Part of the iCON 5-Step Financial System

Learn to
ACCELERATE
INVESTMENTS

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*4 QUADRANT$ OF MONEY

CASH EQUIVALENTS

S T O

B O N D S

R E A L A S S E T S
Introduction

When companies need to get access to monies to fund their projects, they acquire capital through 2 means…through **debt** or through **equity**. **Debt** is when a company simply borrows the money. In larger corporations this can also be done from the sale of bonds, etc., to gain access to monies. **Equity** is when a corporation sells a portion of its company and pays dividends to the new owners (stock.) Through these activities companies acquire monies from, and make investments available to, millions of people in the world on a daily basis.

**An investment is** one of the most alluring and frightening segments of the financial world. People want to invest but they have no knowledge of investments and they end up at the mercy of the financial advisors who sell them investment products that they truly do not need. Most financial companies benefit because people lack an understanding of the industry.

For Example: At McDonald’s they simplify the process to make it as easy as is possible for the consumer…you just call out the **meal number** and your order is serviced. There are no false or misleading expectations about their purpose; McDonalds is simply there to sell you a hamburger. They did not portray themselves as dietary specialists to assist you with your overall nutritional needs by creating a specialized food plan for you. **McDonalds only wants to sell you a hamburger.**

In the investment industry the professionals do the **exact opposite.** They want you to think it’s complicated and that you cannot possibly do it without their assistance. They further give you the **illusion** that they are customizing a program specifically
for you. In reality, the financial specialist is a sales person that is in competition with you for your money.

They work:

A. First for their **company**. They will only sell you the products their company wants them to sell. If they sell any different products they will not be working for the company very for long.

B. Second for **themselves**. The products the company wants the financial specialist to sell are also the products that make the company the most money, and therefore they pay the sales person (financial specialist) the biggest commission and bonuses on those products.

C. Third for the **consumer**. After the interests of the company and the sales person are met, the consumer is last on the list to be considered.

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**Myth:** My investment return is based on the amount of money I invest.

**Reality:** Your investment return is based solely on your financial education.

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The investment industry wants the consumer to believe they are customizing a plan specific to the individual consumer. In reality the financial specialists and their offices are equally as generic as the fast food hamburger industry. It does not matter which hamburger restaurant you enter, they all have a big burger, a medium burger, and a small burger with a toy. Financial specialists are exactly the same; they all have aggressive, moderate, and conservative products with a toy (in the old
days the bank would give away a free toaster.) The only divider between which of the 3 products the consumer will get is the **financial education** of the consumer.

Get a financial education and study the investments industry 6-12 months before you enter it. This reduces mistakes and helps to avoid the intentional confusion provided by the “advisors.”

Know the difference between **Investments** and **Investment Products**.

For example: A cow is an **investment**. When McDonalds takes the meat, creates a patty, and takes the patty to the market, that patty is a by-product of the cow…an **investment product**. As you will see in later chapters of this book, many of the investments that you currently own are not investments at all…they are investment products. The most successful investors devote the majority of their investment portfolio to investments (Real Assets).

When seeking to accurately invest, one must take their knowledge of investments through a **5-step test:**

A. Why does this investment **exist**?
B. How does the investment **work**?
C. What is the **track record** of the investment?
D. What is the **use** of the investment; why would a person buy it?
E. How might one **acquire** this investment?
When these 5 questions are answered the investor is slowly moving his way toward becoming a sophisticated investor. They are no longer in the dark about their position within the buying/selling sequence. By the way, have you used the “iCON Calculator” for a detailed understanding of Amortization? Unless you know how to count your money from all angles, learning investments could become a wasted endeavor!

Now that we have gotten past the preliminaries, the following education chapters will take you to the meat of the investment industry. We will first explore each of the 4 Quadrants of money in detail to display all of the components that make up each quadrant. A review of the investment products and tax-advantaged plans will follow to provide insight into the 401Ks, IRAs and the many other tax-advantaged investments. We will conclude with the iCON Stream, a step-by-step financial plan to deliver you to the financial goal of your dreams.

With great care we have tried to explain the financial industry in plain English so that it could be understood and applied by the average everyday person. We trust that you will enjoy the journey.

Happy Learning!!
Chapter 1

CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents are by far the most common of the investment products. This is evidenced by the fact that 90% of the American public invests in cash equivalents. When we mention cash and cash equivalents, we are not talking about the green paper that you have in your wallet. We are speaking of investments with a high degree of liquidity; meaning that you can get your hands on the money within 1-2 business days with no risk to your investment. As a result, cash equivalents are often spoken of with the description of being safe and guaranteed investments.

Cash equivalents are most often sold in the local bank, savings and loan, credit union, or investment bank (all of the mutual fund companies are investment banks that provide a slightly higher return than local banks.) When banks want to raise capital, they “borrow” the money from the people. Anytime you open a bank account you are “loaning” your money to the bank. When you borrow money from the bank you pay the bank “interest.” When you open a savings account the bank pays you “interest.”

Whenever “interest” is paid, a loan has been made!!!
But when the bank borrowed your money they did not call it a loan, they called it savings. Because of this subtle distinction we did not think to demand a fair “rental” on our monies in the bank. When we borrow money from the bank we pay them 5-18% or higher. The bank borrows our money and they pay us .1-5%. The difference in return is based on knowledge.

**Always Remember:** The more and longer **risk** your investment dollars are exposed to, the higher the **return**. The lower the risk and exposure time, the lower the return.

Included in the Cash and Cash Equivalents family are:

1. **Savings Account:** Very low return on your money, .1-5% or less. With the emergence of on-line banks that have low overhead, this return has been stretched as high as 5%. Because of inflation being at 4%, you can actually lose money by putting it in these accounts. Savings accounts are FDIC insured.

2. **Certificates of Deposit:** A savings account where the money is locked in for a period of time, and you are penalized if you move it early. Made with the bank or Savings and Loan with a minimum term of 3-6 months and can extend as high as 5 years. CDs pay a fixed rate that increases with the amount of investment and time. They most often yield 4-5%, usually yielding higher than a money market. CDs are FDIC insured. You can go to the USA Today on Thursdays and it lists the CDs.

3. **Bank Money Market Deposit Accounts:** In their base form Money Markets are nothing more than savings accounts with checking accounts attached. They can yield 2-3% return. They pay less than CDs and sometimes even savings accounts. This is because there is no guarantee of how long one will hold it, so
the banks make you put a balance down and they payout a lower return. These are FDIC insured.

4. **Brokerage Certificates of Deposits:** A CD issued by an investment bank (as opposed to a local bank.) It has a high minimum and pays a slightly higher return. $10,000, $20,000, and $50,000 minimum investments.

5. **Money Market Mutual Fund (Brokerage MMF):** A savings account product sold by investment banks that has check writing privileges. Money Market Mutual Funds invest in Treasury-Bills, commercial papers (high-grade, unsecured notes issued by major companies, with 30-270 day maturities), jumbo CD’s, and other short-term interest bearing accounts. MMFs are not FDIC insured.

6. **EE Savings Bonds:** A bond is issued by the federal government to middle class people for the purpose of raising money. All bonds are pieces of paper, slightly larger than dollar bills, that display three information characteristics:

   A. **Interest rate**- the percentages return it is supposed to pay.
   B. **Maturity date**- the date you get your interest and the initial funds invested.
   C. **Face amount**- the proposed amount of money you receive at maturity date.

EE Bonds are cash investments that provide relatively high interest rates and tax advantages. These bonds are purchased at 50% of their face value, range in value from $50-$10,000, and are exempt from state and local income taxes. Savings bonds also grow tax deferred (which stands to reason since you don’t get the money until the maturity date!!) They can also be exempt from federal
taxes if they are used to purchase your child’s education. These bonds have limits, usually $30,000 per person per year.

Most savings bonds yield approx. 4%, but this return is not set. The bonds have an internal interest rate that is tied to the government bond / t-bill rate and it changes every 6 months, regardless of what it was when you bought it.

With savings bonds, the government does not send you the interest; it accrues inside the bond. They re-calculate every 6 months, and when you cash it in they give you back your initial investment plus the interest it accrued.

For Example: $100 Savings bond that accrues at 5% semi-annually. It will earn $5 per year. If you cash out in 6 months, you will receive your $100 + $2.50 interest. If you cash out at 1 year, you will receive $100 + $5.00 interest.

7 **I Bonds**: I Bonds are similar to EE Bonds except the interest rate is adjusted for inflation every six months, and they are exempt from state and local taxes. I Bonds are purchased at 100% their face value and can range in increments from $25-$5000. I Bonds have 5-year redemption limits with a penalty for early withdrawal.

**GOTO www.publicdebt.treas.gov to purchase, get the interest rates, or any information about savings bonds, t-bills, t-bonds, and t-notes**
US Treasury Bills: When the government wants to raise money, they create three types of investments: T-Bills, T-Bonds, and T-Notes.

- **Treasury Bills**: Sold weekly through Federal Reserve auctions in denominations of $10,000. They have 2-week, 8 week, 3, 6, or 12-month maturities. No state or local taxes are attached. T-Bills yield an average of 1-5%.

- **Treasury Notes**: 2-10 year maturity. 2-and 3-year notes have a minimum investment of $5000. T-Notes older than 3 years have a minimum investment of $1000. No state or local taxes are attached. T-Notes yield an average of 3-5%.

- **Treasury Bonds**: 11-30 year maturity. T-Bonds have a minimum investment of $1000. No state or local taxes are attached. T-Bonds yield an average of 4-5%.

Guaranteed Investment Contracts (Government Insurance Contracts):
Fixed income bearing accounts issued by insurance companies and purchased by 401K and 403B plans. These are the guaranteed funds attached to your 401K that is made up of contracts guaranteed by the government or made of T-bills or T-notes.

**How GICs work:**
When a major catastrophe occurs insurance companies have to pay out a lot of money. The insurance companies do not have the money on hand, because their monies are all tied up on long-term investments: real estate, buildings, 30-year T-bonds, etc. (remember that the longer they hold your funds the more money you make...they go for the max). To keep the cash flow going the insurance
company issues GIC’s. The insurance company pools your money and they use it to invest in higher returning products.

For Example: A company with 1000 workers with $10,000 in the GIC in their 401K gives the investment company $10 million. The investment company buys a contract from an insurance company, and the insurance company pays a guaranteed 4-6% back to the employee. The insurance company now has funds to meet emergencies and make long-term investments. The long-term investments yield the insurance company 6-8%. The 2-3% net gain by the insurance company is a humongous return considering the company used none of its own money!

GIC’s have a higher return that most other cash investments, 3-5 year maturity. GIC’s work just like a CD from the bank, except it’s in your 401k.

Cash and Cash Equivalents are the safest of the 4 investment quadrants. They often serve as a stabilizing factor to the other less secure/higher yielding investment areas to be discussed in subsequent chapters.
Chapter 2

BONDS

When corporations and the government want to raise cheap dollars, they go to the most convenient group available…the average American citizen. Did you know that when you buy a bond you lend your money to the issuer? You put up the currency/cash in exchange for regular interest payments and the return of the principal at the maturity date of the bond. While holding your investment dollars, the bond company uses your money to make stronger returning investments. The longer the bond company holds your money (maturity date) the higher the return, because your monies are exposed to more risk.

Remember: All bonds display three information characteristics:

1. **Interest rate**- the percentage interest the bond is going to pay.
2. **Maturity date**- the date your initial investment funds are returned.
3. **Face amount**- the proposed amount of money you receive maturity date.

**Two Categories of Bonds:**

A. **Secured Bonds:** Bonds backed by collateral to repay the investor should the bond default. The most common form is the **mortgage bond**, which is secured by real estate or equipment that can be liquidated to repay the investor. Secured bonds
can also be backed by revenue to be allocated to cover the bond in the event of default.

**B. Unsecured Bonds:** Bonds that are not backed by any tangible asset. Instead they are simply backed by a “promise to repay.” Corporations issue unsecured bonds when they lack the capital or assets to provide for collateral. Most government and municipal bonds are also unsecured, but their risk is negated by their ability to raise taxes in the event of need. Due to their inherent nature of increased risk, unsecured bonds generally pay a higher return than secured bonds.

**Types of Bonds**

1. **Corporate Bonds:** Corporations issue bonds to raise money or capital. Big companies issue bonds in increments of $1000. Corporate bonds can yield as high as 9% plus and interest is most often paid twice a year.
   □ **Investor Example:** A person buys an IBM corporate bond for $1000. It yields 8% for 10 years and it pays out semi-annually. This gives the buyer $80/year or $40 every 6 months. The bond pays the buyer $40 every 6 months until the last 6 months, when the buyer receives the final $40 and his initial $1000 back.
   □ **Corporation Example:** IBM wants a new computer system that costs $100 million. IBM goes to an investment bank (brokerage firm) like Merrill Lynch (ML) and tells them they want to raise $100 million. ML issues 100,000 bonds at $1000 each = $100 million. The ML sales force of stock brokers starts selling the bonds. They sell to banks, individuals, credit unions, and mutual fund companies. These institutions get their customers to give them cash. IBM is charged a fee by ML for providing the service. The customer is paid his money as stipulated by the bond.
2. **Municipal Bonds:** Works just like corporate bonds except they are issued by state, local and county governments (school, etc.) Since these bonds are issued by the state, they are exempt from state taxes. They are also exempt from federal income tax. Municipal Bonds often return 5-7% *plus* return. Due to the Municipal Bonds lack of taxes, Corporate Bonds have to pay higher returns to compete.

3. **Mortgage Bonds:** Companies like Fannie Mae, Ginnie Mae, and the Federal home loan leverage the people to capitalize their business ventures as well.

**Small Mortgage Company Example:** A bank or mortgage company has $10 million to invest in homes. The average home is $100,000, so after 100 homes they are out of business and have to wait for 30 years for the interest to get the monies to move forward again. The companies get the $100,000 mortgage contract and sell it to big mortgage companies (Ginnie Mae, Fannie Mae, and other government-backed companies, or large private companies.) For Ginnie Mae and Fannie Mae to have the money, they have to borrow it. Ginnie Mae and Fannie Mae issue bonds to raise the money at increments of $1000.

**Fannie Mae Example:** Fannie Mae (FM) decides to finance 100,000 houses; average house is $100,000, so they need $10 billion cash. They do not have $10 billion, so they call a brokerage house like ML and tell them they want to raise $10 billion in bonds. They issue 10 million bonds at $1000 each (assume interest rate of 6%). ML sells these bonds to banks, credit unions, mutual funds, etc. You, the individual person, buy a CD at the bank, and the bank takes your money and buys mortgage bonds. The bank pays you 1-2% for the CD and they buy mortgage bonds that pay them 6%. (Hint: Why not just skip the local bank and buy the mortgage bond direct?) FM takes the $10 billion and they buy
mortgage contracts from smaller mortgage companies when the smaller companies finance homes for the people. This is why most mortgages are sold within one week of a homeowner closing on a loan.

4. Government Bonds: The government uses people to raise money for their projects. The principal means is to sell them bonds at a profit to the government. These are exempt from state and local taxes.

5. Junk Bonds: Corporate bonds characterized by low quality ratings by the issuing company. Due to the questionable stability of the issuing company, junk bonds give higher-than-average interest returns.

To check the yield and pricing of bonds, you can go to www.investinginbonds.com. Bonds can be purchased through any of the full-service Brokers like Merrill Lynch Direct (www.mldirect.com), or through a myriad of discount brokers such as T. Rowe Price (www.troweprice.com), E*Trade (www.etrade.com), or Fidelity Web Express (www.fidelity.com).
Chapter 3

STOCKS

Investing in stocks is one of the most adventurous aspects of investments. There is never a shortage of people that simply want to bypass the fundamentals of wealth building and jump directly into the frenzy of stocks. Before you get entranced by the prospect, please remember that the key to wealth building is a STRATEGY, and with all strategies the elements of education and planning have to be present.

Most people take their stock advice from friends, “biased” brokers, or the news. All of these sources are uninformed, slanted, or late with their information. The general public has a very limited understanding of stocks, the stock market, reading company financial statements and evaluation reports, or making good consistent investments; they most often jump from one hype stock to another.

The Overview
Companies issue stocks to raise money to fund their projects. The owner of a company decides to take the company public. They sell a portion of their company and they either pay dividends based on the growth of the company, or they reinvest the profits back into the company. The dividend is created from the excess money
the company has after it pays all of its expenses. The company registers with the Securities and Exchange Commission, the state and federal authorities, and they plan to sell the stock at a certain price on a certain date. The price it opens at is negotiated based on the company’s financial history, product, leadership, and various other factors. The date that the company goes public is called the Initial Public Offering (IPO.) Either the company can sell the stock directly to the investors, or the company can hire a brokerage firm (Merrill Lynch, etc.) to sell the stock for them.

The stock investor only has two ways to make money on their stock investment. Either the company has a profit and pays the investor a dividend, or the investor can sell the stock if it reaches a satisfactory profit from the buying price.

Overview Example: A company has 10 million shares and they decide to sell 5 million shares to the public at $20/share. The company hires Merrill Lynch (ML), and they sell the stock to ML at $20/share. ML now owns the stock. ML does all of the necessary paperwork (prospectus, financial statement, etc.) ML has contacts throughout the country (stock brokers, seats on the NASDAQ, NYSE, and AMEX.) These brokers go out and push the stock to the general public. As more of the general public begins to buy the stock (and if the stock is good) then the price will rise. Note that much of the pushing that the broker does is hype (just like the late 1990’s to early 2000’s.)

This system is exactly the same as the farmer. The farmer grows crops, but he does not have the time, skills, or equipment to sell it. So the farmer hires a wholesaler and sells the crop to him. The wholesaler has contacts throughout the country, and they sell the produce to persons in NY, CA, NC, etc. These people have booths at
the farmers market that they sell the produce in, and from these booths they sell it to the general public. At each step between the farmer and the buyer, the price of the produce rises.

Farmer = Corporation (Pre IPO)
Wholesaler = Investment Bank (IPO)
Sales Person = Stock Broker
Farmer’s Market = Stock Market
Customer = Customer (Secondary Market)

**Market Capitalization**
Total dollar market value of a company’s outstanding shares. It can be computed by getting the price of one share of a company’s stock and multiplying it by the number of outstanding shares. Market capitalization is used to determine a company’s size.

**4 Categories of Stock**
- **Large Cap Stocks**: companies with more than $10 Billion capitalization.
- **Mid Cap Stocks**: companies with $2-10 Billion capitalization.
- **Small Cap Stocks**: companies with less than $2 Billion capitalization.
- **Micro Cap Stocks**: companies $300 Million or less capitalization.

**3 Types of Stock:**
A. **Pre-IPO Stock**: In the building phase of a company, a company will sell stocks to insiders, managers, leaders, and distributors as incentives. In the example of UPS, it was in Pre-IPO for approx. 18 years. In 1999 UPS sold the stocks and
raised $5.5 Billion. This stock was sold by UPS to an investment bank (such as Merrill Lynch.) The most successful and highest yielding investors acquire stocks in the Pre-IPO phase.

B. IPO Stock: Stock is sold to an investment bank that sells it to the people. The first day is the Initial Public Offering (IPO). This is often referred to as “going public.”

C. Secondary Stocks: After a stock goes public it is sold at retail to the stockbroker who subsequently sells it to the public. Most investors never get to buy pre-IPO or IPO stock; they only buy in the secondary market at retail.

6 Types of Secondary Stock:
1. Growth Stocks: This is companies looking to grow or expand. They do not pay out dividends; they reinvest their profits to make the company grow.
2. Income Stocks: These companies take their profits and pay them out to shareholders in the form of dividends. It includes industries like Utilities, whose growth is restricted to the growth of the American population.
3. Cyclical Stocks: Companies that go up and down through the cycles of the market. A good example is real estate…as the interest rate goes up the real estate market is dead.
4. Defensive Stocks: These companies are the opposite of Cyclical; they will do well regardless of what the economy does. It includes industries such as pharmaceuticals, food, and beverages.
5. Blue Chip Stocks: Invests in the 50-100 largest, most stable companies in America. Examples are Wal-Mart, Microsoft, Coke, etc.
6. Value Stocks: Invests in companies that exhibit solid, fundamental business
principles. Companies like Wal-Mart, BellSouth, etc., with a long established track record.

7. **Miscellaneous Stocks:** These are the varieties of secondary stocks that do not fit into the aforementioned categories. These include equity income stocks, special equity stocks, global equity stocks, utility stocks, precious metals stocks, balanced stocks, option income stocks, index stocks, and sector stocks to name a few.

   - **Common Stock:** Any stock in a corporation is called common stock.
   - **Preferred Stock:** Any stock where the owners are given a preference over the common stockholders.
   - **Penny Stock:** When the stock price is less than $5.

**Stock Tracking Entities**

1. **Dow Jones Industrial Average:** Mr. Dow and Mr. Jones in NYC in the late 1800’s started tracking stocks to evaluate them. They created a point system to keep up with the 30 largest companies in the US. The Dow uses a scaled average of one share for each company.

2. **S&P 500 (Standard and Poor’s):** Created in 1957, it is the 500 biggest public companies in America. They track one share for each company.

3. **Russell 2000:** Tracks the 2000 largest public companies in America.

4. **Wilshire 5000:** Tracks the 5000 largest public companies in America.

5. **NASDAQ (the National Association of Securities Dealers and Automated Quotations):** An electronic stock exchange that competes with the NYSE for the highest volume of stock trades.

6. **NYSE:** Founded in 1792, it is the largest physical exchange in the US.

7. **AMEX:** The American Stock Exchange is the second largest stock exchange
in the country. AMEX merged with the NASDAQ in 1998, though they still operate as separate entities.

**How to Purchase Stocks**

Stocks can be purchased from any of the licensed authorized brokers, or you can visit one of the many on-line brokers and apply a do-it-yourself method. Examples of the on-line brokers include:

- E*Trade  [www.etrade.com](http://www.etrade.com)
- Scottrade  [www.scottrade.com](http://www.scottrade.com)
- TD Ameritrade  [www.tdameritrade.com](http://www.tdameritrade.com)

For a tutorial of how to trade on-line, you can go to Jason Martin’s Financial Rebel ([www.financialrebel.com/training/how-to-buy-stocks-online](http://www.financialrebel.com/training/how-to-buy-stocks-online)) or eHow ([http://www.ehow.com/how_2075711_buy-stocks-online.html](http://www.ehow.com/how_2075711_buy-stocks-online.html)).
Chapter 4

REAL ASSETS

This is the “pinnacle” of the 4 quadrants money. Cash Equivalents, Stock, and Bonds all have their roots within the category of Real Assets. In fact, 90% of millionaires invest in Real Assets. Those 90% of millionaires all collectively shout one phrase in their investment habits…

CASH --ASSET--CASH

The name of the game in asset/wealth creation is to acquire Cash, which you put into an Asset, to yield you more Cash, which you put into an Asset, to yield you more Cash. It is always Cash--Asset--Cash!

Lay people often refer to this phenomenon as “OPM”: Other People’s Money. The financial elite have discovered how to leverage the assets they have created to yield cash that maintains both their lifestyle and their future investments to keep the Cash--Asset--Cash pattern flowing indefinitely without their personal involvement and effort.

Included in Real Assets are the following categories:
A. Real Estate

When speaking of real estate, we are not speaking of the house that you live in. We are principally speaking of the property (residential or commercial) that you rent, sell, or lease. In the case of the bank, real estate can also be the property they finance. There are essentially 3 ways to make money with an investment property:

Example: Purchase a $105,000 house - $10,000 down pmt = $95,000 house with $850/month mortgage.

1. Rent: Rent the house for $1000, you get $150/month after expenses.
   $150/mo = $1800/yr = $9000 in 5 years.

2. Equity: The difference between what you owe on a property and what you can sell it for. Assume for example an equity of $40/mo = $480/yr = $2400 in 5 years.

3. Appreciation: $105,000 house sold for $110,000 in 5 years. Profit of $5000.

All three combined totaled $16,400 in 5 years. In real estate you want to make money all three ways…not just in RENT!

Many real estate investors focus on one of the aforementioned ways of making money on investment properties and become EXPERTS in that field.

For example, many investors focused solely on appreciation as they discovered that from 2001-Present (2008), due to the sub-prime market boom and subsequent crash, they could acquire “distressed” properties cheaply, repair them inexpensively, and resale quickly for a profit. This is commonly known as “Flipping” in the real estate arena. Multiple companies and investment groups
were created to accomplish all facets of the “flipping” game. This includes maintaining internet leads to locate properties, retaining repair companies to upgrade the properties, forming alliances with appraisers. The top companies grew to incorporate mortgage services and even added real estate and construction companies to build and sell the properties to order.

As is obvious, real estate investment is a multi-faceted endeavor which requires due diligence prior to entry. Please take the time to educate yourself before entering the “water” with the best financial “sharks” in the ocean!

B. Commodities
An agreement to buy and sell almost anything including, oil, soy beans, corn, or any other agricultural product (except onions.) Commodities are actually traded with futures and options, which are agreements to buy and sell at an agreed upon price on a specific date. Due to the proliferation of on-line trading (day trading, etc.) this market has exploded in the last 2 decades to include investors from all categories.

C. Precious Metals and Jewels
This includes gold, silver, platinum, palladium, iridium, etc. Precious metals can be obtained by purchasing the actual asset, or by purchasing futures contracts for the specific metal. This market has also benefited from the on-line trading explosion.

D. Businesses
Businesses come in all fashions, from home-based, storefront, vending carts and machines, e-commerce, franchise, etc. Businesses are the principal source for infusing cash into the investment sequence.
The most financially successful people in the world have generated significant (often unlimited) income through business entities, and used that cash to purchase other assets to yield even more cash. Looking from the outside, most common people only observed the super wealthy as they purchased the stocks, bonds, etc., so they viewed that as their sole means of generating wealth. The common people sought to mimic the wealthy so they also invested in stocks, bonds, etc. What the common people did not notice is that the super wealthy built businesses first to create the investment capital. Please understand the necessity of business income!!

Real Assets are the playground of the super wealthy, and with a focus on Business Ownership one can create and sustain significant income to successfully build generational wealth.

For information on Business Income, please read Step-1 LEARN TO INCREASE INCOME of our 5-Step Financial System. Visit our Web site at www.iconofsuccess.com and purchase our “iCON of Success Membership” to view the online Webinar.
Chapter 5

INVESTMENT PRODUCTS
&
TAX-ADVANTAGED FUNDS

Perhaps the fastest growing arena of investments for the everyday, hard-working person is the field of investment products and tax-advantaged funds. These investment vehicles are frequently attached to your job, or individually purchased due to their superior tax advantages. Though they are commonly sold as investments, they are not true investments. The easiest way to determine if it is a true investment is to ask the simple question… “Who owns what I just bought?”

For example: When you buy a cow you have an investment. But if you go to the store and buy a carton of milk, you have a by-product of the cow…an investment product. In turn, when you buy a mutual fund, do you own shares of 40 different corporations, or do you buy shares of the mutual fund company and the mutual fund company buys shares of 40 corporations? The mutual fund company has the investment; you have the investment product.

Investment products and tax-advantaged funds operate in the same manner. They will most often have many of the following characteristics:
A base product that invests in multiple investments to minimize risk to the investor. For example, a mutual fund must legally invest in a minimum of 40 companies and most mutual funds invest in more than 200 companies.

A base product to be purchased that has an underlying financial product to deliver the return on investment. For example, a Roth IRA can have a mutual fund or a CD at its core to deliver the return on investment. The underlying financial product can often differ depending on where the base product is purchased. For example, a Roth IRA purchased at an investment bank will most often be funded by a mutual fund, whereas if you purchase a Roth IRA at the local bank it will be funded by a CD or a money market.

Lastly, in the case of the tax-advantaged funds, it is usually an investment product (CD, mutual fund, etc.) with one piece of paper laid on top of it to inform the government when to take taxes out on it. It is no more complicated than that.

Investment Products
These are financial products that are sold to people with a moderate-to-low financial literacy. The products often have fund managers or are team managed to ensure that the investment product meets its objectives. This is significant because of the old adage, “People work like they get paid”. How does the fund/team manager get paid? Not by how much money you, the investor, invests! The fund/team manager gets paid by how many percentage points they can make the fund grow. The fund company (investment bank) understands that for each percentage point that the fund rises, that will bring several thousand more investors
into the fund. Therefore the fund/team manager will happily look at the fund 10-12 hours per day, 5-6 days per week to ensure its success.

Examples include:

**Mutual Funds**

Mutual Funds are investment products that disperse their monies through a multitude of companies to secure a return for its investors. Mutual funds are legally required to invest in a minimum of 40 companies, and most of them invest in more than 200 companies. The investment focus of mutual funds can be vast, as they can mimic the S&P 500, foreign companies, socially conscious companies, the finance sector, the banking sector, real estate, the medical sector, and any other commercially traded sector. Mutual funds are also the most popular underlying vehicle for many of the tax-advantaged funds (401K, 403B, IRA, etc.) Mutual funds are fund/team managed. Due to the vast arena of invest possibilities, mutual funds have varied returns that can range from 0% (or less) to 25% or higher, with a moderate return being 4-7%.

**Mutual funds can be purchased through any licensed investment broker, or you can simply look on-line at USATODAY.com, go to the Money section, locate Personal Finance, open the Fund Screener and look the funds up yourself. On the page with each fund is an 800-number that enables you to call and purchase any fund available. Be mindful that mutual funds are long term investments (look at the 10 year or since inception returns), take into account the fees, and note the sectors of investments to ensure they will remain viable for your investment term.

Lastly, when you look at mutual fund families (T Rowe Price, Aim, Fidelity, Evergreen, etc.) you will see an entire list on funds with letters beside each fund.
Though there are many different letters, there are 3 principal letters (all others are derivatives): A, B, and C.

For example: Evergreen Dsc Val;A
               Evergreen Dsc Val;B
               Evergreen Dsc Val;C

These 3 funds appear to be different funds, but they are really the same mutual fund with 3 different choices depending on the fees assessed.

   A. **A - Front loaded.** Fees are withdrawn each time you make a make an investment into the fund. A reasonable fee is 1% or less. If you make a $100 investment, $99 will go in the fund and $1 will be taken as a fee. Fees can easily go as high as 5%.

   B. **B - Back loaded.** Investments are made with no fees, but the fees are assessed as the monies are withdrawn with their aggregate growth of many years. Due to this, B funds pay more in fees than A funds.

   C. **C - No Load.** This fund has no fees (though they can still have internal fees so monitor them closely.)

Now that you know that the A - Fund, B - Fund, and C - Fund of a single mutual fund is still one fund with 3 different choices of fees, which choice of fees will you choose?

**Exchange-Traded Funds (ETF’s)**

They are an investment company that offers investors a proportionate share in a portfolio of stocks, bonds, or other securities. They can be thought of as a mutual fund that trades like a stock. They are called mutual funds, index funds and
sometimes are referred to as baskets of securities. They are similar to mutual funds because of how they represent investments in the same type of securities but they typically have lower fees and they can be bought, sold and traded throughout the entire day.

Exchange Trade Funds are similar to mutual funds in their nature but unlike mutual funds, they change their price in real time throughout the day rather than priced at their net asset value at 4:00pm daily. ETF’s can also be bought on margin (money borrowed from your broker) and sold short. Unlike typical stocks on the stock market, ETF’s can be sold short in a market that is moving down. They have the flexibility of a stock and the diversification of an index fund. When you buy an ETF, you pay your broker the same commission that you would pay on any regular trade.

Exchange Trade Funds are traded on the American Stock Exchange (AMEX), New York Stock Exchange, NASDAQ, Amex etc. Shares of ETF’s can be purchases the same way that stocks are purchased. ETF’s have ticker symbols and can be purchased through your broker. You can also sell your shares in an ETF the same way that you sell shares on a normal stock.

**Insurance Products**

Insurance companies borrow money from the people when they want to raise capital for their projects. Their 3 most popular insurance products are **Whole Life**, **Universal Life**, and **Variable Life**, all of which are either financed internally by the insurance company, or they rely on stocks or mutual funds to generate their return (or cash value) to the consumer. Because these investment vehicles have low-to-moderate risk, their return is very low, often ranging from 1-6%.
Another popular insurance product is **Annuities**, as they serve as retirement vehicles with monies that grow tax deferred. An annuity is a contract between a consumer and an insurance company, whereby the consumer invests money (either lump sum or incremental) in exchange for a guaranteed return (either fixed or variable) at a later date and time. Unlike traditional retirement plans, there is no limit on the amount of money one can invest in an annuity.

An extension of the annuity family that deserves mention due to its popularity is the **variable annuity**. The variable annuity is simply an annuity that is attached to several mutual funds, thus allowing the investor direct their monies to multiple options within the annuity. The typical return for annuities ranges from 2-9%.

**Tax-Advantaged Funds**

These are often Savings, Money Markets, CDs, and Mutual Funds with a tax-advantaged form laid on top to tell the government when and how to tax the entity. Tax-advantaged funds are extremely popular due to their status of replacing the pension as the primary retirement vehicle provided by employers. Examples include:

**401(K):** A retirement plan offered by an employer that is tax deferred and the funds invested are often matched by the employer. The funds invested grow for multiple years tax-free, and you are taxed when the funds are withdrawn. Its return is most often delivered by a mutual fund as its base product (see mutual funds above.) You can also borrow and receive hardship withdrawals from your 401K. The maximum contribution limits is usually 12-15% of your gross income.
403(B): 401(K) in the public sector (hospitals, schools, etc.)

TSP: Thrift Savings Plan. 401(K) for government employees (soldiers, postal workers, etc.) TSPs do not provide an employer match option to their investors.

457(K): A retirement plan similar to the 401K for state, city, town and government subdivision employees. Its monies grow tax deferred, but it does not have an employer matching option. You can not borrow or receive hardship withdrawals from the 457K. Its contribution limits for 2008 are $15,500.

IRA: Individual Retirement Account. This is a retirement account that is set up by an individual person that grows tax deferred. Due to the tax advantage, the amount of monies you can invest is limited. You can put an annual max of $5000 in your IRA for the year of 2008. Depending on where the IRA is purchased, its return can be delivered by a CD, money market, or a mutual fund.

SEP IRA: Simplified Employee Pension
This is a retirement account for the self-employed individual that is tax deferred. It can be opened at any bank, mutual fund company, or brokerage firm. SEPs have little or no annual account fees. You can invest as much as 25% of your net income, up to a cap that is periodically raised to keep up with inflation. The cap for 2008 is $46,000. Depending on where the IRA is purchased, its return can be delivered by a CD, money market, or a mutual fund.
SEPs also have excellent funding flexibility. You can wait to invest in the plan until you file your taxes. This means that if your income turns out higher than expected, you can make a large contribution and cut your tax bill, or vice versa. You can not borrow from your SEP IRA.

SEPs are ideal for the person that has a one-man business that plans to keep it remain that way.

**Solo 401(K): Individual 401K or Self-Employed 401K**

The Solo 401K is available to the business owner and the self-employed individual that has no employees. It is an excellent choice for the person that is behind on retirement savings and can afford to divert a considerable portion of their earnings. Contribution limits for 2008 are $46,000 for the individual and $92,000 for the married couple in the same business. These investment limits outpace both the SEP and the KEOGH (to be described shortly.)

You can also take out a loan against the Solo 401(K), up to $50,000. One drawback with the Solo 401(K) is that if your balance exceeds $100,000, you have to fill out IRS forms annually that will cost a few hundreds dollars.

**Simple IRA: Savings Incentive Match Plan For Employees (SIMPLE)**

This plan is for the solo business owner having a great year that decides to employ 1-99 full-time employees. With the SEP the employer is locked in to expensive employee contributions. With the Solo 401K you can only employee your spouse…any other employees
would require a new, more complex retirement plan. With the SIMPLE the employer can keep investing in the same plan and match the employees contribution up to a designated percentage (3%). The principal drawback with the SIMPLE is that your contribution is capped at only $10,500 annually for the year 2008.

**Keogh:** Keogh is very similar to the SEP IRA. It is a tax-deferred retirement plan for the self-employed, typically small, business and its employees. Keoghs have to be established within the year you plan to make contributions. But, just like the SEP, you can wait to make contributions until the due date for filing your tax return. Full-time employees tenured 3 years must be included in the company Keogh plan. The Keogh 2008 contribution limit is $46,000.

**Roth IRA:** An individual retirement account sponsored by Senator Roth in Congress. Any investor (employed or self-employed) can invest in the Roth IRA, and it can be in addition to the Simple, SEP, 401(K), TSP, etc. It must be income earned (job)...not from investments or other income.

Contribution limits for 2008 is $5000. The monies placed in the Roth will be taxed for 5 years, but after that, the monies will not be taxed again. The monies grow tax free, and the withdrawals are also tax-free in retirement. Combine this attribute with the fact that taxes always go up instead of down, and many financial specialists prefer the Roth IRA over the 401K. 401K monies are tax deferred when taxes are the lowest, and taxed 20-30 years later at withdrawal when taxes are the
highest. The Roth IRA does exactly the opposite…it is taxed when taxes are lowest (now), and withdrawals are tax free 20-30 years later at withdrawal when taxes will be the highest. This phenomenon has led to the creation of the last (and newest) addition on the tax-advantaged funds…the Roth 401K.

**Roth 401K:** The Roth 401k combines the advantages of both the 401K and the Roth IRA. Contributions must be from your job and your employer can match a portion of your contribution. The invested monies (excluding employer contributions) are taxed for the first 5 years but not taxed thereafter including during withdrawal. Employee contributions for 2008 are $15,500.

As is obvious, investment products and tax-advantaged funds provide a varied array of products. Though not true investments (Who owns what I just bought?), because of their tax advantages and employer support they are some of the most popular investment choices of the investing public.

For guidance through the tax ramifications of the multitude of investments, please review Step-2 of the 5 Step Financial System and Consult your Tax Professional prior to purchase!!
Chapter 6

iCON STREAM

The iCON STREAM is the systematic, step-by-step flow one must take to progress from their current financial state to become the “iCON OF SUCCESS” they desire to be. The system will work for anyone, regardless of their circumstance. It is recommended that you follow the steps in order, and that you do not move to the next step until you have completed the current step you are on. As is obvious, increased income through business ownership will significantly increase the speed of your success. Let’s explore the process:

With the income generated from Steps 1-3 of the iCON 5 Step Financial System, you are armed with the capital to begin the process.

Flow 1: Initial Emergency Fund
Take the initial monies freed from your Increased Income, Taxes, and Minimized Expenses to immediately begin an emergency fund. Using the cash-flow example in Step-1, if moderately done, this could easily total an extra $2460/mo.* Reserve these monies in your emergency fund until it has $2000 - $3000 in it. The purpose
of this initial emergency fund is to cover the cost of the immediate emergencies that occur in our day-to-day lives. Things such as a child’s doctor appointment, a replacement washer/dryer, the furnace needs repair, etc. Once established, if you are required to use the monies, deviate from your debt elimination plan to replace the funds. As stated earlier, do not move to the next step until you have completed this step.

**Flow 2: Begin Debt Elimination (Excluding the House)**

Take the extra $2460/mo and use it to begin to eliminate your debt. Simply pay your monthly debts in their regular pay schedule. Take your smallest debt with its regular payment and apply an extra $2460/mo until it is completely eliminated. Then move to the next smallest debt and pay an extra $2460/mo plus the monthly payment you freed from paying off your first debt. Follow this process until all debts are eliminated except the house. On average this process could take less than 2 years and free up an estimated $1300/mo. You will add the $1300/mo to the $2460/mo for a total of **$3760/mo freed monies**. For full details on the debt elimination, please view Step-4 of the iCON 5 Step Financial System. As previously stated, do not move to the next step until you have completed this step.

* Based on $1860 Business Income, $250 Minimized Expenses, and $350 Tax Reduction = $2460/mo

**Flow 3: Fund Your Retirement Plan**

Set up your retirement plan using one of the previously listed tax-advantaged funds (401K, 403B, SIMPLE, SEP, TSP, etc.) With the $3760/mo most people will be able to **max out** their retirement plans and have monies left over. For our purposes we will use the figure of **$2885/mo** remaining income after maxing out your plan. As previously stated, do not move to the next step until you have completed this step.
Flow 4: Establish a Roth IRA
Open and fully fund a Roth IRA (see details in chapter 5 of this book.) This will provide a retirement vehicle to grow “tax free” for multiple years. With regard to the on-going battle between the Roth IRA and the 401K (each has their pros and cons based on when the monies are taxed), it is recommended that you LEARN How to INCREASE INCOME and fund BOTH alternatives if they are both available to you. Following this step you could still have $2469/mo** available income to continue your process. Complete this step before progressing to the next step.

* Based on $70000 annual income with maximum contribution of $875/mo to the 401K
** Based on a maximum contribution of $416/mo in the Roth IRA

Flow 5: Max Emergency Fund
With the remaining available monies you should max out your emergency fund. The emergency fund should be built until it has 6-12 months income reserves. This will enable you to ride through the “bumps” of life that have become prevalent in our current economic climate (lay offs, company closings, company relocations, etc.) Do not progress to the next step before this step is completed.

Flow 6: Pay Off Mortgage / Buy House
If you do not own your own home, this is the time to purchase one. Hint: it is not necessary to buy a home that uses up ALL of your disposable income! As a matter of fact, the wages from your job should pay the monthly payment on your new home (just as you have previously paid the monthly rent.) Use the remaining $2469/mo to eliminate your new mortgage quickly. A typical mortgage can be eliminated in as little as
5-8 years*. With the mortgage eliminated one could free up a total of $4168/mo to continue advancing toward their goal. As usual, do not progress to the next step before this step is accomplished.

* Based on a 30-year $250,000 mortgage at 6% interest with $200/mo taxes and insurance included = $1699/mo

**Flow 7: Fund Traditional Assets**

All debt has been eliminated and your emergency fund and tax-advantaged investments have been maxed out. It is now time to use the remaining $4168/mo to invest in the non-tax-advantaged investments. These areas include real estate, mutual funds, stocks, etc. Note that these traditional assets are not at the beginning of the process…they come as the last step. Please review this book for a description of the numerous investments, real assets, and investment products from which you can choose.

As a side note, there is a difference between building a retirement asset and building wealth and riches. Retirement assets, if funded correctly, replace the monies you earned from your job and (in a perfect world) are designed to take you through your golden years. An asset built for wealth and riches funds your DREAMS, and leaves an inheritance to your children’s children.

Now, let’s take a look at the total cash-flow you have created. With $4168/mo available after the mortgage is paid in full, $875/mo invested in the 401K, $416/mo going to a Roth IRA, you have built a total of $5459/mo cash-flow stream.
If you invest the total $5459/mo at 9% for 15 years you will build an asset of $2,000,000. If you choose to live off of the return of 9%, it will pay you $180,000 every year…INDEFINITELY! As long as you do not touch the principal, the asset will continue to yield continuously beyond your life span. If you can fit your debt-free lifestyle into $180,000 per year, then you are WEALTHY. When you complete the aforementioned steps in order, you too will become an….

iCON of “Success”

As a final reminder, as you venture into the investment arena be sure to take a moment to review this book to familiarize yourself with the rules, mores, tricks, and choices of the 4 Quadrants of Investments and the Investment Products and Tax-Advantaged Funds. It has been my pleasure to reveal the mechanics and “secrets” of the investment industry in an effort to raise the financial awareness and profits of the people.

I hope you enjoyed your journey!
# iCON STREAM

## FLOW 1
**Initial Emergency Fund**
$2000 - $3000 Cash

## FLOW 2
**Begin Debt Elimination**
(House Excluded)

## FLOW 3
**Fund Retirement** (start 5%-15%) Tax-Advant.
401K, 403B, 457K, TSP, IRA, SIMPLE, SEP, etc.

## FLOW 4
**Establish a Roth IRA**

## FLOW 5
**Max Emergency Fund**
(6 – 12 Months Household Income)

## FLOW 6
**Pay Off Mortgage / Buy House**

## FLOW 7
**Fund Traditional Assets (Non Tax-Advant.)**
Real Estate, MFs, Stocks, etc. (at least 8%)

****iCON OF SUCCESS****