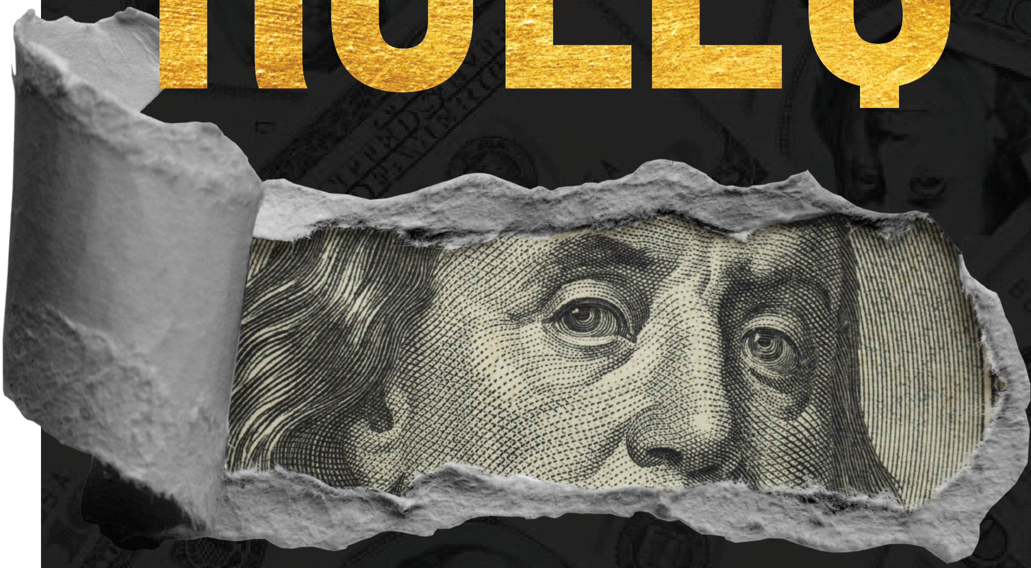
AN EXCERPT FROM

MONEY RULE$



CHAPTER 1

MONEY & MATH

HARRY ABRAHAMSEN

Introduction

Money Rules is not your typical book about money. It is an overarching mindset written for people who want to maintain massive wealth. When you know the rules of how money really works and the ideas and strategies within Money Rules, you will be able to build and protect your money, not just have momentary fortune.

The philosophies and approaches in this chapter are presented to you by Harry J. Abrahamsen, and while you may be able to implement many of them right away, they are not to be mistaken for direct advice. Money Rules empowers you to be the master of your own wealth—your advisors are just one piece. At this point, you have been introduced to one aspect of the macro mindset. Make sure to read the rest of Money Rules to move into mastery.

Written for Influential Individuals, Entrepreneurs, Business Owners, and Families with Money. Though I dare anyone to pick it up and read it now.

There are many books written for individuals who are seeking to build wealth, but when you reach the point of impressive success and multiple commas to your name, you may be reliant on your inner circle with your decisions about money. You feel you have control, but you are just a few mistakes away from sacrificing everything.

This book is written for you, and in it you will find out the things you are missing, no matter how diversified your portfolio is or what you think you know about money. When you know the rules of how your wealth really works and the ideas and strategies within, you will be able to build and protect it, not just have success for a moment.

This book is not about what's right or what's wrong, it's about doing things the right way.

$ RULE

MONEY is <u>not</u> math, and math is <u>not</u> money.

CHAPTER 1

Money & Math

When I'm at a cocktail party, I'm inevitably introduced to someone with means and many friends in the room. When they find out who I am and what I do, they want to tell me about their investments, some financial initiatives they're thinking of getting into, and at some point they'll mention their rates of return on some of their investments, seeming very confident that things are going as planned. It is at this moment that I realize they don't know this rule of money and math and that they aren't aware of the actual state of their wealth. Their impressive rates of return don't represent money in their accounts and definitely don't represent the state of their wealth in the future. They don't have the whole story. And they may be wealthy enough that they do not realize this.

Money, unlike gold, is an idea of a commodity. It changes in worth and diminishes over time, and more importantly, it has no value until it is converted into a way of life. Most people, and even many advisors, think of money in terms of math, and although mathematics does play a role in the *function* of money, it should not be the basis for securing your wealth, happiness, and success. Money and math behave very differently, and there are other physical, economic, and behavioral elements involved in building a strategy that massively increases and protects wealth.

There are always two sides to a story. When I sit down with a new client, I pull out a piece of paper and draw a line down the middle, and I show them two sides of the story of a simple investment within a three-year period: Say that you invest $100,000 into a portfolio. The first year, your manager does an incredible job, and it performs exceedingly well with a 50% rate of return. Then the next year they have a tough time, the markets are terrible, and it drops by 50%. Your manager realizes the problem, rights the ship, and brings it back up by 50% the next year. Then they calculate that the average return over the three years is 16.6%, and this might seem good, but the money isn't showing up in your account. This is the math side of the story.

The money side is quite a different story: You started with $100,000, and in the first year when you got 50% in returns, it jumped to $150,000. The next year when it dropped by 50%, you went down to $75,000. In the final year when it went back up by 50%, you ended up with $112,500—just $12,500 more than what you put in. You got a 16.6% average rate of return, yet your account only grew 4.3%. If you factor in wealth erosion such as taxes and inflation, it really ended up being more like 2.3%. You see that the math side of the story failed miserably in showing what you ended up with and what you would be able to do with it.

In addition to this discrepancy, the value of money over time is unknown. In mathematics, one plus one equals two, and 1,000 years from today it will still equal two. But $1 today plus $1 a year from today will never equal $2. The worth of your money is not fixed; it is subject to inflation, taxes, and a number of other wealth-eroding factors, and in reality, money behaves more like an orange than it does mathematics.

If you had four oranges on your kitchen table and you ran to the store, bought three more oranges, and added them to others, how many oranges would be on the kitchen table? If you said seven oranges you'd be right. It's a simple arithmetic problem. But if you left the seven oranges there and came back one year later, how many would be on the table? What about 20 years? Of course, the right answer would be none. Oranges break down over time. Similarly, the money you have in the bank or in your investments erodes and will not convert into the same way of life in time, especially if you don't have a strategy to maintain it.

Math is perfect, money is not.

In every moment, your money is eroding, and it erodes most significantly if you do not keep it in motion, which I will get into soon. It erodes steadily in the bank, where the amount of interest you gain from a savings account doesn't keep up with inflation. It erodes unpredictably in a pre-tax savings plan because the taxes it might be subject to may be higher than you'd ever imagine and you may be forced to withdraw from it at the worst moment. Money might evaporate in your market investments if there is a downturn, and even if the markets do recover, if you were forced to tap into your accounts when they were suffering, much of your wealth would have been sacrificed. Money erodes with taxes, and this erosion may be accelerated through a change in the tax code that increases your rates unexpectedly. There are many more instances in which your wealth is wearing down: technological advancements that carry associated new costs, wear and tear on items, planned obsolescence, unexpected rainy days or family needs, health issues, the cost of litigation if you make a mistake, and an increase in your standard of living. And the atom bomb of wealth erosion, black swans—the unpredictable disasters like wars and pandemics. Your job is to prevent your money from eroding, whenever possible, and to be intentional about this reality to avoid it from wreaking havoc on your plans.

When you've got significant assets and streams of income, you're not so shaken by setbacks. But it starts to get real when you are no longer making the income that you were used to—be it the final season of your career, the news that there won't be a renewal, or the end of your time at the firm. You are subject to the propensity to spend, so an alteration in your income might impact things significantly. The more you earn, the bigger your homes get (unless you are Warren Buffett), the more obscure hobbies you pursue, and the more aggressive you are with your business initiatives. When that income drops or stops, those hobbies and business interests might come to a screeching halt. This drop is inevitable—it is part of the distribution stage of your wealth, and it is arguably the most important moment in determining if you will maintain massive success.

There are three phases of wealth: *wealth accumulation*, *wealth distribution*, and *wealth conservation*. The wealth accumulation, or wealth creation, phase is when you are earning the lion's share of your income. This is the time in which you feel most invincible because you are working and building your assets. In this phase, you are receiving an income, while your money is invested—you are a *person at work*. Then when you sit back and slow down, you enter the distribution phase. This is the time in which you are no longer working full time, if at all, and your *money is at work* maintaining your way of life. In this time there is a possibility that your spending will deplete your wealth faster than your investments will increase it, and you may have to make sacrifices if you haven't structured things for this. In the final phase, wealth conservation, the *government is at work*. This is the time in which you transfer your wealth to the next generation, and in this phase, taxes and law changes will significantly impact things. If you make a mistake in the wealth accumulation or wealth distribution phases—as simple as poorly assessing the worth of your assets—your legacy may be destroyed. Some heirs are forced to sell their family's empires, teams, homes, and other precious assets to keep up with the IRS.

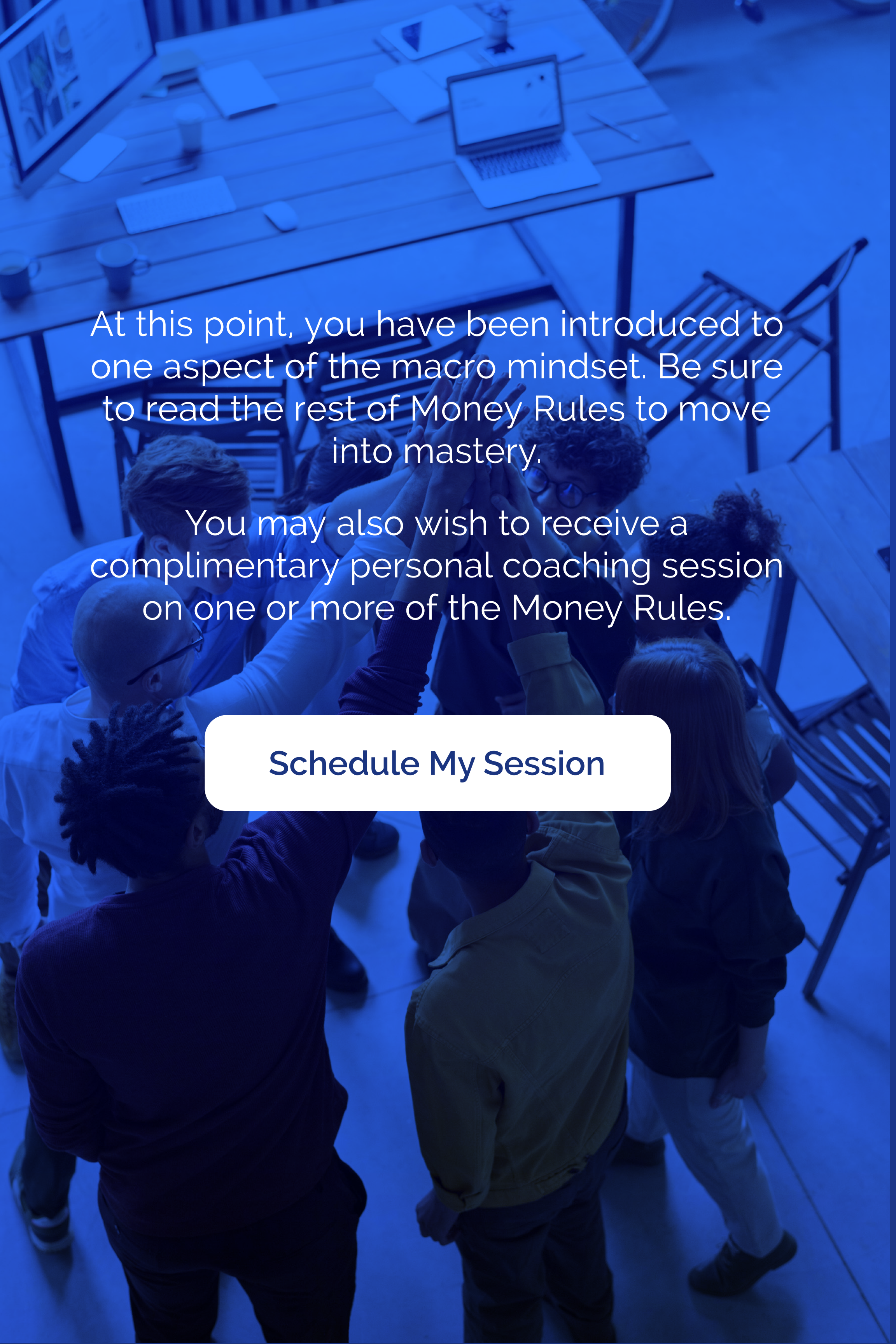
Money has no value until it converts into your way of life.

With inflation and other wealth-eroding factors, changes in income, and the way that money works, the state of your wealth today may be very different tomorrow if you don't have a plan to maintain it.

Managing massive wealth is not straightforward, and it requires you to consider every stage or you may sacrifice things you never imagined you would. It isn't a game of backgammon, it's three-dimensional chess, and if you don't treat it as such you might be sacrificing your seat at the table.

One of the main problems with traditional financial institutions and individuals, including most advisors, is that they use mathematical calculations to make decisions about wealth. They may adjust for inflation or try to predict some kind of rate of return, but they use mathematics with software algorithms and models that will never be true to what you really end up having in hand and what that will translate into when it comes to fulfilling your wants. This is dangerous—inaccurate predictions about money will make a big difference in what you are able to spend and, therefore, what kind of life you have. What if one miscalculation represented 10% of the money you want to spend? What about 15%? If you spend much of your income, you might experience a significant issue when an inaccurate "potential" return doesn't work out the way you imagined. Most traditional advisors stick to math because it's the most substantial thing they know to offer, and no one will tell you it does not behave this way. If you follow their thinking, you will pay a price, and you won't just be paying hundreds, you'll be paying millions. Because the wealth you've amassed is so significant, you may not notice what you are missing.

The secret to massive success is beyond the realm of mathematics. It's much greater than traditional strategies that attempt to calculate what is impossible to know. You must work with this fact rather than against it. Instead of seeking a straight way forward, you must synchronize multiple scenarios with an agile strategy that consistently reinvents itself. Things must move as a whole, not just many parts with potential returns. This mindset is not based on mathematics, it is based on money itself. It aims to maneuver within the unknowns and despite the threats to maintain and increase wealth, even if and when it is eroding.



At this point, you have been introduced to one aspect of the macro mindset. Be sure to read the rest of Money Rules to move into mastery.

You may also wish to receive a complimentary personal coaching session on one or more of the Money Rules.

Schedule My Session

WRITTEN FOR INFLUENTIAL INDIVIDUALS, ENTREPRENEURS, BUSINESS OWNERS, AND FAMILIES WITH MONEY

9 RULES TO MASSIVE WEALTH

MONEY RULE$

Not your traditional book about money

HARRY ABRAHAMSEN