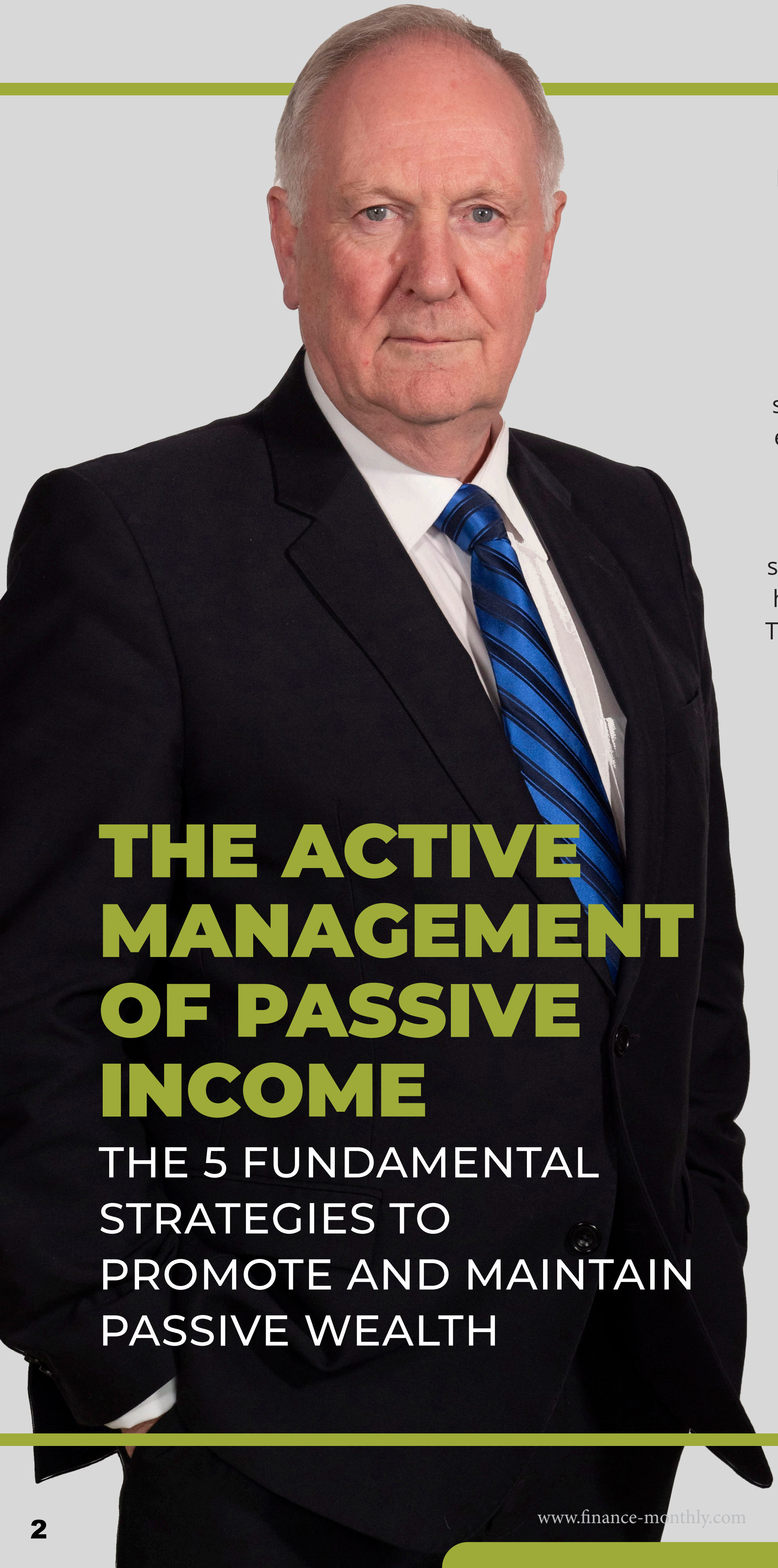

In the medical profession, Dr Rodney Peyton M.D. has been called the World's #1 Surgical Coach. But that's not all he focusses his time on - he is also an international speaker, author, entrepreneur and investor, who has shared the stage with other investors and entrepreneurs including Hugh Hilton, Steve Wozniak, Nido Qubein, Stedman Graham, George Ross and JT Foxx. We spoke with him from his beach home on the Gulf of Mexico in Treasure Ireland, Florida about the five fundamental success strategies for ensuring life-long, robust financial health which will allow investors and entrepreneurs, not just to survive the next inevitable downturn, but to also be in a good position to profit from the myriads of business opportunities which arise during these cycles when market sentiment is low.

THE ACTIVE MANAGEMENT OF PASSIVE INCOME

THE 5 FUNDAMENTAL STRATEGIES TO PROMOTE AND MAINTAIN PASSIVE WEALTH

Rodney Peyton
International Author,
Keynote Speaker,
Trainer & Mentor

For most business owners, entrepreneurs and investors, the COVID-19 pandemic was a salutary experience. With minimal warning, their wealth bucket sprung a very big leak and they watched many years of growth and investment rapidly disappear. Attention turned from Return on Investment (ROI) to survival mode and many may well never recover, despite various government bailouts. The warnings were there. This time it was a pandemic, a decade ago it was a banking crisis. With both scenarios, there was a radical clear-out of those whose underlying physical or financial wealth was not robust. This situation will be repeated, and there is no better time than right now to ensure good health in both your personal and business life.

The key objective of the five fundamental wealth strategies is to take back control and gain the freedom to fulfil your life goals. Increasing your financial intelligence allows you to move from your present reality to a future well rounded and wealthy life that you, and those close to you, desire and deserve. The goal is to develop, grow and maintain diverse passive income stream to achieve what is termed financial independence, where passive income covers all the routine living expenses which suit your lifestyle. The ultimate objective is financial freedom - your lifestyle will remain secure and free of any market forces or changes in the general economic environment.

Regardless of where the audience is from, when asked from stage about their main focus in life, the vast majority of responses fit into five categories:

- Health
- Wealth
- Relationships
- Lifestyle
- Career/business

Ultimately, most would argue that lifestyle is the most important category to them and that in order to achieve and maintain their standard of living, the underlying financial situation has to be stable and robust. I invite audiences to take a moment to set some goals for their own lifestyle - both in the present and post-retirement. What are their actual living costs at the moment including household, general insurance, medical, transportation, entertainment, and holiday costs? What would happen to these if they had to stop working for any reason and if the situation was to continue for three months, six months or a year into the future? Would they be able to sustain even their present lifestyle without alternative sources of income? What would happen with ill-health or after retirement?

> *"Investing in today's 'top 10' may not be the same as investing in next year's 'top 10'."*

I have found that many people, particularly professionals, would have great difficulty in maintaining their present lifestyle - especially if inflation is added to the equation. I am not a financial adviser. What I am is someone with more than 30 years' experience, not just as a medical professional, but as an entrepreneur, investor and business owner, who has learned from personal experience. I have also had the opportunity to study and discuss wealth strategies with experts from around the globe and make them relevant for professional colleagues. This is what helped me to develop the following five fundamental wealth strategies for promoting and maintaining passive wealth.

"Multiple Streams of *Cash *Protected * by Active* Review"

Let's explore each one of these strategies in more detail.

Multiple Streams

Controlled diversification of passive income streams is fundamental. In my experience, the main opportunities for passive income from investments are:

- Real estate
- Stocks and shares
- Becoming the bank
- Asset investment
- Currency investment
- Intellectual property

• Real Estate

Of all of these investments, the most secure over time is real estate. Just about every investment is linked in some way to assets, particularly property, and most successful entrepreneurs, investors and businessmen have an extensive real estate portfolio. Apart from having shares in real estate investments such as Real Estate Investment Trust (REITs), there are two main categories of real estate holdings – 'buy to sell' and 'buy to hold'.

'Buy to sell' is analogous to buying beef cattle. Beef farmers buy stock low, spend time and energy fattening them up and hope to sell at a considerable profit. This is, however, speculative, and depends on market circumstances when the cattle come to be sold. Similarly, buying a property off-plan, or making improvements with the hope that it can be sold with a substantial profit, is also a speculative risk. Over time there will be many cycles in the value of real estate and these occur at different phases in different geographical locations. The challenge is not to get caught with a property that cannot be sustained, due to mortgage and maintenance costs, through any downturn in the cycle. A forced sale can result in considerable losses, which is exactly what happened to many investors in 2007/8 and is happening again in the recent downturn. In order to speculate successfully, significant financial backing to cover market variations is required and therefore, for most, this type of real estate investment is not a secure method of developing ongoing passive income.

By contrast, dairy farmers buy cattle which produce milk daily. He still has to feed and look after them but he has a regular supply of product to sell. Over time, profits may not be as great as with speculative investment, but there is rarely a total loss unless some disaster completely wipes out the herd. In property terms, these are called 'buy to hold' properties which produce rental income. Provided you buy well, the rental income covers the mortgage and maintenance costs to produce a monthly net income. Higher-end properties are higher risk as vacancy rates cause significant loss of income which will make it difficult to cover the costs. As a rule of thumb, I like all my properties to cash flow independently of each other. Often the best types of properties are those for low to middle-income groups. Even when there is a downturn in the market, property runs in cycles and providing they were bought well, short of a natural disaster or war, residential property will generally remain a good source of income in the long-term. Commercial property such as retail centres and office buildings are, as evidenced by recent events, much riskier and should be left to professional investors.

• Stocks and shares

The stock market can give good returns, particularly with index-linked shares, but does require careful monitoring. For most busy professionals, such monitoring is not realistic and most rely on a company to manage their investment portfolio. Unfortunately, commission charges may have a significant negative impact on the compounded long-term gain, so be sure to negotiate rates and to be aware of high turnover, known as churning. Additionally, although the various indices eventually go up, the basket of the top companies within the index may change dramatically. The numbers may therefore increase, but an individual company may fall completely out of the index so that investing in today's 'top 10' may not be the same as investing in next year's 'top 10'. There is a similar situation with the success record and reputation of particular fund managers who may have a good reputation in the press but remember - the past does not always equal the future.

• Acting as the bank

Short-term lending for asset-based investments may produce a healthy return, often around 15 to 20% per annum. Neither the investment itself nor the success, or otherwise of a specific business venture, may be of particular interest to the investor who is generally backing the people involved, covered by the security of an asset or an insurance contract. These investments canvary between assisting builders to buy, develop and possibly flip properties to working with the film industry, not to invest in a movie itself, but to provide bridging loans between the time stars have been contracted and the banks and other institutions fund actual movie productions.

• Asset investments

There are many other groups of assets, most of which are highly speculative. This includes everything from investing in commodities such as oil, gas, or precious metals to more specialist investments in coins, stamps, antiques, vintage vehicles or works of art. The challenge with these is that they may not be easily realisable into cash and would not, therefore, help create financial independence.

• Currency exchange

Another form of trading is in foreign exchange - or FOREX. There is great fluidity in the currency markets, and they can give high returns over even a short time span. Again, for an individual to undertake this form of trading, they would require a lot of training and these trades demand a considerable amount of time on an ongoing basis. Investing with a company with a good track record can produce a return upwards of 20% in today's market.

• Intellectual Property

Intellectual property is intangible or created in the mind. Examples would be a book, an invention, a design, a piece of art or a symbol and all intellectual property should be protected by copyright, patents, and trademarks. For professionals, one of the most frequent returns on intellectual property is in royalties which can be from book sales or the use of portions of a book, for instance when chapters are used for teaching in a university. It may also include income from subscription podcasts or webinars.

The goal is to create a balanced and diverse portfolio with multiple streams of passive income so that a downturn in one sector can be offset against upturns in others.

Cash

Cash is king. The front of the American dollar states "In God we Trust". That is fine, but everyone else pays cash. Every month there has to be actual, passive, spendable income from investments or all the work in setting up your portfolio comes to nothing. I, along with many others, have found myself at times supporting an under-performing investment and the learning is not to become so emotionally attached to any investment that it is difficult to let go of it. It is essential to be realistic about the returns being made on any investment, which goes back to what I said earlier - cash flow is king. Is there an actual profit after every expense associated with it has been taken into account? With property, expenses include not just mortgage payments, but also the cost of maintenance, management, advertising, employees, insurance as well as any legal expenses. Will the mortgage costs change over time? What are the tax implications for any perceived profit, especially if there is a payback of mortgage principal from the rents?

It is therefore vital to have, not just book-keeping, but proper accountancy where the provided information is not just in terms of "stats" but in terms of "stats that count". It is important that numbers are not simply crunched, but that the full story behind the numbers is evaluated in terms of quarterly and annual Profit and Loss (P&L) so that advice can be accessed in relation to the most cost-efficient way of managing any investment. There should always be two sets of eyes on any set of accounts as well as your own.

Just about every government encourages individuals to invest in a pension, and while building up a pension fund has advantages, especially in terms of tax savings, a pension often does not provide financial independence, let alone financial freedom. Normally it will produce some level of income on which to build, but this can vary considerably if the value of the pension return is dependent on market forces.

> *"Commercial property such as retail centres and office buildings are, as evidenced by recent events, much riskier and should be left to professional investors."*

Protection

Once a passive income stream develops, profits have to be protected and a robust tax strategy must be employed. In any jurisdiction, there are mitigation strategies, such as acquiring and keeping holdings within a tax-efficient legal entity. Expert advice from those conversant and experienced in dealing with such strategies is essential. It is also important when developing these entities, to include an exit strategy both for the profits generated and for the holdings themselves.

> *The five fundamental wealth strategies is a proven system used by many of the world's richest entrepreneurs to grow and develop their passive income and to protect their wealth in the long-term.*

While it is obvious that insurance has to be in place, particularly public liability, it is also important to have insurance for the principals involved in any company in case untoward events prevent them from functioning in their role. This should include full medical cover and in particular, cover for critical illness. Term insurance contracts are a relatively inexpensive method of covering the heavy loans which occur during the growth phase of a portfolio. Another vital insurance is a succession strategy in relation to how holdings may be handed over to another generation with minimal tax implications.

Finally, many investors have fallen foul of company regulations, especially with smaller entities. With corporations or companies, particular rules have been set in various jurisdictions for these to be regarded as entities in their own right and not as a simple 'flow-through' for investors. These companies, therefore, must follow the rules including having annual general meetings, a proper election of officers, the keeping of regular company minutes and regular filings of their status with appropriate government regulators. Failing to do so could render their company structure null and void.

Active

While these income streams are termed passive, they require to be actively supervised and managed. Even if a reputable team is in place, be it internal or external to the organisation, the ultimate responsibility and control must remain with the investor/business owner. This requires regular and frequent analysis of the figures and validated projections against agreed goals. In other words, you need to "mind your own business".

There is, therefore, no such thing as a truly passive income. It is a true saying that no-one takes care of your money like yourself and, to a greater or lesser extent, depending on the business or investment, principals need to be actively involved. For instance, if a property is being looked after by a management company, are they keeping up with the maintenance, are the tenants content? If not, the value of the property may decrease and may lead to civil or even criminal charges, for example, if a tenant is injured because gas or electrics have not been regularly checked. Poor maintenance and management may also result in difficulties with licensing authorities. Control of these entities is generally a team sport and detailed records of any major changes must be maintained.

Review

Benjamin Franklin said that two things in life are constant - death and taxes. There is a third thing - change. Whatever happens, life circumstances and the context of investing will change, requiring regular and frequent analysis of all the figures and validated projections against agreed goals with the investment strategy being altered, dependent on circumstances.

Tax laws change and therefore mitigation strategies which were appropriate at one time may no longer be available, for example, loss of tax relief on mortgage interest payments or a tax authority's view on liability of particular legal entities.

In terms of real estate, some areas will 'gentrify' and increase in value whereas others will be in decline, so the value of any particular asset may vary, particularly in relation to the ability to bring in rent. Good commercial tenants may suffer in a market downturn or be affected by changes in the environment. For instance, in one of my own commercial properties, the creation of a new highway virtually destroyed the business of several tenants for more than a year. Other business owners may decide to retire and buildings may have to undergo modernisation and reconfiguration to meet market demand, or indeed be replaced in order to obtain the highest and best use of the land.

Finally, investors, entrepreneurs and business people themselves have a life cycle and what may have been appropriate when growing assets in their 40s, may not be appropriate at later stages in life when, for instance in retirement, they require a higher financial return to maintain their lifestyle.

Continuing education in relation to investments and the business environment is an absolute requirement of successful investing, as is working with appropriately experienced coaches and mentors. There is no such thing as a self-made millionaire – everyone has benefitted from the experience of others. Every investor should identify a group of successful, like-minded individuals with whom to share, compare and seek advice.

Unfortunately, when starting the process of building their portfolio and with little money to spare, many people rely on "financial advisers" who either work for a particular company (so they often do not have a personal background of entrepreneurship and investing) or are perhaps more academic and theoretical in their experience. It is important to seek advice from those who have been there before, who know, understand and have proven success in a particular business environment.

To quote Tony Robbins: "If you want to be successful, find someone who has achieved the results you want, copy what they do and you'll achieve the same results". To conclude, it is essential to follow a good, well thought out '**SYSTEM**' which stands for: **S**ave **Y**ourSelf **T**ime, **E**nergy, **M**oney.

The five fundamental wealth strategies is a proven system used by many of the world's richest entrepreneurs to grow and develop their passive income and to protect their wealth in the long-term, no matter how personal or market conditions alter. They will work for you, provided you become financially educated and build a team of experts to support your investment strategy.

> *There is no such thing as a self-made millionaire – everyone has benefitted from the experience of others.*

The six clear principles to follow are:

- Set clear goals and review over time.
- Diversify portfolio and investments.
- Make educated, informed decisions with the help of coaches and advisers.
- Regularly review asset performance.
- Be prepared to make changes based on market trends, sound advice and your own changing needs.
- And don't forget the paramount principle: Cash is king.

FRONT COVER FEATURE - PASSIVE INCOME

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