Chapter 4 – Financial Freedom

To live dreams takes money. Living in the Swiss village, we use Swiss Franks locally and then Euro when visiting Italy or France. We still need to spend money to pay for food, accommodation, car hire or trips. Money is a big part of setting you free, so this section is setting the foundation on the series of books where we will educate you on how to achieve Financial Freedom, Time Freedom and then how to live your Dreams.

Marisa's and my businesses make more money as we grow professionally and personally. To be able to live our dream required us to unlock the traditional approach of spending our time to earn income.

We needed to create ways of having money come into our business without us physically doing the work. Together we had to retrain our minds and address our core values before we could live our dreams. This involved us attending courses, opening old emotional wounds and letting go of emotional baggage. First we had to finish a lot of cleaning up inside our minds before creating financial freedom.

Freedom to create

This chapter explains the learning process to create the money needed to live the dream. Once our minds were free of constraints, we set about creating an automated business machine that made money. Many of our clients also fund their dreams with money that comes without them working each day, using the same concept.

The Secret Road to Wealth

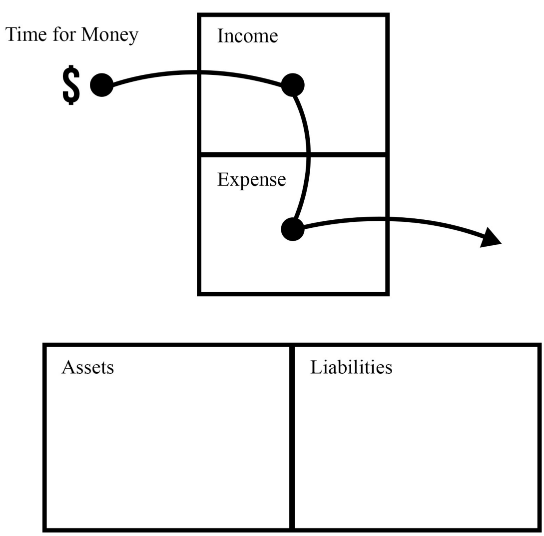
The money that comes without working is called “passive income”. Passive income describes cash flowing into my pockets each day. With this cash, our clients can travel the world, see new sights and experience new things.

What is Cash flow?

Cash flow is money (cash) that comes into my pockets each day from business or investments. This occurs without Marisa or myself actually doing the work. To explain how this works, I will use a series of diagrams to show the flow of money.

If you work in a job you receive a wage or salary. You are converting your time each working day for that money to arrive in the form of income. Once money comes in, it then flows out again as you spend it. Your spending is called expense.

Time for money



Expenses include, tax, rent, food, clothing, electricity, gas and a list of other items that consume the cash. I call this process of money flowing in and out as cash flow. Often people spend exactly what they earn. Sometimes people spend more than what they earn, needing credit to get the extra cash for survival. Occasionally people spend 110% of the income resulting in accumulating debt on their credit cards or loans from the bank or family members.

Almost everyone has an income statement just like this 'time for money' diagram. Employees, contractors, unemployed or retired, everyone has cash flow.

You choose to manage each cent you spend and track it or you choose not to track your money. If you choose to give your money away without tracking it, wealth and passive income will almost always elude you. Remember you choose how you want to live. The rich always track each cent and dollar. They track where it is spent and for what purpose. If it worked for them it works for me, so I learned to also track each cent. Everything I buy is tracked on receipts and recorded as expenses. This means my personal cash flow statement is recorded each month.

Each person has a financial statement the same as every business. I find that people that do not track their finances both personally and in business are generally broke.

Debts

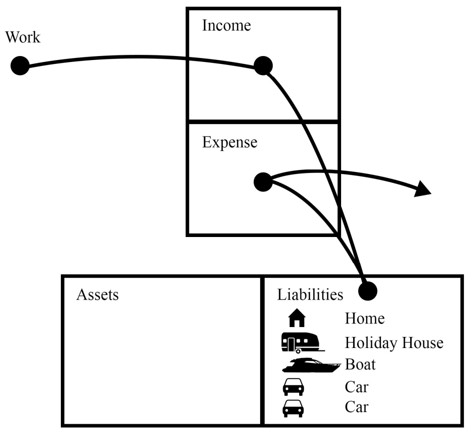
Credit card debt and cars loans are all called liabilities. These are identified as money that you owe to others and sits underneath the income statement. These loans and assets both reside in the bottom section of the diagram. The liabilities identify money that you owe to other people, or the bank. Any asset or savings that you own sit in the asset box on the bottom left side of the diagram.

The Secret Road to Wealth

This diagram shows how the cash flows into and out of your life. The amount is not as important as the direction the funds flow.

This diagram shows a person converting their time for money. Their earned money (income) is being spent on living expenses.

Cash flow of the middle class



Understanding the cash flow diagram, the flow of money, is critical to being financially free and living your dreams.

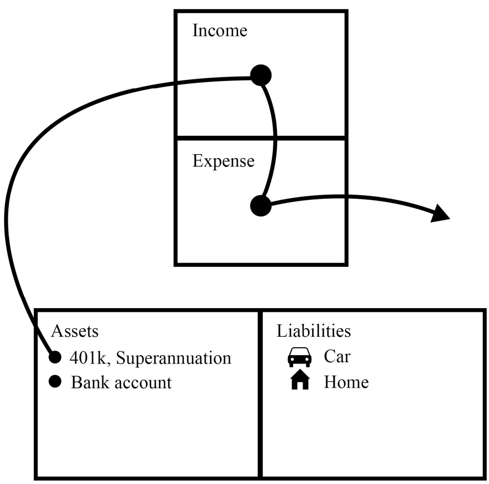
The larger the liabilities, the harder you have to work. If your liabilities and expenses are more than your income, then you have a problem and will slowly sick in debt.

If your dream costs more than what you earn, than there is a challenge that needs to be overcome. In this diagram, freeing your time means money needs to come in as income without your time.

Is retirement freedom?

Retirement means living off your retirement plans superannuation (Australian and New Zealand), 401k (in USA), FNPF (in Fiji), Registered Retirement Savings Plans –RRSP (Canada) or other self-funded retirement plan. While the diagram looks like your assets are funding your income, the expenses cannot be greater than your superannuation (or 401K). Otherwise it consumes the retirement savings.

Retirement cash flow



A critical point is that you must be at the age of retirement to obtain the 401K or superannuation. This age of retirement is under the control of federal governments and can be changed when the governments legislates. You have only limited control on the retirement commencement and pension. Each country limits when you can access the funds and controls what you can receive. I believe that governments want greater control of your retirement funds held in superannuation and 401K as I have already witnessed in third world countries.

How can you be free to live your dreams at the age of 25, 30, 40 or 50 if you cannot access these savings until old age? I have visited countries that the government sets the self-funded and pension age at 70 or more. Is that the retirement you want?

In my world, I do not want a government telling me what I can and cannot do with my funds. Also the Government will always have many new regulations about how you can gain access to obtain these funds. After watching my dad reach retirement, I do not believe you can truly be free when on a pension or retirement scheme. I want freedom not retirement!

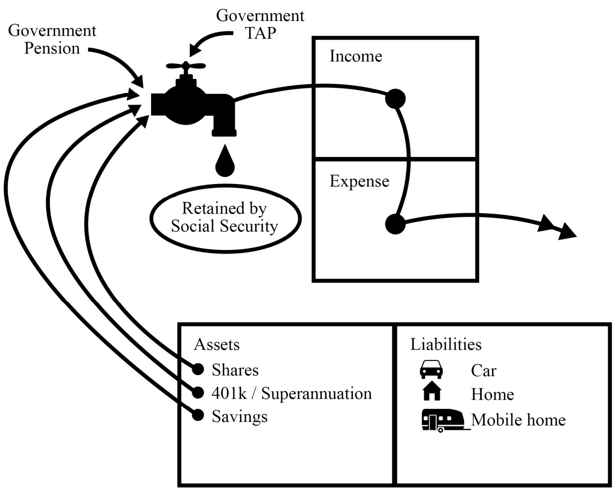
Dad's Retirement – Pension TRAP (TAP)

My father saved as soon as he had regular income from his normal work. Then quickly he owned his own house, car and then commenced investing in the share market directly. (He chose not to invest in managed funds). This meant he had assets and when ready for retirement, no debt in the liability section. He owned his car, mobile home, house free of debt.

During retirement, the pension trap (or as I prefer the pension 'tap') is controlling the funds flowing to his income. This tap restricts the pension benefits to drip feed his retirement income. The result is that my father, like so many other pensioners was struggling to save each day. If you check your friends who are in retirement, ask them what retirement is like financially. Do not be when you discover the dream we are all sold, is not true.

The diagram shows the pensioners cash flow.

Pensioner's cash flow



The tap controls when you have permission to give your savings away, and how much superannuation you can receive, and how you spend it. The pension varies according to changing rules and regulations. If the country that you live in does not control this tap, expect a tap to be created as the governments create more control on pensioner funds. I have visited many countries where the government tightly controls the tap.

Recently I met retired couples that have relocated to a country with lower cost of living. Countries like the Philippines and Thailand offer incentives for first world countries retirees to relocate, rent and live out their lives like kings and queens. With as little as $50,000 in their retirement funds they live very comfortably in an abundant lifestyle and remain very happy. Price of apartments, food and entertainment is a fraction of the first world prices. I expect this trend will increase as the government lie becomes more apparent.

Why just live an existence?

Occasionally I ride the trams, trains or buses, watching people going to or from work. The faces are blank, expressionless. People are reading, staring at the walls or listening to music. It makes no difference if the train is in London, United Stated, New Zealand or Australia. The faces all look the same.

When riding these trains or underground services, I often hear people complaining about their job or their boss. This amazes me. If they are not happy, the simple answer is change! I am still shocked that people complain, but do not have the courage to make a change in their life. If you travel on a train or a bus look at the faces around you. Are they smiling and enjoying life?

Instead, why not enjoy the gift you have been given called Life. If you don't like your job, change it. Have the courage to do something you enjoy. You only get one chance at life. Why waste your life by not living it to the fullest?

The opposite of job security is financial freedom - Robert Kiyosaki

Meeting old friends

Since 2007 I regularly run into old friends or work colleagues that have already left the workforce. The story is slightly different but with a similar theme.

Peter's example:

"We retired in 2005 and lived comfortably until the 2007 stock market crash. It has wiped out half of our superannuation (401K) so we are back working part time to supplement our income. I used to receive $3,500 per month from our managed funds but now if lucky I receive $1,000." I ask what they are doing for work and received this response, *"I have casual work packing shelves at night and my wife is doing part time work nearby. We no longer have enough time to build our retirement nest egg, so we need to work as long as we can. After that I just do not know maybe cut back on expenses, hopefully we do not live too long."*

The story may change slightly but the same theme appears again and again. When we hear these messages I think of my father and the lessons I received as a young man.

There is a better way!

The cash flow diagrams shown so far do not lend themselves to dreams, or a freedom lifestyle. It took me years to discover that there is a better and simpler way to live your dreams.

What is financial freedom?

Financial freedom is not achieved by having a million dollars in the bank, by owning a multi-million dollar house, car, artwork, treasure or boat. Financial Freedom is not having hundreds of thousands of dollars of earned income each year by working your guts out.

I know from experience that real financial freedom comes when your passive income (without you working) is greater than your expenses. That's it, the magic formula!

The Secret Road to Wealth

When money comes to you without you working for it, and this income pays for all your bills, including travel and living your dream then you have true “financial freedom”. When you achieve this goal on a monthly basis you no longer “have” to work. You are then free to live your dreams.

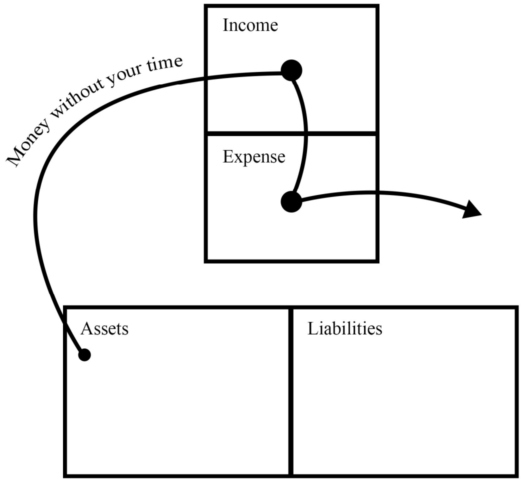
Financial Freedom comes when your monthly passive income exceeds your monthly expenses.

To define this clearly, to achieve freedom from time and money constraints you need to have regular monthly income that exceeds your expenses. To be able to understand this concept:

- Passive income (income without you working)
- Less your expenses (your monthly or yearly living expenses)
- If this leaves a positive amount of money each year you are then financially free

The concept is when your passive income is greater than your expenses then you no longer have to work for an income. When you create your dream income this is an asset as shown in your cash flow statement. The following image shows freedom cash flow.

Freedom cash flow



If this is the goal, why not put it on your list of desires and then achieve it? The good news is that it can be achieved, it takes focus and energy and the rewards are truly amazing.

If you do not physically do the work to generate income, and the returns to you are greater than your expenses, you are free from the daily work. The result is like winning gold lotto, you have days of free time each week. When you are financially free, you are then free to choose how to spend your time. Also you are free to choose how to spend your money. How would this feel to you? Is it worth achieving?

The end result is that you live a millionaire's lifestyle every day without having to earn the money. *I repeat this as it is so important.* You do not have to go to work, or earn money each hour. You can take holidays whenever and wherever you want.

The Secret Road to Wealth

You may choose between, relaxing by the beach, visiting mountains, taking an overseas holiday or working on something you enjoy.

T. Harv Eker defines financial freedom as *"the ability to live the lifestyle you desire without having to work or rely on anyone else for money"*.

Business Cash flow

If you own a business, you have the business cash flow statement separate from your personal cash flow statement. If you receive a benefit, royalty or commission from this business you can funnel that to your personal cash flow income without working. As the cash flow increases so does your income and then wealth. When structured correctly cash flows to you every week or month as a passive income. When your passive income from this business royalty is greater than your expenses, and you no longer have to work you then have the ability to live a life of freedom. You will pay tax on the passive income, however the secret is that you no longer put physical labor in order to get a return.

You will find out "how" this is achieved, but understanding concepts of an income without your time is the first step. We have examples how it is done, with stories given by some of the businesses we work with. It shows how they achieved time freedom and cash flow to fund their lifestyles.

Investing is a business activity. Buying shares, or property is also a business. Also selling a product or service is a business. The easiest way to manage cash flow is to own your own business and make your business generate income. You then control the cash that flows every day. You control how much it makes and how much you spend. You are your own boss.

Chris Burg's freedom

Mr. Chris Burg is one of the businessmen I have worked with who is on his freedom journey. Chris shares his experience of living freedom.

I write this sitting at home on the couch after spending the morning unpacking boxes in our newly renovated home. What makes this so much fun, is the fact that I CHOSE not to work today and instead chose to enjoy our new home.

This comes toward the end of a six month renovation project where I worked part time in my business and part time in project managing our house renovation. In this period of time our business continued to produce results and importantly because of the way we have built the business (not to rely on me) the profit each month continued to come in without my daily effort.

For me, I'm still not completely removed from the business, this is because I actually really enjoy what I do. The important thing though is that I'm not chained down to doing one thing day in day out, the business systems has been built in such a way that the business is perfectly fine to produce results without me. Every day is a new adventure for me and it's always exciting. My wife and I are looking forward to starting our family and being there for them each day.

When I think about the term freedom I always come back to the question "Do you work to live, or do you live to work?" For me I like to think there's another option. I create systems (freedom business, investments etc.) that's enabling me to live free.

The Secret Road to Wealth

Many people don't understand this as even being a possibility. The reality is that these people work inside other entrepreneurs systems.

When I learned to let go of the traditional employee mindset, the lie of working hard and getting a high-paying job, I experienced freedom. Once that happened, I was able to stand outside of the systems that are all around us and actually see them in action. I was then able to transcend the lie just like you also can.

Once I could see the cogs of the machines I was able to create more tools to create my own freedom machines.

www.chrisburg.com

Your cost of living

Let's calculate your passive income goal, setting your target. Financial freedom comes first, and then time freedom comes second. To be able to live a dream you require money flowing into your pocket.

Completing this exercise sets your target. You may think that you can never break the reliance on earning an income. To live your dreams means it is as simple as following a process to define, create and finally build your dream into your reality.

What is your dream passive income?	Amount $
Rent / Mortgage Food Car payments Transport Credit card payments Electricity Insurance Travel to work Holiday travel Entertainment Hairdresser Medical Expenses Any additional expenses	
Total expenses per month	$
Multiply by 12 and it is your yearly passive income goal.	$

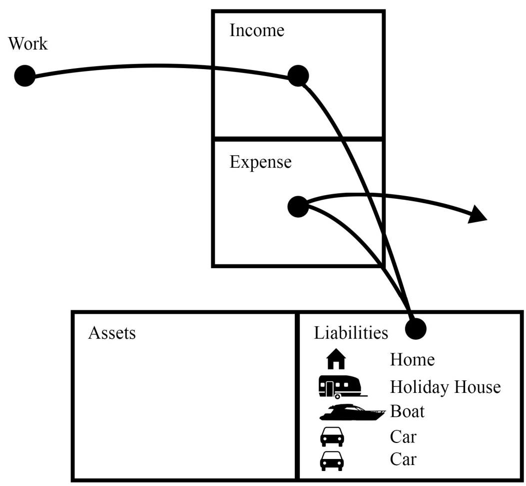
Visit www.businessfreedomlifestyle.com for a more comprehensive list of the year's expenses.

Looking rich

You will see a group of people who look rich with shiny cars, fancy homes, latest gadgets, with all the lifestyle trimmings. When you look closely (under the surface) they are running madly just to keep up with the payments and the lifestyle. They have the lavish house, holiday home, boat and maybe even an aircraft. To fund that lifestyle, they are often working 60 hours a week, never spending time with their families. Regularly we hear of relationship problems with these couples followed by a messy divorce. I understand their lifestyle as I came from this way of living with boats, recreational vehicles, and many liabilities. When my father retired I received the lesson realizing that I needed to change.

The cash flow pattern that I had, while living this "looking rich" lifestyle looked just like this. The high income buying lots of big boys toys to play with. It all costs money so I, just like all the others, had to work harder to keep paying off the loans and buying more gadgets.

Cash flow of the 'looking rich'



You will see people like this every day. You may not recognize them at first, but the words they use will show it. When you look at the work habits it will show a pattern of chasing ever higher wages to fund their lifestyle.

Looking rich and working hard each day is not a freedom lifestyle. Sometimes the person owns their own business, other times they are executive employees or business partners. In the end they convert their time for money and are locked to their monthly paycheck.

Owning a 'Simple Business' is limiting

I challenge the basic idea that just being in business brings success.

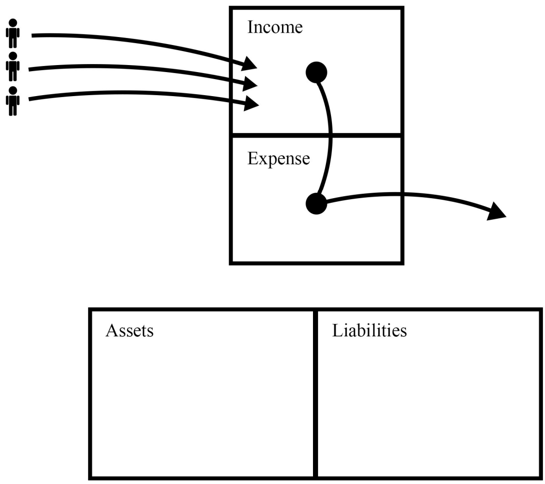
If you are like a typical self-employed business owner you will sell your time to your customers. Working "in" your business converts your time for money, with a number of different customers paying you. Most businesses pass this cash flow straight back out again as expenses.

Hair dressing, electrical, plumbing, accounting professions all charge their time by the hour and are therefore converting time for money. For most small businesses, your customers control your daily activities and appointments. I believe this simple business person works the hardest, day and night just to keep up. You may choose your customers, and the times you work depending on your customer's desires and willingness to pay.

If you are a contractor, you have more flexibility deciding when and how you work but again you are still locked to earning money each hour or day. In effect while you have more control than an employee, you still 'own a job'.

The next diagram shows a typical Simple Business owner with a number of clients.

Simple Business cash flow pattern



You attend work for a number of hours per day to earn an income. In the end you are just converting your most valuable resource (time) for dollars.

We and our clients, discovered that when you break the accepted rules of time and money you then create freedom.

Where is the starting point?

This is a simple test allows you to determine your financial health and how long you can live without working each day. This measures the ability to live for days, months or years without you trading time for money.

If you lost your job next month, how long can you afford to live? If suddenly you become ill, unable to work, income stops. To identify your livability it is a simple formula to calculate your number of month's survival. The formula is income less expenses then calculate how long before the cash runs out. Sounds easy?

Livability test

I have supplied a livability test on the next page so you are able to determine the ability to live if you, have an accident, lose your job, or some unforeseen event happens in your life.

Generally people have between two weeks up to six months of funds available to live, before running out of money. Putting the numbers in this table is very confronting. Your monthly salary / wage is excluded on purpose and shows what can happen when your wage / salary or government assistance ceases.

For this exercise, I exclude income protection insurance. The income protection insurance policies usually contain income limits, often changing rules after eight to twenty four months of disability. In my experience, insurance company income protection cannot be a reliable source of revenue.

Livability Test

The Livability formula is:

$$\frac{\text{Income (without working)} + \text{Savings}}{\text{Total monthly expenses}}$$

The result is the number of livable months.

Item	Amount in $
Passive Income Share dividends Rental property *(after all expenses)*	
Cash / Bank accounts	
Business net income *(Without you working)*	
Total Livable Income (above totaled)	

Monthly Expenses (from the passive income table) Rent Food Car payments Transport Credit card payments Electricity Insurance Travel to work Holiday travel Entertainment Additional expenses	
Total Monthly Expenses	
*Divide **total livable income** by the **total monthly expenses***	
Number of livable months	

If your answer is 2 it means that if you cannot work for any reason, you have 2 months before your money runs out. When your livable months answer is 60, it means you can live for 5 years without working. When your livable income is above 99 you have reached financial freedom. The lesson, once you have income without working, it pays for your expenses.

The knowledge contained within this series of books will help you reach over 300 months on this livability test. 300 equals 25 years of not having to work for money. You have reached financial freedom.

Once your time is no longer committed to working for an income, then you have time freedom. Time freedom and money freedom is the secret roadway to living your dream.

Creating passive income is the only way to achieve financial freedom.

Marisa and I used this method to determine how long we could afford to live without working. Next we added all the travel and living expenses in Italy (Rome), Greece, Paris, Thailand, Philippines, Fiji and Switzerland. These expenses all formed part of the dream we wanted to achieve. To do this we had to know our livability test results.

Confronting

The result is very confronting and after my dad's experience became the basis for planning ahead. I knew that changes were required. I just did not know what changes I had to do. First is a realization, then take responsibility followed by action.

But I have nothing left!

"I cannot invest because I spend all that I earn. Adding up what I have in the bank and in cash I have nothing left each week. I cannot invest as I have no money. If you give me money I will invest it." I have heard these words from business owners, employees, welfare recipients and pensioners.

The truth is that we have all been trained to spend what we earn. The reason government revenue departments or tax offices take the tax out of the wages and salary is because they know the population is conditioned to spend what is in their pay-packets and all that is left over. If the government asked you to pay the taxes at the end of the year there would be nothing left to pay back. The population would not be able to pay tax back meaning the revenue department or tax office would go broke! Instead, the tax offices take the money before you see it, (as withholdings tax) and this way the tax office knows that it gets its money first. Almost everyone is shocked at the amount of tax they pay each year, but we all pay tax this way.

Breaking that 'spending what is left over habit' is made easier when you follow the tax office strategy by withhold money before you get it. It just needs an extra 10% from your income and by locking that amount into an investment account the savings quickly adds up. You will also find that families will make do with less, it is human nature.

I know and met families that earn over $300,000 income per year and spend everything they earn. I also met families that earn $40,000 per year and invest. The secret is not what you earn that counts. It is what you spend and how you spend it.

It is not what you earn that counts, it is what you spend and how you spend it.

Working for someone?

If you are spending your time working for someone else, I believe it becomes part of your professional education. You are working hard to help them become rich and free. In my mind you are working ‘to learn the skills and knowledge’. In that case, be happy in this role until you are free to control your own destiny. Only then can you truly live your dreams.

Financial freedom comes first.
Time freedom arrives second.

Time to change?

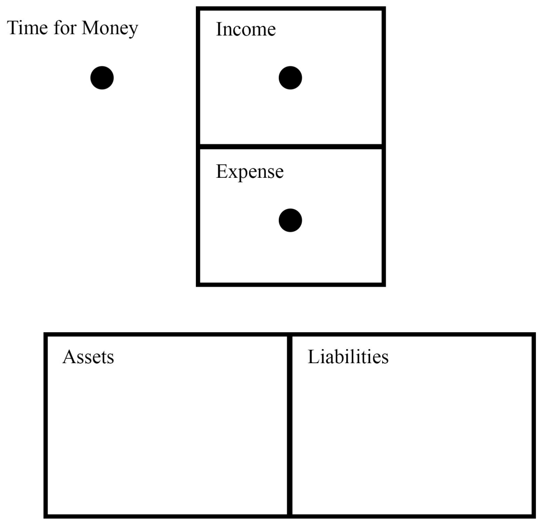
I believe it is utter madness to continue repeating your daily tasks or chores expecting a different result tomorrow or next week. If you or your partner is unhappy with your position today, write down your goals and share your “why”. Changing your lifestyle starts with changing your approach to life and your money today.

What is your cash flow pattern?

Take the time now to write down how your cash flows every month. The act of drawing it out will imprint a realization within your mind.

This diagram is provided for the purpose of recording your personal cash flow position today, right now. To be able to move forward you will have to realize where you are today. When you re-read this book in a few years it will help you on your journey by realizing how far you have come.

Record your current cash flow & date _________

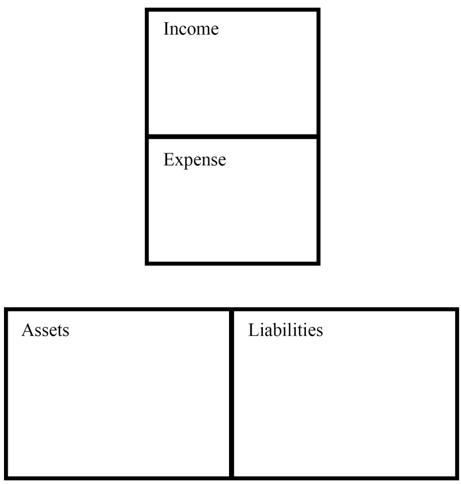


What is your Dream Cash Flow Pattern?

Now draw your dream goal cash flow pattern. If life was fantastic and you are living your dream what would it look like? This action of writing it down has just reinforced in your mind your dream and what you want it to achieve.

Congratulations you have taken a massive step forward.

Draw your preferred cash flow.



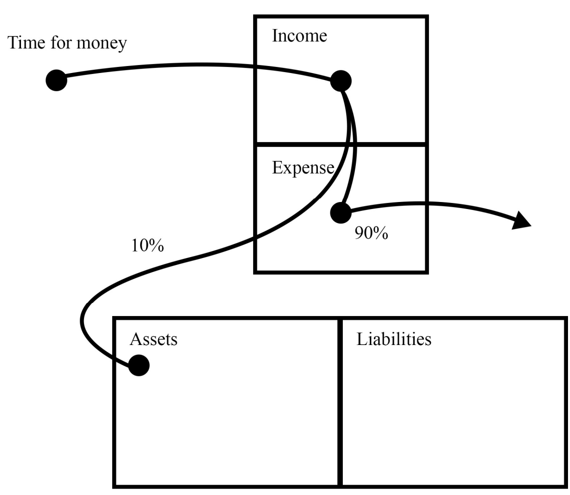
Savings - create freedom the slow way

If you work in a job then it is possible for you to create financial freedom. It comes from paying yourself first, and then spending the rest. Some people can work, then save at least 10% of their income. With this money they invest for passive income. Examples of their passive incomes include share dividends, rental property income, or interest payments. My dad preferred direct ownership of shares. In my mind it did not matter as shares, property, term deposits or business are all simply tools that I needed learn to use on the journey.

It usually takes 10 – 20 years to achieve freedom using this slow saving method. Saving one tenth of your income means approximately 10 years to save one yearly salary. If invested wisely, then you can make this grow faster. When you are younger (in the 20 - 40 years of age) then you have time on your side to follow this path.

Saving to build your assets and then investing for a passive income takes discipline. If whatever you invest in does not provide you a cash income on a monthly basis then the items you are buying may be liabilities. The simple definition Robert Kiyosaki uses is "*assets put money into your pocket every month, liabilities take money out*". The direction of the cash flow determines if it is an asset or a liability.

Saving 10% to invest cash flow



Do not save what is left after spending, spend what is left after saving. – Warren Buffet

This is a slow and steady path to create wealth as used by my dad. By comparison there is a significant acceleration gained by owning your own business. Providing your **Dream** is written down, and your **Why** is strong enough you will reach your goal.

Assets put money into your pocket each month, liabilities take money out. – Robert Kiyosaki

$1,000,000 is not financial freedom

Having one million dollars in the bank may make you technically a millionaire, but it is not financial freedom. Putting one million in the bank at an interest rate of 3% is just $30,000 per year. When you include taxes (about $2,280) it results in just $27,220 to live on for the year or $533 per week (Below the poverty line in Australia). While this may cover your current expenses in the Philippines or Thailand, it is a flat income that does not increase with inflation. It is stagnant not expanding.

Inflation eats away at the million dollars at the rate of approximately 2% per year meaning you lose at least 2% of the capital value each year. The result is a slow loss of lifestyle and money. When the lifestyle expenses reaches $533 per week you are in trouble. The choice is to cut back your lifestyle or increase your financial education and make more money.

The Secret Road to Wealth

It is important to invest the funds to generate 10%, 20% or more allowing you to receive cash flow and invest more for the future growth. If time is not on your side, or if you want to fast track the process, there are business alternatives.

Is wealth freedom?

Money or wealth by itself will not set you free. Owning and living in a house valued at five million dollars does not put food on the table. I have met many wealthy people that remain a slave to their job working six or seven days a week striving to increase their wealth. To me this is madness as the wealth goal consumes their lives, making them unhappy. Why not be free of time constrains and wealthy at the same time?

Financial and time freedom starts with your personal development.

Freedom follows your level of personal development.

The Millionaire Next Door by Robert Stanley and William Danko teaches you how to spot a millionaire living in the next street. This book shares what millionaires do each day, what they buy and how they live. I recommend this book is included as part of your library.

Never depend on a single income. Make investment to create a second source – Warren Buffet

Make money by adding value

Making money is easy when you know the formula. It is as simple as adding value to your customers.

People are always looking for great value. Once you add value, the customers will reward your value in the form of money. That money exchange becomes your income and providing you manage it wisely, creates wealth and passive income. Just by adding value to what you do, the products you supply or services, money flows into your pocket. The more value you add the more money you make. It takes additional skills to give this value, remember people pay more for the extra value. I learned that value is perceived in the customer's eye. I may not value something the way customers do, so as a result, I always listen carefully to what the customers are asking for and what they value.

I will expand more on adding value in later chapters.

Simple business stress test

A simple business survivability stress test is to remove the three largest customer's revenue, and then project forward how long you can survive without these large clients and without you working in your business.

The table gives you a snapshot where you are today and your livability or survivability in the case of a serious accident. The good news is once you know where you are and what you need to change the rest is just a matter to improve these numbers.