

5 Parts to a Balance Sheet

- Wealth DNA radio show
- Ron Nawrocki
- August 22, 2016



5 Parts to a Balance Sheet ...

Motivation ...

- Few business owners & investors had formal training in Accounting
- Accountants & CPA's prepare Financial Statements in a "Standard Format"
- Few (**if any**) Accountants know the Five (5) Parts of a Balance Sheet
- Accounting Courses do NOT cover this !
- Even Kiyosaki & Lechter got this wrong...

Outline ...

- **Rich Dad – Poor Dad**
- 5 Parts to any Balance Sheet
- Paying-off your Mortgage – Genesis?
- Obtaining more IGA's
- Who should Pay-off all their Debt?
- Managing the Risk of Debt

Rich Dad – Poor Dad

Robert Kiyosaki & Sharon Lechter said ...

- Debt and ALL Liabilities are Bad (they are expenses) - **Partially FALSE**
- J.O.B. = working hard for money (taxed on **gross income**) - **TRUE**
- Passive Income = your money working for you - **TRUE**
- Form a Corp. [or LLC] for all your business activity (taxed on **net income**) - **TRUE**
- Some Assets are actually Liabilities - **?**

5 Parts to any Balance Sheet ...

- You will **NOT** find this in any Accounting textbook
- Your CPA will not tell you (**guess why**)
- Sharon Lechter is a CPA
- I also had a disadvantage as a Finance Guy
- Kiyosaki & Lechter's "Rich Dad-Poor Dad" confused me ... BUT helped me connect the dots

Simple Balance Sheet ...

ASSETS	LIABILITIES
Assets are GOOD	Liabilities are BAD
\$ XYZ	\$ XYZ

Common Misconception

BETTER Balance Sheet ...

ASSETS	LIABILITIES
Kiyosaki & Lechter: "Some Assets are actually Liabilities"	
	EQUITY / NET WORTH NW = Assets - Liabilities
\$ XYZ	\$ XYZ

More Correct

BEST Balance Sheet ... 5 Parts

ASSETS	LIABILITIES
IGA's = Income Generating Assets	Good Liabilities
	Bad Liabilities
Toxic Assets	EQUITY / NET WORTH
	NW = Assets - Liabilities
\$ XYZ	\$ XYZ

Examples of Assets ...

IGA's:

- Stocks, Bonds, Commodities ...
- Investment properties, Notes on properties
- Other Asset Based Loans
- Other Alternative Investments

Toxic Assets:

- Personal Home, Cars
- Furniture, Clothes, other expenses
- Most Loans withOUT collateral
- **Banks:** REO, Non-performing Loans

Bad Balance Sheet



Good Balance Sheet



Examples of Liabilities ...

Bad:

- High Interest Credit card debt (paying-off is **best** risk-free investment)
- Debt with interest **above** your investment ROI
- Loans / Leases on “toys”

Depends:

- Car loans

Good:

- Mortgages on investment properties
- Debt with interest **below** your investment ROI

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BEST Balance Sheet ... 5 Parts

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Paying-off your Mortgage – Genesis

- Turkey Story – “**Why cut off the tail?**”
- “Pay-off your Mortgage” – **Genesis?**
 - Great Depression
 - Why did most people lose their homes?
 - Why didn't Hilton's lose their hotels?
- Prior to 1932 Mortgages could be called !
- Check your mortgage – **Can it be called?**

Obtaining More IGA's ...

- **IGA's** = Income Generating Assets: Build Wealth, and provide Cash Flow
- **NOTE:** Paying off your Mortgage decreases funds for IGA's
- Save more – have more funds available
- Spend Less (Simplification) = Savings
- Convert Toxic Assets to IGA's
 - Re-negotiate
 - Rent out a 2nd home
 - Sell Toxic Assets to buy more IGA's

Obtaining More IGA's ...

- **Refinance** Bad Debt with Good Debt
 - Increase Cash Flow/Savings
- **Take & Invest:**
 - Take more loans with interest below your Investment ROI, for as long as possible
 - Invest funds in IGA's
 - i.e. Use OPM
- Other?

Obtaining More IGA's ...

- **NOTE:** Most millionaires do NOT have much debt – Dr. Thomas Stanley ...
 - As IGA's grow, cash flow pays off debt
 - Many heard the Turkey Story
 - Most follow PISS Principle
 - Passive Income = Investing + Savings + Simplification
- **BUT:** A loan is paid-off if you either pay it off **OR** you have the money available to pay it off – Douglas Andrew

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Paying-off Debt ...

You should pay off your debt **IF:**

- Your Net Worth is negative
- You do not have good financial discipline
(**Good analogy: weight control**)
- You're paying rates above your investment ROI
- Your Wealth DNA is more like "**Poor people**" than "**Wealthy people**"

Managing the Risk of Debt ...

- Having Debt does have Risk
- Payments on Debt need to be paid even if your investments decline
- Develop a Portfolio (Balance Sheet) Tracking spreadsheet & Update every 6 mo.
 - “**You can’t manage what you can’t measure**”
 - Split Portfolio into the 5 Parts
 - Better than Net Worth = Net IGA’s
- Work with advisors/experts that keep you out of investments beyond your risk tolerance
- **Best:** Maintain cash reserves/liquid investments
 - **Money Markets, CD’s, MP3’s, Short-term Asset Based Loans**

The Problem with Accounting ...

References ...

- “Richest Man in Babylon” – George Samuel Clason
- “Rich Dad – Poor Dad” – Robert Kiyosaki & Sharon Lechter
- “The Millionaire Next Door” – Thomas J. Stanley, PhD & William D. Danko, PhD
- “Secrets of the Millionaire Mind” – T. Harv Eker
- “The Millionaire Mind” – Thomas J. Stanley, PhD
- www.WealthDNA.us – OPM, Direct Investment in Real Estate, Crowdfunding, etc.

Quick Test of Wealthy DNA ...

“Rich people have small TVs
and big libraries,
and poor people have small
libraries and big TVs”.

- **Zig Ziglar**

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