

IF YOU FOLLOW THE HERD

DOLLARS AND NONSENSE

YOU WILL BE SLAUGHTERED

Dollars and Nonsense

Transcripts for Episode 3: The Power of Leverage

<http://livingwealth.com/e3>

H: Today we're going to discuss why you'll be much better off if you keep your assets in motion and how to use the power of leverage in every area of your life. He's Nate, and he makes sense out of money.

N: She's Holly, and she helps people find financial freedom. This is Dollars and Nonsense: if you follow the herd, you will be slaughtered.

H: Many of us often think about our money as it going in a specific box. For example, you might take your money and you have so much money that you put into savings; you might have one that you put into for your food or groceries for the month; you might have another area for the gas for the car or insurance or entertainment. And then you might just have that retirement program you're putting your money in, and then the checking account that the money goes deposited into, and it leaves paying monthly bills every month. When I was growing up, Nate, my mom and dad had what we called the "envelope system." What they would do every month when my dad got paid is they would take the money for the groceries, and they would put it in an envelope. And then they'd take the money for savings and go actually deposit it in a savings account, but they first had an envelope marked "savings." And we even had a vacation envelope. And if that vacation envelope was empty, we didn't get to go on vacation.

N: How exciting.

H: How exciting is that! We had a really good friend getting married, and I can remember we were all excited—Joe's getting married. And my dad says we can't go to the wedding because there's no money in the vacation envelope. But

actually he didn't say that; he told us we were broke. So what do you think we did? My twin sister ran over to the next-door neighbors, who would collect pop cans, and asked if she could have their money so we could go on vacation because she told them we were broke. How exciting is that for a kid to say you can't even go to a wedding three hours away because you're broke?

N: That's not exciting at all. A little embarrassing I bet.

H: Oh yes! And even the neighbors came over all concerned thinking my parents didn't have even money to feed us. And my mom and dad had to explain that no the vacation account was empty. But surely there should be a better way in today's society and with what we have to be able to keep that money in motion. Do you have a better idea than just let's take our money, whether we put it in an envelope or we, in our mind, put it in that box, surely we have to be able to get it out of that box?

N: Exactly. And that's one thing we're going to talk about today. And that's what Holly said in the beginning, which was really just learn to keep money in motion and how to start using leverage. I totally agree with you, Holly. We all get caught in putting money in boxes. I've got my money just for my bills. I've got the money I'm going to invest in the stock market or retirement programs; I've got the money I might put in real estate; I've got the money for the vacation. We put money in all these different places, into boxes, and we think it can only do one job. And that's one of the biggest causes of harm, and one of the biggest things keeping people from making the money they want and having the wealth they want is that they put money in a box and they can only do that thing. And today we're really going to talk about the power of leverage and keeping money in motion. And the first

step is seeing how fluid money can be. But it really is okay for it to move from one place to the other and vice versa. Holly, you know, we've told the audience before about that we're big fans and proponents of the infinite banking concept, which is really a concept about how to keep money in motion like the banks, and we use whole life insurance as our tool to have the money work and become our own banker. It's a totally new understanding. And we wanted to share some ideas we had on that and also how real estate can come into this, and how they're both really similar, and take some lessons learned by looking at the life insurance world and the real estate world, and what that means to us.

H: Just one similarity between life insurance, let me say whole life insurance, and real estate is they do both appreciate over time. You can have the house that's appreciating in value over time and your life insurance can be appreciating over time because every time you put money in there there is growth within that policy. Would you agree, Nate?

N: Definitely. I agree there are so many similarities between life insurance and real estate that we can learn from. Because you're right, real estate can appreciate over time, life insurance can appreciate over time, and what's amazing is that in both of those worlds that appreciation isn't taxed. In other words, everyone one of us—most people listening probably do own a home and that home could be worth a lot more than what you paid for it. But we haven't had to pay taxes on that, have we? In other words, we're not writing checks. It's only if, especially in like an investment probably, it's only when you sell it or get rid of the property that that's when you have to start paying taxes on your appreciation. The same thing in a policy is that it appreciates and you don't have to pay taxes on it until you get rid of it. And, of course, you'd never really want to get rid of it because you don't

want to pay taxes. As this thing's appreciating, what can you do with both of these types of assets?

H: One thing you can do is borrow against both assets. You can borrow against a home or mortgage, otherwise known as a home equity line of credit. And you can also borrow from your life insurance policy. Now both of those involve some work, but really you can use either asset; if you see the life insurance as an asset and the home as an asset and understand that both allow you to borrow against them without harming that growth, that appreciation over time, because, like Nate said, even though the property is probably growing over time. It's not like your mortgage; they say "Oh now you owe another \$100,000 on your mortgage!" No, your mortgage was for what you bought on it. Well the same is true of the life insurance policy. It's not like as it appreciates, they say "Oh, sorry. You got to pay tax on that appreciation." I would say you want to use both assets to borrow against them. One, in the form of a home equity line of credit with a house. And the other one with a simple loan from the life insurance company, would you agree, Nate?

N: Yeah. That's the real key is that as these are appreciating we're building equity in two places. We can leverage those, borrow against them without even harming the growth of them. And that's when it gets really exciting. And what that means to everybody, and as we're bringing this around, is that you can use that leverage to make investments elsewhere, to put money elsewhere, and you can actually make money in two places at the same time. And that's why the real estate business is so successful, but people haven't seen that in life insurance that you can actually, just like in real estate, you can borrow money from it to go make an investment elsewhere into another property or into a business—the same thing

can happen with your life insurance policy. And you'll end up making money in two places at the same time. That's really what this is about, Holly, is how to think of keeping money in motion instead of letting it sit in one place. A lot of people have a retirement program, and it's hard to keep that – to leverage that—in fact, you can't leverage your retirement program very easily at all. There are a lot of limitations and things. Money can only do that one job. It can only be in your IRA, 401k, whatever it is; it can't be doing multiple things. And we're back into that envelope mindset. And it stagnates your mind's ability to think wealthy.

H: Nate, with that as well, even older individuals that are at a retirement age and that money's in a retirement program, many of them often have their house and they've never seen that house as an asset to be able to use. And so where their money may be locked up in that retirement program, the actual appreciation and the asset of that house is not. And this is another way that they can easily take that money that is appreciated in that house and use it for whole life insurance or use it so that their money is in two places at one time. And the appreciation isn't just sitting there, collecting basically nothing. It's not earning any interest for them. It's not appreciating or doing anything. But they actually have an asset.

N: It's not putting food on the table. That's one of the things I like to call an asset. It has to be something that puts food on the table, pay the bills, or something. A lot of people aren't using their home that way. They're just letting all the equity that's built up sit, and it doesn't produce any value for them. The wealthier know that if they can borrow against it, have your home still appreciate and go invest elsewhere, potentially in a policy or anything else, and actually put food on the table, now you're making money in two places—that's much better than just

making money in one. And as you said, Holly, it's not very much money being made when it's sitting in your equity. If anything at all.

H: It's kind of like collecting dust on the envelope or that box that sits on the shelf that looks pretty, but it doesn't do anything for you.

N: The poor mentality is I'm going to put money here, here, and here, and then I'm just going to let it sit there. The easiest way to have more money coming to you is to think outside of the box. Pun intended there. Think outside of the envelope. And learn how we can move money from one to the next. So we just went through some similarities between the two, between life insurance and real estate—how they both appreciate over time, there's no taxes on the appreciation, we can borrow against them without harming the growth inside, and we can leverage that to go do other things with money. Whether it's investing or buying other properties, whatever it is. One of the things, we're bigger fans of life insurance than real estate. Nothing against real estate, but there are a few reasons why we think life insurance is even better to have your money flow into than real estate because it gives additional advantages. One of them is that whereas real estate there's not really a guarantee out there that you're going to make money. With life insurance, as soon as you open the policy, the insurance company contractually guarantees you that you'll make money. Now that's not a half-bad world to be in. There's not too many businesses out there that will guarantee you'll make money. But life insurance is one of them.

POSSIBLE MIDROLL HERE

H: And the guarantee on that growth also, Nate, for the most part, is tax-free growth. So it's being able to use after-tax dollars to have a guaranteed growth on what you've purchased and still be able to use it but not have to have a taxable growth on it or income. Just like if we put it in a savings account in a bank, that's still taxable. The interest that it grows by. At least with the guaranteed growth in the policy it's not taxable.

N: Unlike real estate, where every single time you'd want to go out and use the equity that you've built up and leverage it to keep that equity in motion and use it to do multiple things, every time you do that you have to crawl into the bank and fill out their booklet of financial forms and give them tax returns and go through this big long application and approval process to get your money back out of the asset. Well with life insurance, it's a phone call, isn't it?

H: Often it's a phone call or a piece of paper that you have to sign.

N: Just letting them know, yep, I do want the money, and I sign here and send it in. In other words, there's no way they can even say no to it. Unlike a bank, [where] you can be declined. You've got this house; it's got a lot of equity in it, but you can be in a position where they won't send you a check for it. So it's just stuck there. Whereas with life insurance, it can't be stuck there. In fact, that's why we encourage you to keep it moving and to think of ways that you can create benefits and value in two places rather than one. No application to make that happen.

H: There's absolutely no application with a life insurance to say, "Can I get a loan?" "Can I borrow money?"

N: Holly, you pointed to this one as well, because the policy grows tax-free, there's no taxation on it and because we can borrow against the policy without taxation that essentially means we can take passive income down the road whenever we like without having to pay any taxes on the money we're taking from the policy.

H: The beauty of it is that it's a loan. It's not money that you're earning, so it's not taxable. It's a loan you're taking out in order to be able to live. But the beauty of that, too, Nate, is that it creates a passive income without taxation and yet it still, even with that loan, has guaranteed growth. So it's doing both things: you're able to take a loan out and still get guaranteed growth without taxation. That's beautiful.

N: A lot of people say, "Well if I'm borrowing money from my policy, won't I have to pay that back sometime?" And that's one of the things with a real estate loan you'll always have to make sure you pay the loan back or the bank will come and take your property. That's not too exciting. They'll foreclose on you. But with life insurance, the insurance company doesn't care if you pay the loan back because they know that there's a guarantee one day everybody does die. The two guarantees in life: taxes and death. All they're going to do is say, "Okay, he's taken all these loans out, every single year for the past twenty years in retirement; there's this big loan balance on the policy. He's never made a payment back to it." But yet again all they'll do is take that amount out of the death benefit and send the rest to the kids. A loan is just a prepayment of a death benefit. So that's one of the other great things is that there's no payback schedule; you're not answering to somebody else when you borrow the money, which you means you can be in

total control of the money and use it for anything and everything you want without worrying about getting a bank's approval or being able to pay it back. Maybe we're making this out to be too simple; I don't want to do that, necessarily. I'm saying, you're in total control now whenever you borrow from your policy, unlike in real estate where really the bank is in control and can tell you on their terms what you need to do.

H: And the bank can decide to call in a loan, Nate, whenever they want. And you have to pay this back. With the policy it is as simple as it is a prepayment of the death benefit. And because it's a prepayment of that death benefit, you don't lose control and the bank where they would be calling—"Where's my payment" if you haven't made it or "Hey, the note's due on the loan. You need to come up with the money or we're taking the house"—the life insurance company doesn't operate that way. Have you ever gotten a phone call from the life insurance company asking you where's your loan payment?

N: No. Never.

H: No. I've been doing this now for ten years, and I've still never gotten a call from any loan I've taken saying where's that loan payment due? So it's really beautiful in the fact of you don't lose control; it's a prepayment of that death benefit. And everybody should be asking themselves: how often in a day do you think about money? How often do you think about death? And really we don't think about death nearly as much as we think about money. We're thinking about money every day, almost every hour of the day.

N: I don't like thinking about dying.

H: I don't either. It doesn't even cross my mind. The death doesn't cross my mind. What crosses my mind is what can I provide even more for my family and how can I leverage my money? What else can I do with my policy to leverage and bring about even more wealth to my family?

N: One of the amazing things that I've thought is just like when you have properties, or even if you just have one, most people who get into real estate they're thinking of every possible way they can to leverage the properties they have to go out and buy new ones. They understand this. And their main goal is to keep as much of that money in motion so they can make money not just in one property but two, then three, and then four. As many as they can get. We've kind of, only the people in real estate think like that, people don't think like that in the stock world necessarily—some people do, the wealthier people do. Holly, I'm sure you've heard of buying stocks on margin, borrowing from your stock programs to go out and get other ones. There's so many different avenues to leverage, but of all the policies written only about 2% have loans against them, which means everyone just puts money in there and they're not leveraging it back out to go work with in their life, and it's just sitting there. People ought to start seeing ways they can do that. I like to talk to people—you can even use a policy loan from your life insurance to buy a property, to buy some real estate. And you can even use your real estate to borrow money against to buy a policy. In other words, the key is learning to keep money moving and build wealth by having it in multiple places not just one. And that's really what we're discussing and wrapping up. One of the things I like to say is that because a policy is so flexible, we can use it in everything in life that we want to. So whereas normally people don't borrow money from their real estate to go on vacation (or at least I wouldn't suggest that),

or they don't leverage it to go buy a car or different things, we can do that with our policy. So let's say, Holly, you need to go buy a new car; you've got your cash value and your policy, and you say you'd like to have a loan. They don't even ask you what it's for. They just send you the money. You take the money, and you buy the car. Does your policy ever stop growing?

H: No, the policy never stops growing.

N: No, it's growing as if all the money was in there because you didn't really take any money out. You just borrowed against it. And now you can repay the policy loan back instead of the bank back and get all the money back in your policy and go do it again and have all the money back, plus I've made a profit on it. All from the power of leverage and having your money work for you 24/7, 365.

H: And, Nate, the beauty of that is the fact that you never lost control of your money. You turned the car from a depreciating asset into an appreciating asset because after you pay the car loan back to the life insurance policy and the company, you have the car and the money to go do it again. And even what most people don't realize is—Nate what is a life insurance policy to a bank?

N: It's an asset.

H: It's an asset. The banks view the policy as an asset, so that's how you should be viewing it, as an asset. A bank looks at a life insurance policy and says, "That's good. That's cash. That's really good. We like that asset." Because it's going to grow. They know that. So really if the banks view a policy as an asset, you should view that as an asset, and see the power of that leverage. The power that that

policy has to bring you financial freedom and to take everything you want to do and use that policy to do it with. And we're not just talking about the down payment on a house. You can do that. Absolutely. The down payment of your house, if you're looking to buy a house, can come through that life insurance policy. And then you're not paying a bank back for that loan. You're actually paying yourself back. And the money is still growing guaranteed inside tax-free. And you just leveraged your money once again.

N: That's one of the keys of today is to just figure out ways that you can keep money in motion instead of letting it sit. Think to yourself: isn't there a way that the assets I have I can leverage so I can keep that asset I have but also use it to get another one and increase my return? Think in those ways and you'll see that leverage can really bring wealth in every area of your life, and that's why we like life insurance so much because it allows you to be in control of that and use it for anything, not just what the bank tells you you can use it for. Any closing thoughts, Holly, before we wrap up?

H: I want to close with one thought: the life insurance policy is flexible. There's flexibility; it's fluid. You don't just have to take a loan out. It can grow guaranteed. There's advantages to using it versus real estate can't be so flexible. As much as you love the real estate aspect, I personally think it's better to use the life insurance policy and then go purchase the real estate. And the reason why is in real estate you have to find a buyer if you're going to sell it. You do have to pay a loan back. You don't pay the appreciation of it, but if you take a loan out, you do have to pay that back. And if you're using real estate as an investment home, there are all these other hassles—you have to find tenants to move in or, like I said, you have to find someone to buy it from you, and then you pay taxes on the

growth of that sale to where the growth of the policy you're not paying taxes on, as you repay the loan back, the policy is still growing and you're not paying taxes on that. Really you have to see the beauty of having something that is flexible and fluid, which mean it works with you and you get to control it versus giving control to someone else.

N: Yeah, that's great. Taxes are the greatest "eroder" of wealth. That's why real estate and life insurance are both the most commonly owned assets by the wealthy. They don't like paying taxes. That's definitely one of the things you have to look out for. A lot of people use leverage because they don't want to pay taxes. Thanks for joining us on this podcast. We hope you enjoyed learning about leverage and will take this information and go see how you can take advantage of leverage in your life. This has been Dollars and Nonsense. If you follow the herd, you will be slaughtered.

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