The Only
Wealth Guide You Need

with David S. Chang

ArtofSMARTMoney.com

SMART Secrets of the Wealthy

Secrets that you can Use!

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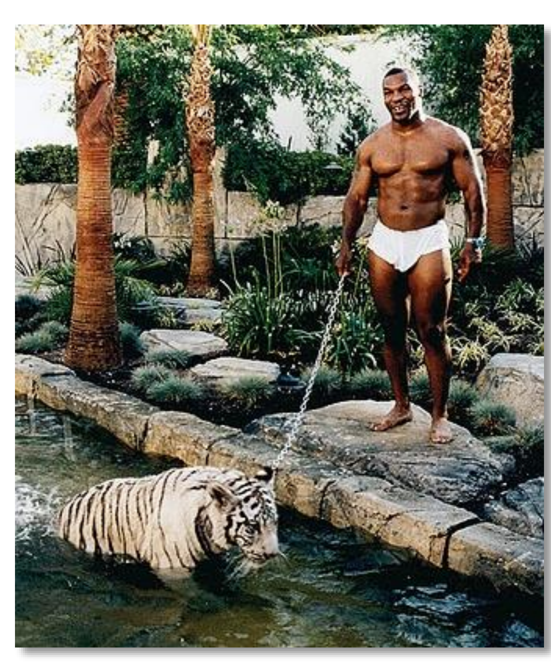
INTRODUCTION



Mike Tyson, the former heavyweight boxing champion, reportedly made $400 million over 20 years. Despite the hefty career earning, in 2003 he declared bankruptcy with $27 million in debt. Tyson liked to live large and spent millions on mansions, cars, jewelry, his entourage, and even paid $140,000 for two Bengal tigers that cost over $125,000 a year just to maintain! Former NFL quarterback Vince Young blew through $26 million in just six years. He would buy 120 tickets on a single Southwest Airlines flight just so he could fly alone. Professional athletes make millions of dollars a year, but every year many of them unfortunately run into major financial problems. In the NFL, the average salary is $1.9 million, but 78% of former players are in bankruptcy within five years of retirement! In the NBA that figure is 60% even though the average salary is $5.5 million. Professional athletes making millions aren't the only ones with money woes.

Evelyn Adams won $5.4 million from the lottery in 1985 and 1986. Today she resides in a trailer park after gambling it all away. Sharon Tirabassi, a single mother who had been on welfare, won over $10 million in 2004. She spent everything on a "big house, fancy cars, designer clothes, lavish parties, exotic trips, handouts to family, loans to friends." Less than a decade later, she is living in a rented house, working part-time and back riding the bus. According to The National Endowment for Financial Education, 70% of people who get sudden windfalls such as family inheritances, divorce settlements, cashed-out stock options, and overnight business successes lose that money within several years.

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Genesio Morlacci, was an immigrant from Italy, had only a 3rd grade education, and after working in the dry cleaning business, worked as part-janitor for the University of Great Falls in Montana. Upon his passing in 2004 he left $2.3 million to the University, the largest amount the school ever received at the time! Margaret Southern was a retired special-needs kid teacher who lived a very modest life. When she passed away at age 94 in 2012, the Greenville, S.C. community where she lived was shocked to learn that she had left $8.4 million to the Community Foundation of Greenville.

How is that people making millions could end up being so poor yet those making only a small fraction of that can be so rich? According to numerous studies, becoming wealthy and financially independent is always one of the top goals people have in life. Money issues are also one of the biggest stressors in life, with it being one of the top reasons people get divorced. With so much at stake with your personal wealth, you would think people would do more to handle their money better.

Surprisingly that is not the case! For those that set New Year's resolutions to manage their money better, only 8% ever achieve them! According to a national survey, about 36% of workers have less than $1,000 in savings and investments and 60% have less than $25,000. 58% of workers and 44% of those retired say debt is a problem. Only 44% have tried to calculate how much they need to retire, and only 18% of workers say they are confident they have enough saved for a comfortable retirement! The survey shows that if something doesn't change, we will have a retirement crisis soon.

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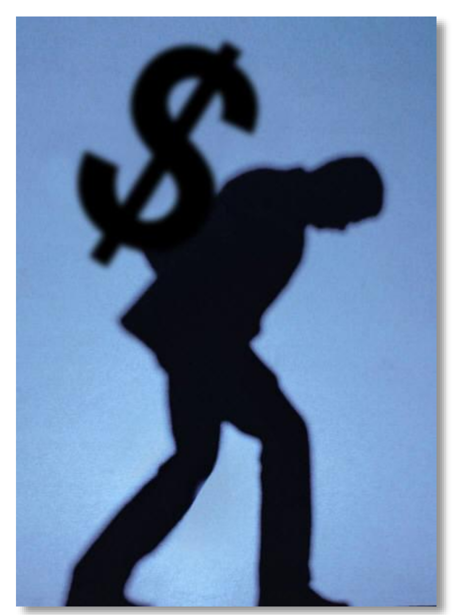

Our national debt as of summer 2014 is more than $17.5 trillion dollars (that is 14 digits!). Just to put that in perspective, the U.S. National debt per taxpayer is over $150,000! How many do you know that have amount just sitting around! The reason this is important is in the future, the only way to bring down our debt and deficit is to either raise taxes, cut spending, or a combination of both. This will impact our income and benefits such as social security. This doesn't even count state and local taxes that may be tacked on. Less private companies now are offering Defined Benefit Pension Plans to their employees. In 1979, 62% of private companies offered a Pension, now it is less than 7%. We can't rely on our employer or the government to take care of us. We have to be responsible for our own retirement and financial independence.

Unfortunately many spend a lifetime trying to become wealthy and believe that it is out of their reach. However when you study the wealthy and how they got there, it isn't rocket science. In fact anyone can do it, but it takes **SMART** thinking, investing with **SMART** strategies, investing in **SMART** places, and **SMART** (not just hard) work to get there. Yes, this is easier said than done. If we are the richest country in the world, then why is it so difficult for us to plan for retirement? Why do people fail to manage their finances? Better yet, why is it that more of us aren't becoming wealthy? In the twenty years that I have been in the finance industry, usually the biggest excuse is "I don't make enough money!" But as I showed with the examples of a janitor and teacher, regardless of income, you can still become wealthy. In fact one of the biggest myths in becoming wealthy is "I need to make more money to be wealthier."

Ask any of the lottery winners and professional athletes that squandered their millions (in some cases hundreds of millions) if that is true! Then what is stopping people from achieving their goal of financial independence?

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The top reasons are that they:

- **Don’t know how**
- **Don’t make the time**
- **Don’t have the desire (or are afraid to, intimidated, or bored of the topic!)**
- **Combination of all three!**

One of the biggest complaints I hear of the financial industry is that we have made things so complicated. We have set a culture where the more complex the product or service, the more valuable we think it is. I will tell you this upfront, that isn’t necessarily true. Often the best advice, is the simplest advice. Many of the professional athletes shelled out millions for what they thought were the top financial advisers only to be burned later on.

This ebook will help give you the **SMART** secrets many of the wealthy have used to become wealthy, and more importantly STAY wealthy. We will cover developing a **SMART** Mindset, implementing **SMART** Strategies, and using **SMART** Investments.

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THE SMART MENTALITY

Becoming wealthy isn't about inventing the latest and innovative product or service, getting lucky in the lottery, or even hoping to receive a large inheritance. It doesn't mean using get-rich-quick schemes either. **It is about thinking like the wealthy.** What's the difference? One of the reasons many professional athletes can't manage their money is that they make a great deal of money at a young age before they developed the **SMART** mentality. ***Wealth magnifies your mentality, if is unwise, you will manage unwisely. If it wise, you will manage wisely.*** Remember money and wealth are only a tool. It is wielded by how we think and our attitude towards money. It can be powerful or destructive. Here are important concepts where many have an unwise mentality and what the **SMART** mentality is!

What Is Your Mentality of Saving Money?

Benjamin Franklin said *"A penny saved is a penny earned."* Today I am sure Franklin would say *"A penny saved is two pennies earned"* since there were little taxes in his day. In order to save $100 dollars, you have to earn over $200 dollars. Why is that? You have to pay federal income taxes, state and local income taxes, Social Security and Medicaid, fuel/gasoline taxes, property taxes, and others on the $200 dollars you earned. The average US citizen in 2013 paid close to 60% of their income in total taxes! So in order to save $100, you have to earn more than double that. Another way to look at it is not spending money is the same as making money. If you save $2,000 a year by switching to more inexpensive lattes, that is the same as someone paying you over $4,000! This is why the wealthy view protecting their money as very important. If you lose 50% of it in the stock market, in order to break even, you need to gain 100%!

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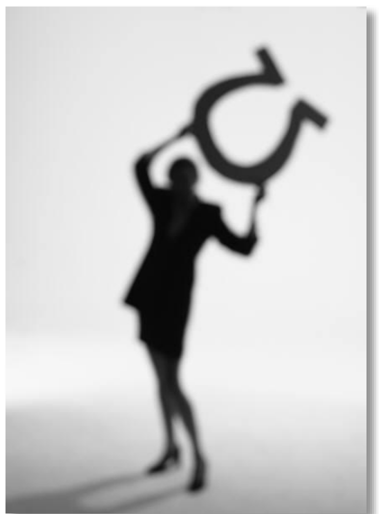
The wealthy also understand that while spending less is important, it is more important to focus on earning more. If the average person makes $40,000 a year, saving 10% is $4,000. However if you can focus on earning more (I talk about this in the SMART Strategy section under Passive Income) and are able to receive $200,000 a year, saving 10% is now $20,000. Big difference!

- **Unwise Mentality:** Saving a certain amount is equal to earning the same amount. Saving more is more important than earning more
- **SMART Mentality:** Saving a certain amount is almost double the earned amount. Earning more is more important than saving more

What Is Your Mentality of the Future?



Hope is one of the powerful tools you have. People hope for many things, happiness, a better career, and to become wealthy. However instead of hoping for good luck, the wealthy create their own good luck. A mentor of mine once said that **LUCK** is only **"Preparation Meeting Opportunity."** They take action to find ways to earn more, spend less, save more, and are able to take the necessary risks to achieve success. They dream of the future and their goals, not wish for the good old days. They don't hope things will get better, *they take the steps to make things better*. The one thing certain with the stock market is that it's uncertain. Professionals get paid the big bucks to try to predict the future, but many times they are wrong. Just look at 2008! **The best way to predict the future is to *create your own future*.** Instead of being reactive, it is important to be *proactive*.

The best way to predict the future is to *create your own future*.

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Being proactive means taking risks and accepting the fact that you may be wrong. A **SMART** Mentality understands that mistakes happen. It means you took a risk and ventured into new territory. **But making the same mistake is not!** The wealthy learn from their mistakes and commit to never making them again. The words *"this time is different"* are costly in investing since it merely rationalizes making the same mistake over again. Take a step back to review what led to the loss and take steps to ensure that you avoid it in the future. Don't compound the errors by taking bigger risks in an effort to recover your money (or pride!) **Many people throw good money after bad**, in hopes that *"this time will be different."* Don't fall for it!

Our school system penalizes us for making mistakes. But in the real world, you won't know what the best way or plan is until you try. Making mistakes and failing is part of the learning process. **The best way to learn is by doing.** Regardless of the situation, actions, not plans, teach the best lessons. The wealthy and most successful people learn to take **SMART** risks. Instead of avoiding risk, taking **SMART** risks give you a competitive edge and help you find opportunities others may miss.

Some of the wealthiest people I know are the ones that snatched up properties and stocks in spring of 2009, when the market was an all-time low. It was a risk because the market could have continued to fall, but it was a **SMART** risk since the valuations were high and sooner or later the market would rebound. Doing this isn't easy, it requires resiliency, the ability to spot trends, and learning to fail forward. That is why the wealthy are not afraid to be proactive, take action and **SMART** risks. The wealthy see failure merely as stepping stone to success and don't quit until they get the deal!

- **Unwise Mentality:** I hope the future will be good and won't take any risks or will take any risk to get what I need
- **SMART Mentality:** I will create my own future and take **SMART** risks.

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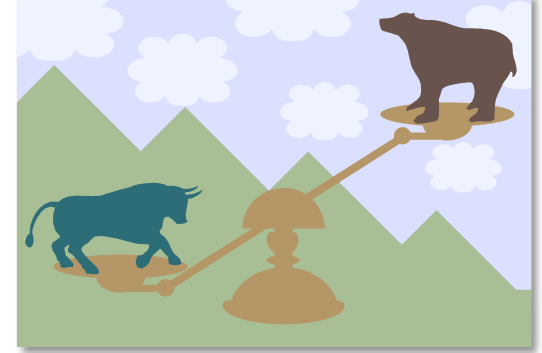
What Is the Best Investment You Can Make?

Those with a **SMART** Mentality invest in themselves. They invest in their own education and skills, especially acquiring specific knowledge or expertise. **They understand it isn't always about doing something to get rich, but to *be something to get rich*.** This is why specialties such as a medical doctor, technology specialists, and lawyers are generally the highest paid professions. Your personal brand and what you bring to the table are important. The wealthy are constantly looking to improve and grow. If you are not growing or moving forward, then you are contracting and moving backward. According to Steve Siebold, author of *"How Rich People Think"* the wealthy would rather **"*be educated than entertained*."** They understand the power of learning and using that knowledge to become more successful. They plow back profits of their investments into themselves and their own ventures to continue growing and expanding.

- **Unwise Mentality:** I need to look for the best investment to make
- **SMART Mentality:** The best investment I can make is in **ME**

What Is Your Greatest Risk?

A **SMART** Mentality is investing for the long-term, not short-term. **The greatest risk people will face with their money is not market risk (the ups and downs of the stock market), but longevity risk (outliving your money!).** If you are married, there is a 63% chance that one of you will live to age 90 and a 36% chance one of you will live to be 95. Some people will spend more time in retirement than actually working! However in an effort to reduce market risk and another downturn, many people over-invest in conservative investments like bonds and fixed-income securities. The problem is that although in the short-term you will not see the see-saw effect, you are highly exposed to inflation risk (money is worth less



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in the future) since they do not have the same potential for growth as stocks do. Your investment portfolios should contain enough stocks for their ability to beat inflation. Historically, stocks have offered the best performance over time. Since 1926, U.S. stocks returned an average of 10.0% annually, while U.S. bonds returned just 5.5%, and inflation was 3.2 percent. It can be psychologically and emotionally difficult to withstand the unpredictability of the stock market, but if you don't plan for the long-term, you will risk running out of money later in life.

- **Unwise Mentality:** I am only looking for short-term results
- **SMART Mentality:** I will bet on the long-term and be patient

What Is Your Greatest Problem?

The **SMART** Mentality don't let emotion dictate their decisions. Many common investing mistakes are attributed to emotional decision-making. Whenever you make financial or investment decisions, you confront the challenges of overcoming fear and greed. Fear can cause you to run for the exits when markets go down and sell low. Greed can encourage you to chase fads, take on too much risk in the pursuit of a big gain, and buy high. **Remember the goal is to buy low and sell high, or if you buy high, sell higher!** However, by recognizing your emotional triggers, you can overcome any unwise impulses. Cultivate discipline and stay focused on the **SMART** Strategies which we will talk about in the next section. In today's world of high-tech investing, major financial decisions are only a click away and investors pay a high price for short-term emotional mentality. The average investor the past 20 years made only 2.4% whereas the S&P500 returned 7.7%. Why? Because the average investor did not stay invested during the entire 20 year-time period. Investor psychology has proven that the worst enemy when it comes to investing is not the market, but ourselves.

- **Unwise Mentality:** I make decisions based on how I feel and what the market does
- **SMART Mentality:** I stay disciplined and do not let emotions get in the way

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What Is the Best Way to Choose Your Investments?

A **SMART** Mentality avoids chasing the crowd. No one knows with certainty the direction markets will go. However, a good proverb to remember is that it is usually wise to avoid following the herd when it comes to investments. By the time your friends, family, neighbors and newspaper columnists are all investing in a particular sector or stock, it's often too late to benefit because the hype has already inflated the price. By the time the mass of average investors have caught on to the new fad, prices are often too high and investments are overvalued, making them a poor choice for investors who are seeking value. Investment clubs, which were popular during the 1990s, were examined as part of a study about the dangers of groupthink. Researchers found that portfolio returns of investment clubs lagged the S&P 500 index by 3.7 percent per year, meaning that members did worse as part of the group than the market overall during the same period.

- **Unwise Mentality:** I take cues from others and the media for investing tips
- **SMART Mentality:** I follow my personalized financial plan and strategy

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THE SMART STRATEGIES

Having a **SMART** Mentality gives you the foundation to make **SMART** Strategies to become *wealthy*. **SMART** Strategies to wealth start with asking the right questions. The three most important questions and how to answer them are:

Ask SMART Questions, Get SMART Answers

- The Top Three Questions To Ask Are:

1. **WHERE DO I WANT TO GO?**
   - $ Mission Statement, Purpose, Vision
   - $ Setting **SMART** Goals
     - ✓ **S**pecific
     - ✓ **M**easureable
     - ✓ **A**chievable
     - ✓ **R**elevant
     - ✓ **T**ime-Bound
2. **WHERE ARE AM I NOW?**
   - $ Life Balance Sheet
     - ✓ Your Assets: Your Current Resources (Education, Skills, etc.)
     - ✓ Your Liabilities: Your Current Limitations (Restrictions, Constraints)
   - $ Financial Balance Sheet
     - ✓ Assets: Valuable Possessions You Own (Properties, Investments)
     - ✓ Liabilities: What You Owe and Are Responsible For (Debts, Bills)
     - ✓ Net Worth: Assets Minus Liabilities, What You Are Worth
   - $ Cash Flow Statement – Budget
3. **HOW WILL I GET THERE?**
   - $ Financial Planning
   - $ Retirement Planning
   - $ Investment Planning
   - $ Insurance Planning
   - $ Tax Planning

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- $ Estate Planning
- $ Purchase Planning
- $ Education Planning
- $ Debt Planning
- $ Credit Planning
- $ Emergency Fund Planning
- $ Business Planning

A good personalized financial plan will answer the questions above and cover these topics. When people think of a financial plan, many people assume it is just setting up a budget, saving for retirement, and looking for investment products. However a financial plan goes much deeper than that. If properly done and updated regularly**, it could make the difference between financial independence and financial dependence.** You can click here to see and download free financial plans and templates.

Focus on Total Return

To maximize investment growth over time, it's critical to factor in the effects of fees, taxes and inflation. Many posted investment returns exclude the fees which come right off the top of each year's gains. You will want to dig a little deeper to find out how much your investment performance is costing you each year. Taxes take a serious bite out of your investment gains. Taxes shouldn't be the primary driver of your investment strategy but incorporating tax efficiency into your overall plan will help you keep more of what you earn. Inflation also can eat away at investment growth each year. If inflation is at 4%, $100,000 today will be worth only $67,500 in ten years! **An investment strategy that fails to account for the effects of fees, taxes and inflation will severely handicap your ability to increase your wealth over time.**

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Get a Mentor

Surround yourself with millionaires and learn from them. The best way to learn how they think and what they think is to be with them when they think. You want to follow their examples: What do they invest in? How do they invest? What do the read and learn? **A mentor's hindsight can be your foresight, where you can learn from their mistakes, and emulate their success.** A mentor can open up opportunities you wouldn't otherwise have. He or she can also help widen your assumptions in order to make better decisions. You can't learn to be wealthy from someone who doesn't know how to do it. There are some mastery groups that are out there in your area that you may be able to join. Don't be afraid to ask someone to mentor you. The worst thing they can say is no and in most cases, they will be flattered that you asked. If they can't do it, ask them if there is someone they know that could.

Get Income from Dividends, Residual, and/or Passive Income

Instead of looking for a one-time payout or commission, **those financially independent look for projects and investments that generate income for years if not decades.** The most successful business people were able to start a business or choose investments over time, automate and hire or outsource people to run them, then collect the residual income. They look for streams of income that are continuous and once setup, don't need a significant amount of work to actively maintain it. Time is important, so passive income is the best way to free up time and pursue things you want to do. This gives you the flexibility to continue working on other business ventures, redeploy the cash into investments such as stocks, bonds, real estate, or for other acquisitions.

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The most common sources of passive income for many people are:

- ✓ Blogging
- ✓ E-commerce and Dropshipping sites
- ✓ Article writing for revenue sharing sites
- ✓ Affiliate Marketing
- ✓ Niche Sites
- ✓ Membership Sites
- ✓ Videos, eBooks, Podcasting

These are just some that people have been successful in turning into a reliable stream of passive income. I will be going more in-depth on how to build these types of passive income for our **SMART** *Platinum* Members, join us if you haven't already!

Diversify and Be Flexible

Diversification of investments and sources of income lowers your risk and maximizes your return. Who would you rather be, someone making $200,000 salary or someone earning a $100,000 salary with another $100,000 in real estate rent and other investments or sources of income? **Diversification helps you survive the ups and downs of the economy.** It also helps you buy assets when they are undervalued. When you have alternative sources of income, you can be in a position to buy investments at their low and wait for it to appreciate. By diversifying your income sources, you will be in a much better situation if you lose a job. **You want to focus on earning more money, not just saving more money.** In the last bullet I briefly talked about passive sources of income and how that can help you earn more. Become a **SMART** *Platinum* member for step-by-step information needed to diversify your income bases!

Diversification is also a powerful tool to reduce certain types of risk in your portfolio. Make sure that your portfolio contains a variety of quality investment types, including stocks, bonds, cash, and alternative investments if your risk profile and investment goals support

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them. You can further diversify by industry, size of companies, by country, by sector, and other factors. This helps spread the risk among a wide variety of investments. Much of the market volatility of the last few years has been driven by economic events, natural disasters, and government activities that are outside any investor's control. While we can't diversify away all forms of risk, a flexible strategy can help you find and take advantage of investment opportunities in many market conditions.

Understand Taxes and Use Qualified Retirement Accounts

An Individual Retirement Account (IRA) and 401(k) is one of the best ways to save for retirement. IRAs were first introduced in 1974 to help with retirement planning. Since then, IRAs have gone through several revisions making them one of the best ways to save for the future. Surprisingly, only 14% of US Households currently contribute to one! Given the great benefits, an IRA should be part of one's financial plan whether you are just starting out, in the middle of your working years, or headed towards retirement.

An IRA is a form of retirement plan with important tax advantages that helps shelter your money. Depending on the type of IRA you choose, you can either save on taxes today or in retirement. An IRA is not an investment type or product. You can think of it as a suitcase that can hold almost any type of investment such as: stocks, bonds, mutual funds, CDs, cash, or alternative investments. You have until the tax deadline to contribute for the previous year.

401(k) retirement plans were first introduced by Congress in 1978. The name comes from the section (401) and paragraph (k) of the Internal Revenue Code. The retirement plans were created to encourage Americans to save more for retirement. 401(k) plans are part of retirement plans known as "defined

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contribution" plans. A defined contribution plan is defined by the employee or the employer. To be eligible, you must work for a company that offers one. There are similar plans such as the 403b (offered by schools and tax-exempt organizations) and the 457 Plan (offered by the government). There are three great benefits of these retirement plans:

- ✓ they reduce your taxable income since contributions are made before taxes,
- ✓ the money in the account grows tax-deferred so there is more money to compound and grow than if you were taxed yearly, and
- ✓ many employers match contributions, essentially giving you free money!

It is important to join your company 401(k) plan as soon as you are eligible. To get the employer match, some employers require employees to contribute a certain amount. Find out what it is to take advantage of this great benefit. A typical employer offers 50 cents for every dollar you contribute up to 6% of your salary. This means if you put in the full amount at 6%, you will get 3% from the employer which is a 9% contribution to your 401(k). If you are self-employed or in a small company, you can setup a solo 401(k), Self-employed IRA (SEP), Savings Incentive Match PLan for Employees IRA (SIMPLE), or a Profit Sharing Plan. Contact an advisor or visit WealthBridge Inc. for more information.

In addition to starting as early as you can, **it is also important to determine how much you need to contribute to reach your retirement goals.** Experts say that if an employee works and saves for 30 years and for retirement will only have their 401(k) and Social Security, the employee will need to contribute 13 to 15 percent of their income every year. If the free matching from the employer is 3 percent, the employee can contribute 10% to get the total contribution of 13%. If you can't make a contribution that large, start with an amount to at least get the free matching and raise the amount every year in line with your pay raise. Some plans have a feature called "contribution escalator" that automatically increases your contributions by a certain amount on a future date you set. But the plan offered by your employer may restrict you to a lesser contribution. This federal limit on the 401(k) plan is generally raised every year.

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➢ Efficient Tax Investing

IRAs, 401(k), and other retirement qualified accounts have significant tax advantages. You want to put inefficient investments (investments that have high turnover) into qualified accounts to avoid the potential taxes. You want to put efficient investments (investments with low turnover) into non-qualified accounts. **The wealthy don't pay unnecessary taxes and are able to have their money work for them all the time.** They are able to sell losing investments for tax harvesting so they can offset their winners. Also by understanding the difference between long-term and short-term capital gains, and ordinary income, they are able to strategize income types to minimize their tax burden and keep more of their money.

Create Legal Entities to Pay You

Depending on where your primary income comes from, creating a corporation or LLC can help you manage your taxes and expenses better. It is easier to deduct some of your business expenses and avoid the Alternative Minimum Tax. This will put you in a lower tax bracket. Legal entities can also shield you from liabilities and make it easier to transfer assets. With society becoming more litigious, the wealthy look to protect themselves from frivolous lawsuits.

Create Trusts

There are many different types of trusts, and the wealthy make use of them wisely. Mark Zuckerberg, the founder of Facebook, put his pre-IPO stock into a grantor retained annuity trust (GRAT). According to Forbes, "Future payouts will avoid the 45% gift tax that existed (in 2008) when these trusts were created…a GRAT is especially useful for stashing away hard-

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to-value assets, like private companies shares, because it allows changes to the trust's details if you're audited." Creating trusts help you efficiently transfer your wealth by avoiding probate, avoid unnecessary taxes, and secure your legacy by controlling how the money is spent. See an estate attorney or financial professional for more information. Become a **SMART** *Platinum* member for interviews and information on creating trusts and using legal entities! As always, visit a professional for advice on your personal situation.

Use Other People's Money (OPM)

The *wealthy* aren't afraid to take out good debt and use it to increase their assets. With interest rates at historic lows, they borrow cheap money and use it as leverage for a higher return on their investments. Instead of putting 100% down for one piece of real estate, they put 20% down and borrow for five pieces of real estate, earning the extra cash flow or selling them off for potentially five times the gain. Of course there is more risk associated with using OPM, but the *wealthy* are willing to take educated risks. Since interest rates are currently at all-time lows, borrowing and investing to earn higher rates allow the *wealthy* to pocket the difference, or the arbitrage. This again is risky, but if done correctly, can boost your returns without having to put a significant amount of money down. Be sure to consult a professional before you do this.

Buy Value, Not Future Economic Outlook

Don't just follow market trends. Wise investors focus on value when evaluating investment options. Too many investors focus on buying market trends and economic outlook, not realizing that trends can be deceiving and markets often perform very differently from the economy. **Focus on buying quality investments with good fundamentals.** Visit our **SMART** Member Exclusive Videos to see how we use tactical and technical analysis to find

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good stocks. Our stock analysis and reports focus on value, good fundamentals, and quality! Over the long term, market movements often foreshadow economic trends as investors attempt to "price in" how they expect the economy to affect stock prices. A **SMART** investor keeps an eye on the economy and factors economic outlook into investment decisions, but ultimately seeks out high-quality individual investments.

Take the Proper Amount of Risk

Experience and research has shown that investors do best when they take on the right amount of risk for their goals and tolerance. Too many investors focus strictly on generating returns while ignoring the importance of managing risk properly. Too much risk can leave your nest egg vulnerable to market swings with little time to recover before you must start withdrawing money. Too little risk in your portfolio will reduce your potential for capital appreciation and allow inflation to eat away at the long-term value of your investments. **The challenge is in determining how much risk is right for you and your portfolio.** No one wants to see their portfolio lose money at any point, but it's important to understand that generally, **one must take on more risk in order to achieve higher long-term returns.** Be honest about your ability to withstand short-term swings in value and take investment losses in the pursuit of returns. Another essential question that you must answer is how much risk you need to take on in order to meet your investment goals. The right risk allocation for a portfolio will depend on a number of factors: expectations for return, investment objectives, time horizon, liquidity, goals, net worth, and appetite for risk. See a financial professional or visit wealthbridgeinc.com to get more information.

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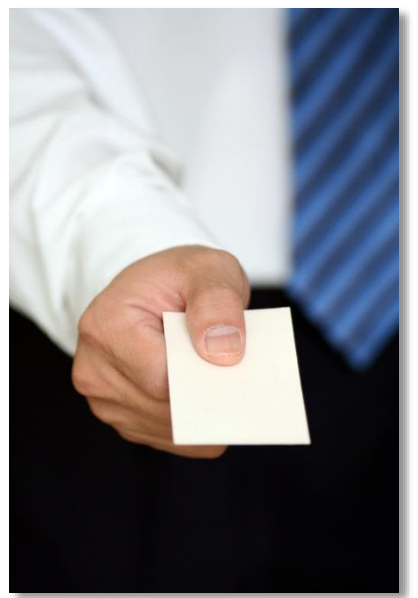
Aggressively Monitor Your Investments, or Pay Someone Skilled to Do It



If you have no knowledge, no desire, no time, or a combination to manage your investments, it is wise to hire a professional to help. **If you think hiring a professional is expensive, wait until you hire an amateur!** When markets are rising and amateur investors are doing very well, it's easy to forget that protecting your assets during declining markets requires skill, discipline and constant attention. Investors need to expect and be prepared to react to fast-moving markets. No market rally is permanent and no decline lasts forever, meaning that there are no investments that you can buy and forget about. **The pace of change of today's markets is too great for investors to be complacent.** For example, the 30 companies that make up the Dow Jones Industrials, which are some of the largest publicly traded companies in the U.S., have changed numerous times since the Dow's inception in 1896. These companies were removed as they declined, were acquired, went private, or simply went bankrupt. Investing with long-term assets is not child's play since most investors can ill-afford to lose their nest egg. Remember, you pay for what you get, that is why the wealthy are not afraid to pay for good value. Saving a few hundred dollars could cost you thousands if you don't get the right advice.

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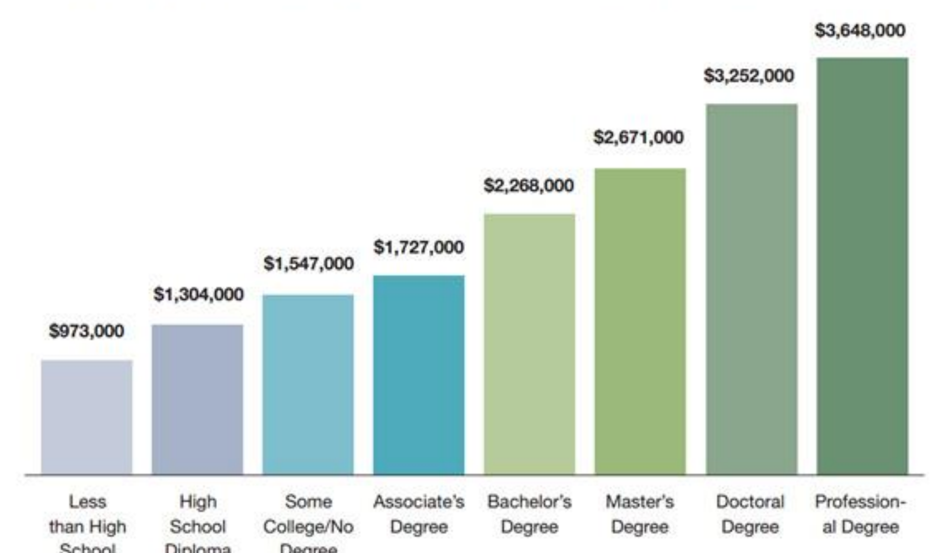
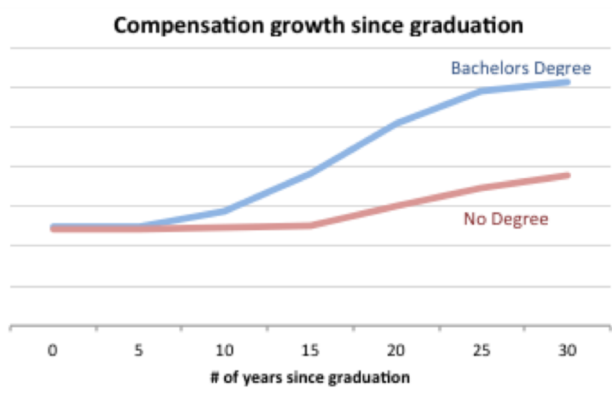
THE SMART INVESTMENTS

YOURSELF!



Earlier in the book we talked about how investing in yourself is one of the best things you can do to become wealthy. This chart shows that your lifetime income goes up significantly when you have a professional degree. However even if you are not someone who likes to go to school, if you are able to learn and cultivate a high demand skill such as the technology field, you will be able to make more money. Bill Gates, currently the richest man in the world, didn't graduate from college, but he had spent so much developing his computer programming abilities in high school. By the time he got to college, he knew more than his professors did!

The bottom line here is that the amount of income you can generate is based on the value you can create. If you can add value for people, a company, or any type of organization, than you are able to command a higher market price for your products of services. Most of the world's billionaires started their own company with a skill they had.



Regardless of where you are in life, you can take online classes, learn from youtube videos, books, articles, and even a group and mentor. One of the best ways is to take advantage of

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MOOCs. What is a MOOC? MOOC stands for Massive Open Online Courses. There have been free online courses for years, but with the quality, quantity, and elite higher educational organizations becoming involved, the stigma has rapidly changed. This has changed the face of education, with anyone anywhere can take advantage of courses only elite students had access to. Elite universities such as Yale, Stanford, MIT, Harvard, and dozens of state universities are now offering MOOCs. Unfortunately, there is no diploma and students have to be self-disciplined to follow the course work. But it is free, voluntary, and no penalty of dropping or postponing classes. For those who would like a free elite education and have the motivation to do follow-through, click here for the top sites for MOOCs!

I am emphasizing this more than anything else because I have seen people lose almost everything they have, but were able to bounce back quickly because of the knowledge and skillset they possessed, the relationships they had, and the experience they developed. Money will come and go, but your knowledge, the ability to think **SMART**, and your skills are something no one can take from you.

Basic Investment Types

The *wealthy* invest. They understand you have to put your money to work for you. Growing up, most of us were taught that you can only earn an income by getting a job and working for a wage, and that's what most of us do. However, the problem with this scenario is that in order to make more money, we'd have to work more hours and there are only so many hours in a day. Since we can't create a duplicate of ourselves, what we can do is put our money to work for us instead by investing. This maximizes our earning potential. There are many ways to invest and many types of investments:

- **Stocks**
- **Bonds**
- **Mutual Funds**
- **Exchange-Traded Funds**
- **Certificate of Deposits**
- **Annuities**
- **Alternative Investments**

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I will talk more about alternative investments in this book. For more detailed information on the other basic investment types log-in to your **Art of SMART Money** Membership Account.

It is important to also talk about what investing isn't. **Investing is absolutely not gambling, or get rich quick schemes.** Some people may treat investing like gambling, such as betting on the ups and downs of the market or investing based on "hot tips." Studies have shown that over 90% of day traders lose money after their transaction costs and taxes. This doesn't include the time they spend!

Long-term investing requires careful thought, analysis, and discipline. A good investor doesn't act on hunches or emotion, but instead weighs the pros and cons of every decision. It's important to understand that there are no guarantees in investing and risk is always with us. However, there are ways to mitigate certain kinds of risk and strategies we can use to help put the odds in our favor. **A SMART Mindset is able to take SMART Risks in order to maximize their SMART investments.**

The Stock Market

If we look over the past 15 years or so, it's easy to understand why investors have been nervous. When the tech bubble burst in 2000, the market declined by almost 50% over 31 months. The market rebounded the next 5 years to a peak in October 2007, only to lose more than 57% over 17 months. As of the date of writing this article, the market has made a slow and volatile climb to an all-time high and gain of over a 170% return! With so much progress being made, many people are beginning to wonder if we're due for a retreat. And if we do see a decline, how should we prepare in advance for it? The truth is, no one can say for sure when the market will go down

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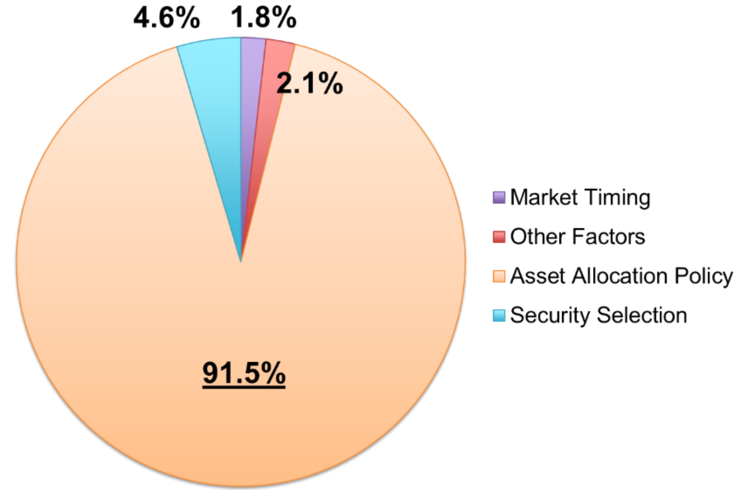
or go up. An interesting study by Bloomberg showed that the companies Wall Street analysts said to *"sell"* outperformed the market by 25%, while the stocks they said to *"buy"* underperformed by 7%. In other words, if you had followed the *opposite* advice of Wall Street professionals, you would have outperformed the S&P 500 by 7%! Then what is the best way to make money in the stock market? First and foremost, getting out of the market completely is not the answer. The greatest risk facing Americans today is longevity risk, running out of money. **Investing in the stock market over the long-term is one of the best ways to keep up with inflation and if invested smartly, reduce your risks while maximizing returns and income.** Here are the steps to follow for long-term success in the stock market.

- Don't try to pick stocks
- Don't try to time the market
- Invest in a low-cost portfolio with a diversified asset allocation

According to a study by Ibbotson Associates, a portfolio's performance is based on:

- Asset Allocation Policy – 91.5%
- Security Selection – 4.6%
- Market Timing – 1.8%
- Other Factors – 2.1%



Trying to pick the right stocks and timing the market only make up for only about 6% of a portfolio's performance, yet make-up a considerable amount of a portfolio's losses! You have a greater chance of losing money than making money if you try to actively beat the stock market. In fact over a 3-year period, 90% of actively managed mutual funds lag behind the market! Since over 90% of making money in the stock market comes from an asset allocation policy, selecting suitable investments, and the right amount of them, is extremely important. **A portfolio's long-term performance is determined primarily by the percentage of investments in each class: cash, stocks, bonds, and alternative investments.** This helps protect your assets while maximizing growth potential. This percentage is based on your time horizon, risk tolerance, goals, and financial plan.

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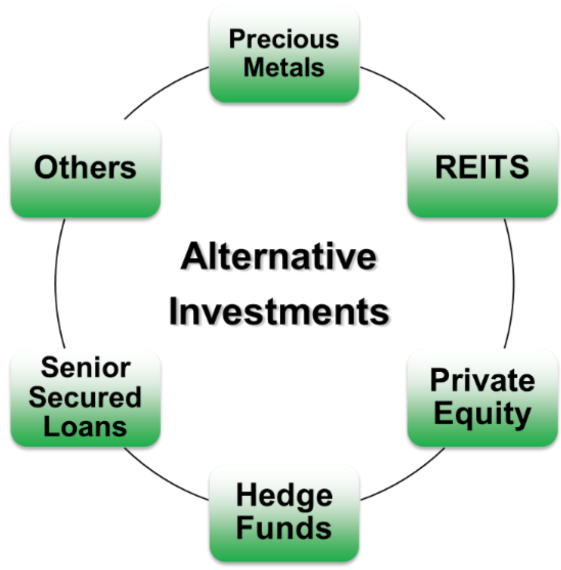
Alternative Investments



The three main traditional asset classes to invest in are stocks, bonds, and cash. Recently, another asset class has become more popular known as "Alternative Investments" which is the name given to any investment that falls outside of the basic investments types like stocks, bonds, mutual funds, annuities, etc. The AI category is quite broad and includes "tangible" or "hard" assets such as real estate, commodities, currencies and financial assets such as private equity, senior secured loans, hedge funds, managed futures, and venture capital among many others. The category contains hundreds or thousands of complex securities but we'll at least discuss a couple of the more common types.

Large endowment funds such as Harvard and Yale (which has consistently delivered high double digit returns with lower risk), have up to 40% of their investments in AIs!

Alternative investments can be an excellent addition to a well-diversified portfolio to hedge or protect your portfolio against specific risks or add some increased growth opportunities. AIs offer another line of investments that can expand and diversify sources of return in a portfolio. AIs can have a lower correlation with traditional investments, reducing overall risk through diversification and different market environments. This means that the values of AIs are generally unrelated from traditional investments and do not move in tandem with each other. In other words, if the market moves down, AIs may not fall as much as the market or in some cases go up! However, these types of investments are often high risk and require specialized knowledge to use effectively. Here are the most common types of Alternative investments:

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- **Precious metals**, particularly gold, are often used to hedge against economic downturns since gold prices often move counter to economic trends. Gold is highly volatile and should be considered a speculative investment.

- **REITS, or Real Estate Investment Trusts** are commonly used to give investors the benefit of investing in real estate without having to own property outright. REITS often invest in commercial properties such as shopping centers. It is important to note that REITs expose an investor to special risks associated with investing in real estate. There is potential for investment illiquidity, the units, or shares can fluctuate in value and redemption amount may be more or less than what was originally invested. And prior to investing, individuals must meet specific suitability standards.
- **Hedge funds** are similar in structure to mutual funds and are often used to hedge against specific market movements or to seek out increased returns. Hedge funds are not as heavily regulated as mutual funds and can be very risky.
- **Private equity** is an investment directly into private companies, instead of say buying stock on an exchange. Private equity investments can be difficult to sell and can carry high risks. The majority of private equity investors are large institutions or wealthy individuals who can afford to speculate.
- **Senior Secured Loan,** also known as a Business Development Corporation (BDC), is money pooled together to create a fund which is lent to companies as debt, just like a bank. The benefit is that the collateral is usually first or second tier, meaning if anything should happen to the company, the BDC investors are the first to get paid out. When GM went bankrupt, the Senior Secured Lenders got virtually every dollar back out, bond holders got 20 cents on the dollar, and stock holders unfortunately got nothing. Many BDCs also have the interest rate pegged to an inflation index, which means if inflation goes up, the interest rate also goes up. A BDC is an excellent way to generate stable income with potential inflation protection, and lower your investment

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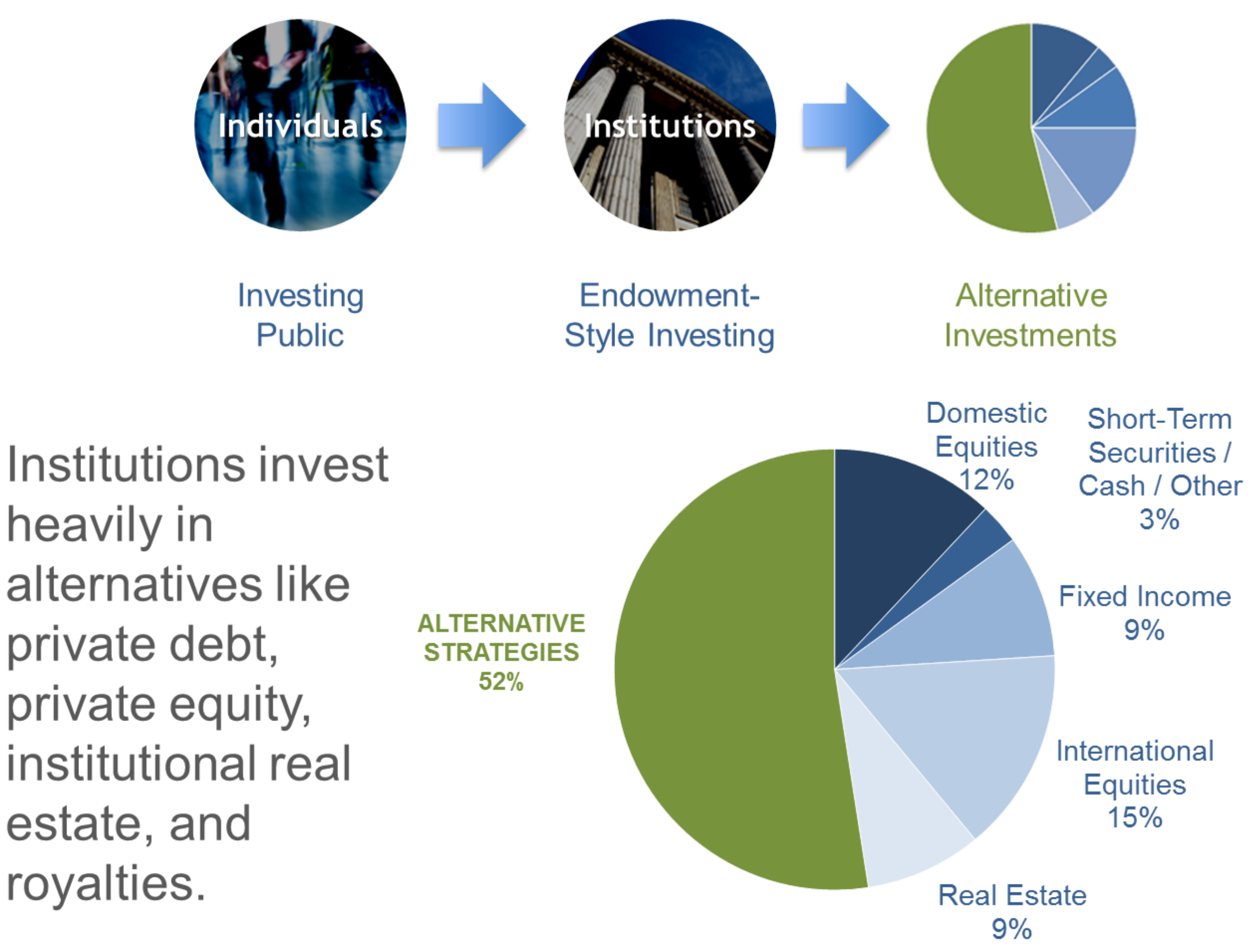
risk. You may not see the potential capital appreciation like a stock, but you can be protected from much of the downside with solid cash flow. See a financial professional or visit wealthbridgeinc.com to get more information.



Source: National Association of College and University Business Officers and Commonfund Institute. Data include asset allocations for U.S. Higher Education Endowments and Affiliated Foundations with assets under management of at least $1 billion in fiscal year 2012. Alternative strategies include private equity (LBOs, mezzanine, M&A funds and international private equity); marketable alternative strategies (hedge funds: absolute return, market neutral, long/short, 130/30, event-driven and derivatives); venture capital; energy and natural resources (oil, gas, timber, commodities and managed futures); and distressed debt.

Historically AIs have been only available to large investors with smaller investors having no access to them. However, in the past several years more AIs have become available to the general public that provides the liquidity and low cost similar to traditional investments. **A carefully constructed portfolio combined with traditional and alternative investments may be important as the global and US economy becomes increasingly interdependent.** As always, be sure to check with a professional to see if investing in AIs is right for you. It is important to have realistic expectations on any investment portfolio and chances are if some investments seem too good to be true, they may be! AIs may enhance

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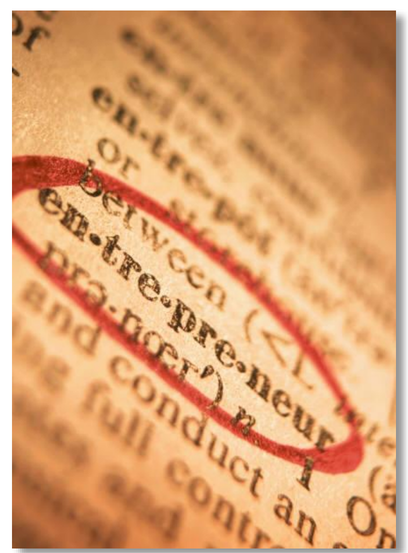
your portfolio, but keep in mind like other investments, past performance is no guarantee of future results. Although there are no guarantees in the investing world, doing your homework and research with any investment can improve chances of meeting your investment and financial goals!

Start Your Own Business



How did the Forbes 500 (list of the 500 richest people in the world get there?) They didn't get there by saving from the average salary or investing only in the stock market. **Out of the 1,426 billionaires in the world, almost all of them did it through starting a business.** You can't make ten figures going through the corporate ranks. They started their business from scratch, either as a sidepreneur (starting business on the side), intrapreneur (started a business within an existing one), infopreneur (selling information products like ebook), mediapreneur (create online platforms), or just following their entrepreneurial spirit! One of the few ways the average person can earn more is through small business opportunities and niche markets. You don't have to open up the next Facebook but can start with an online business, service business, or a small landscaping business. Technology has lowered the barriers to entry in starting a small business and opened up many opportunities. What should you start a business in? How should you start a business? If you are a **SMART** *Platinum* member, I will take you step-by-step on how to start and grow your own business. Join us now if you haven't already!

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CONCLUSION

Becoming wealthy is more than just how much money you can make or save. Mike Tyson proved that you could make $400 million, but that in and of itself is not enough. Unless you are able change your mindset to think how wealthy people think – to think **SMART** and with what I call the **SMART** Mindset – you can't achieve lasting success and wealth. **Your income won't be able to keep you where your mindset can't hold you.**

I have described that the **SMART** Mindset has the proper view of savings, risk, investments, and income. Instead of trying to predict the future, they create their own future. This helps give the **SMART** Foundation they need to become and stay wealthy. Anyone can develop one! Having the **SMART** Mindset will also help you understand where you are now, and where you want to go.

Having the **SMART** Strategies will help you plan on how you will get there. I have shown you proven ways people have become and stayed wealthy. They have protected themselves from unnecessary taxes and threats, diversified their investments and income, taken the proper amount of risk, and know where to seek help from mentors and professionals when they need it.

Picking the **SMART** Investments puts our money that we have earned and saved to work for us. Having the **SMART** mix of investments is very important to your portfolio's performance. While most look for common investments such as stocks and bonds, investing in yourself is the most important investment you can make. Money can come and go, but your knowledge and expertise can't be taken away. Having a diversified investment portfolio is the secret to success. Because of inflation and longevity risk, having some exposure to the stock market is vital. In addition, alternative investments are excellent ways to further diversify a portfolio and add growth opportunities.

If we study the wealthy even further, we see that most became wealthy through starting a business. While being an entrepreneur may not fit everyone's personality, there are way to add reliable income sources that anyone can do. Developing the **SMART** Mindset, having the **SMART** Strategies with the **SMART** Investments will keep on the path to wealth and prosperity!

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ABOUT ME

David S. Chang is an award-winning entrepreneur, wealth manager, CEO, keynote speaker, author, and consultant. He is a West Point graduate and combat war veteran. David has been featured in Forbes Magazine and is the founder of **The Art of Thinking SMART** and **The Art of SMART Money.** His articles are in The Star-Advertiser's Midweek and Midweek Kauai every week with a readership of over 400,000 people. He also writes for multiple national publications. He is the Chairman and CEO of Chang Holding Company.

In 2013 David was selected as Top 40 Under 40 Military by CivilianJobs.com. In 2011, Pacific Edge Magazine selected David as Young Professional of the Year. In 2010, he was selected as the Business Leader of the Year from the Pacific Business News 2010 class of Forty Under 40 in Hawaii. In 2011 he was a finalist for The Business Leadership Hawaii American Savings Bank Business Leader of the Year. He has also been selected as one of the Three Outstanding Young Persons Award by Hawaii Junior Chamber of Commerce, finalist as Top New Business of the Year by Hawaii Business News and honored by the World Chinese Venture Model Association.

David's Wealth Management Company, WealthBridge Inc. has been repeatedly recognized as one of the top in the nation. He was selected as a FIVE-STAR Wealth Manager for the State of Hawaii in 2014, 2013, 2012, and 2011, representing the top 2% of Wealth Managers. In 2013 and 2012 WealthBridge Inc. was selected by The National Association of Board Certified Advisory Practices (NABCAP) as a Premier Advisor. In 2012, David was awarded the "Excellence in Customer Satisfaction" Talk of the Town winner, with a 4.5 out of 5 stars rating.

He is a graduate of the United States Military Academy at West Point with a Bachelor of Science in Economics and Computer Science and holds a Masters in Arts in Political Science from the University of Hawaii and a Masters in Theological Studies from Covenant Theological Seminary. In addition, David was selected as an East-West Graduate Degree Fellow and earned a Certificate of Leadership from the East-West Center. He is a guest lecturer at universities.

David has served in the U.S. Army as an active duty Armor and Military Intelligence Officer with the 25th Infantry Division. He is a veteran of the Global War on Terror and Operation Iraqi Freedom. He currently serves as an Intelligence Officer in the Army National Guard. David was elected Chairman of a major political party and served as a super-delegate to the 2012 Presidential Convention. He was the youngest chair in the country when elected and the first Korean-American chair in U.S. history. He was selected by Campaigns & Elections Magazine as a Top 10 Influencers of the 2012 Elections.

David is a member of the Financial Planning Association and the past Chair of the Young Professionals program of The Chamber of Commerce of Hawaii, and teaches at Inspire Church, a 7000-plus member Church. David is an accomplished musician, leading numerous music teams playing the guitar, trumpet, piano, and lead vocals. David is married to Beth Fukumoto Chang, an elected Hawaii State Representative for District 36 – Mililani and Mililani Mauka. She has a B.A. from the University of Hawaii at Manoa and an M.A. in American Studies from Georgetown University.

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