MORTGAGE advisor™

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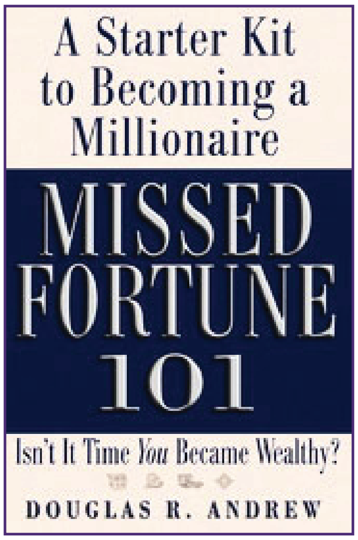

The Millionaire's Starter Kit: Missed Fortune 101

Financial strategist Doug Andrew's renowned how-to guide explains how average taxpayers can achieve wealth by employing the same investing strategies as self-made millionaires and banks

Part two in a two-part series

Last month, we highlighted some of the basics of Missed Fortune 101, Douglas R. Andrew's starter kit for becoming a millionaire. Andrew's program begins by stressing the necessity for keeping an open mind when considering a wealth-building strategy, reminding us that America's traditional beliefs about paying off your mortgage is neither the safest nor most sound approach toward investing. Because of the way that taxes are structured in this country, paying off your mortgage and investing in qualified retirement accounts like IRAs and 401(k)s could put you in a higher tax bracket during retirement than you were in during your earning years. In fact, with qualified plans, if you live 20 or more years after retiring, you can potentially pay back five times more in taxes than you saved during the investment and accumulation stages.

Create Homemade Wealth

You can amass tremendous wealth by borrowing money at a particular rate and investing it at that same rate, or even less, as long as the interest on the borrowed rate is tax deductible and the investment earns compound interest. If the investment is tax favored, the potential for growth increases even more. Because a home mortgage is tax favored, you can systematically accumulate $1 million or more over a 30-year period, simply by borrowing $100,000 at a 6 percent tax-deductible rate, and investing the loan proceeds at 8.5 percent. Again, this equation holds true as long as the earned rate is compounding and the borrowed rate is tax favored.

You can also utilize your home's appreciation in your wealth building program. For example, with a $200,000 home that appreciates at an average of 5 percent per year, you can accumulate $2 million if you start with $100,000 of equity and continue to separate and reinvest equity every three to five years.

When you reposition equity, you not only free up your assets to where they are liquid and usable for home improvements and emergencies, you also put stagnant non-earning dollars to work for you, where they can be earning you money. When implementing this strategy, make sure to borrow at favorable terms. Interest-only loans are the most desirable to maximize tax deductibility. When investing, make sure to enter safe environments with the highest rate of interest possible and choose tax-deferred or tax-free, low-risk vehicles. The main reasons that people run into problems after leveraging their home equity is because they've either consumed the borrowed capital or kept the money in a non-liquid environment. When done correctly, equity repositioning is the technique used by self-made millionaires and a great strategy for creating homemade wealth.

Choose the Right Investments

It's very important to remember that the secret to wealth accumulation is not the rate of return, but rather the ability to put money aside, keep it aside and put it to work for you. Properly structured life insurance contracts not only offer income tax free death benefits, but can also be used for tax favored capital accumulation and tax advantaged retirement income. As with any investment program, you should always consult with a qualified and experienced financial advisor who can guide you into an investment strategy that works best for your individual situation.

Give New Life to Your Assets

Rather than allowing your assets to sit dormant inside your property, you can breathe new life into your holdings by repositioning your equity. By moving your equity out of your home and placing it in tax favored investments, you can give your assets new life, putting them to work to help bring you closer to your wealth-building goals.

Remember, it's important to keep an open mind when considering the options for establishing and cultivating a strategy for continual asset nurturance. Learning to separate popular misconceptions from reality will help you to stay on track and build your net worth more quickly and safely than you would with traditional methods. The following 10 equity management strategies are prime examples of how traditional thinking can lead to difficult and costly mistakes in a wealth-building strategy.

Myth #1: The best way to pay off a home early is to pay extra principal on your mortgage.
Reality: No method of paying extra principal payments to your mortgage is the wisest or most cost-effective way of paying off your house.
Strategy: Avoid the mistake that has trapped millions of Americans by establishing a liquid side account to accumulate the funds to pay off your mortgage. This way, you can maintain flexibility, achieve substantial savings, and accumulate excess cash.
Myth #2: Home equity is liquid.
Reality: Home equity is not only usually non-liquid, it may not be available to you when you need it the most.
Strategy: Avoid expensive risks by positioning yourself to act, not react to market conditions. Separate as much equity from your property as is feasible and position it in financial instruments that will allow you to maintain liquidity.
Myth #3: Home equity is a safe investment.
Reality: Homes that are either heavily mortgaged or owned totally free and clear provide the greatest safety for the homeowner.
Strategy: Increase safety by separating your home and your equity. Homes with high equity and low mortgages get foreclosed on the soonest.
Myth #4: Home equity has a rate of return.
Reality: Although home equity grows as a function of real estate appreciation and mortgage reduction, it does not have any rate of return. The return on home equity is always zero.
Strategy: Give idle dollars the ability to earn a rate of return by separating as much equity from your home as is feasible.
Myth #5: Mortgage interest is an expense that should be eliminated as soon as possible.
Reality: Mortgage interest is one of the most useful vehicles for accumulating wealth and financial security.
Strategy: Get your interest to work for you, not against you, by using the difference between preferred and non-preferred interest expenses to your advantage.
Myth #6: Any and all debt is undesirable.
Reality: Some debt, managed wisely, can be desirable.
Strategy: Use debt for positive leverage by using it to conserve and compound equity, rather than consuming it.
Myth #7: Lower mortgages, which result in lower payments, mean lower costs.
Reality: If you factor opportunity costs into the equation, low mortgage to value ratios create tremendous hidden costs that increase the time needed to pay off your mortgage.
Strategy: Understand the cost of not borrowing by comparing deductible and nondeductible costs. You will have to incur either employment costs or opportunity costs. Choose employment costs.
Myth #8: Borrowing funds at a particular rate and investing them at the same or lower rate holds no potential growth returns.
Reality: You can earn a huge profit by positioning your money in a tax favored, interest-compounding investment that earns a greater return than the real net cost of obtaining that money.
Strategy: Turbo-charge your wealth growth rate through arbitrage, the same principle that financial institutions use to accumulate wealth. Separate your equity and find investments that earn a rate of return higher than the net cost.
Myth #9: Equity in your home enhances your net worth.
Reality: Home equity does not enhance your net worth at all. Separated from your home, however, it has the ability to dramatically enhance your net worth over time.
Strategy: Strategically refinance your home as often as feasible to increase your net worth and put idle dollars to work. Equity refinancing sets the stage to substantially increase your net worth.
Myth #10: The amount of equity you have in your home has no bearing on how marketable it is.
Reality: Your home may very well sell much more quickly and for a higher price if it has a high mortgage balance with low equity, especially in soft markets.
Strategy: Always maintain as high a mortgage as feasible to keep it marketable at the highest possible price should you want to sell your property.

Employ the Same Strategies Used by Self-Made Millionaires

With proper equity management, homeowners can increase liquidity and safety, earn a rate of return on otherwise dormant equity, realize substantial tax savings and eliminate non-preferred debt. Additionally, strong equity management programs create opportunities for other investments, enable greater property portability, enable homeowners to create emergency funds and establish private retirement planning strategies that are often far superior to qualified plans.

The strategies outlined in *Missed Fortune 101* are the same strategies used by self-made millionaires and financial institutions to build wealth. Stay open minded, get educated on wealth building, and work with qualified and experienced professionals who can guide you in your choices. Strategic wealth building will require a long-term program. Stay focused on your goals, and remember that safe, effective wealth building is best approached with an open mind.

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To arrange a mortgage planning consultation on strategies discussed in this article, please give me a call.