

Wealth Building in Four Steps

First, a definition of wealth. I'm not talking about a wealth of friends, or interests, or experiences. Those kinds of wealth are wonderful, definitely. But right now, I'm talking about money - lots of money.

Exactly what "lots of money" means is subjective, but let's say that when your annual income becomes your monthly income, you're playing in the wealth ballgame.

Wealth building, for the most part, involves four financial aspects:

- * Growing a cash machine
- * Allocating assets
- * Spending planning
- * Managing/eliminating Debt

Growing a Cash Machine

This is the most important aspect of the wealth building foursome. In fact, it is the foundation for the other three areas, whose sequence depends on the nature of your particular cash machine.

Your cash machine is an incorporated business, which is ideally based on leverage of your existing skill set. For example, say you are an automobile mechanic. That's a service. How can you leverage your skills so that you have a business that makes money while you sleep? (The definition of a cash machine).

Here's a scenario: People buying used cars come to your shop for inspection before they buy, and you realize that many of the things you check during your inspection, the consumer could easily check for themselves. You teach a class at the community college and you package the hand-outs you've created for the class. Make them into an ebook, hire a marketer, and voila' you have a cash machine.

That's simplified, but you get the idea. Wealth builders are generally entrepreneurs. Think of something similar you could do with your skill set, and grow a cash machine.

Allocating Assets

With the income from your cash machine, plus all your other assets, create a comprehensive plan for your assets to work for you. You've heard the saying, "Stop working for money and get money working for you."

If you haven't already put a team together to grow your cash machine, with asset allocation a team becomes critical. You'll need advisors to set up an incorporated business for your tax strategy as well as asset protection. And, you'll want a financial advisor to help create your overall plan.

One of your most important assets to allocate is time. Millionaires "hire" time. Invest in building yourself a team of experts and support personnel. In addition to expert advisors, hire bookkeepers, housekeepers, assistants, etc.

Spending Planning

When the cash starts rolling in, a common mistake is to allow spending to keep pace with the increased income. This makes for a cushy lifestyle, but isn't part of a good wealth building plan.

When you create your spending plan, it should reflect your personal priorities. It doesn't need to be restrictive (like a budget). Think of it more like a framework for financial decision-making that serves your long-term interests at the same time providing resources for you to enjoy the present.

Managing/Eliminating Debt

Once you've got your cash machine going, turn your attention to arriving at zero consumer debt: credit cards, mortgage, etc.

However, not all debt is bad. Sometimes, you want to leverage someone else's money. Buying income real estate is an example of such a time. But for the most part, a focus on minimizing or eliminating debt is a sensible part of any wealth building plan.

The ultimate goal of wealth building is financial freedom - when your passive income supports your lifestyle, and you work because you choose to, rather than because you have to. Use the wealth building foursome to lay the foundation of your financial freedom.

Source: <http://www.articlecircle.com>

About the Author

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