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The Ten Biggest Wealth Erododing Factors

It's easier to lose money than it is to accumulate it. That's because accumulating wealth requires you to make a conscious effort. Losing your wealth doesn't require much thought at all.

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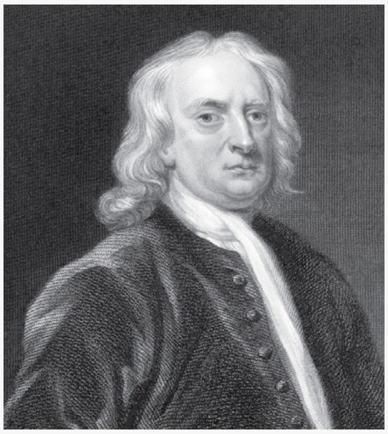
Making Money vs. Sustaining Money

Money is a hard concept to wrap your brain around. Whether you believe it or not, most people, even some of the wealthiest people in our society, don't truly understand how money works. For example, Forbes publishes the Forbes 400 every year, which documents the 400 wealthiest people in America. In 2004, only 50 names from the original 1982 list remained. Why? A fair amount died or intentionally dispersed their wealth. But the majority – 205 people to be exact – fell off because their wealth was eroded or couldn't keep pace. People wealthy enough to make the Forbes 400 couldn't understand money well enough to make theirs last.

Yes, making money is only one side of the story. The other, and perhaps more challenging side, is sustaining your money. You can make all the money in the world, but if you can't maintain your wealth, it doesn't matter how much you make. And sustaining your wealth means different things to different people. For some, it's about simple wealth preservation. For others, it's about passing on a legacy. But at the core of all the different reasons, sustaining your wealth is mainly about one thing – being able to maintain the ability to live the life you want.

But there are multiple, intangible forces working against your money every day. Forces that are working to erode it, without you even making a mistake to warrant it. This is where losing money is easy. You aren't making a conscious effort to lose it – well, at least most people don't. Eroding factors begin working against your money the minute you start accumulating it. If you don't work to mitigate them, you will fail at reaching your full financial potential.

Straight from Newton's Mouth



Here's a flashback from your schooling days – Newton's Laws of Motion. In his first law, Newton states that an object at rest will stay at rest, and an object in motion will stay in motion. Basically, objects tend to keep doing what they're doing.

And now, a story problem: You go to the store and buy 10 apples, bring them home and put them in a bowl on your kitchen counter. You then go back to the store three weeks later and buy 10 more apples. You put them in the bowl with the other apples. How many apples do you have?

If you said 20, you're wrong – even though that's what the answer should be according to mathematics. That's because math doesn't account for the environmental and physical properties that have been working against your apples. Some may have rotted away completely, or at least to the point where they're no longer edible. So, you may still only have 10 apples – the ones that you just went to the store and bought.

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When it comes to money, if you have $10,000 today and need $20,000 in the future, you can't simply add $10,000 to what you have and get the same result every time. Just like apples, money has uncontrollable economic factors working to erode, or "rot," it. These factors include taxes, inflation, lost opportunity costs and more. They constantly cause the value of money to change.

Now, let's talk math instead of money. The solution to the equation 10,000 + 10,000 has been and always will be 20,000. That's because math is a proven, unchanging science. It's not an object in motion, there's nothing working to erode it. Money is not like math, and math is not like money. Rather, money is like an apple. One of the biggest flaws in traditional planning is the thought that these mathematical assumptions can be applied to your wealth, and that they will remain constant in the future. It tends to frequently overlook the properties of money, and how money truly behaves. While this doesn't mean math has no place in your strategies, it can't be the only basis for that strategy. Money has its own physical properties. It will change in value and erode over time if you're not careful. Being able to understand this increases your chance of being able to live the life you want.

The 10 Biggest Wealth Eroding Factors

Since traditional thinking can keep your money blind to the things that can hurt it the most, you need to know what these wealth eroding factors are and how to mitigate them.

1 Inflation

This is the general increase in the price of goods and services. Throughout our country's history, the inflation rate has ranged from -15.8% to just over 20%. Inflation is something that can fluctuate often, and sometimes tumultuously.

In January 1980, the average cost of a new home was $72,400. In January of 2016, the average cost was $365,600. Prices for milk, gas, stamps and more have continued to increase over the years as well. This is because the dollar has gotten weaker over the years; it was stronger in the 1980s. When the government pumps large sums of money into the economy, it causes the dollar to weaken.

Say you have $100,000 and over the next 30 years, your money experiences a constant 3% inflation rate. At the start of year 30, your $100,000 will only be worth $42,435. More than likely, inflation will continue to rise in the future, the dollar will continue to get weaker. Today, and for the rest of your life, your money must earn a rate of return above inflation just to maintain its purchasing power.

2 Taxes

When the Federal Income Tax was first enacted, it was only meant to be a temporary taxation to help fund the Civil War. By 1913, the 16th amendment to the constitution ratified it into law. At first, it only applied to high income individuals. Today, the law mandates everyone to pay an income tax, with the top marginal tax rate fluctuating right around 40%. On top of the income tax, there are numerous other taxes you pay, such as state, city, sales, and real estate taxes. There's even an estate tax at your death, depending on the size of your net worth. And with constantly changing tax laws, there is no way to know what taxes will be 5, 10, or 20 years from now, but if history tells us anything, they more than likely aren't going to substantially decrease.

Between all the taxes that affect you today, it's not uncommon to find close to 50% of what you earn going toward paying them. But if you can minimize the amount of money taken out of your pocket for them, you can increase your ability to create wealth.

3 Technological Changes

Today, we live in a world where it seems like new technologies, goods, and services are being created daily. The last 20 years have seen some of the most radical changes in technology. Not only that, but as consumers, we've come to demand the latest and greatest in technological gadgets.

People are now spending large portions of their money on this desire, whether their current products need replacing or not. Think about it – did you upgrade to the iPhone 7 because the iPhone 6S you had was in desperate need of replacing? Or, did you just want the newest iPhone?

We live in a world with the opportunity for unlimited technological growth. This is both good and bad for consumers. It's good because it means that society will keep advancing – life will continue to get easier yet. But it's also bad news for your money. Spending large amounts of money in this area leaves you with less money for saving, investing, and the overall sustainment of your wealth. You'll either have to pay to keep up, or get seemingly left behind.

4 Planned Obsolescence

Many products that we purchase have life expectancies. They're intentionally designed to NOT last forever. This is how manufacturers find their security – they create a market in continuous need of the items they produce. Appliances, cars, clothes, shoes, gadgets, almost every consumable good falls into this category. And it's not just that they break, rip or fall apart – that would be too easy.

Companies are regularly designing bigger, better, glossier versions to replace old ones. This is how they get you to buy, even when it's not out of necessity. It's the same mindset as technological changes – purchases can be out of necessity or want. And you'll more than likely pay to keep up, because unlike technological gadgets, many of these items are things you need for daily life. Yes, you CAN live without the latest 60 inch, 4K Samsung HD Smart TV. You CAN'T live very well without a hot water heater. This is yet another example of how institutions have their eye on your money – and manufacturers of goods and services are perhaps some of the most watchful.

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5 Financial Expenses

This is how much it costs you to hold your money in financial accounts, such as savings and investments. While these are meant to grow your wealth, they can erode it because they simultaneously cost you money.

The financial industry is full of costs, both knowable and hidden. For instance, some banks require you to maintain a certain minimum in your account, or they can charge you a fee. Investing is probably one of the most oversaturated services when it comes to fees. They're everywhere–up-front fees, 12b-1 fees, expense ratios, front-end loads, back-end loads, administrative fees, trading costs, commissions, and more.

Any advisor you engage or investment you are considering should not only be 100% transparent about the cost, but the return value should justify the fee and the strategy should be tailored to offset it.

6 Lost Opportunity Costs

This represents the actual amount of money you lose when making a financial decision in comparison to another.

For example, say you can either pay $2,000 in tax on an investment for 30 years or you can invest $2,000 annually, earning 6% growth. Paying $2,000 in tax over the next 30 years costs you $60,000 – but that's not your real cost.

Your real cost is approximately $167,603, the amount of money you could've had if you invested the $2,000 instead. This example only looks at one area of expenses where lost opportunity cost exists. What about every day purchases, new homes, new technological gadgets, and new cars? What about inflation, taxes, cost of insurance, or financial and investment management fees? Traditional thinking doesn't account for this. Therefore, you may be blind to your true cost of living, resulting in you not reaching your full financial potential.

However, you shouldn't have to restrict yourself from purchasing a nice car or home. These are the things you want to do in life – the things you shouldn't have to compromise on. But it does mean that you need to understand the eroding power that lost opportunity cost has on your wealth.

Without implementing strategies meant to recapture some of that lost money from taxes, inflation, or insurance costs, you can lose significant amounts of money to this eroding factor over your lifetime. This can result in you having no choice but to compromise on the things you want.

7 Interest Rate Fluctuations

Interest rates are simple to understand – it's the rate that is paid from one entity to another for the right to use that money.

When you take out a loan, you pay back the loan amount, but also pay back interest. This is the rate that you are paying the bank to borrow and use that money. It works just the same in reverse – when you put money in a savings account, the bank pays you interest on that money so that they can use it to loan out to others. When interest rates rise, loaned

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money will cost you more. You'll also make more on the money that you have sitting in your bank account.

When it comes to investing, changes in interest rates may cause certain assets, like bonds, to rise and fall. What if just before your retirement, interest rates drop significantly? What does that mean for the income you thought you would have? How long can you maintain your lifestyle? When your strategy can't proactively respond to these circumstances, you can find yourself falling short of living the life you want. And traditional thinking does little to account for the risks that lie ahead, such as when drops in interest rates can occur and the effect that has on your money's velocity. If you're dependent on maintaining a certain interest rate, you must mitigate the impact of these fluctuations.

8 Stock Market Fluctuations

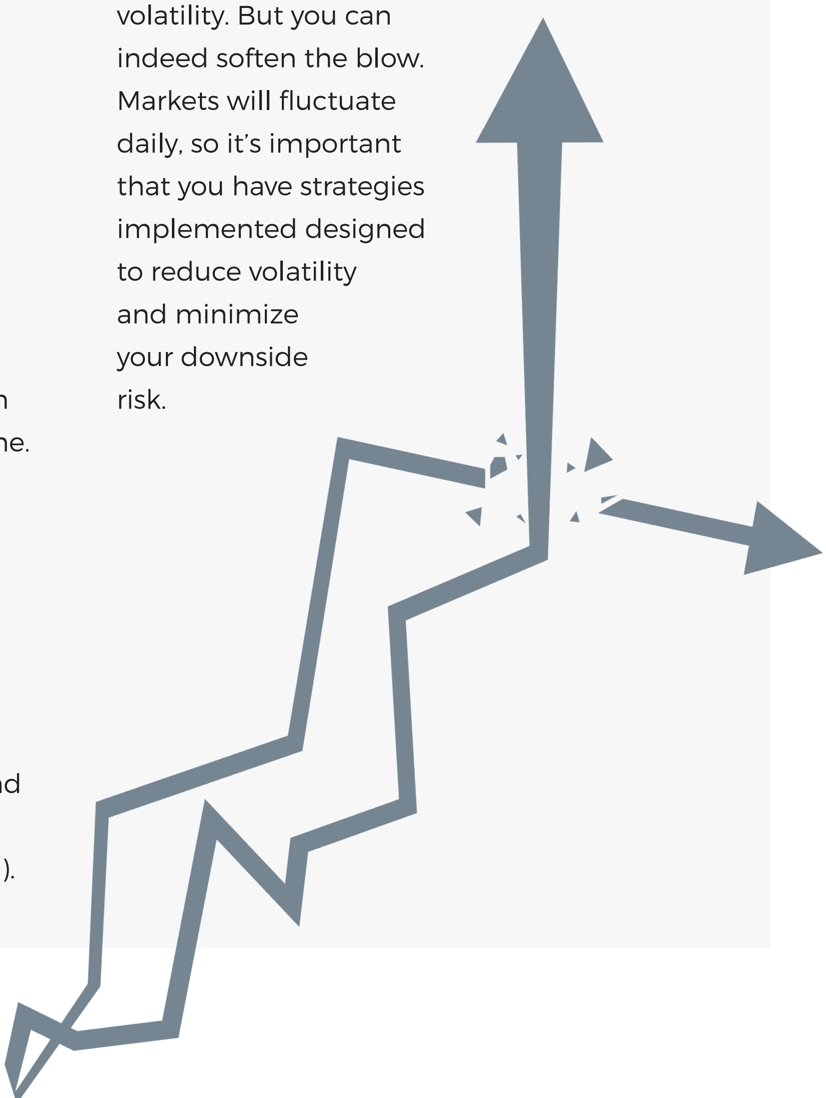
Many people fail to understand it's not risk that drives your returns up and down – it's volatility. These wild fluctuations are what eat your returns and erode your wealth.

For example, say you have a portfolio worth $100,000 and you experience a 50% decline. It's now worth $50,000. Let's say that in the next quarter, you experience a 50% gain. Now, mathematically, you would be under the impression that your portfolio had 0% growth and would be back at its original value of $100,000. But remember, money is not like math. Money is like apples. A portfolio that's worth $50,000 and experiences a 50% increase would now be worth $75,000 (50% of $50,000 is $25,000).

Rather, you would need a 100% increase to make up a 50% decline in your portfolio. Also, while your average return would be 0% according to math, that's not what really happened. If your portfolio was worth $100,000 in the first quarter and is now worth $75,000 in the second quarter, you experienced a growth rate of negative 25%.

This is why it's important to remember that average returns mean nothing. You didn't take home a return of 0% - you took home a return of negative 25%. That's the real compound return, the return that you take home and the return that's affected by market fluctuations. What if wild fluctuations happen as you near retirement, or during your retirement?

You can't eliminate volatility. But you can indeed soften the blow. Markets will fluctuate daily, so it's important that you have strategies implemented designed to reduce volatility and minimize your downside risk.



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9 Interest Charges & Loans

These are the direct costs you incur for money that you've borrowed, such as credit card interest, mortgages, car loans, and so on. We often think of being able to derive income from interest, so it's easy to forget the affect it has on your wealth when you pay it out.

Any money that you're paying in interest charges directly impacts your ability to build up your savings or investments. For example, say you're paying on a credit card that's carrying 19% interest. Overtime, you will more than likely end up paying way more in interest alone than you even spent on the card originally. On the other hand, if your money consistently earned 19%, you would be one happy investor. So why would you pay out that same amount, or more, without even thinking twice?

10 Stock Market Fluctuations

Sometimes insurance isn't enough. Adequately protecting your life's work takes a dynamic combination of secured assets, savings, insurance, and investments out of creditors' reach.

Think of everything you've built. Think of everything you'll build in the future. Now, think about if it were to all come crashing down. Ugly, isn't it? You must take a protection first approach to your life's work. Otherwise, nothing you're building matters. Let's say that during your commute to work tomorrow, you get in a car accident. The other driver is severely injured to the point where they can never work again.

Court proceedings ensue, because if you take away someone's ability to earn an income, you can bet they will come after you for compensation. If they had 30 years left to work and it's determined they could've made an additional $2 million during that time, they're going to sue you for that amount. But thankfully you have insurance! Well, your policy only provides $500,000 in liability coverage – that's all the insurance company is on the hook for. Guess who they're going after for the remaining $1.5 million? You.

See why insurance often isn't enough? And if your assets aren't properly protected from creditors and lawsuits, your simple morning commute can end up costing you everything you have. Without a protection first philosophy, you can find your financial life in complete turmoil when life happens. Which it will.

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Making Money vs. Sustaining Money

Money is an object in motion. It's constantly being bombarded by factors seeking to erode it. Therefore, you need a defensive strategy in place designed to mitigate these eroding factors if you want to reach your full financial potential.

Yes, you can lose substantial amounts of money to these eroding factors over your lifetime. But, if you implement strategies designed to recapture that lost money and put it back to work for you, you can accumulate more wealth than trying to strike it rich by speculating and gambling with your money when investing.

One of the best ways to mitigate these eroding factors is to focus on financial positioning rather than traditional financial planning. The key to living the life you want to live lies in keeping yourself in a position where you can effectively react to tomorrow – where you can weigh and measure the impact of your decisions across your entire financial life before making them. Positioning yourself for the unknown better reflects what money is – a constantly changing object in motion. This is more effective than traditional thinking, which tries to apply a static plan to your dynamic, ever-changing life. Especially when mathematic assumptions are used to try and decipher future results.

Life is happening all around you, all around your money. Implement strategies that can withstand it.

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