RICH DAD® COACHING

5 WAYS TO BOOST YOUR FINANCIAL OUTLOOK

5 Ways to Boost Your Financial Outlook

If you quit working today, how long could you sustain yourself and your family?

How long would it take before all of your accounts dried up? A few months? A couple of weeks? A day?

If you don't know, you are not alone. Most people are in the dark when it comes to their finances and how they will get ahead. As a result, their financial outlook is far from optimistic and in some cases, it is downright grim.

Your financial outlook is largely determined by two things. The first is whether you have a financial plan—a way to get from point A to point B. The second is the strength of your financial plan—how effectively and efficiently the plan helps you make the journey. While some claim to have a "financial plan," it is usually nothing more than hopes, wishes, and estimates stored in their head. That is not a plan at all.

For those who do have a written plan, it is typically just a dollar amount they hope to have that will last them from retirement until they die. It is only a plan to survive instead of a plan to thrive.

In this special report, we will share with you five ways to boost your financial outlook by fixing—or creating—a financial plan that can help you get control of your financial future and realize the life of your dreams.

Set or Re-evaluate Your Goals

Most financial plans do not work because people do not put much thought into constructing the plan.

People pick a number out of thin air; tie it to an investment vehicle, and think that is their plan. For example, they will say, "I want to have $2 million in my stock portfolio when I am 65." Ask them how much they need to invest and at what the rate of return is in order to achieve that goal and they will tell you that they do not know.

If you are serious about obtaining financial freedom, then you must set goals with clearly defined steps and milestones along the way. If you have not set your goals already, breakout the spreadsheets and the calculator and determine how much your ideal lifestyle will cost. Do you need $3,000 per month? $10,000 per month? $50,000 per month? Whatever you decide, that dollar amount is how much passive income you will need to generate.

With a definitive dollar amount in mind, you are ready to begin identifying investment vehicles and assigning milestones to your plan. This is the difficult part and where most people give up. You will need to look at what you have or what you can leverage for investing, the needed rate of return, and what investment vehicle would provide the desired rate. In other words, if you are hoping a $2,000 investment in a mutual fund will yield a 40% return, you had better go back to the drawing board.

Application Questions

- How much money do I want to have in 3 years? 5 years? 25 years?
- What are realistic rates of returns for the investments that interest me?
- Are there other investment vehicles I should be investigating?
- What changes do I need to make in myself today to reach my goals?

Generate Passive Income

Most people think they understand the difference between working hard for their money and having their money work hard for them, but the number of people still trapped in the rat race shows something different.

Creating passive income is the ONLY way out of the rat race. Period.

Most people think that monthly expenses hold them hostage to their jobs. They tell themselves, "I have bills to pay and mouths to feed. That is why I have to go to work." That is why the mantra of "live below your means" spewed by many financial gurus is so enticing to many people. They think that if they can keep their expenses down, then they can save more, which in turn will lead to freedom. Ask those people how much they would need to save to get out of the rat race and most will not have even thought that far. They are not even sure how much their scrimping and cost cutting is saving them. All they know is that that is what they were told to do.

It is not your monthly expenses holding you hostage to your job, it is your way of thinking. All throughout school, teachers taught us to study hard, get good grades, and get a safe secure job—a job that provides earned income.

The rich understand that it is assets that make you financially free, not jobs. Assets are those items that put money in your pocket. Things like rental real estate with positive monthly cash flow. If you can begin thinking about covering your expenses and new purchases by buying assets instead of working more hours at your job, then you are on your way to financial freedom.

Application Questions

- What are my total monthly expenses?
- How much passive income do I need to get out of the rat race?
- How can I begin generating passive income?

Understand the Difference Between Good and Bad Debt

Once you have your financial plan, the quickest way to derail it is to burden it with bad debt. You create bad debt anytime you purchase something on credit that does not create passive income for you. That brand new flat screen television? Bad debt. That week-long vacation? Bad debt. Rich Dad calls these doodads and they are all dead ends on the path to financial freedom.

Now, this is not to say that you cannot have any fun. In fact, you should live the life you want. Just do not take on more bad debt to get it. You should be thinking instead about how to buy assets to fund the purchase of these items.

The great thing about this approach is that if you buy assets to fund your purchases, once you have paid for the purchase, you will still have the asset producing positive cash flow. If you acquire more and more assets, you will be well on your way to generating the passive income needed to reach the milestones you established when you set your goals.

Application Questions

- How can I leverage debt into reaching my financial objectives?
- If I have already burdened my financial statement with bad debt, what can I do to help eliminate it?

Diversify Your Investments (the Right Way)

Sit down with any financial planner and they will tell you to diversify. They will then go on to talk about small-cap and large-cap funds. They will explain why you will need funds that focus on this sector and a few from that sector. They will also encourage you to invest internationally too.

There is only one problem with this diversification strategy. It is not diversification!

If you follow this advice, all you will do is spread your money across one investment vehicle. While it is better than investing 100% of your money is one company's stock, this type of diversification strategy is the strategy of the poor and the middle-class. True diversification comes from investing across different investment vehicles.

No one investment is free from risk. All have strengths and weaknesses, but if you only diversify within one asset class, you are exposing yourself completely to the weaknesses of that asset class.

The rich understand that true diversification comes from investing in real estate, commodities, businesses, and paper assets. They understand how each market affects the other. They know when to get in and when to get out. They can move their money from the asset classes that might be struggling at the moment to one that is poised for huge gains.

Application Questions

- Of my current investment portfolio, what percentage have I invested in paper assets? In real estate? In commodities? In business(es)?
- How well do I understand the strengths and weaknesses of each asset class? What can I do to better my understanding?
- What investment vehicles are producing the highest returns presently? Can I explain why?

Educate Yourself

The final way to fix your financial plan—as well as the first—is investing in your own financial education.

The problem is that most people have not received any financial education at all in their lives. The educational system does not teach people how to invest let alone where to invest. As a result, most people just hand their money over to someone who sounds like he knows what he is doing. Unfortunately, too many people pray on the naiveté of individuals and sell them a bill of goods that will not take them any closer to exiting the rat race.

People with a financial education know what to look for and what questions to ask. By listening carefully to the words people use, they are able to discern whether someone has a poor or middle class mentality or whether he or she understands how the rich think about money. They also understand that part of the education process is surrounding themselves with team members like an accountant, real estate agent, or coach that can help them learn along the way.

Application Questions

- What ways can I further my financial education?
- What team members do I need to surround myself with in order to further my financial education? Do these team members think like the rich?
- How would I benefit from having my own “rich dad” in my life?

The Bottom Line

These five ways to fixing your financial plan will pay off instantly and in the years to come. With a solid financial plan, you will be on your way to achieving financial freedom.

Remember to take the time to revisit and revise your financial plan on a regular basis, too. As you continue to educate yourself and gain experience from your investing, you will find that you may be able to accomplish more or achieve your dreams sooner by advancing your game. Consider your financial plan a living, breathing document that will evolve as you do too.