

The Wealth Paradox

Albert Einstein and Donald Trump have far more in common than just their eccentric hair.

Both have something to teach us about creating wealth. Here's a hint. It isn't about an IRA or 401K.

Like Trump, Einstein enjoyed money, having dubbed the miracle of compound interest, the eighth wonder of world. While math isn't money, if the math doesn't work, there will be no money.

Imagine just having one dollar to your name but doubling your money every year. In 20 years, you'd be a millionaire. While you double every year, the years are not the same. The first year you made \$1, the next two and so on but the last year you made over five hundred thousand dollars. Compounding has been in the curve of your wealth up.

Now let's say i have one more detail to that scenario. You have to pay a 28% tax on your earnings every single year. In 20 years, you don't have one million dollar but just over 50,000. You lose over 95% of your earnings to that 28% tax. Why? Because you not only lose to the tax dollars but you also lose all their future earnings. Obviously a big deal.

The curve is being bent down. There are other factors that will bend the curve down. Investment management fees, transaction costs, Platform fees, paid to play fees. Up and down markets scaring investors out at just the wrong time and lifestyle costs like a new car, home repairs or medical expenses. Each of these interrupts the miracle of compound interest. Each bends the curve the wrong way.

Some believe that one solution is to save for retirement by using accounts of his IRA and 401 case but these do nothing about down market, fees and costs and only postpone taxes perhaps to a time of even higher tax rates.

Now, let's look at the Donald's. He may come up as loud mouth, arrogant and obnoxious but he isn't stupid nor is he a billionaire because he's lucky. It's reported that he reads several newspapers a day before breakfast. Like Einstein, Trump understands that the miracle of compound interest works when it isn't interrupted, when the curve has been allowed to accelerate.

Let's say that Donald finds an office building for sale in downtown Manhattan for a mere 100 million dollars. It has almost every office rented. It's in great shape and rents are going up every year. So it goes to the bank to borrow the money to buy the building and they'll loan him 75% for twenty years at a rate of say five and a quarter percent. Now he could write a check for the remaining 25 million dollars but he doesn't. Remember he wants his wealth to grow uninterrupted. So, instead he gets the bank to loan him the rest using his other properties as collateral. The bank is delighted so is the Donald.

He is borrowing it at five and a quarter percent but the building generates cash flow of over 11%. He sends 2% off to the government for property taxes, five and a quarter percent to the bank and after spending one percent to keep the building up and occupied, the Donald pockets 3%. He could never have done this with an IRA or 401k.

You see, he grows his money in a way that makes it available as collateral. He wins. Now he is getting three million dollars a year with tax breaks. All of the future growth in the value of this building and complete control.

Nice. Ironically, the money lent to him by the bank came from us, everyone. The government, the bank and the Donald is making money from our money. Everyone but us. You see the Donald understands that to leave his own wealth compounding, he needs to use the best money available -- other people's money.

Einstein and the Donald both got the miracle of compound interest, but also understood that the miracle only works if you eliminate or reduce those factors that bend the curve down. Einstein said that you cannot solve a problem with the same thinking that created it or perhaps more to the point. If you do what everyone else is doing, you'll end up with what everyone else's got, which unfortunately isn't much. If there's just one thing that you take home from this is that a successful wealth building plan must deal with each and every one of these interruptions that bend the curve down. Is your wealth growing uninterrupted and available as collateral like the Donald's? If not, then perhaps it's time to find out more.