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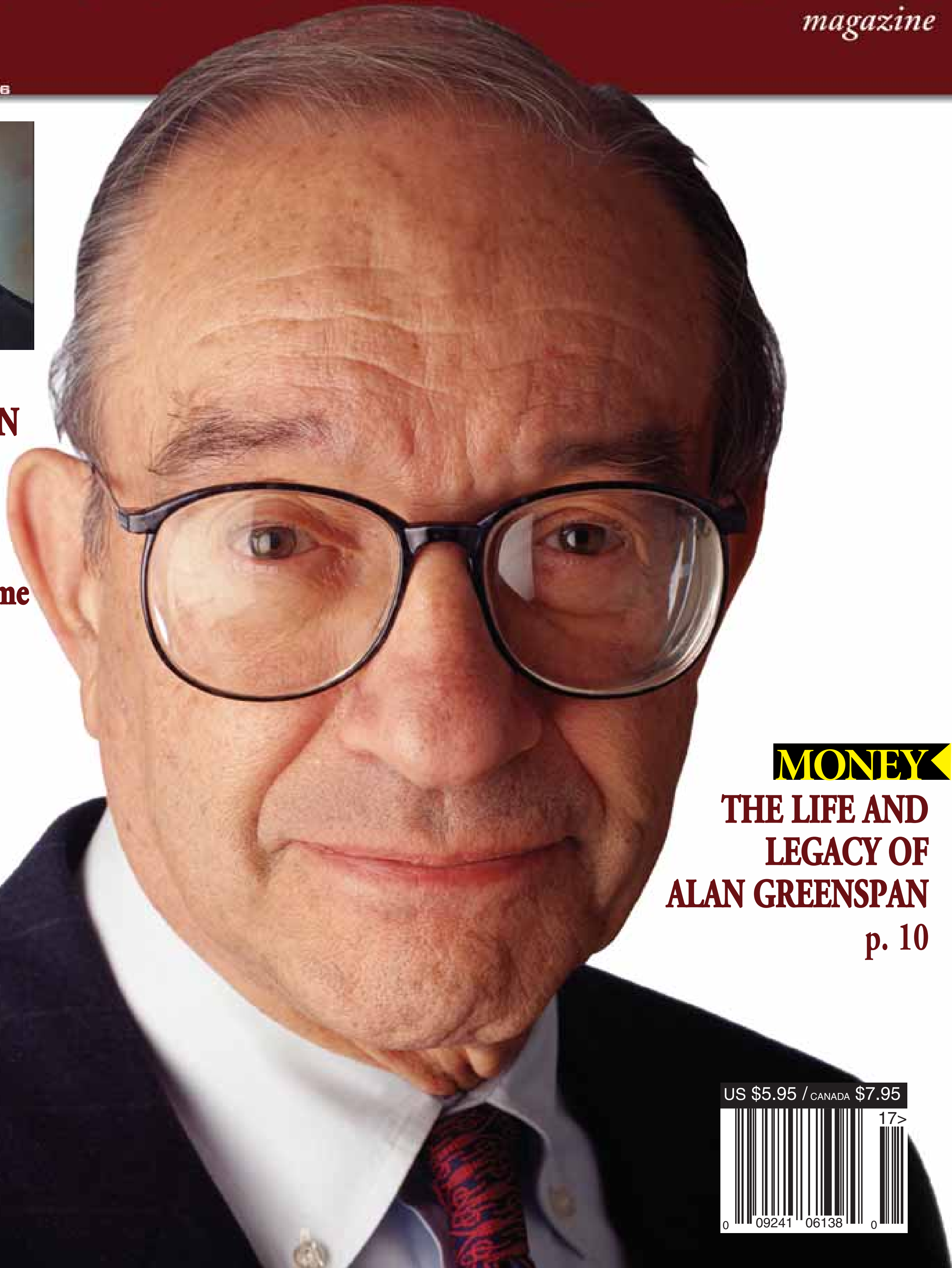
FINANCIAL PLAYBOOK

magazine

WINTER/SPRING 2006

WILLIAM RICHARDSON ***"The Money Doctor"* Talks about wisely using your home equity!**

p. 14



MONEY

THE LIFE AND LEGACY OF ALAN GREENSPAN

p. 10

TRAVEL

A GOLFER'S PARADISE

p. 40

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Strategies for Building, Protecting and Transferring Wealth

$ THE MONEY DOCTOR

by William F. Richardson

A Smart Money Move: Wisely Using Your Home Equity!

Yes, you can become a millionaire – even a multimillionaire – and your greatest asset is sitting right under your own roof. The key to enhancing your net worth is managing the equity in your home.

I have found one of the best ways to help people is to show them the benefits they can enjoy through strategically managing the forgotten equity in their homes and how to become their own bankers.

The use of these strategies and concepts is not only one of the fastest ways to become a millionaire, it's also one of the safest and most effective ways I have found to teach people to pay themselves first, provide for their families, live debt free and experience the gift of true wealth.

To illustrate these concepts, I will role-play the way I explain them to all my new clients:

William: If you don't mind my asking, about how much equity do you think you have in your home?

Client/You: *About $100,000.*

William: Let me ask you, if you leave the $100,000 worth of equity in your home or take it out, will it change how much your home appreciates in value?

Client/You: *No, it will appreciate the same.*

William: If that's the case, then what's happening to that $100,000 in equity?

Client/You: *Nothing; it's just sitting there.*

William: From a financial or business perspective, does that make any sense?

Client/You: *No, I guess it doesn't.*

William: If you were to refinance your home today, to get that equity out, what loan rate could you get?

Client/You: *Probably about 5 to 6 percent.*

William: Would you agree that the interest on your home is tax-deductible?

Client/You: *Yes.*

William: Then if you are in a 28 percent tax bracket, isn't your actual after-tax cost about 3.5 to 4.3 percent?

Client/You: *Yes.*

William: If you had $100,000 in your hands right now to invest, what do you think you could get for a rate of return?

Client/You: *About 7 to 9 percent.*

William: If that's the case, if you can borrow money at a net 3.5 percent and invest it and make 8 percent tax advantaged and at the same time safely guarantee the principal, does it make any sense to leave it there?

THE MONEY DOCTOR

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Client/You: *No, it doesn't. I never thought about it like that.*

William: Let's think for a minute. If you borrow the $100,000 and invest it at 7 percent, that means the $100,000 would grow to $196,715 in 10 years, $386,968 in 20 years and $761,226 in 30 years. How much better off are you then?

Client/You: *A lot better off.*

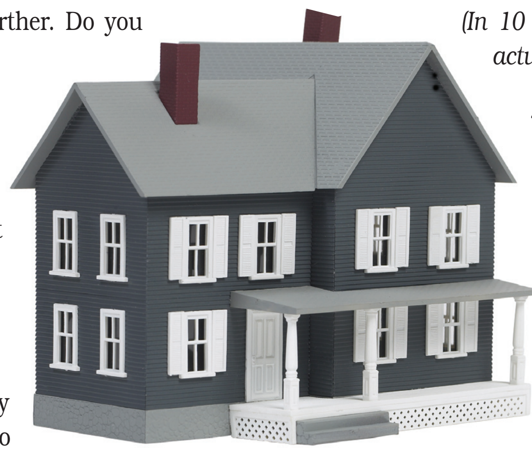
William: Let's take it one step further. Do you have any credit card debt?

Client/You: *Yes.*

William: And what interest rate are you paying on those credit cards?

Client/You: *About 18 percent.*

William: If you can borrow money at 3.5 percent, does it make sense to pay 18 percent?



Client/You: *No, it doesn't.*

William: Do you have any other loans?

Client/You: *Yes, a car loan.*

William: What's the interest on that?

Client/You: *I think it's about 8 percent.*

William: Again, if you can borrow money at 3.5 percent, does it make any sense to pay 8 percent?

Client/You: *No, it doesn't.*

William: If we borrowed the $100,000 in equity from your home and paid off all your loans, what would that save you per month?

Client/You: *About $500 a month.*

William: If you invested the $500 per month for the next 10 years, wouldn't you have $500 times 12 months, which is $6,000? Multiply that times 10 years, which is over $60,000, and that doesn't count the interest on that money. How much better off would you be?

Client/You: *Much better off.*

(In 10 years at 7 percent, the client would actually have $87,000.)

William: Imagine for a moment that you have $60,000 sitting in an investment and you want to buy a car. Now, instead of borrowing from the bank, you borrow the money from yourself and you pay yourself back the same interest you would have paid the bank. How much better off would you be?

Client/You: *A lot better off.*

William: Does this make sense to you? Would you like me to work out the actual numbers for your situation?

Client/You: *Yes, please!*

For additional information on these topics, visit our corporate sponsor of The Money Doctor column, Citizens Financial Security of Modesto, CitizensFinancialSecurity.com, (800) 862-5330.

You are invited to contact "The Money Doctor," Mr. William F. Richardson, author, speaker, financial strategist and retirement specialist for Citizens Financial Security and its affiliates. He is also the founder and director of The California Educational Institute of Wealth Enhancement and creator of The Equity Max Program. To learn more, please call (209) 543-8666 or send email to William@WilliamFRichardson.com. ©2005 GCPG