Scott Britton's

University of Real Estate Letter

"The Success Guide for Real Estate Entrepreneurs"

ISSN 1083-1630 Vol. 9 No. 10

An Open Letter to My Children about Money!

This issue contains a letter I recently wrote to my children concerning Money. I wrote this letter because, sadly, I didn't think this information would ever be taught in the school system, public or private. Why did I write it to them while they are still young? Because they possess a lot more of something than I do. And to fully exploit the advantage they possess, they need something I have. Sure, we talk about money issues. But, I wanted to give them something they could sink their teeth into. Something that would make them THINK! Something they could not only refer back to from time to time... even after I'm dead and gone... but something that hopefully they could enhance and improve and pass along to their own children. After you read this letter, I hope you decide to do the same.

Dear Tara Chez, Katie and Devin,

I'm writing you because there are things I think you should know about MONEY!

What I would like for you to do, is to <u>read this letter one time in its entirety!</u> Then, put it somewhere safe. You don't have to study this. After a few days or weeks, go back and read this letter again. This is important information, but I know you won't realize its full value until you mix it with <u>time</u>. You are all intelligent and I know you won't be able to forget a lot of what I write here. It will stick with you and hopefully serve you well.

I feel as if I should have provided you with this information earlier, but alas, I was learning these lessons myself. Some of this information was passed on to me by my Father, Robert Britton (aka Daddy Bob)... some by my Grandfather, Rudolph Olson (my mother's father, who passed away years before you were born)... some of this was taught to me by people who took the time to help me... and of course, some I gleamed through my own studies and observations.

What is MONEY?

Money is a store of value. Money is also a medium of exchange.

Money has always been used as a way to store value. This value to be realized at a later date. So…time and money have an undeniable relationship. When you think of money, you would be wise to also think of time. They are inextricably linked.

A simple example of this would be a farmer, like your Great Grandfather, Rudolph Olson, who grew corn. He could harvest his corn and sell it on the open market to the highest and best bidder for cash. Later, he could hopefully exchange the money he received for a bushel of corn… for the same goods and services he could have exchanged the bushel of corn for at the time of harvest.

He stores the value (or purchasing power) of the bushel of corn for use at a later date (time).

Another good example of this would be to look at your Grandfather, Daddy Bob. He worked hard all his life and saved his money. He did this because he knew that one day he wouldn't be able to generate cash money from his personal labor any longer. He used the money to store the value of his labor to be used at a later date. Because he was disciplined enough to live on less than he made, he is able to live a good lifestyle today. All three of you have benefited from Daddy Bob's discipline, as will your children.

I just wanted you to get a handle on the concept of money being a store of value.

A Brief History of Money

Money, at one time in the history of our great country, had intrinsic value. That is, it was made of some type of precious metal, like Silver or Gold. A Silver Dollar was 1 ounce of Silver. An ounce of Silver could be exchanged for a certain amount of goods and services. Same thing applied to Gold. Coins were made out of these precious metals by weight. An ounce of Gold would buy you a certain amount of goods and services.

So the money was made from a valuable metal. The value of the money was determined by the quantity or weight of the precious metal from which it was made.

Of course, money was coined or minted by the Government. It's still that way today. But, Governments do strange things. Instead of making money from precious metals that had value in and of themselves (intrinsic value), the Government decided to store the Gold and Silver and issued notes backed by these stockpiles of precious metals. The most famous of these stock piles is Fort Knox.

You've probably seen pictures of Fort Knox on TV. This is where they store all of the Gold. It's heavily guarded and is one big vault.

Anyway… this is what was referred to as the Gold Standard.

Our money had value because it was backed by these stock piles of precious metals. In theory at least, a person could present these Government issued notes (currency, paper, paper money, promise) and receive an equal value of Gold.

The Gold Standard kept the Government from inflating the money supply. They could not issue more notes than they had Gold to secure them. This kept values and prices fairly constant for a long period of time.

In other Countries, such as Germany in the first half of this century, the money supply was inflated by the Government causing 1) people to lose faith in the value of their currency, and 2) prices to rise out of control. You've probably seen the famous picture of a German man with a wheel barrel full of money going to buy a loaf of bread. He was hurrying because the value of their currency was going down so quickly; he wanted to be sure he got to the store while he could still afford the bread.

This makes perfect sense when you think about it. When a Government is allowed to print more money… you have more money chasing the same amount of goods and services… causing all of the money in circulation to lose a certain amount of value. This is reflected in prices. A loaf of bread or a bushel of corn has a relative worth in comparison to other goods and services. But, in relation to money, it will take more and more money to buy the same goods and services (a loaf of bread) as the currency is inflated. This is called inflation and is evidenced by rising prices.

During Richard Nixon's Presidency, we temporarily abandoned the Gold Standard because of the Vietnam War. This temporary measure became permanent shortly thereafter and we have never returned to the Gold Standard.

So, what is our currency backed by now?

Supposedly, our currency is backed by the full faith and credit of the United States Government. Pull a dollar bill out of your pocket and see what it says. Doesn't say much does it? Just says its legal tender. And guess what? It only has value as long as the people believe it has value.

The Government has the ability now to print as much money as they want. They can inflate the money supply thus devaluing each dollar you possess. With more dollars chasing the same amount of goods and services, what do you think will happen to prices? What do you think will happen to the value of a dollar? Prices go up and the value of the dollar goes down. Taken to the extreme, this can produce run away inflation as happened in our story about Germany earlier. End of history lesson.

The Formula for Success!

There is an easy-to-follow formula that will guarantee your personal financial success. It's deceptively simple in its approach… yet requires a considerable degree of DISCIPLINE (something lacking in today's society).

It's called the 80-10-10 Rule. And here's how it works.

This rule calls for us living on 80% of our income. Saving 10% and giving 10% away. Sounds simple enough, doesn't it?

Let's take a closer look at this simple formula.

First the 80%. This part of the rule basically says we must spend less than we earn. You have to abandon "the norm" in the United States today and live on less than you earn. You have to live on 80% of your earnings... to be exact.

You have to understand that most people in this country today live on 125% of what they earn. They keep racking up Consumer Debt faster than their ability to repay it. There are even 125% mortgage loans for Homeowners. From Credit Cards to Charge Accounts to Equity Loans. People in this country today have lost all discipline. It's the "I want it now!" mentality. Or, the "I deserve it!" mentality. From Automobiles to Clothes to Vacations... you name it and people can buy it on credit.

What's interesting about this is... if you spend 125% of what you make... it doesn't matter how much you make... it's never enough. You can't solve this spending problem with MORE MONEY!

Side Note: If you will vow to never incur Consumer Debt, you can't help but be a financial success in life. Consumer Debt is so easy to incur, but is so devastating to your financial future. Avoid Consumer Debt at all costs. Pay cash!

Save 10%

This 10% comes right off the top. It's called "paying yourself first".

If you make a $100.00 - take $10.00 right off the top and stick it into savings. No if's, and's or but's. I can assure you... this takes DISCIPLINE! There will always be something competing for this money. A very powerful force will try and wrestle it from your grasp. Temptation abounds.

10% is a minimum. When you earn a little extra money or have a windfall... consider upping this to 50-100% for the excess.

You could stick this money under your mattress... but then it would be too accessible (plus it just might disappear). Cash does have a way of evaporating. I would recommend you open some type of Savings Account that will pay you interest. Mark this as your Capital Account.

This is a habit. In fact, discipline is a habit. Develop this habit. You'll be so glad you did. It will pay you back thousands of times over.

Give 10% Away

It doesn't seem to make any sense when you talk about accumulating money... to turn right around and talk about giving money away. But... there is something about giving money away that will actually accelerate your program.

The Bible refers to this as a Tithe. There are a lot of people who don't believe in giving anything away… and still others who are skeptical about the religious overtones.

I'm not sure exactly how it works, or why it works. But, I can tell you it works. Truth be known, tithing is an act of faith. If you consider everything we have is a gift from God (including even the small things like the air we breath), then it makes perfect sense that we should give back a portion of that which has been given to us.

In fact, this should actually be done first. Give 10% of all you have earned away. This comes before the 10% you pay yourself.

I won't pretend to tell you how to do this. It's a personal decision. I will tell you this. If you don't have someone you can help or a cause you'd like to support, then give to the Church. Each year you should make a commitment on how much you will give to the Church and honor that commitment.

If you do this, you will be richly blessed in life.

Living at a Profit

I would hope this is all starting to make sense to you. You should always strive to live at a profit. Don't spend all of your money. Save some and give some away.

From a practical point of view, the way you do this is to manage your debt. Don't take on Consumer Debt. If you need something, save some extra money until you can afford to pay cash for it.

Lifestyle is another form of debt I suppose. Make sure you keep your Lifestyle expenses in line with your income. In fact, your Lifestyle should always trail behind your income (as you have already learned).

Manage Your Debt

There will be times in your life when you will take on Debt. It becomes very critical that you learn to manage this debt. Always pay your obligations in a timely manner (as agreed). This is nothing more than keeping your promises. This goes to your "word" and your "personal integrity".

My Father taught me early on to never "bounce" a check and to always pay my credit card balance (if any) in full when the bill came in. Not bad advice.

There is a big computer in the sky somewhere that keeps track of "how" you pay your obligations. This track record is what establishes your credit rating and is what other's who do not know you, rely on to make decisions on whether or not to do business with you.

But remember this. Computers aren't people. How you treat other people is what really matters. If you tell someone you are going to do something… then it's your obligation to do it… or explain to them the legitimate reason you are unable or unwilling to proceed as agreed.

Investing Your Capital

If you'll follow these rules, good things will happen to you as you go through life. Slowly but surely you will begin to accumulate some Capital (money). As you do, you will discover there is a level of responsibility that accompanies Capital.

One of the things I think most of us learn too late in life is that Cash is not always the best Investment. While you should always have a certain amount of ready cash (liquidity), there will be times when you will realize that cash will only produce a good return when properly invested.

On the date I write this to you, cash earns a very low rate of return. Interest rates are at the lowest level in 40 plus years. The Stock Market is also in the toilet. Many people who had their life savings invested in the Stock Market have been crushed by the down turn in this Market.

So… what should you do with the money you have saved?

The answer is: It depends!

It depends on the economy. It depends on where you are in your life. It depends on a lot of different factors. But, you should begin learning as quickly as possible about the investment options that are available to you.

Remember two things. 1) There is an Opportunity Value associated with cash. If you have cash, or access to cash, you can take advantage of some tremendous opportunities that others have not put themselves in position to exploit. 2) The more Knowledge you acquire about investments, the more opportunities you will be able to recognize.

I'm basically a Real Estate guy. I have spent the last 24 years learning all I can about making money in Real Estate. I am constantly learning new ways of exploiting this market (and by the way, exploit is not a bad word). As a result, I see opportunities the vast majority of people never recognize.

What this does is make my time much more valuable. You should do the same thing. Make your time more valuable. So… a portion of your savings should be used to invest in yourself... your personal education. In fact, there isn't a better investment you can make.

The Most Powerful Force in the World

When Albert Einstein was asked what he thought was the most powerful force in the World, he replied: Compounding! There are a lot of different examples I could give you concerning the power of compounding. But, what I want you to do is this.

Get out a sheet of paper and on the left hand side… number the lines 1 through 30. Now… let's see what would happen if you started with one penny today and were able to double the amount of money you had every day for a month. Next to the number 1… write $.01. Next to the number 2… write $.02. Next to number 3… $.04. Each day the number doubles for 30 days. How much will you have at the end of 30 days?

I'm not going to give you the answer because I think you need to go through this exercise to really understand compounding. I do, however, think you will be surprised at the end result.

In our example, each day was a compounding period. Basically, a compounding period is a unit of time. Time, or compounding periods, is what makes this so powerful. And guess what? The good news is you are rich in compounding periods because of your age. The older you get, the fewer compounding periods you have left. So, if you will put the power of compounding to work for you… a dollar in your hands is much more valuable than a dollar in mine. (I have more knowledge and you have more compounding periods. Don't you think we should get together?)

Put another way… the earlier you get started the more powerful the effects of compounding will have on your accumulation of wealth. Time will make you rich if you have the discipline of letting your Capital work for you. The longer you can keep from tapping into your savings for personal rewards, the more money you will have later in life.

The Eroding Effect of Taxes

Sooner or later you will begin to understand how destructive Taxes can be on your accumulation of wealth. While the tax rates change from time to time, it is always a good idea of minimize your tax bite at every turn in the road.

This is where your Knowledge will pay big dividends. Go back to our compounding example earlier and see what would have happened to the end results if you had to take a portion of the money you were accumulating and pay it out in taxes. Let's just say that every time you made an additional $10,000.00 you had to pay $2,500.00 in taxes. Run the numbers again and see how this affects the total outcome. (It's kind of like a math problem… only different.)

You can't ignore the damaging effect of Taxes on your wealth accumulation program. Our example demonstrates the tremendous benefits of allowing your Investments to grow Tax-Free! I can help you learn how to do this.

Well… there's plenty more… but I think this will get you started. Start early and develop your discipline. Be smart. Learn more. Increase the value of your time. Add to this and pass it along to your children. And remember… your Mother and I love you very much.

Your Father,

Scott Britton

PS. Real Estate (single family houses) fits the criteria for a good investment in almost any economic setting. Real Estate keeps pace with inflation. Real Estate has many Tax Benefits (in fact, I don't know of any other investment that has the Tax advantages of Real Estate). Real Estate can be purchased below its actual value (instant equity). Real Estate can be purchased with little, if any, of your own money (leverage/investment debt). Real Estate will pay for itself. Real Estate can produce passive income for you that will allow you to escape the rat race. Debt is still the enemy… but with Real Estate, your Tenants will help pay this debt off for you. And guess what? Now is a great time to buy!

RECOMMENDED READING

Here is a list of books I recommend my children read on the topic of MONEY.

The Richest Man in Babylon
By George S. Clason
Short book with valuable lessons on money told as an interesting story (fable). Easy to read and understand. A must read!

The Millionaire Next Door
By Thomas J. Stanley
A very interesting book about the real habits and lifestyles of Millionaires. Statistical in nature. Fascinating reading. Blows the TV perception of Millionaires away.

The Science of Getting Rich
By Wallace D. Wattles
A friend gave me this book and I must admit the first few chapters had me wondering. But, it all comes together and is a powerful read. Abundance thinking at its best. Now on my must read list!

The Instant Millionaire
By Mark Fisher
Another book with valuable money lessons told in an interesting and entertaining story format. Addresses a common mental stumbling block we all have concerning money. An easy read that's just too good to pass up.

Financial Peace!
By Dave Ramsey
This book not only illustrates the damaging effects of debt, but also shows you how to overcome and deal with debt. Lots of good and valuable lessons here. If debt is eating you alive, you have to read this book.

The Bible
Look in the back of your Bible under "Money" and "Tithing" and read those passages. These passages will give you the proper perspective on money. Re-read from time to time.

New Fax Number

My new FAX number is **601-829-1912**. Everything else remains the same. Mailing address, website address, email address... all remains the same. Please make a note!

TELE-CLASS SCHEDULE

(Write these on your Calendar!)

Date: **November 21, 2002**
Time: 7:15 PM CDT
Title: **"Foreclosure Investing"**
Call: 617-715-5010 (Boston, MA)
Enter Code: 112102

MEMBER HELP DAYS

Wednesday November 20
9:00 AM to 11:00 AM Central Standard Time

Tuesday November 26
2:00 PM to 4:00 PM
Central Standard Time

Call **601-829-0318**. This is special number set up for HELP DAYS ONLY!

Scott Britton
The University of Real Estate Letter
P.O. Box 16204, Jackson, MS 39236-6204
Phone: 601-977-0277 Fax: 601-829-1912

***** Go To: www.RealEstateSuccess.com and sign up for my FREE Real Estate Success Tips Email Newsletter*****