How to invest your money

Not what to invest in, that's your problem

We are not going to tell you what to invest in. You need to research your options, know the risks and rewards. What we will explain is how to budget your investments so that you keep yourself SAFE from losing everything if the economy bottoms out again. Also, if you have a windfall, you will learn how to control yourself and make sure you live off of the interest and not the capital (see next section) If you're only investment is your retirement, then you need to make sure that this will last as long as you do.

Regular investment

Some definitions are in order here. The word capital is used as money that you invest. Interest is what you earn off of your capital. I want to make sure you understand the difference, because I will be using this in how strong an investment you want to make. Do you risk your capital or not is the question that you need to ask yourself with every investment you make.

Hopefully your budget includes money to put away for your retirement. If your basic budget could not include that and then once you get to the secondary savings account you should use that money to start putting away for your retirement.

So how much money do you need to have for your retirement? Again we go back to the budget idea and we look at how much money do you need per month to survive in your retirement. The ideal is to live off just the interest from your retirement funds. That way you know that you have enough money to last however long you live. And remember people are living longer these days so it's not hard to imagine that you may outlive your retirement. So the easiest way to handle that is to live off the interest of your retirement funds that will never run out.

You also need to do some checking yourself on the different retirement funds available. Bank wealth managers and other retirement companies will be more than happy to talk to you about the best ways to do things. Check out their track records and the availability of talking to somebody when you have questions.

No matter what you do always diversify. Never have your complete retirement funds in one account or at one bank. We frankly don't trust anybody and if the bank fails you're in trouble.

Home buying investment

Buying your home is a major investment. You need to protect that investment (See asset protection training), but you also need to see this as a major asset that you can manipulate. When you buy your home, get the longest mortgage time you can get. This will make the required monthly payment as small as possible. This is the hedge against economic downturn and the chances of losing your home are much lower. Then turn around and double your payments when you can to pay it off much sooner. A lot of people try to get a mortgage to pay off their house sooner, not realizing that if they lose their jobs they have a huge amount to pay each month. Better to only have a small payment and then throw money at it when you have it.

Paying off your house will make sure that you have a place to live when you retire, but protect it with a lien. If you get a windfall and you want to pay cash for your house, buy the house in your name and have your trust or LLC actually loan you the money. That way you have a lien. It is also the way that you can get cash out of your trust as it can loan you 125% of the house value and you get the rest back personally as cash. This is a loan and not income.

Windfall investment

Basic accounting teaches us to divide a windfall into three sections:
1. Pay bills, buy a home, spend money, have a good time
2. Invest in secure retirement type investments
3. Invest in unsecure high yield investments

This is called the one third method, however I do prefer the four-part method. The four-part method includes taking items three and dividing that in half.
1. Getting your base in place - New house, car, boat, once-in-a-lifetime vacation, things that you really really have always wanted but never could get.
2. Budgeting in investments to pay for that base - figure out how much that base cost you on a per month basis and then you will know how much to invest in order to have that in interest to live off of.
3. High-yield investments where you probably will not lose your capital even if you don't make any interest. Remember investments really are the higher the risk the higher the reward, but you always must make sure you understand what the risks are.
4. Super high-yield investments are where you could lose everything but you could also gain everything. Obviously this is one of those where you want to diversify because you don't want to take all your investment funds and throw them at something where you could lose everything, that's how people end up in the poorhouse—that's how people who win the lottery lose everything.

So let's take a look at the first section.

Obviously this is where you decide how much of a home you want, how big of a car you want, if you want a second-home, a massive luxurious vacation, a new boat, etc.. People who suddenly get a lot of money think all at once they have this money to spend but they don't realize the cost and maintenance of having these items once they are bought. It's like the story of the guy who always saved up to buy a Lamborghini drove it off the showroom floor, went to get insurance on it, drove it back to the show room and gave it back because the insurance on it was way higher than he had imagined and he could not afford it. So when you're deciding how much money to spend remember that you're also looking at what the cost of ongoing maintenance will be.

That's why the first and second sections are so important to organize together.

Section 2

Budgeting for how much it's going to cost you to maintain the fancy home, the new car, the second home, and the boat. Do your research and you'll find that wonderful million dollar home will probably cost you $10,000 a month to support. That's because property taxes, cleaning pool guys, and landscape guys all cost a whole bunch of money. And frankly if you gotten a windfall enough that you could buy this, you certainly don't want to have to do the maintenance on it because you become a slave to the house. Oh and if you have a mortgage on it that's probably another $10,000 a month. So it's this section where you have to learn that you need to be reasonable with the first section because you figure out your budget and make it a true budget, including higher living expenses. And not just for you, but your family as well.

Once you have your monthly budget, you then figure out how much you need to invest in very safe investments, underlined safe, because you will be living off the interest not your principal (capital). At this point in time that's about 5 1/2% to be safe.

So to do the math what you do is you take the amount of your monthly budget, multiply it by 12, then divide it by 5 1/2%(.055) to live off your interest. So if your monthly budget is $5000, Times 12 equals $60,000, divided by .055, comes to a total of a little over $1 million.

Now that is very conservative and many people will say they can get a much higher percentage rate, but remember that those people also lost most of their money in 2008. No matter how conservative you are, these investments typically are the stock market or the bond market or something like that which can and does drop out of existence every now and then. That's one of the reasons we talk about diversity.

On the other hand, if all you really want to do is just retire, if you have $5 million and you put it in something where you will not lose it (which is very hard to find) and you pull out only $10,000 a month without any interest that will last you for 41 years.

Remember this is your money and the first thing you need to do is to figure out what you want to do the rest of your life and how to go about it.

Section 3

As you can see the concept is to buy what you want, have the money to pay for it for the rest of your life (what you consider the rest of your life), and then if you have money left over you can start to play. Again we talk about diversity. There are a lot of standard investments out there that will pay you as high as 15 to 20 percent. What you have to realize is that these are the kind of things that are high-yield/high risk. Most of the things we're talking about here will have a track record where you can see over the past several years what they have done and how they have worked so you can make an intelligent risk assessment. Compare these because most of them will come from your wealth managers or your investment managers. Again diversify, even if some will say that they can do a higher percentage or have less risk of loss then others, because there are a lot of things changing in the financial world and you can't really trust track records anymore.

Section 4

This section is really for those super high risk but very high rewarding investments. This is the investment that you make in businesses. Will this business take off, will this business be the high ranking one which will return to you 500% of what you put in? Are you investing in your brother-in-law or another family member? The sectioning off of your investment money will allow you to know what percentage of what you have or have left after everything else is covered and in place, showing you what you can risk to put into your high gambling.

Conclusion
As you can see here we have a reasonable way to know how much you can spend, how you need to maintain what you bought for the rest of your life, and then use the rest for speculation to raise your lifestyle to the next level.

If you practice these habits, you will find that you will always have money, always be security and unaffected by massive financial changes in the world.