any call whether or not you should be in real estate or not be in real estate. Here's the key, let's just look at what the actual return is because the return itself can be deceptive. Not because anybody's being deceptive to you, it's just deceptive because you have to take time to do the calculation.

Cory Shepherd: It's a complicated world out there. We got a few different things to think about every time we make this assessment.

Paul Adams: Indeed, so here we got this is almost nine years in the past exactly I start with a present value on this calculator of $594,000 for those of you looking on our weekly show, on YouTube, you're gonna see there's nine periods, 'cause it's nine years ago that was 2010. Oh, actually, it's 10. Years ago, Cory July 2009, was the first one. So let's make this 10 years.

Cory Shepherd: Oh great.

Paul Adams: See even preparing for the show, you can get a miscalculation if you don't hover all the way to the left of that chart. 10 years, and by the way, that is like the bottom of the real estate market. So like literally 10 years ago, we are illustrating this getting snapped up out what is largely regarded as the bottom of the stock market and bottom of the real estate market 2009. Now, this home had a little extra slippage for a few years in value, but here we are August 2009, 10.4%. Looks like it is pretty amazing. And we killed it if only we would have been in it, but full stop, full stop. Do you get to own real estate for free Cory?

Cory Shepherd: No, I always like to say... [chuckle] Folks to say, they own a property. Try stopping to pay your property taxes and see how long you get to continue to live there.

Paul Adams: Oh yeah, or just... Or the real owner will eventually send you a letter.

Cory Shepherd: Yeah, right. But that's also we're paying for the cost of upkeep of a home. There's really no... Even if property taxes went away, we're still never living anywhere for free.

Paul Adams: Yeah, so let's add one thing. We're just gonna add property tax for the last 10 years, $5000 a year, it's a little higher than that, I'm sure it was a little lower at some point in the past. We'll just use $5000 a year. $5000 a year, our rate of return turns down to 9.8. Well, what if, along the way. So it's been 10 years. What are the kind of things you might have to do to a house over 10 years? You probably have to paint the outside of it once and a house this size let's just call that another, let's say right after you bought it, you repainted it, 'cause it's gonna let me easily put it here at the beginning of the calculation. And that that painting costs you $20,000 on a home of this stature. I'm gonna call this $614 purchase price, which'll just effectively make the assumption of the additional painting being done very early and now we have 9.4%.

Paul Adams: If you were renting this home you likely we're not renting for a positive cash flow the entire time and you had other repairs that had to be done. I'll even leave out negative cash flow for a minute here. Let's assume you paid cash, so none of the additional leverage risk it all. Wait [chuckle] actually, if you bought this home in 2009, you darn well better had paid cash, 'cause it was harder than heck to get a loan back then.

Paul Adams: Let's just say there's an additional $6,000 a year in total maintenance which I think is pretty low on a property like this. We're just gonna call it $11,000 a year that had to be added. Now we're down to 8.7%. Now here's the thing, it's still a fine rate of return. It's fine. Super happy to have had it. That is much higher than the average appreciation of real estate and it's not counting the fact that in all likelihood this home, looking at some of these pictures, which I'm gonna show you has been significantly updated. That is not a 10-year-old gazebo. That is not... That might be 10-year-old landscaping, I don't think those drapes were in 10 years ago. Those are not cabinets that are 10 years old. This is...

Cory Shepherd: You might have another hundred, two hundred thousand dollars over that 10-year period, of periodic updates.

Paul Adams: Easy.

Cory Shepherd: Yeah.

Paul Adams: Easy. In fact let's just take that into account here for a moment, just 'cause we're talking about it, and let's add just another $10,000 a year on average, for the updates making it $21,000 year. Now we're at 7.6%. And is it free to sell a piece of real estate Cory?

Cory Shepherd: No, it is not.

Paul Adams: Nope. In fact even if you get a decent deal for your real estate agent after paying the new Medicare device tax etcetera, for this person who bought this exact home who currently has it for sale for 1.6 million, which they just dropped by $100,000 less than a month ago. Let's say that it's gonna take them 8% of 1.6 million to sell.

Cory Shepherd: Very reasonable.

Paul Adams: Now, I don't know that off the top off my head.

Cory Shepherd: That's very reasonable, yeah.

Paul Adams: I think it's $112,000, I can't believe I just did that in my head. Cory, how often do you find yourself lucky to have me around?

[chuckle]

Cory Shepherd: At least more than 50% of the time. The other... The other...

Paul Adams: But I can't subtract 112, from 1.6 million, that's 1488. Alright, here we go, now we're at 6.7%.

Cory Shepherd: It's also not free to sell a home from a tax standpoint. Now, they have some of that gain. That's a married couple owning it, they have, what, 500,000 sheltered from capital gains.

Paul Adams: If they owned it as a primary... But we're saying somebody just... Owned it as an investment, we just take any of the tax-free grain off the table. But you're right, there's another $800,000 of gain, that would occur after tax. And by the way, I think also super likely that this person has to drop the home price again, 'cause they've already dropped it. And let's say that it ends up selling for $100,000 less. Now, the home that we started out with, it's tripled in value since we bought it is now a 5.9% rate of return. Now, by the way...

Cory Shepherd: That's just a fine rate of return.

Paul Adams: Yeah, we're not like... No barking at that, no problem. Now if somebody rented it, maybe there's some cash flow that's also on the table, but you also would have things like turnover and renter damage and things like that. I'm not meaning to just leave that off the table, I'm just speaking the fact that we relate to it as if it just tripled in value, as if that's the return with no calculation into what it's doing. You see, we could never show somebody, "Your money's tripled since you've had it with us." Because they would say, "But I was adding $15,000 every month to my investments. You don't get to count that." They would say, "I rolled over extra money to my investments with you over that 10-year period." We have to, when we calculate rates of return on our client investment accounts, say, we have to take into account all money coming in and all money going out and they just don't have to do that in the way that real estate lives in our minds is very different than the way it actually lives in real return in the autobiography of your money and it's a rate of return on your balance sheet. Now with that, let's just take... We're gonna take quick break. You guys can learn a little more about Sound Financial Group and how to get in contact with us, if you have an interest.

Paul Adams: Hey everybody, I had to interrupt our show for just a moment to share with you something new. We've designed a new white paper that we think is gonna add you value in the way that you think about money. It's three of the biggest mistakes we see people make and six ways to fix them. Now, for some of you, you might not want the white paper, you might be ready to have a conversation with us and that is okay. You can email us at info@sfgwa.com, that's info@sfgwa.com. Find us on the web at yourbusinessyourwealth.com, and any time on any of our social media platform, send us a message and we can get you this white paper. But in the meanwhile, if you want to just skip over the white paper, have a philosophy conversation with us, we're happy to do that with you. Just let us know philosophy conversation, the subject line, and if you want this white paper, just put white paper in there and we'll immediately get out to you this white paper on the three biggest mistakes that we see people make, and the six things that you can do to fix them. And now back to our show.

Paul Adams: Welcome back and here's what we wanna get to on today's show. Is how far are you advancing against the current? You see there's all these things that are running against us up to and including that maybe we don't know the real rate return of our mutual fund. Maybe we're not calculating the fact we lost some real money on our balance sheet in our early years. Maybe not counting the fact we made some bad purchasing decisions that have cost us real money on our balance sheet, and we don't know how fast we're moving in an absolute manner. It's like if you're...

Paul Adams: Are you advancing by 10% a year or you losing ground? And if you don't have a third-party you're working with, a coach that's looking at all of those things, you're gonna miss that. In fact, I've met the first client ever, Cory, who has been listening to podcast was introduced by a friend of theirs that's already a client. Only person I've ever met who every two weeks has built his entire personal balance sheet in Excel. Very admirable. Like actually counting up...

Cory Shepherd: Really admirable.

Paul Adams: Really.

Cory Shepherd: Oh my gosh.

Paul Adams: People don't do that. That is... And by the way and he says "And I don't know if I'm actually advancing or not" and he's actually every two weeks leaving his business value, which is significant and just bought out some partners. So he knows the value, leaves it off his personal balance sheet. Also super admirable. Now for us, we look at that and go "Okay. So how are you advancing?". This weekend I got... For those of you that are into fishing and kayaking etcetera, I just got a used... Because I refused to buy a new one. It took me two years to find one at the price point I wanted a Hobie MirageDrive tandem fishing kayak. Now for those of you that don't know and if you're watching the show right now instead of just listening, the MirageDrive on the bottom of it has these two fins that work back and forth that help you go really, really fast for a kayak.

Cory Shepherd: You're pedaling.

Paul Adams: You're pedaling. Yes, exactly right. And then these fins go back and forth on the bottom instead of having use a paddle. And my daughter, who's super adventurous. She's the youngest. She turned seven this year. She jumped in the kayak with me, wanted to go fishing with dad. So off we go. And we saw some great stuff. We went by these little islands. We're in a place called Wanapum Lake in Vantage Washington, which is kind of in the center Washington. We went by these little islands. We got to see a deer swim from one island to another, which was super cool and see the deer once it was on land. We then went ahead and did some fishing under the bridge, went all the way over these petrified forest remains that are kind of on the bank there. Turned around, came back. All in, it was about four and a half hours. But what I could tell in certain parts of the lake, 'cause it is the Columbia River being held back by a dam, is I could feel the current in certain areas.

Paul Adams: Now, the fortunate part is I had this MirageDrive that was moving me fast enough to overcome the current. Like if I would have just been paddling meaning not moving as fast or in this case, a lower rate of return, I would have had no advancement. It would have not only... We just could have been out there that long 'cause we would have been pushed back and had an inability to actually enjoy our trip because we just weren't moving fast enough. That you have to be moving fast enough to at least overcome the eroding factors coming back at you. You could literally end up with zero like speed as it relates to speed over land is what we would say in flying, but in this case... [28:38] ____.

Cory Shepherd: But when flying, that the airplane has to get a certain critical velocity or it never takes off. You could just keep going on the runway until you run out of runway if you don't hit a certain critical speed early enough, you're never getting off into the air and getting elevation.

Paul Adams: Exactly right. And so for us, with our... With this little adventure, we just had to go fast enough to overcome the current to enjoy our time. We didn't need to go a lot faster than the current, we needed to be advancing. And kudos to Vivian because she stayed out there with me for like four and a half hours. Reapplying sunblock, bug spray, fishing, not getting fish. She did sleep for the last hour on the way back but she was a trooper the rest of the time. But you had an experience like that. Actually not far from that in Concrete, Washington.

Cory Shepherd: Yeah, just in Concrete, it was October. It was way too late to be jumping into a river. It was super cold. So we decided we're gonna swim across this pretty fast river and about halfway across my brain did the math. Wait, this is miserable already. If I make it to the other side, I still have to come back. And so I was like, "Okay, I'm just turning around".

Paul Adams: You have to come back and walk up shore on the other side enough to overcome how you slipped going there...

Cory Shepherd: Right.

Paul Adams: And correct for how much you gonna slip going back. So you'd have to walk like 600 yards up the other side [chuckle] of the river [29:57] ____.

Cory Shepherd: I was working so hard, not even opposing the river. Just trying to go across the current. So just turning around to go back the other way, I know 300 yards downstream before I could get all the way back to the side that I started on. So it's real that in our financial lives, having to make that head way.

Paul Adams: Yeah. We've got the current of maybe not knowing the real return of the things we're putting money into. By the way, the real problem is that we don't know the real return of the ones we miss. So we have a bigger degree of FOMO, Fear Of Missing Out.

[chuckle]

Paul Adams: And when we're newly going into an investment, we don't, as they would have said, "Ancients ago, you must count the cost first", that we're not fully counting the cost first. The full impact first. So for you, as you listen today, what can you do? Well, it's not super complicated. One, know the cost and the real returns of the things you're going to do before you go in. Both the internal and external rates of return. Meaning, you might go into an investment, you might go into an asset that puts you in the position that it looks like it has a great rate of return in and of itself but it may have other factors around it that increase cost to you and you should be aware of them. For instance, like the real estate. On the price and the value of it inclining, it looks like it's doing really great. But once you count some of the other cost, it cuts the return nearly in half. That might still be okay with you, but you should know that in advance. Not live in the fantasy of the uncorrected rate of return. If it just feels like my money would have tripled in real estate, if it would have been there.

Paul Adams: Second, you need to be in a position that you're working with somebody that can actually help you understand where you might be leaking money from your bucket over time. In our philosophy conversation, we talk all the time that you building up your money is a little bit like trying to walk up a river. You're scooping some out of the river, you're having to drink it. That's like your consumption as you live your life and you're also storing some up in a bucket that's gonna survive you when you get out of the river one day, so that you can live off it when you're no longer in your career, when you no longer own your business. That's all well and good, but if that bucket is leaking, if there's a real drag on your return, real drag on your balance sheet, it is costing you and I'm not just talking about money.

Paul Adams: If your balance sheet is currently 20% inefficient, that's 20% of baseball games you didn't have to miss, 20% of anniversaries you didn't have to miss, 20% of great vacations with friends and family that you had to sit out on 'cause you needed to work, 'cause you needed to be in your business. Why? Because it was your balance sheet that was inefficient. Meaning your inefficient balance sheet. Not counting all of these costs, not knowing the true autobiography of your money can actually be costing you part of life. It's not just about money, it's the life that get to live outside of it.

Cory Shepherd: And Paul, I think people focus too much on external rate of return, like what's my portfolio rate of return gonna be? But if there's too many leaks in that bucket, it's never gonna keep your bucket full and I don't know what the market's gonna do this year. None of us do. But if we've got 6% in internal costs that don't need to be there, then that's a guaranteed 6% win this year, over where it would have been. So that's our internal biography of our money is a much more important place to start than the external return because we can control a lot of it.

Paul Adams: And for those of you who listen to our show and tweet things out, here what I would encourage you to tweet this week. Recovering cost. Recapturing inefficiencies is the equivalent to tax-free gain. Because like Cory just said, when you can stop losses, that's like real money that gets to live on your balance sheet. Okay.

Paul Adams: With that, we are gonna jump over and give you a reminder that if you do a review of our podcast, send us a screenshot of it to info@sfgwa.com. It helps us a lot in analytics and what you don't know is you're helping other people find our podcast every time you do a review and you're helping other people find financial sufficiency. It's not brought to them by the financial media or the big box financial retailers. This week is from JF and he says "I always find myself after listening to a podcast with a small gold nugget of information that follows me on a day-to-day basis. From things like talking to your significant other about certain financial goals to recognizing how I am being advertised to. There's always something I can reflect on and think back on. Thank you, Paul and Cory. Keep up the amazing work." Well, JF, thank you so much...

Cory Shepherd: That's great. Thank you.

Paul Adams: For being a listener. We're gonna get you those books out. And to all of you, I would just continue to thank you for taking the time for yourself to step out of the morass, to step out of the excitement to take some time to dig in and learn more about your finances. Share these with your friends, share these podcasts with your spouse and put yourself in the position that you're gonna have the best possible chance to design and build a good life.

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