Building Wealth Series Ep.1 - Getting Your House In Order

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SUMMARY KEYWORDS

cash reserve, home, money, pay, investment advisor, credit cards, tax, month, invest, work, year, good, ira, budgeting, consumer debt, annuity, accumulate, rule, investing, expenses

SPEAKERS

Keith

Keith 00:00

We are pleased to provide this text from our podcast. As you know, the spoken word is often less formal and sometimes less precise than a written piece that may be carefully edited. I have also been known to sometimes jumble my words beyond recognition! Please let us know if you have any questions or concerns -- and thank you for supporting the show! â€“ Keith DeGreen

Keith 00:07

Well, thanks for joining me. I'm Keith DeGreen. And in this first episode of our building wealth series, we're going to focus on two things. Primarily, we're going to focus on all the things we all need to do before we invest a dime. That may not sound like the fun part. But I can pretty much assure you, that's the most important part. The second shorter part of this presentation today will focus on the various retirement platforms that are the vessels through which most people accumulate a significant amount of their investment wealth over time, things like 401 K's, 450, sevens, 403, B plans, perhaps an IRA, regular IRA or Roth IRA, we'll kind of go quickly go through the rules on those. And then in episode two coming up, and I hope not too distant future, we will focus on some of the fun stuff, which is how to invest. We're calling that episode, smart, not dumb investing. I think you'll enjoy it when the time comes. But in the meantime, I hope you enjoy this presentation, because it's awfully important, as you will see. First by way of introduction, I made my living as an investment advisor for 35 years. Now, I've also been a serial entrepreneur my entire life. And you know, prudent money management and entrepreneurship often conflict. The entrepreneur almost always has their own money at risk at something, risks that many people would find unacceptable. Now, I think that most people either have the entrepreneurial gene, or they don't, and either way is okay. You certainly don't need to be an entrepreneur to be creative, ambitious, and productive. If you work for a company, you might also be a risk taker, but usually, you're not risking your own money entrepreneurs do. I mentioned all this because as both an entrepreneur and an investment advisor, I often found it difficult to take my own advice. If I just pumped a little more money

into the firm, I would say, we could do this a little more money. And we could do that. Now you get the idea. Yet over the years, my team and I have managed billions of dollars for our clients. And I was privileged to serve all of our great clients. And with the help of a wonderful team. Actually a couple of wonderful teams, one in each of our companies that I had had, I managed to build and sell to great investment advisory firms. Now I learned a thing or two along the way, that did not prevent me from making plenty of mistakes with my own money, even as we worked hard to apply prudent investing principles for our clients. Now, my financial story it has so far a happy ending. Despite the many mistakes I've made along the way. We're now able to maintain an affluent lifestyle, regardless whether I dabble in a few harebrained cockamamie schemes like I don't know, podcasts. So I begin our topic of prudent money management and investing with this caveat. Do as I say, not as I did. Now, this discussion is going to be today it's going to be in two parts. In this first part, we're going to focus on all the things you need to do before I say before you invest a dime. You may think that's pretty boring. But in my experience, even people who have been investing for many years sometimes discover that they've let that money management efforts, their money management efforts slip often to their extreme detriment. So trust me on this proper money management before and while you invest is extremely important. Here's rule one, get your house in order. Prudent investing starts with not investing at all. No, it starts with three steps. Step one, eliminate all carried consumer debt. And then step two, accumulate and maintain a sufficient savings to meet contingencies and unexpected expenses. And step three, set a realistic budget. Now let's start with step one. Eliminate debt. Now let's get this out of the way earlier, some debt is good. For example, your home mortgage, if it is affordable is great. It'll probably help you leverage into one of the best if not the best investment of your life. Your home, especially if you make a reasonable downpayment, at least say 10 to 20% of your home's purchase price. You'll begin with some equity. That's that's the difference between the fair market value of your home, less selling expenses and the unpaid balance on your mortgage. With a decent downpayment to Keep your PI ti payments. Those are your principal interest taxes and insurance payments, you can happily participate in your home's appreciation based on the actual value of the home, not just based on what you put down. Yes, you have those pi ti payments, and you do not want to over leverage yourself on a month to month basis. Otherwise, you'll be house poor, with not enough left over each month for other important things. Now on the other hand, you are probably making rent payments before you bought your first home. So the Pei ti cost may not be much more than the rents you were paying. Just do the math. That's all I can say. Now, what's more, if you are single or married and filing jointly, and you're itemizing your tax deductions, you can deduct the interest on your first mortgage debt up to $750,000. Calculate the impact of your effective tax rate. If say you are in the effective 25% tax write and your monthly mortgage interest payment is same $3,000 Then your effective monthly interest expense is $3,000 times 25 or 75%. That's the inverse of your effective tax rate of 25%. So in this case, your effective after tax monthly interest expense is $2,250. Now in addition, you can deduct your state and local taxes, known as salt taxes, clever has state and local taxes, salt as well, within limits, the salt deduction is no longer unlimited. At one time, you can deduct as much as you paid in interest, local interest, paid an interest and taxes but the tax cuts act, it was called the tax cut and Jobs Act limited the salt deduction to $10,000 or 5000. If you're married but file a separate tax return.

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Keith 07:09

The this limitation is set to expire in 2025. So maybe you'll be able to deduct more, but don't count on it. That's for sure. So how large a mortgage can you afford? Well, according to quicken loans, the 28% rule, the 28% rule says you shouldn't spend more than 28% of your monthly

gross income on your mortgage payment, including property taxes and insurance and so on. Now, this is not where you deduct the benefit of interest and salt deductions. This 28% is often referred to as the safe mortgage to income ratio. But I gotta tell you, after taxes 28% of your gross income might be 40 to 50% of your after tax income. That's why even 28% may be too high, especially for young families. Now, regardless, buying that first home is almost always a stretch. I read recently that only about 20% of middle class families can afford their first home right now with interest rates as high as they've become and of course with real estate prices inflated as well. That's a problem at a national level that we've got to get solved because middle class homeownership is absolutely the lifeblood of our economy. So I know it can be tough, but getting started with homeownership, so that even over time you can gradually maybe make it to a larger and larger home. It's a great way to go if it's affordable for you in the first place. Now, here's why homeownership and financed real estate generally can be very beneficial. If you put say 20% down on say a $300,000 home, you now have $60,000 of skin in the game. If that home appreciates at say just 4% per year. That's a $12,000 per year first year increase in the home's value, but $12,000 represents a 20% Gain on your $60,000 downpayment in the first year. And it just gets better for from there. For example, after that first year you are now in a $312,000 home after the second year that 4% appreciation will result in a home value of $324,480 to be precise. At the end of the third year, the home will be worth $337,450 Remember, you only have $60,000 skin in the game, plus the mortgage payments that you're making with may or may not be much more than the rent you were once paid in 10 years, at a modest 4% rate of appreciation, the home should be worth about. Let's see $440,000. Now even if you get an interest only mortgage and don't pay down the principal, you'll still pocket $380,000 After paying off the $60,000 mortgage, and as is a nice down payment on your next home. And as I mentioned, you're probably paying rent before you bought that first home. So it's not uncommon for your PI ti payments to be not much more than what you were paying anyway, especially after taxes, do your deductions. And now you own a home, you own a piece of the American dream. But here's a tip, home and yard maintenance. Oh, man, I could go on about this is always, always not sometimes, but always more expensive than you thought it would be. That's life, but take good care of your home, and it'll take care of you. All right. So a reasonable home mortgage debt is not just okay. It's a good thing. What other kinds of debt might be okay? Well, let's face it. Unless you work and live in the city or never leave your home. You need wheels. Now that car, or perhaps those cars, if you are married, and you're both working, or whatever they need to get you and your spouse safely to work and the family safely to the store, to daycare, to soccer practice to school. yatta yatta yatta, you get the idea? Well, here's the key. Wait a few years to impress your friends. In the meantime, drive, what is safe, and what works? Incidentally, I just read an article just prior to the show that the average new car payment average new car payment in America today is over $740 a month for new cars. That's a pretty hefty price tag for a lot of families out there. Especially if you have to have more than one car. And incidentally, guys, if you need a fancy car to impress a girl, don't find another car. Find find another girl. Did I take that advice when I was young? Hell no. But I hope you do. So perhaps you'll need to finance part of your car's purchase price. But please don't get trapped in what is called C paper. That's subprime lending. Those are loans made to high risk borrowers. Their interest charges and terms are outrageous. If you if you've got to walk, if you got to take a bus or ride a bike until you can come up with the scratch to get a decent loan on a modest car, then walk take that bus or ride that ride that bike is all I can suggest. So those are the two big exceptions regarding consumer debt, a reasonable home mortgage and a reasonable car loan. Yes, you might need to temporarily incur consumer debt for certain medical or serious emergencies. But then as I'm about to discuss, your very first priority must be to pay off those loans and eliminate what are usually spectacularly expensive interest charges and other charges on credit cards. That's it. Sure. If you are an entrepreneur, and you're raising or risking money for your great business idea, I get

that but that's a different world. But no matter where you work, your consumer debt should be limited to your mortgage and your car. Now let's talk about what debt for sure to avoid. You may need plastic surgery. If you are carrying monthly charges on your credit card monthly charges month after month and all you're doing is paying the interest. That's not a good thing. To get the most expensive cards paid off first, and then you need to take a pair of scissors and cut them into very small pieces. Yes, plastic surgery. I cannot emphasize this enough. Credit card debt makes you a slave to the bank. To put it bluntly, you become the bank's bitch. This is not an overstatement. annual percent interest rates on your credit card debt run from the mid teens to the low 20s. It's outrageous. If all you do is make a minimum payment on your credit cards each month, you will never end I mean never get out of debt. You will remain the banks bitch. Banks spend billions of dollars to persuade you to use their cards. Why wouldn't that they are extremely profitable to the bank to the banks. First, each merchant pays a fee to the bank, every time someone uses the bank's card at that store, and then you pay outrageous interest on the monthly balance, you don't pay off, there is only one right way to use a credit card, except for the absolutely legitimate emergency costs that I mentioned a moment ago, never. And I mean, never use a card that you cannot pay off in full, when you get the bill at the end of the month, never period, full stop. So get those cards paid off even before you start building your cash reserve. Why? Well think of it. If you're paying, say 18% And that might be low, but let's say you're paying 18% and credit card debt, and you have a savings account that pays 2% 3%, whatever, bubkis you're simply losing a ton of money. So okay, rule one is get the heck out of credit card, hell pay those cards down, then cut up all but one of them for real emergencies, or for convenience, as long as you can legitimately pay it off every single month. And do that keep cutting those cards up and getting paid off until you have no unpaid accumulative accumulated balances whatsoever.

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Keith 16:28

Now, you know, I'm a darn good investment advisor. So as my son, Sam, but neither of us, neither of us can guarantee you an 18% rate of return on your investments, but you can, you can make that guarantee to yourself, and perhaps more by paying off those damn cards. Now, here's a tip to pay off your credit cards, do not necessarily start by paying down the card on which you owe the most money. Carefully check the interest rate being charged on each card, always First, pay off the card with the highest interest rate, then pay off the card with the second highest rate, et cetera, et cetera. And here's tip tip to consider using only a debit card, there's no self regulating, if you're out of money in your bank account that you're charging against, then it doesn't work. But wait. Many banks attach a credit line to the debit card. So you're right back in credit card. Hell, how nice of them. But it's a trap, do not use a debit card line of credit. They're just as expensive as and are often worse in some ways, then even those outrageously expensive credit cards. And here's a final tip about well, after you destroy those other cards, keep one and build your line of credit. By always paying that one card off in full each month religiously. Now, you know I'm arguably you know, a reasonably wealthy guy and and I have one credit card, my wife has to, I don't need more she doesn't either. Now for as long as I can remember, we've always paid off our credit cards. At the end of each month. Well, I shouldn't say as long as I can remember I you know, again, those entrepreneurial ups and downs, having to sometimes use your credit card to make payroll, whatever. That's that's a different story. But for many years now, we've done that, and I tell you, it has saved us enormous sums over the years. I promise. Once your credit card debt is paid off, you will be astounded at how much extra money you have when your other bills are paid at the end of each month. Okay, if we've now gotten you out of debt, I hope let's start building your cash reserves. Let's start saving. Now notice I didn't say let's start investing. Heck no, that comes

later, perhaps much later, as you're going to see. But that's okay. For as you will also see there's there are more, there's more than one way to build wealth. We call this building your cash reserve. And in my opinion, it is imperative to take this important step after you pay off those credit cards. But before you start investing, you know, nearly 100 years ago, in 1926 George S Clason wrote what to this day is the quintessential book on wealth. It's called The Richest Man in Babylon. You can get it through our bookstore on our site. The book has been republished many times, and it's easily available, including as I mentioned through our bookstore, just click on the Resources page and you'll see this highly inspirational book and in the book, classic offers this timeless advice and here it is Pay yourself first. Specifically classes suggests that 10% of everything you earn is yours to keep. Now remember, if you're using your cash to pay off your credit cards in a way you are paying yourself first, aren't you. So get those expensive debts out of the way, and then start accumulating. But 10th, the 10% rule is, is a wonderful, wonderful rule. The idea is that 10% of everything you earn is yours to keep to be made a slave to you, rather than you being a slave to it, you'll find that money becomes your slave, rather than you being its slave. I repeat, at least 10% of everything you earn is yours to keep, make it work for you. Now, let's look at as a practical matter what this might mean to you in today's world. Well, first and foremost, let's build your cash reserve your savings. Now everyone needs a cash reserve. But what is a cash reserve? Here's how you define it, it should be money that cannot go down in value. And that can be immediately retrieved if you really need it. That's why you're pretty much stuck these days with a bank account, or of one type or another. It's not fun. It's not exciting, but it is extremely important. Life happens. The roof needs to be replaced, the AC goes out, the baby gets sick, you lose your job or become disabled. Yes, life happens. And if you like to eat regularly and asleep indoors, you must have a cash reserve to carry you through life's tough spots because they will occur. Now I realize the interest you receive from your bank checking or bank savings account is bubkis. Oh rates have gone up a little bit. But it's really bad, you'll all those kinds of accounts, you'll almost always receive an interest rate that is less than the rate of inflation. Yes, your savings account is insured by the FDIC to a limit. But let's face it, with an interest rate below the rate of inflation, you are going broke safely. Still, if rates continue to climb, there are some workarounds here. For example, if part of your cash is money, you really really don't think you will need for six, nine or 12 months. Ask your bank what would happen if you had to cash in one of their higher interest CDs ahead of schedule. Often all you lose is the accumulated interest that you would have been collecting. So you wouldn't be that much worse off than if you had put your money in a checking or passbook savings account. That's just a thought. And obviously, that amount of money that whatever goes into that CD, you really need to believe that I'm just not going to need this, it really isn't going to be necessary, because you also have a more liquid cash reserve as part of your cash pile. Right. Okay. So, regardless, you must have a cash reserve. And I will say again, it is imperative that you have a cash reserves. So how much cash reserves do you really need? The conventional wisdom provides that you should have the equivalent of six to 12 months of living expenses. Now I know you're young and just starting out, that's a tough order. Or if you're young and just starting out, that's a tough order. But it's it's so important. You know, I'm just thinking about our own personal situation, we have probably a year and a half two of living expenses in what is essentially a cash reserve, a higher yielding money market account at Schwab. And we can get to it reasonably quickly. That's a luxury and I realized that many people aren't in that situation. But it's an ideal because then when the rest of our portfolio is invested in equities and things that can go up and down in value. We don't have to sweat bullets about a temporary downturn in the market. Because we know we've got plenty of money to carry us for a while.

Keith 24:21

Keith 24:21

If you have that sense of security, even for a six or 12 month period, that is enormous and that can save your family. It can save you a lot of headaches, and it can perhaps save you that first officer of your life. So please give that some consideration. Immediately after you pay down those credit cards. Definitely start building your cash reserve. Now notice that I have said nothing about investing yet. However, you should not invest a dime until you've paid off your consumer debt and have built your cash reserve period. Once you have the say at least Three, six months of expenses tucked away, then you can start and you've got your consumer debt paid off, you can start looking at contributing to your 401 K at work or to an IRA. But not until you have those other things done. And even then, keep building that cash reserve. Remember, you're putting aside 10% of everything you aren't, keep building that cash reserve until you have that six to 12 month cushion, at least, you'll be very, very glad you did. Now, one sidebar, if your income is essential to the maintenance of your family or household do get a disability insurance policy, it's very overlooked, and it's very important statistically, people under 40 are much more likely to become disabled than to die. But even good disability policies sometimes don't kick in until you are certified as being long term disabled, usually a period of more than six months. So in essence, I don't sell insurance. But I this is one is a fee only investment advisor. One piece of advice I do tend to give to young working families. So you should check out short term disability policies as well. And then you might have one offered through work, check that out too. But again, you will need that cash reserve until your disability benefits kick in. But wait, there's one more step before you begin to invest. Actually, it's a continuing step, something you should do at least once each year. And that's the B word. The B word that everyone hates. Are you ready? Here comes budgeting? Oh, yeah. Honestly, for many years, my idea of budgeting was to make one more sale, or to land one more client, oops, I'm almost out of money, I need to sell something. Sound familiar? Well, let's try a better way. Actual budgeting is involves a couple of steps. Step one is to define your after tax income, that is your disposable income, the money you have for expenses. Now, if your income varies from month to month, if for example, you're in a commission based sales profession, such as Bonomo real estate, the best you can do is establish a realistic average monthly projection. And I encourage you to be conservative, they're not gonna You're not, you're not setting a goal here, you're just kind of giving yourself a worst case scenario. If your salary and have industry experience, you can certainly look at your previous year's income. If you're just starting out, then establish some lower end assumptions regarding your budget. And again, these assumptions are not your sales or income goals. Not at all. But they should be your best conservative estimate, within reason of what your average monthly disposable income might be. So as you can budget around that, it's always a lot more fun to have money left over at the end of the month than too much month left over at the end of the month. Now once you arrive at a reasonable estimate of your monthly income for the next 12 months, it's time to estimate your expenses. Now as in business, I recommend that you look at your personal expenses is both fixed, and variable. Always start with your fixed expenses. These are your must pay bills, your rent or mortgage payment, your phone, your internet bills, your car payments, and so on fuel and the average monthly cost of maintenance for your car, another fixed expense, and your monthly quarterly or annual insurance payments. And here are some other expenses that you should also regard is fixed. First, grocery store food not the food you buy at your favorite trendy restaurant, and not even the food you buy at the ballgame. Those are discretionary expenses. Now a fixed expenses food item is what you budget for. It's what you buy at the grocery store and cook up at home. Filled in Yeah, since I am a terrible cook. Other bad. There's a lot of good things come in cans. Other fixed expenses can include the cost of your basic wardrobe and personal basic wardrobe and personal care items such as toiletries and medications. Just the core stuff, no $700 handbags, no $300 Nikes. Just the core stuff now if necessary. Add one final fixed expense, your very aggressive, monthly schedule for paying your consumer and credit card

debt down to zero or back on that again, that's zero. Again, I encourage you with all sincerity and my command do commit to this discipline. It's critically important to Your financial health. Now if your credit card and consumer debt is paid off, then you have one other fixed expense you remember, it's that 10% of everything you earn that 10% of your disposable income after taxes right off the top that is yours to keep to be made your slave for life. By all means, treat that 10% Off the top as a fixed non negotiable expense. Use that money to build your cash reserve and ultimately, your investment portfolio. Now, if you have reasonably estimated your monthly disposable income, and you have accurately listed all of your fixed expenses, including that 10%, that is yours to keep, you can now determine what's left for your variable, often, but not always discretionary spending, just subtract that 10% And your fixed expenses from your monthly disposable income. And voila, you now know what you can actually afford to spend on other stuff. Now, this is the part where I used to decide that my best budgeting strategy was to make one more sale on the happy assumption that you have at least a few dollars left each month. After covering your 10% and your fixed expenses. It's time to prioritize Mm hmm. Well, maybe you don't really need that vintage guitar. I say that with my son, Sam in mind, because he's a big guitar collector. After all, maybe you don't need that maybe that two week vacation needs to be shortened to a long weekend, at least this year. Maybe you go out to dinner every other week, or you take a pass on those concert tickets. And I know, as the saying goes, I've been rich and I've been poor, rich is better. But don't worry, if you stay healthy and follow these budgeting rules, you will get there, you will get there and you'll spend a whole lot more of your life feeling financially secure than you ever felt when you were struggling, comparable period. Now, you'll get there honestly, you know some of my wealthiest clients. Similar, wealthiest clients over the years were couples whose incomes never exceeded middle class levels, yet, they did all the things we just discussed. They invested wisely, they accumulated estates valued at millions of dollars. Budgeting does work. So now we're good. You're not carrying credit card debt. You are building your cash reserve and you have a budget, you are now ready to start looking at where to invest. Now today, we're going to briefly discuss where you will probably invest first. Then, in part two of this series, I'll discuss how to invest based on my decades of experience as an investment advisor. Now first, the usual disclaimer, always consult with your tax and investment advisor before implementing any of the ideas we discuss. I'm speaking in general terms to a wide audience hope to wide audience common sense and your personal goals, your risk tolerance, your age, your health, and a dozen other factors should drive your personal investment decisions as well as good discipline, not something you think you understand from a podcast, okay, no matter how well intentioned my advice might be.

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Keith 33:35

Check, check it out, discuss it with the professional fair. Okay, now let's take a look at how to invest that comes at shouldn't. How to Invest is going to come in our next episode. Right now we're going to focus on where to invest at is at least where you're most likely to be investing out of the gate, you got all those other things taken care of those preliminary things. Your your regular IRAs and 401, K's at work are the obvious starting point. Those are the platforms that most people will use when they actually begin an investment program. They're the most common investment platforms for working Americans, employer sponsored retirement accounts and regular IRAs. What's the big attraction of these, you can use pre tax dollars to invest, thus having that much more money invested to grow. Now, Roth IRAs are also out there. They're cool. They let you invest after tax money. So you got to pay taxes on it first, but that money and what it grows to, once it goes into the Roth IRA is not subject to income tax, which is really great. By all means consult with your tax and investment advisor for the latest updates and changes to these programs because they're always changing them and gumming them up.

But here are just a few of the basics. If you have an employer sponsored retirement plan, such as a 401 k or a 457 than a 403 b plans, something like that, by all means fill it up, I repeat, fill it up, especially contribute at least as much as is necessary to receive your employer's matching contributions. If they offer a match once again, contribute at least as much as is necessary to capture all of your employer's matching contributions. We're doing this only after your credit cards are paid off after your money is put away and your cash reserve. And after you do the family budgeting, remember and regardless, contributions to your 401 K type plan are an ideal way to use pre tax dollars to build wealth. A downside with a few exceptions, is that you will incur a tax penalty if you take distributions from your 401 k or IRA. Before you reach retirement age, which is currently 59 and a half, except for Roth IRAs. The further downside is that went now except for Roth IRAs. There's penalty if you if you touch those too soon as well. But except for Roth IRAs, the further downside is that when you take distributions after you reach retirement age, you're gonna pay ordinary income tax on whatever you withdraw. Now, that includes tax not only on what you contributed, but on all the growth in the account as well, but only as the money is withdrawn. But still, you're allowing your money to grow tax deferred during your entire working life. So to cite just one example, if you contribute $10,000 per year for say 35 years, and if your portfolio grows at say 7% per year, and that's actually a bit below the average 20 year return to the s&p 500 After dividends. If you do that, you will accumulate a whopping $1.7 million in your 401 K over those 35 years. Even if you earn a 6% return, your account will still grow during those 35 years to about $1.14 million. Still not shabby. Now, there's a lot we could say about good and bad 401 K plans. But they do keep improving. Internal costs have declined. And more and more employers are offering low cost diversified index tracking exchange traded funds within their plans. And by all means, if ETFs exchange traded funds are offered in your plan, use it. I'll offer more insights on ETF investing in part two of our building wealth series because our firm helped pioneer the use of low cost index tracking exchange traded funds within managed portfolios. Now, and this is just my personal and professional opinion, I urge you do not let anyone persuade you to convert your 401 k or IRA to an annuity, either during your working years or upon retirement. They are almost always bad news. Now the annuity industry that is the insurance industry now has a new spin something they call a kulak q L a seat, it's an annuity that might save you some taxes later in life. It's for older purchasers, typically folks in their 70s. And it's designed like most annuities to provide you with income guarantees including income for your whole life, but the return on the internal rate of return. Look, be very careful. My jury is still out on these Q lakhs. But so far, my opinion is that a kulak is just old wine in a new bottle, be skeptical. And again, this is something to discuss with your investment advisor. And you know, I don't mean to sound cynical, but unfortunately, if your advisor is licensed to sell insurance products, their recommendation regarding annuities might be skewed. Why? Because annuities pay very big commissions to advisors. So I repeat, be skeptical. Now, when you retire, I typically recommend that you sweep your 401 K at work into your own regular IRA tax free and keep it under the management of a fee only Investment Advisor it's been my experience that that is almost always the more cost efficient way to go. And if you've got a good advisor and you apply prudent investing rules, you're gonna be very happy with your decision to do it that way.

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Keith 39:47

But make sure that investment advisor obeys the prudent investing rules that we're going to discuss in part two. Yes, whether in your 401 K or regular IRA, you will pay ordinary income tax rate rates on whatever distributions you take. And there are rules about how much you must take out starting as you reach age 73. But in the meantime, you are accumulating wealth on a tax deferred basis. Now, here's the basic rule. Unless you are in a very low tax bracket tax

deferral, while you're working usually is a very good thing. Why? Because it's almost always better to earn money on your taxes than it is to pay taxes on your money. The money grows faster, it's that simple. Now, meanwhile, the key as always, is to keep and invest at least 10% of whatever you earn. Now, here's a few spins on this strategy first, especially if you're in a low income tax bracket, try to fill up your Roth IRA. First, Ira plans whether regular or Roth are not employer sponsored. However, any brokerage firm can set you up with a Roth IRA, that you can contribute to with after tax money. So you pay tax on the contributions presumably in your lower bracket, you pay tax on that upfront, but when you reach retirement age, guess what, you can pull all the money out tax free. And there are no minimum distribution requirements on Roth IRAs late in life is pretty cool. But once your income tax bracket begins to increase, you're probably better off capturing that deduction in your higher income years by using pre tax money to fund a pre tax 401 K type, employer sponsored plan, or to fill up your regular IRA, because once again, that money is can be pre tax as well. So this is true, even though you will pay taxes on what you to take from your 401 K or regular IRA later in life. However, by that, you may well be in a lower income tax bracket. And in the meantime, you receive growth on all their money you did not pay in taxes. Now, here's a few more basic rules on tax deferred plans, or even on after tax Roth IRAs. For 2023. The total contributions you make each year to all of your traditional IRAs and Roth IRAs combined, cannot be more than $6,500. That's $7,500. If you're age 50 or older, for 2023. The 401 K contribution limit for employees is 22,000, or $30,000. If you're age 50 or older. But wait, starting in 2024. If your annual salary of more than $149,000, you will no longer be allowed to contribute up to an additional $7,500 pre tax to your 401 K, you can still make the additional contribution but only with after tax money and only to a Roth version of your 401 K if your employer offers one. But wait again, there's a good chance the IRS might delay this rule because companies have not had time to convert their payroll systems. We'll see. Then I say you should consult with your investment advisor and you're tasking some Yeah, I did. Now here's a final important point. A 401 K plan may offer an employer match of up to 50 cents on the dollar, or up to 6% of a worker's salary. Check with your employer and be sure to contribute to your 401 K. Once you have your savings, your cash reserve and your credit cards paid off, at least to the extent that your employer matches a portion of your contribution. It's found money or these employer sponsored plan and IRA Rules constantly being tweaked, tightened and gummed up by Congress and the IRS. Oh, absolutely. So stay alert, it's worth the hassle and again, get good guidance. So there you have it. The core rules for getting your financial house in order step one, eliminate all carried consumer interest. And then step two, accumulate and maintain a sufficient cash reserves to meet contingencies and unexpected expenses. And step three, set a realistic budget and always remember 10% of your disposable income is yours to keep to become a slave for life to you. Never sell yourself short. And step four. Take advantage of those tax deferred or after tax retirement programs we've just discussed. Now, in our next building wealth episode titled smart not dumb investing. We'll explore how to invest right here at DeGreen.com I will see you there. I I'm Keith DeGreen. And this is As I SEA It!

K

Keith 45:06

We are pleased to provide this text from our podcast. As you know, the spoken word is often less formal and sometimes less precise than a written piece that may be carefully edited. I have also been known to sometimes jumble my words beyond recognition! Please let us know if you have any questions or concerns -- and thank you for supporting the show! â€“ Keith DeGreen