

Building a Foundation to Wealth

By Jon G. Sanchez

The foundation to wealth is a term I use to describe the steps you should be doing to build, sustain and propel your wealth to a level you never thought possible.

Just like when we build a house or some other structure you want to last for many years, it requires a solid base, a **foundation**. Our wealth is no different. We want it to last for many years. We want it to sustain the economic storms that will come our way throughout our lifetime.

In my opinion, there are 11 components to a strong foundation for building wealth. I call these areas your “wealth building blocks.” Keep reading for my in-depth breakdown of each wealth building block.



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Entrepreneurship

You may ask yourself, why entrepreneurship? We know God did not make everybody out there to be a small business owner, let alone a Fortune 500 company CEO. You either were born with this sense, or you grew into it later in life. Regardless of this potential road block, entrepreneurship can do wonders for your personal wealth. To make the most of this building block, you need to create a business that lasts. This can be a full-time project or a part-time venture if you don't want to leave the security of your nine-to-five. The business has to be something you create which provides you with unlimited income potential, that you can ultimately pass on to your kids. You can't pass on a nine-to-five to future generations.

Stock Market Investments

This may seem like an obvious component of wealth. Don't be fooled-not every investment will guide you to achieving your goals. So, which investments *should* you consider? This is a discussion I have very often with people, and the discussion shifts depending on their age. If you are a young person—I'm talking someone between their teen years and their early forties—I want you to be building a long-term, sustainable blue-chip stock portfolio. You have the time to handle the economic ups and downs. If you are past this stage of your life, my opinion on individual stocks is they are too risky at this point. Instead, diversification and understanding your risk and the rewards you can reap from investing is what it's all about.

Real Estate

One of the largest assets you will have in life is your home. Are you taking care of it? Are you paying attention to items you need to fix or replace? Did you refinance when the timing was right? These are things you need to consider. Your home is not only an asset, but a necessary shelter for your family which you must take excellent care of both physically and financially.

Beyond your primary home, you should develop an investment property portfolio for a solid foundation to wealth. I strongly believe in the power of investment real estate. Commercial, residential or real estate lending strategies are all excellent tools you can utilize in a portfolio. You can play around with capital gains strategies or primary residence strategies. Where else can you make such large profits and provide for your loved ones?

Estate Planning

If you do not properly plan your estate, it is entirely possible that all of your hard-earned assets could be lost one day. I highly recommend you work with a trusted Estate Planning attorney if one of your goals is to pass on your wealth to future generations of your family. For many of you, a proper estate plan involves a living trust. If you have young children, this helps you plan exactly how your beneficiary's life will be financed and who will care for your young

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family in the event anything happens to you and your spouse. The rule of thumb for most attorneys is: for \$40,000 or more in assets, you need a living trust rather than a simple will.

Insurance Protection

I have spent many hours taking continuing education credits to keep the long term care component of my insurance license up to date. Something that shocked me in my continuing education literature was the direction our country's healthcare is headed and the misconceptions attached to long term care insurance. So few people truly understand how beneficial long term care insurance is for your overall wealth and your fiscal security later in life. You can spend so much time building your wealth, but if you do not protect it through estate planning and insurance, you can lose it all. Please sit down with your insurance professional and make sure you have enough health care insurance, life insurance, disability or long term care coverage if you're of age to do so. Any complications with your health or physical well-being can hit you hard financially. This type of protection glues your foundation together so the previous building blocks are no longer susceptible to such a major shock.

Assets Accumulation

You need to ask yourself directly, what other assets do you need to accumulate your family's wealth? One conversation that comes to mind when I speak to clients who are preparing for retirement is the prospect of a second home in another state. Whatever your unique wealth goals are, make sure to sit down with a trusted financial advisor and explain exactly what you'd like your portfolio to achieve. He or she can help you maximize your investments and complete your financial picture.

Liability Reduction

Another critical piece of your foundation to wealth is reducing your liabilities. Being in debt means less cash for your foundation, but it is good to know the difference between good debt and bad debt. It can be simple to save \$1,000,000 if you live frugally, bank your income or your spouse's income and put the money to work for you. You could even retire early if you hope to live a modest life after retirement on the funds you've saved. If you have debt, this is no longer such an easy thing to do. Please evaluate your debt early on to make sure it's not out of whack. At Sanchez Wealth Management, LLC we utilize a proprietary budget calculator called R.I.S.C to evaluate your income, expenses and debt and evaluate what you need to achieve wealth.

- a) Good debt vs bad debt

Emergency Cash

How much Emergency Cash do you need? How should you invest this bucket of money? Do you have enough on both the personal side and the business side? The textbook rule of thumb here is

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to keep 3-6 months of your living expenses at all times. The real rule of thumb is to set aside whatever amount makes you and your family feels comfortable. There are a million ways you can invest your emergency cash, but I recommend not taking risks with it.

Tax Strategies

‘Tis the season! Where possible, you want to minimize your income taxes and capital gains, but don’t make your investment decisions based upon taxes. This is a big mistake many investors focus on.

Cash Flow

You know **my mantra**: it’s not about the size of your portfolio; it’s all about the cash flow. I’d much rather have a substantial sum and various sources of cash flow than a massive portfolio. Then you aren’t asset rich but cash poor. Have a pulse on your income and expenses, and create the budget. You’ll get an idea of everything coming in and going out before you are drained.

Personal Well Being

Make sure you have a strong sense of family, you’re paying attention to your mental and physical health, and you have a grounded approach towards your spirituality or religion. With these three components solidifying each of the above wealth building blocks, there is no limit to what you can achieve.

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