

The Tools-Only Trap

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So what is the *tools-only trap* you might be asking yourself? Well, it unfortunately is an all too common problem among people and the way they have been taught by financial institutions to think about money. It is a product focused approach to accumulating money and is one of the main causes of people's failure and inability to create wealth, enjoy wealth, and ultimately pass on wealth.

From years of client interviews, I have learned that what most people really *want* is to enjoy having more money throughout their lifetime to do the things that are really important. Things like travel, better schools for their children, nicer stuff, vacation homes, giving to their churches and charities, etc. The sad news is however, that the majority of people are unable to succeed financially because of the *tools-only trap* and relying solely on mathematics and rates of return in regard to how money *really* works.

People have been **conditioned** to take some of the most important aspects of how money works, such as the *velocity of money multiplier effect*, and relinquish that awesome power over to banks, mortgage companies, credit card companies, brokerage firms, etc. How is it being done? A common strategy of the *tools-only trap* is to focus on accumulating money in a savings product, such as a 529 college savings plan where it is advertised and promoted as a "tax advantaged" product. In a micro-economic sense that may appear to be significant, however, when analyzed from a **holistic** and **macro-economic** standpoint, it becomes clear that the potential of tax savings is only a small battle. Engaging in this strategy however may cause those involved to lose the **WAR** on creating real wealth as we will see!

In order to meet a specific *need*; such as saving money for college, it is important to understand the devastation that this creates in peoples lives when they give the money to the college (financial institution). This results in a tremendous amount of lost wealth and opportunity to enjoy the wealth while it is being created. For example, let's say you have two children, ages 2 and 4, and you would like to send them to the University of Michigan in Ann Arbor. Based on today's rates, one year of college at U of M costs approximately **\$20,000**¹ per year for in-state tuition, room and board, fees, etc. In today's dollars at an average increase of 8% for college cost increases (inflation)², the grand total for two children would be a mere **\$573,460** 19 years from now.

However, this is once again the *tools-only trap* way of thinking. Let's for a moment say that you are successful in accumulating **\$573,460** and are prepared to fund your children's education 100%. Saving money for your children's education is a noble and worthwhile goal; however, it is more of a retirement question than it is a college savings question. What does that mean? Well, the true cost of giving the financial institution (college) **\$573,460** is not only your capital of **\$573,460**; you are also giving up the future opportunity of what your capital is worth at retirement. In this example I used a family age 36, so in 19 years that would make them age 55, so 10 years later at age 65 in retirement if they had kept the **\$573,460** and invested it and actually received an average 10% rate of return, the account would compound to approximately **\$1,500,000**³. This would mean that the family now gives up an additional **\$75,000**⁴ per year in retirement income, and possibly more!

The concept here that is so important to understand is the concept of *lost opportunity cost*. Opportunity cost is one of the fundamental principles taught in most introductory economics courses. It is important to understand that once we spend our money it is gone **forever**, and all future opportunities on that money are gone forever as well. Therefore, if we were to take the *tools-only trap* one step further, and look at the potential impact in this family's lifetime, the total lost opportunity and potential wealth could potentially be **\$8,000,000⁵** by age 100!!

As a consumer it is vital that you seek an advisor who educates their clients on how to build wealth more efficiently and employs **sophisticated** financial strategies, and a **process** that is **easy** to understand, **simple** to implement, will **work under all circumstances** such as **market fluctuations, tax law changes, inflationary pressure, death, disability, etc.** and allows for the creation of wealth, and the ability to use it **more** than one time. So, in the case of the *tools-only trap* mentioned previously, we would educate our client and develop strategies to have the money for college and get it back to be used again in retirement; that's a win-win situation that our client's really love (**hopefully this is sounding to good to be true!**)

This is only one example of how we **educate** our clients on how to think intelligently when it comes to their money and financial decisions. If you no longer wish to be a *victim* of the *tools-only trap* and would like to **take action now** and **take control** of your financial future, we would enjoy the **opportunity** to **help** you.

We help our clients achieve financial success and independence with no additional out-of-pocket outlay as our primary goal. We achieve this outcome by only working with current assets and cash flow. Our objective is to take whatever you are doing and make it more efficient and effective.

Please feel free to contact us for a **comprehensive financial x-ray** at **no cost** and **no obligation** to you (please mention this article). You may also request more info by visiting www.ipodiums.com/iwsleap.

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¹ www.collegeboard.com/student/csearch/index.html

² www.finaid.org/savings/tuition-inflation.phtml

³ \$573,460 compounded annually at 10% for 10 years; this is not a specific type of account and is for illustrative purposes only, taxes and inflation haven't been taken into consideration.

⁴ 5% of \$1,500,000

⁵ \$573,460 compounded annually at 6% for 45 years; this is not a specific type of account and is for illustrative purposes only, taxes and inflation haven't been taken into consideration.