JAMES**SCHRAMKO**

Six Critical Wealth Creation Concepts

Wealth creation isn’t something to approach haphazardly. James and Business & Investing's Charley Valher suggest considering six key concepts.

James Schramko and Charley Valher

James: James Schramko here. Welcome back to my podcast. This is episode 942, called Six Critical Wealth Creation Concepts. This is actually part two of a two-part wealth creation series that I've been doing with Charley Valher from businessandinvesting.com. Welcome back, Charley.

Charley: Thanks for having me again, James. It's been a long time, maybe, maybe not.

James: Well, in Episode 941, which if you haven't listened to yet, of course, go and listen to that, we talked about how to earn more. And we covered some sort of tricky terrains there for business owners who really want to earn more and start thinking about creating wealth. Of course, to create wealth, you've got to have some money to invest, and you've got to have some cash flow.

So we talked about the steps involved in actually getting it to that point. Not all easy, but relatively simple. We talked about getting uncomfortable, for example, and setting some targets. We had some great discussion about having kids, a few war stories of my traumatized past, and some of the things that have been working well for other business owners. So that was episode 941.

Now, we're going to be talking about six critical wealth creation concepts. This is episode 942. Why don't we start off with the big mac daddy topic right now? And it's currently 2022 as we record this, and there's something going on out there that's a big, scary demon.

Beware of this newbie mistake

Charley: Absolutely, yeah. I do want to frame this one up a little bit before we dive into the points within it, because I think it's critical for people to know where this fits in their journey. Now, I will acknowledge that I didn't do this. And part of this is me wishing to pass on some wisdom to people at the earliest stage, so they don't have to go through some of the painful experiences in wealth building that I did.

Now, the tendency is, once someone starts earning a bit in their business, and they want to invest, they jump right to the tactics, right? So they go, Alright, it's time to go for Bitcoin, or I'm going to invest in the share market, I'm going to buy a property, or whichever asset class or another business or whatever it is. And they take very little consideration for the concepts that sit behind it.

And the way I would get people to think about it, it's like rushing into marketing, when you haven't actually got a business model. So quite dangerous. And it's like, you could be going, well, I'm going to go straight after doing Google ads. But maybe Google ads aren't right for your situation, or maybe they're not the right thing to be looking at. They have to be really, really careful with that.

So I want to pass on these concepts. And of course, acknowledge, this is not financial advice. These are just some concepts that will help you. I highly encourage you, take these concepts to your financial advisors, or people who are helping you with your money, so that you can have really good, high-quality conversations and set yourself up for long-term success. It's very, very important.

James: That's the important thing. You know, I'm not a financial adviser either. But I remember, one of the first investment things I did, I went to my accountant, and he said, We should get a personal loan, and we should buy five blue chip shares. He was just a family accountant in the local village. And that was the first strategy. And that didn't do anything particularly amazing.

Later on, I got a more sharp accountant who was pretty edgy and wanted me to get into wine and grape schemes and so forth, especially around June, end of financial year in Australia. That guy predictably got arrested and charged with fraud years later. And then I found, you know, I ended up with my Goldilocks accountant I've had for a long time, who's fine.

But it is hard to get good advice. And I've spoken to lots of different people. I've been involved in different types of things. But it's so important to educate yourself on this, read the books, learn what's available to you and the underpinnings of how it works. Certainly, in the online space, a lot of people have been crypto-wrecked, I'll call it. I don't know what the name is it for the moment.

But the social feed's gone very quiet lately of all the great gains they're having from this magical fantasy land of weird and wonderful stuff. And maybe the Warren Buffett approach of not investing in things you don't understand could have been useful for a few of those gun-totin', energy-charged investors.

So we're seeing a shakedown at the moment across the world, in terms of supply and resources. We've had a softening of all sorts of things, from tech to blockchains. There is uncertainty around, even the stable ones like properties and regular shares. So it's like, gosh, what do people actually do? And at the same time, there's this big boogeyman out there. Should we talk about first wealth-creation concept?

The threat you may not have been aware of

Charley: Absolutely, let's go into the boogeyman - inflation. Inflation is this one that I think, seemingly, people have only become aware of this year. Although I would ask everyone to acknowledge it's been a present thing in your life since your existence, like, it has been just working either for or against you. And you just have either knowingly or not knowingly being benefit or losing from that. So inflation is a huge one.

James: I remember when a can of Coke was like, 20 cents.

Charley: I love those stories from my grandparents about, like, Friday night dinner at the fish and chip shop costing like 15 cents. I can't imagine it.

James: Well, you know, like, I've recently been overseas, and it's interesting, you know, the cost of things overseas versus here, etc. I know someone does like, a Big Mac inflation index or whatever. It's like, what's the cost of a Big Mac across different countries? But some things cost more, some things cost less when you travel around a bit.

But at all times, there's this inflation thing going on. So even if your house is going up in perceived value, it might also cost a lot more for things. I got a letter from - here it is - I got a letter from one of my insurance companies. This is like, one of those sort of trauma, life plan type things. And they actually increased the premium by about 38 percent this year, 38 percent. I literally said to my wife, Wow, that's inflation for you! That is not unsubstantial.

Charley: It's significant.

James: That is huge.

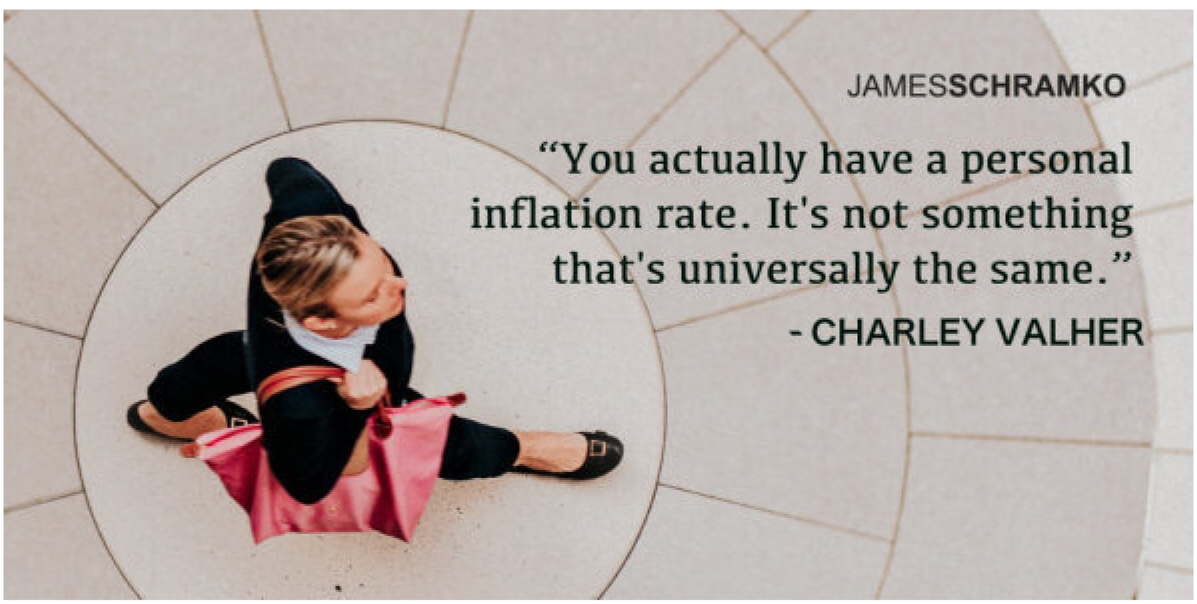
Charley: Very significant.

James: It's like, oh, we'll just pop this up. And they said it's because they've had to pay for this, that and the other, and it's impacted the industry overall. You've got to watch out for this. I mean, obviously, for most people, it's costing a little more to fill up the car, if you're still using a combustion engine vehicle.

Food has been - there's been lots of stories here, you know, about costs of lettuce and so forth. It's hurting, you know, obviously, airlines, like a big airline carrier is going to pay a lot more for fuel, and it's hard for them to get staff right now. So the ticket prices are off the charts. I just took a flight, Charley, last week. That was unexpected flight, let's just call it a rescue mission, where I had to drop all things, head overseas the next day, and then come back a week later.

I paid the same as what I would have paid for business class fare, pre-COVID, to make that economy flight, it was outrageous gouging. But that's inflation for you. So I guess inflation is a really important thing to understand, because it's affecting money just sitting in the bank, it's affecting your ongoing costs.

But also, it might affect your business as well, in terms of what you're paying for things, like staff, for resources, especially if you're in a business that has physical things, or that are hard-to-get things. I mean, obviously, cars are impossible to get right now because of microchip supplies. And it's costing a lot more to freight shipping containers of anything, whatever you're shipping is costing a lot more. How do you see inflation being a critical wealth creation concept?



How inflation actually becomes personal

Charley: Well, you've mentioned many of the ones that apply to like, our personal lives here. The thing I would get many people to understand is that you actually have a personal inflation rate. It's not something that's universally the same. And the easiest example I can give is that I didn't have to take a flight last week on a rescue mission.

So for myself, I'm someone that doesn't do a lot of plane travel. But if you're in the type of lifestyle or business that has you doing a lot of plane travel, well, you're going to be more heavily exposed to fuel price moving. So when we take this a level deeper, is a lot of people don't realize that they are actually, within their control, have the ability to dictate their own inflation rate.

You can make different decisions and in turn be more or less exposed to inflation. So you might be a family that currently has two cars. But do you really need two cars? Because that would change. Could you move to an area where you have to drive less? Then you would be less exposed to that amount of fuel, in that example.

Is the way you're eating or your dietary selections particularly prone to where - you know, if you really like lettuce at the moment, I'd be deeply concerned for your budget. So not making inflation something that's, you know, our CPI or what the news tells us, it's five percent for everyone. James, in your case, your inflation rate might be 100 percent compared to mine, because our personal choices and our lifestyles go through with that.

The second one though, is that inflation also applies to assets. Different asset classes will be more or less exposed to inflation. And you've mentioned the idea of, like, cash being devalued. So if you're a bond investor, you are going to be more prone to feeling inflation when it's on the rise than when it's falling.

And again, I'm not going to pick asset classes for people. But I think you would really want to understand that there is a massive difference between shares, bonds, property, crypto, and how they perform in a high-inflationary environment, versus a low-inflationary environment. And a good planning, or a good thing to have in place with your financial planner, or who you're doing your wealth with, is understanding how your wealth is going to do in different environments.

Like, you can't just be set up to be all in one thing with high risk when there's a moving environment, because that could actually have you come undone. So it's important that you understand this concept so you can make a good decision about being able to thrive in any environment.

James: Yeah, the moving target thing is important. Like, one of the catchphrases from a year or two ago was, you know, just take out a mortgage, because it's literally free money, because interest rates were so low, like two or three percent in Australia. And now, if the interest rates are going up dramatically, it might be better for you just to pay down your mortgage than to put your money into some other asset class. So it might change the behavior of how you invest.

I was just thinking the family that has a few too many cars, they could be winning right now, because the cars probably all went up in value. They could sell the car, capture the big gain, and then not have to put fuel in it. So it's like a double win.

Just for laughs, I looked up an old car that I used to have, it was a 507 edition C63 Coupe. And they're now selling it for more than what I sold mine for about five or six years ago. So had I kept that car, I could have actually enjoyed a capital gain on it, which is something I could not have anticipated when I sold it. But there's some luck in there. But the other thing is, my couple of surfboards, let's call it, have also increased in value because they're harder to get, and they've gone up since what I paid for mine three, four, five, six, seven years ago.

So it's interesting when you do cast the net across your holdings, whether it's art assets, or, stocks, properties, cash, whatever, just to see, how do they sit now versus a year ago or two years ago. And I guess part of it's thinking, what's going to change in the future? I can see that the cost of living, it's just so incessantly on the news, it's like, it's depressing, if you happen to turn on the news channel.

Basically, everything costs more. Fuel costs more, lettuce costs more, housing costs more. There's nowhere to live, like, just throwing a monkeypox on top, it's like, gosh, is it even worth living? Don't get down about it. There are ways to maneuver around this.

Is there an upside to inflation?

The thing that always uplifts me is the knowledge that a lot of fortunes are made in times like this. Like, right now, there's a country who is going to basically bail out their energy provider, the private energy companies who are struggling, they're going to now provide the energy. It sounds a lot like communism to me, but there's always opportunities for people when someone else is struggling with inflation, there'll be an in for someone to do something good out of it.

Charley: Yeah, now I'll go into that a little bit further. I've been very fortunate that I was able to find some good advisors and people to help me, and before inflation poked its head up here in a rising way, I was actually able to accumulate some assets that do well in inflation. So yes, my cost of living has gone up, but so is my income and net worth in proponent.

And like, that's an ideal outcome, I think, for many people. What would be dangerous is if that you weren't prepared for any inflation, and then everything is going up, and you're getting caught off guard. So a really quality conversation with you, as someone who's helping you once again, is to be set up for these times. And James, I hope you're doing well in an inflationary environment, maybe just not these flights.

James: Oh, I'm doing great. I mean, to fill the tank on my scooter to go to the surf when the surf's good, it's gone up from like $6 to $9 or $10, but I'll be able to deal with that in the general course of living. I actually have really frugal living costs compared to what people would expect, aside from - I mean, that's the first time I've been overseas since January 2020.

How the travel situation has changed

First time I've been overseas since then, and I used to go overseas, you know, pretty much every month or two. So I just strung together seven flights over three weeks, visited three different countries, got sort of updated and recalibrated. Thankfully, the rest of my travel into next year is all booked and paid for pre this price escalation. So yeah, you only get caught out when you have contingencies.

But I'll tell you what the flip side of that is, Charley, I had a choice. I didn't have to go on the rescue mission. But I was, thankfully, I had abundant time and money to enable that, to be able to do something that other people can't do, perhaps, because they don't have the choice. So I felt empowered that I had the opportunity to do that. And I'm very grateful for it.

So I'm absolutely not complaining that I had to pay more, it's totally understandable. But I am highlighting the fact that it's a changing landscape. Because if you go back 10 years ago, I know I could travel on a return trip for like, 800 or 900 Aussie dollars, you know, full northern hemisphere overseas type thing, even less sometimes, $700. So to be paying like, five or six grand these days is like a massive change.

The other thing, I gathered a lot of knowledge when I was out there. Now, we talked about this in the previous episode, 941, in the course of my seven trips and observing people in three different countries, I was able to pick up a lot of insights that I think the general public are not seeing. The fact that COVID is absolutely rampant everywhere, that the bureaucracies and procedures are failing dramatically.

I had lost luggage, they lost my bags, my surfboards. I mean, I would carry them on if I could, but they don't let you carry on a seven-foot, six-foot bag, that they're severely understaffed, that some of the meals and even some planes don't have the right supplies, that they're often being delayed, canceled, pushed back, switched around. That the queues to get on the planes or through the airport or customs can be extended way beyond what it used to be pre-COVID.

So I'm seeing this on the ground. When I went to pick up my bag, which they thankfully found, it was like a Tetris game. Their office was stacked from the back of the room out the door, and even outside, with lost luggage. Like, this is an epidemic situation, it's not changing for a while.

So for those who are traveling, you probably know what I'm talking about. It's a different world out there. Plan ahead, travel light, take your supplements, and expect to change plans multiple times, or be sleeping in an airport or whatever, because it's not going to go smoothly. So that's the valuable insights I gleaned from my expense that I can share on this podcast and make it all worthwhile.

Leverage, inflation and debt

Charley: Yeah, good story there, James. Should we dig into the next concept?

James: I think so, we'll be here all day. Let's talk about the next concept.

Charley: All right, now I want to do a, almost like a segue a little bit here. So the next concept is leverage. Now, something I didn't bring up in point one on inflation is debt. So the use of maybe a mortgage, in this case. Now, something people need to be aware of is that a mortgage is something that will inflate away.

So if you're buying something in today's dollars, and then over time, that money is depreciating, that is inflation at play through the use of leverage. And a great way to think about this is if I think to my grandparents who bought a house for $9,000, and they got a mortgage for that, over the duration of time, that debt has devalued.

Now, this is a pretty deep concept. I don't want to go too far into the idea of using leverage and debt as an inflation play here, nor am I recommending it for anyone. But it is something that you can certainly see and is evidently done across the world. So definitely an area to do research.

But bringing it back to this next component here, what we also have to be aware of when we're looking to build our wealth, is that certain assets are likely to use that debt or can use debt versus can't use debt. And the amount of debt you use within those types of assets can be really risky or not risky, depending on the amount you use and what position you're in.

And you mentioned before about, like, once upon a time, they'd be like, get a mortgage, it's free money, which I'm not sure I essentially agree with, there's always an interest rate, but at the same time, at different times if interest rates are higher, that may not be appropriate or a good idea at all.

James: Yeah, of course, if you are in a situation like my parents were where their interest rates were double digits, you know, they were like 20-something percent at one point in 1990 or 1991, it was not good. You just can't keep up with that. Because even if you borrowed $9,000 at a high interest rate, over time, you can be paying multiples of that back, if you look at the cost of it over 25 or 30 years.

So that's where things like fixing and variable rates could be important if you're in a changing landscape. But yeah, leverage, the way I understand it is, it can give you a lot of upside. And it can give you a lot of downside, especially if you're doing like, option shares, etc. I know people who lost more than a million dollars on margin calls for block chain currency. And they're very regretful about their choices.

But when they're looking at leverage, they're looking at the potential upside, and they get blinded by the potential upside. But there is often a potential downside. I remember reading the terms and conditions on one trading mechanism. And it said that the limit of the loss of your investment is 100 percent of your investment, which basically, you lose absolutely everything.

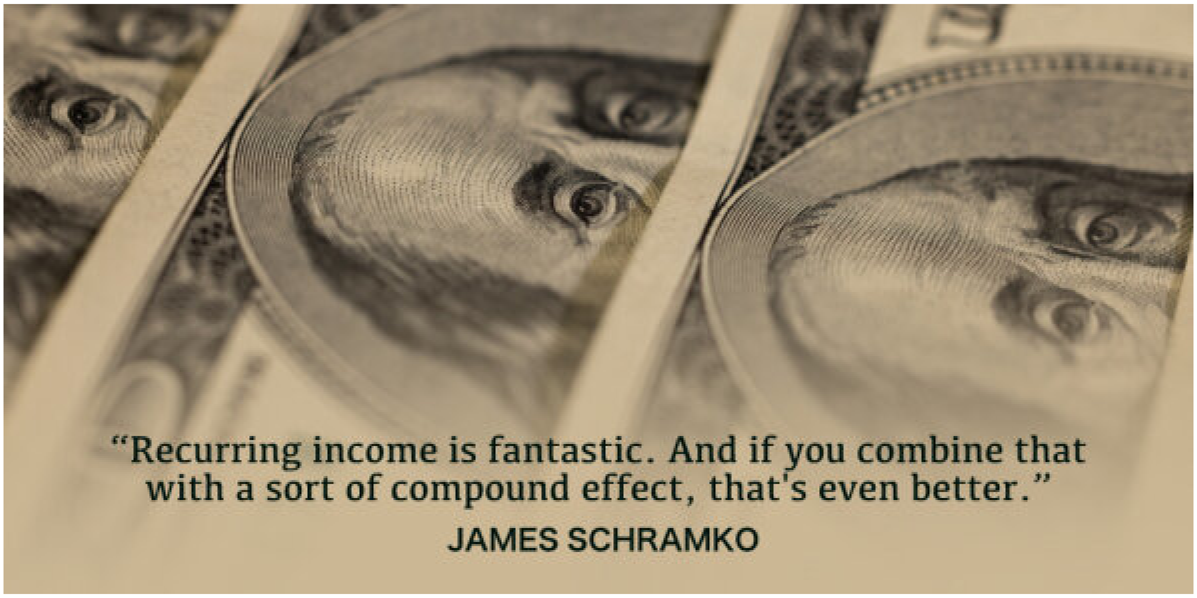
When I'm looking at high-leverage activities, I often classify that risk as well, I would only use money that I could afford to lose, that if it all went, that I would not be remorseful and a lot of the less understood and more edgy asset classes fall into that category.

It's worth knowing that when you're talking about venture capital firms, etc., they don't expect most of their portfolio to succeed. They know that almost all of them will fail, but some of them will hit it out of the park. And when we're only getting presented the hit-it-out-of-the-park examples, like in every single business book and podcast, Apple, Microsoft, Amazon, Tesla, all these sort of amazing stories, but we're not hearing about all the train wrecks and desecrated companies in the graveyards of business along the side of the roads, we've got to be very careful when it comes to leverage.

Now, I like leverage to create wealth. The leverage tools that have been the most profound to me are team. The team is what creates leverage for me, because you can hire their time, you can buy their time, and they do a pay-by-the-month installment option. So you can buy your team on a pay-by-month installment. And then it's up to you if you can use that team to get a return on investment. So there's huge leverage in team.

Other leverages you can consider

The other leverages I like, and we covered this a little in the business model on Episode 941, the previous episode, are getting paid recurring. If you can get paid recurring, and this will account for both earning money but also investing money, if you could get investments that pay recurring, some are like stock dividend reinvestments or whatever, they can grow themselves, or I've got a property for example that is rented out, and the tenant pays me recurring income, which is more than what I need to pay for the property, then over time, I've actually got a positive income stream.



I love recurring, recurring is fantastic. And if you combine that with a sort of compound effect, that's even better.

I like higher price points when you're selling things. So that's good. There's a lot of leverage in that. I'll give you an example.

If you had 10 clients paying $10,000, that would be $100,000 a month. You need a lot of clients at $10 a month to earn $100,000 a month, right? You need, what is it, 1000, 10,000 clients at $10 a month? That's a lot of work. So high-income points can be great for your business in terms of leverage.

What else you got on this topic?

Charley: Well, I was just going to recognize that many of the things with team apply to wealth as well. So for example, I'm very into property. That's one of the areas I play a lot, and a great property manager, and a great mortgage broker, like the critical people on the team that provide a lot of leverage. I also use a buyer's agent, and they provide an incredible amount of leverage.

So I love the way you segued that in, is when you mention leverage in investing world, everyone's talking about the debt. It's how much money you're using. But there's different elements to leverage here, which can often have higher returns or better returns, depending on what it is. But I would just encourage people to think outside the box on that and use leverage appropriately.

James: Yeah, I think that is important. And I know you got team later on, so I don't want to steal too much thunder from it.

Charley: I feel like we did a little bit, but that's fine. I'm all for it.

James: I feel like we did, too. But it's just funny how my mind works when I think of leverage because I'm so used to, in my world, leverage is coming from the price point, the frequency and the team aspect. And yeah, I've used a buyer's agent multiple times. I definitely have.

I've got this great property manager. Since I moved out of the place that I came here from, the only thing I've ever heard from them is just the statement. I've never had a single phone call, nothing has needed doing. It's been a dream. And it's certainly a better experience than what I've had in the past.

So I think there's probably good team, and bad team choices, like anything. So if you get the right team, it creates that leverage for you, where you're not worrying about stuff.

Let's go into the next topic, because it's a big one, probably the biggest thing we'll ever pay in our life.

Let's talk about tax…

Charley: Tax. Good old tax.

James: That's it. Like, honestly, the tax office gets paid better than I do, or about same as I do for all the efforts I do. They're a fantastic partner, I am a good partner for them. Like they're getting a good chunk, I don't know what it is these days, it was probably around a third of your revenue or whatever, depending on where you live, and what sort of business structure you have.

And so far, I haven't discovered any tricky way to pay no tax, I mean, some people will go and live in a substandard place, but then you're living in a substandard place. And that can't be overlooked, from my perspective. Like, they brag about paying no tax, but they live in a dump. Or you know, and they have developing nation support infrastructure or access to health or food or resources or whatever. So I think that's a false economy.

From my experience, if you want to live in a nice place and have good infrastructure, you're probably going to pay tax, because that's what creates the nice place and the infrastructure, the good roads, and when it rains, and there's a pothole and it's gone the next day, or when they come and pick up your rubbish or the state schools are reasonable, or that you've got police and health and those sort of things, then you're paying for that with the tax. But I'm sure there's things you can do to be more effective with the way you pay tax.

Charley: Absolutely. And I much think about it in the same way. Tax isn't something that you should avoid, right? Tax avoidance is a very real crime. And I think that all the effort it would create to legally avoid tax, I sometimes wonder if you'd just be better off paying the tax. Like, it's a lot of work.

James: For me, I want to be able to sleep at night. I don't want to be wheeled off in handcuffs in 12 years' time and for it all to end, just like you see in so many movies, where the going's great when it's great, but it's really bad when it's bad.

I don't know where Carlos Ghosn's up to. And I don't know anything to the validity of the allegations or whatever. But like, this guy had a pretty amazing run until he didn't, and then next thing you know, he's allegedly being wheeled around in a little sound gear box smuggled out of the country, in Japan, for claims of tax. Now, he says it's all set up or whatever. But I watched a documentary about it on the airplane.

It just reminded me, there's no real shortcut when it comes to the tax, and setting up things properly and above board, the peace of mind that can come from that. And in fact, knowing that you're actually contributing to people in a way who maybe don't have so much privilege and blessing and a great upbringing or opportunities to them, you can actually feel good about paying tax in a way. But there are certainly ways that you can maximize your way of dealing with it.

And I would especially advise speaking to a great accountant. And someone who's, like I've talked about my bad accountants, I had one that was way too conservative, I had one that was a complete, like, wolf, and then I've got the Goldilocks one, the play-it-down-the-line, straight up and down, but knows the right way to do things. I think that's very important.

Charley: Yeah, and you may need multiple accountants in this circumstance. I actually have multiple accountants. And believe it or not, I actually have a tax lawyer on my team who's a very specialist in structions. Now, why this becomes important when it comes to wealth, like you mentioned, many of the business components already, James, so I'll go to the wealth side.

But different investments and structures can be either taxed in a deferred environment or in a current environment. And the big one that stands out here is that superannuation in Australia, or I think it's called a 401K in the US, is that if you contribute to that type of vehicle, it would be taxed very differently than if you were to build assets, just in your personal name, for example here.

So knowing the balance of them and how it works into what you're doing with the tax of your business, you can see a disproportionate effort just by not knowing the difference between those two. And I'll also mention that some assets, depending on what you're buying, have tax deference, where you don't get taxed until you actually sell the asset, and other assets that you buy get taxed along the way as they're producing income.

And I'll throw in one more level of complexity here is that governments even like a variety of incentives, depending on what investments they would like you to go after.

So I'll just speak to Australia, for example. In Australia, we actually get a capital gains discount on housing or investment properties. And the reason for that is that the government doesn't want to have to build and manage all the properties for the people that need them. So they incentivize property investment in this circumstance here, which is certainly not for everyone, but they incentivize it so that it takes pressure and stress off, let's say, commission homes.

So layering this all together, as you can see, even the tax environment can be quite complex when it comes to building wealth, and having that good accountant or several good accountants, or even a tax lawyer on your team, to know which one would be right, depending on what your business does, can make a massive difference to your overall wealth picture towards the end of the journey.

James: Yeah, that's so true. Actually, I had a tax specialist advise when I was looking at which countries to have your entities in, and so forth. There's lots of issues like double taxation or tax deferment, and you have to be careful with that.

One thing I remember from working at the Mercedes-Benz dealership was often, we'd have a high flier come and buy a nice car, and then sometime later, we'd get a visit from the fraud team from the police department, and they would be asking for all the records, and they'd produce a warrant, and we'd have to give it to them.

And they would tell me that they had just come back from police or all these tax havens, and they said, Nothing is hidden anymore, they can get their hands on anything. So often, when I'm helping a client, they're like, What do you do to pay no tax? And I'm like, I haven't figured that one out yet. Like, there's no secret special hack.

Now, something that sort of leans back on the topic you said before, you can also decide how much tax you want to pay depending on what sort of things you're consuming, right? Because they put tax in everything, from fuel to luxury car tax. Some of my overseas friends, they can't believe that in Australia, you pay a luxury car tax on certain vehicles. That's why they cost so much more.

The last time I checked, it was like 40-something percent, 45 percent on vehicles over a certain threshold. So that means if you'd like the luxury cars, you're going to be paying a little bit more for them than if you don't want to drive them, so it's an optional tax. You're right about the concessions, I think I got a concession on my stamp duty if I live in my house and if I don't sell it, when I moved up here, which is great and much appreciated.

I've learned about other taxes along the way, there's so many little sneaky ones, like if you buy and sell crypto, if you don't hold it for a certain period, you have to pay capital gains tax on it straightaway, which was annoying. I had a bit of a flip flop with Bitcoin over like, a year ago, I was buying and selling on the highs and lows, and I'd managed to acquire quite a capital gain on that, which I had to pay a good chunk, a nice big chunk to the Australian Tax Office for my, basically, again, they were partners in my trading. I think they took 35 or 40 percent of my hard won gains. So well done, guys.

There are other things you've got to be careful about, like if you want to go claiming certain things, make sure that you're in the right classifications, like if you're working outside or whatever, then there might be options for you to claim sun cream or sunglasses and stuff.

In our industry, of course, a lot of your travel and expenses, conference rooms, those sorts of things might be things that you can talk to about with your accountant, but I wouldn't go crazy with - one thing I've noticed, and you're so tied into accounting, Charley, there's a lot of business owners seem to run their private expenses through their business, and I would strongly advise against that, if anyone asked my opinion.

I'd be careful about that because it just seems messy, and it certainly will make it hard to sell. And also, it doesn't sit that well with your tracking ability when you start blurring the lines on stuff, it's very hard to actually get clarity.

So what I do is I split my cards so that I have a personal expenses and a business expense, these things, it's extremely easy if it's a business expense, it shows up in Xero, if it's a personal expense, it doesn't, and it's not tax deductible so it doesn't matter, and I can just keep tabs on my personal account easily that way.

Charley: Yeah, massive one there. Again, it just highlights the point. A lot of, not just business owners, people in general get themselves into a huge amount of trouble, like your crypto example. We're not aware that selling something was a taxable event, and then buying it again, only to realize that then they'll have to sell more of it to pay the tax bill. So these types of things may be a massive one.

And I'll throw one more in because this is very relevant to this audience, and I actually know someone going through this. A business owner I know actually has a business that has land. They have a big property in that business, and they're planning to sell the business. But they incorrectly set up the structure of that company.

So when they go to sell this, it's going to be taxed at, let's say, 50 percent, instead of if it was put into the right structure, it could have been taxed at 30 percent. Now, this is not a small property or a small piece of land. So when we look at that, we're talking the difference between millions here, which is such a significant thing.

So if you're a business owner looking to sell your company, at some point, you will be taxed on that as well. So to know that you're managing that well, massive difference in the overall wealth picture.

James: I noticed a lot of my clients did that at Mercedes-Benz, they would build a building development, they'd start a new business, they'll build a new residential tower. And then they would keep a shop in the bottom. And then they'd keep a penthouse at the top as their own holding and then sell the rest, but keep them in the business.

So they never actually had a final exit. And then they'd start a new company and start the next development. They always started a new company, for each development, and they partitioned and firewalled them off. And I know for my US clients, a lot of them somehow roll their company into the next company at the end of each year to sort of delay or defer the amount of tax they pay.

So depending on what country you're in, and what kind of business you have, and how you structure things will make a big difference in terms of what triggers a tax event, and you want it to be in the right entity. I know when I sold my businesses in Australia that I got a small business capital gains concession, because it fits certain criteria. It was under a certain value, and it allowed me to pay less on that sale event. So it's good to know this stuff.

Also, what you're talking about, the superannuation/401K, there's a maximum limit, I think in Australia. They won't let you put more in unless you want to pay.

Charley: I think it's $27,000 is the rough one.

James: Yeah, I think 27, somewhere around there was the last. So it's good to, you know, if you want to do that, which I do, I pay for each person, of course, often families will income split, and you can put it for each person, and then you can control that money, and it's a lower tax rate at that. If you pay more, there's no real benefit.

And then you got to work out, well, how long until you can access it? And what do you want to be able to do with that money, then? It was so far away when I was planning that that I don't even count on that money ever being important, but I do.

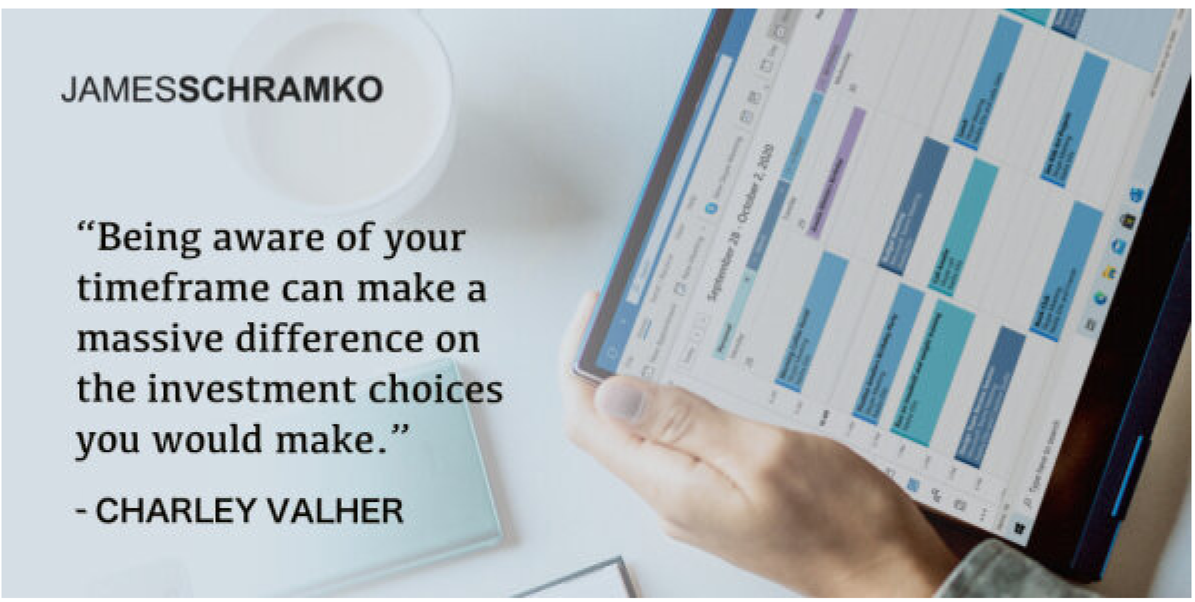
I'm certainly concerned that by the time I reach retirement age, like, what the government says retirement age is, I'm not hopeful that there'll be so much of a social system paying any kind of pension, because it seems like that would be hopeful thinking. That's not my retirement plan, to rely on the government.

And I'll tell you what drives me, you're talking about getting uncomfortable on the first point in the first episode, 941, I don't want to go down to a local coffee shop and hand over my phone, it used to be card when I first thought of this, and hope that it clears me for a cafe latte or whatever that I'm wondering, you know, I'm bouncing on the bottom line.

I'm sure everyone's experienced that, I've certainly in my early 20s, I did, when you've got to buy something and it doesn't clear, and you have to take something out or just walk away with your tail between your legs shamefully. Like, it happens. I never want to visit that, never again. I never want to be in a situation of financial concern. So that's what motivates me to get this right. So hopefully, that's a strong motivator for here. What's next on our list?

The element of time in wealth-building

Charley: Time, we're going after time. And I think there's a few things here is like, when we look at time, is there's certain asset classes that take longer to get to when you would want to be able to actually capitalize on them, I'll say. And then there's others that are more designed if you want to get a return more quickly.



So being aware of your timeframe can make a massive difference on the investment choices you would make. And also the opportunities. Like, if you are able and willing to wait 30 years, that's very different than someone's trying to retire in the next couple of years. So playing that environment can be massively different.

And then the other side of it is compound interest. So if you're investing into something, and you've got many years, is you're allowing the gains of every year to compound into the next ones and create an exponential return, which anyone who listens to this podcast, James, I'm sure is very, very aware of like, exponential returns, but having that work for you when it comes to your wealth can be huge here.

James: Well, I think it's, what was it? Buffett says it's some most magical thing. Or it's like a snowflake at the top of the mountain that rolls down and becomes a snowball, and it gets bigger and bigger. I love having compound positive returns. It’s just phenomenal to see that in action. It's a miracle.

You know, this really falls back to you setting targets, because you have to be realistic about, like, how long do you think you're going to live? How much money you're going to need to live? I think one of the investment guys in Australia just said, Do you need like $350,000 (that's Aussie dollars) to retire? It doesn't sound like enough to me.

Charley: That is not enough.

James: That is way not enough. If you've got one kid, that wipes out the equation. One thing I've discovered with kids is that it's potentially, it's been harder for them to get ahead or to leave home and set up themselves and to buy properties and things now. They talk about being more unachievable than my generation. So I don't know if that's true or not.

But certainly, they seem to stick around for a while. I got plenty of kids in their 20s, and they still need a bit of a hand here and there with things. So it's a long commitment, having kids. So time, you know, I look at myself, I work out how old I am now, how old do I think I'm going to live to? And how much am I going to need? And what sort of work will I, firstly, want to do, and secondly, be able to do later on?

And that's one thing that I recognized early on in my life, is that the bullsh*t notion of being 65 and retiring that we sort of grow up with is just ridiculous. This idea of being a corporate office drone. And then at 65, we say, Okay, I'm done, and I go home, I crack open my superannuation fund, and then sit at home drinking beers, watching sports or something, like that's just not how it's going to roll.

I already live like I'm semi-retired. I do 15 hours of work a week, I surf every day, I spend time with family. I want more of what I've got now. Based on Episode 941, though, I'm going to go away and look at, what areas am I just too comfortable with? And I'm going to see what little levers I can change, because I've still got plenty of time to get a great return if I do things now. But I'm in the phase.

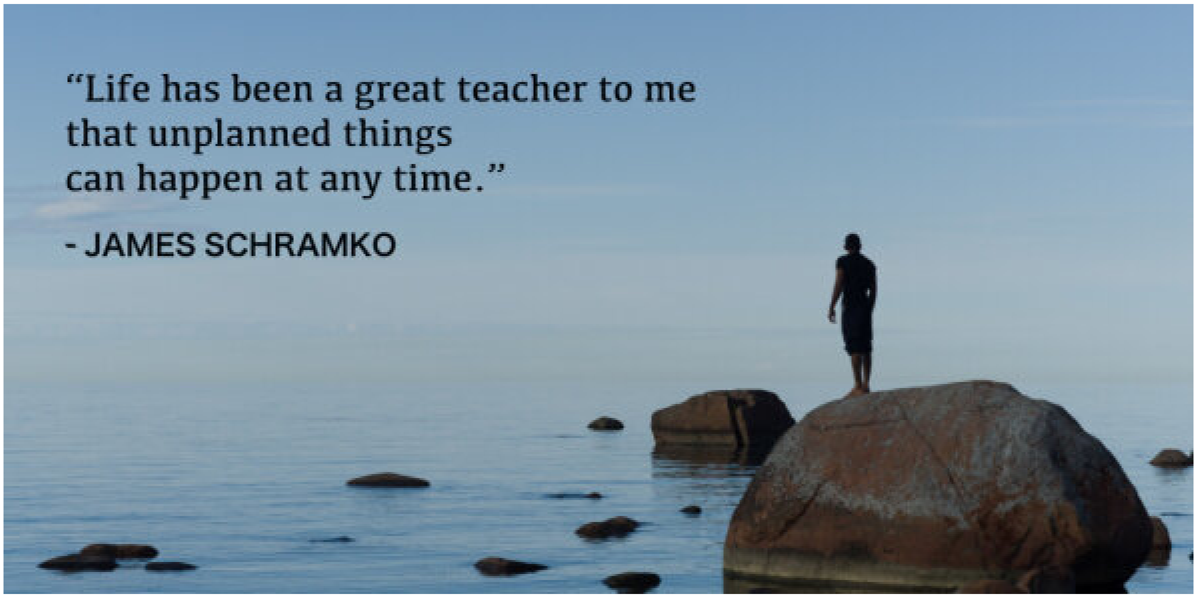
I've also seen a lot of material that says you get most of your wealth later on in life, because it makes sense. You've got experience, you've got wisdom, you've got financial earning capacity. Hopefully, you're pretty good at something, you've established yourself. And you should be able to make good money quickly.

But it's also the time to not mess around because if you blow that chance, next thing you know, you will be too old and too tired and finding it much more difficult. And you'll start, perhaps, to disconnect from what the thing is. I really hope we don't go into some metaverse and that everything we know is forgotten.

Seriously, there's nothing wrong with the current universe. I think if you're not happy in the current world, then you're not going to be happy in the online world. It's a matrix. Don't go there.

Charley: Absolutely. I just laugh. We'll see where this whole metaverse thing goes in the coming years. I think it's imperative.

James: I don't know if we're going to upload to the mainframe and get into singularity or whatever. But I hope not. I know friends who would do it today, if they could just plug into a cord and go into the computer, they would do it today. I'm not there yet. I'm enjoying the real world too much.



So time, absolutely critical. I'm doing things for my personal wealth creation. I'm doing things now that are just seedlings, so that they grow into solid oak tree type investments. And these are like, optional extras that I just want to go a little bit above and beyond what I think I need so that I've got a bit of fallback, because I've seen, life has been a great teacher to me that unplanned things can happen at any time, and that maybe you need deep reserves and what you thought, and I don't want to be in that desperate situation of needing help from others. I'd rather be the one helping others.

Don't forget to have fun

Charley: Yeah, I agree with that, James. I really do. And wealth creation can be a fun game to play as well over the long term. It's interesting to see what you can achieve over a long duration of time.

James: It’s super fun. I'm enjoying the development fun at the moment, because it's creative. And it's sort of value add, but you have some control. One of the most inspiring videos I watched on my recent spout of plane trips was one of like, Secret Houses it was called. And there was one there on Vancouver coastline, maybe Vancouver Island, and it had this perfect surf in the backdrop.

But this guy had quite a nice library and stuff. But I'm inspired to create my own spaces in places where I feel have got a lot of potential. Like, I found a place that reminded me of Noosa in the 80s. Now, for anyone who doesn't know what Noosa is, in 2022, Noosa is very, very expensive, sought-after resort location.

But I used to come here as a kid. When I was a kid, my dad came here, he brought us up, we stayed in a cabin. It was a caravan park, it was just like, nothing here. And I often said to him, Why didn't you buy some land here? Like, he was here for a construction company to buy the land that became the biggest hotel development. And if he'd put aside a few acres, you know, that would have been amazing.

So now I'm saying, right, where's the next Noosa? I think I found it. So I'm developing there. Because I think that's in 20, 30 years from now, I think that one asset alone could be worth more than everything else I've got. So it's about acting on your intuition and acting, just full stop, doing something.

Don't just pay off the credit cards and get in a spiral of debt of doom, and do nothing. It's time to start. The earlier you start, the better. What's that famous saying? The best time to plant a tree was 20 years ago. Second best time is today.

Charley: I love that saying, by the way.

James: Yeah. I don't know who said it, but it's a good one. It makes the point.

Take advantage of the opportunities

Charley: I was going to say, this ties perfectly into opportunity, our next wealth concept.

James: We had team, but we kind of covered it already, right?

Charley: Well, team, we've gone into, absolutely.

James: We've done team. And I want to state this clearly, I could not have the life I have unless I had assembled such a great team. And that is not just my business team. It's also the financial team. It's also my gardener. It's all the people in my life, who I can basically engage to help me with something that I'm not that great at, or don't want to do, or can find the leverage where I'm better to do something else.

I'd rather talk to Charley on a podcast than mow my lawn, okay? So I've got a team to help me that optimizes the time that I can spend, and you can do that financially. So let's talk about opportunity.

Charley: Let's go there. And I'll use your gardener as an example. I've changed. I was going to use your dad and the land in Noosa, but let's change.

James: It’s probably a sore point. We should move on.

Charley: Or maybe we don't bring that one up then. But I will say this, is that, time's a really good example of this is like, right now, we've chosen to spend this time creating a podcast, which I actually think is a great opportunity. But we have to acknowledge that the time we're spending on this is not time we're spending on something else.

So in the example of James, you've chosen to mow your lawn, in this example, not that there's anything wrong with that, instead of doing this podcast. Where you're only going to get the results from mowing your lawn, you've missed the opportunity from what could come from this podcast, which is hopefully, many good fruits.

So what I think a lot of people need to understand is when you choose to invest in something, you're choosing not to invest in something else by default. So your father, in example, maybe he chose to pay down his credit card, instead of buying that land in Noosa. And if you extrapolate that out, that difference is the opportunity cost.

James: And it is true, and it's always worth considering the alternative. You know, we go through life like that - if I don't do this, what would I have done or whatever? And sometimes, you can't possibly know. In regards to my parents, thankfully, they've ended up actually not far from me here on their own land, and they're doing really well. So whatever they did do was great. They've done fine.

It's like the person who is too greedy with leverage. They always look at the upside and not the downside. But you're right. In order to say yes to something, you've got to say no to something else, more than likely, unless you find a lot of leverage in team or you're really good at multitasking. There's a limit to what we can do.

And when we're looking at opportunities, we have to analyze and score that opportunity versus other potential opportunities, or as Jay Abraham, or was it Dan Kennedy, one of them says, versus doing nothing.

In some cases, this might sound crazy, but right now, because I'm sitting on a little lump of cash, by doing nothing before, I've probably reduced my exposure to depreciation in the crash of things by not investing in some asset classes that are down from where they were last year. And my cash has actually gone well compared to those assets. But now, it's probably a good time to do something with it.

Charley: It's a perfect example of opportunity cost, it is. The most notable one I come across is business owners just work on their business. It's been their whole lives only focused on that and missed out on the whole opportunity of wealth. Something they never built in tandem or get to because they've always been stuck in that business mode. So just the awareness to that can make a massive difference in someone's journey.

James: Isn't that funny, like one of my original products, it's probably 11 years old, was called Wealthification, and it was just a few modules. But the whole concept, my definition of wealthification, was creating a lifestyle business that funds the life you want. And that would include taking money from your business and putting it into assets.

And I don't know how many times I've said on this podcast, but some people's business model is like, go for that runway, try and grow it as big as possible, and float it or sell it for big money. That's one way. Other people are like, just work their butt off trying to get paid a huge amount of money and have a lavish lifestyle, but they often have nothing to show for it. I know a guy who makes over $10 million a year and has hardly any assets.

Then what I do is I have a great, high profit margin business that I love doing that works well. I take the money from the business and I put it somewhere else. And I'm not relying on the business for a big sale exit. Probably can't sell my core business. I do grow my partner's businesses, and hopefully, they sell one day or they buy out the contract, which either way, works for me. I'm sure it'll go both ways in time.

But ideally, I just want to survive off the assets and wealth that I've created outside of my business, because it's just too volatile a world to put all your eggs in that one business, I think, for me, for my own appetite. And this comes down to your own desires and risk appetite or whatever. In the time I've been online, Charley, I've seen so many gurus and experts come along, be all big superstars, and then crash and burn to the ground.

And then some of them get up three or four times and get smacked down every time. I see a lot of one horse, one trick ponies that come in, they just do one thing and they do it until they're just burnt out, and then fade away. It's rare that I'll see someone who's been there the whole time, and you know, like a graceful Swan, swimming along the top of the water. Even if they're paddling a bit underneath sometimes, but it's rare that I see the long stayer.

So I think opportunity is worth dialing a little bit of the mid to long term. If I were to say one thing about opportunity, most people seem too enamored with an instant hit. And in the days of TikTok and reels and Instagram stories and so forth, it seems like we've developed an appetite for instant gratification. But with the wealth creation, I believe the longer term game is worth putting some time and energy towards, even if it seems counterintuitive.

Charley: Yeah, I share your opinion on a few things there, James. Personally, I think it's too risky to be all in on your business. And that's not to say you know, mostly, you know your business, but I would think in the environment, and even what's happened in the last few years, you've just got to be prepared that anything could happen.

But to the point of like, opportunity and what we're talking about here, it's like, it's a massive factor here.

Summing it all up

Now, should I do a little recap on these or bring them all together for us?

James: Absolutely. Let's talk about six critical wealth creation concepts.

Charley: Right. Now, what I hope people will take from this, and business owners particularly, is just how hard it is to pick the individual tactic, if you haven't taken all of these into consideration. Like, is the Bitcoin right for you, or a property or what? Well, without consideration for these and good advice, it's going to be very difficult to decide. You can easily get yourself into a sticky situation, or a potentially very expensive one.

So number one is inflation. You need to understand your personal inflation and also how inflation applies to different assets, so that you can set yourself up to thrive in whatever that is for you.

Point number two is leverage. We spoke about, like, the use of debt. And then we've also spoken about the use of team, like team being the most notable one and just how much team can apply to wealth here, like good property managers, good brokers, good buyer's agents, a variety of things there.

Number three is tax. And upon reflection, I feel like we could almost do a whole episode on tax, because tax comes in many ways and forms, and plays a massive role in, well, how much you keep at the end of the day.

Number four is time. So your time horizon is just a huge thing when it comes to your wealth, the difference between someone who's got five years and 50, massively different, what tactics or strategies they may use, or who they even need on their team.

The next one here is team itself, let's bring it back in again.

James: Yeah. Give it its own topic. I mean, it's such a pillar.

Charley: I would just love to highlight something I was naive about, I didn't realize how important team was when it came to wealth creation. Like, I think, any business owner will go, I know the difference between an A player and a B player in my business. Star performers crush the non-star performers.

And I look at that and go, This applies here, a good broker versus an average broker, massive difference; a good accountant versus an average accountant, massive difference. So apply those same principles across.

And then the last one here is just opportunity cost. Whatever you choose to invest in, or having way of wealth assets, like you're choosing that over something else. So make sure you're aware of the opportunities that are around, and the potential opportunity costs that could come.

James: It could also apply, like, you can choose to have the handbag or the motorbike, or you could have an apartment in an up and coming region. Like, the gateway between consumption and wealth creation is one of the biggest opportunities right there that some people never really leave the first category for.

Charley: Absolutely.

James: Charley, this is Episode 942, Six Critical Wealth Creation Concepts. I'm speaking with Charley Valher from businessandinvesting.com. This is part two of a two-part series where we're sort of covering general wealth business stuff for business owners. And we're not licensed financial planners or any of that stuff. We're just talking about personal experiences and trends and things we've seen and ways that we've been able to help people.

But I know Charley's got an email newsletter over at businessandinvesting.com. I encourage you to get on that email, because it's good. I get it. I've seen the social media snippets coming through. It's good to have someone out there thinking about stuff that you should be thinking about. And I know that you do speak to lots of experts in various fields relating to wealth creation, Charley, who you get on your podcast, and who you feature in your newsletter. So you’ve built quite a nice resource there.

Charley: I appreciate that, James, and I'm thrilled to know you're enjoying it. And I hope many other business owners will jump on to start putting some light on this area of their own lives.

James: I love it. I mean, I truly want to participate in the things that I talk about on this podcast, you know? Because a lot of people are interested in what I'm interested in. Funny, that. And I'm interested in wealth, I'm interested in creating wealth. And these are great reminders. I've actually got a few items that I need to go and pay attention to as a result of this particular podcast.

So as always, if you've enjoyed this podcast, could you let me know? Because I'll get Charley back, we'll do more topics around this. If you've got a suggestion or a special request, please let me know. Just send me an email, james@jamesschramko.com. I personally answer my emails.

If you've got a question or anything else, any other feedback about the podcast, send me an email. I'd love to stay in touch and connect. And most interested to know, what would you like me to cover in future episodes? Thank you, Charley. I'll speak to you soon.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