



The Four Asset Classes (Episode 004)

0:00:18 Andy: Hello, Andy Tanner here, welcome to The Cash Flow Academy Show Power Pack Broadcast, great information today, huge topic. Today we're gonna speak about the 4 asset classes and that's certainly fits under our umbrella of all things cash flow and it's gonna be great, great information. So we're gonna talk a little bit about the 4 asset classes and how we learn about them, pros and cons to each, maybe how to decide which ones or one you want to go. So congratulations for tuning in and congratulations for being here, you want more cash flow in your life, that is awesome.

Let's hop right in with this conversation and this discussion on asset classes. I first had these separated in these 4 asset classes by my mentor and friend Robert Kioyosaki and with the opportunity to teach with him, I see him teach this all the time and I want to share it with you as well. He'll say this and it's true, look, you wanna be an investor, you wanna have some cash flow, 4 things you study. And notice, it's not 4 things you buy, 4 things you study. Always learn before you earn because in each of these asset classes, they can take money from you if you're doing it wrong, money didn't come from assets, it comes from education.

So the first one's business, it's actually my favorite. People say what? I thought paper was your favorite? No, business is my favorite, it's the one I'm not good at, I'm okay at it I guess, I mean, we have some fun business but I'm no Bill Gates, I'm not a Steve Jobs, I don't have a billion, multi hundred billion dollar business, those are the guys that are good at it. But there's a lot of people, they have small businesses that do very, very well. You can make hundreds and hundreds of thousands of dollars, you're gonna make millions of dollars as a small business owner each year so that's fun stuff, so that's business, we'll get in to that.

The next one is real estate, great place for beginners I think. Not as good as paper but great place for beginners, lot of opportunities for debt and taxes in leveraging that real estate, we'll talk a little bit about that, some of the things you do in real estate, it's such a huge topic.

Commodities is the third asset class, it's the stuff everything's made of, if it's man made, it was made from a commodity, if it was man made, it was made from a commodity. Gold in the ground, oil in the ground, fish in the sea is the things we eat, the things on your plate are commodities. This is called primary wealth really, the fish in the ocean, the oranges on the trees and so we'll talk about primary wealth in terms of commodities.

And then we have paper assets, that's the one I'm most known for. The one I love to pursue and get better at is business, the one I love to teach is paper and I'll tell you why I love teaching it the most, I think it's the one people need the most. We get thrown in 401k-s, you guys know that's my passion, I think those things are so bad. I think so many people are gonna



wind up getting just railroaded right out of town with those things. So a knowledge of paper assets I think is most needed, it's the easiest one to get involved in which is a bad thing because when something, I mean, imagine if loaded guns were easily accessible, what your household would be like? You don't want children playing with guns and that's really what a 401k is, it's people who are not investors trying to invest and so paper is a big deal, we'll talk about paper. That's called tertiary wealth and we'll get in to that, it's not primary at all, it's agreements and contracts and deed agreements and equity claims and these are all printed on paper.

So we'll talk about the 4 asset classes and as we do, my hope is is that A: you'll gain some insight and some ideas you might not have thought about before in the asset classes and B: it might pique your interest on some asset classes you wanna learn more about from different mentors in your life that you can associate with so let's hop in.

First one, business, I said that was my favorite. Business is, if you can make it, that's the thing, if you can make it in business, it's the best income you'll ever have, it can just be huge and you're giving value to the world, it's a great way to earn income. Toughest way too, why? Competition. Everybody wants to be in business, it's a wonderful, capitalism is such a wonderful thing because really what is it? It's everyone in a contest to see who can give more value than the other guy at a lower price, ain't that a wonderful way to make society better and faster? No wonder we don't live in the stone age anymore, we have capitalism which means, hey, I am going to compete against everyone else in this world to see if I can give more value to the rest of the world and other people.

Ain't that crazy? People think capitalism is about, okay, how do you label capitalism as greedy and evil? It's a value contest, whose lives can give us more. You look at a guy like Steve Jobs and I look at that iPad, it's awesome, you know what? I always heard that when my kids got all or they get in to the why stage, dad, why is there air? Why is it? Google solved that for me, they don't ask me, they know I don't know anything, they go to Google, they go in their iPad to learn to read and do math and here are my kids as these grade students to learn all the stuff, well because of Steve Jobs and because of their iPads and Google, that's where they're learning everything, I don't know anything to teach them. And so it's value, it's a value contest and that's why it's a dog on tough because we're trying to give a better value than the guy next door for a lower price, that's a great, great pursuit but it's a difficult pursuit.

Robert Kiyosaki teaches the BI triangle which I would turn people on to, I'd recommend his book, The Guide to Investing. One of the thicker books he's written and in there it has this BI triangle, look, you got these 8 integrities component of a business, a mission, leadership, a team, hey, those 3 right there are no walk in the park, leadership is tough. When I look at the



businesses I've had that have failed, I think that's been one of my bigger weaknesses is leadership and candor and organizing people in that mission and putting that team together. Leadership is a huge thing, mission, team. And then inside of the triangle we have cash flow, it's the life blood of a business, if you can't get a cash flow, it's gonna die. We've got to have communication outside the business in our marketing, our advertising, inside the business so we're working together in like a team that is rowing together like a rowing team, we're all in the same, in sync together. We have systems that are created, I've some great mentors. One of my great mentors, ???[0:07:25] incredible systems guy. Here's a guy that built, I think it's 5 businesses of multimillion dollar businesses and part of his success is his such strong systems and such great leadership. Hi BI triangles are phenomenal and so it's amazing, how you do that in your 30s? 5 different multimillion dollar businesses, he still has more before he's done. Great man, a great friend that understands the systems part. We have legal, boy, we're so happy and I'll tell you what, got to protect your assets, that's for sure. Products are what give the value, that's where people are going to consume your product or your service and get value for their money. So business, that's pretty complex structure, there's a lot to those BI triangles, a lot of problems to solve, entrepreneurs have to solve a lot of problems in business. So if it's so hard to do and there's so much competition, it's so impossible, why do it? Well, it's the greatest lever there, of all the asset classes, my opinion is you're leveraging better.

Now, what do I mean by leverage? Well, leverage is when someone small can accomplish something big with a lever. There's a saying that says, I can't remember who said it but you've heard the saying, give me a lever long enough I can move the whole world and it really is true. And it's easier, maybe even though business can be tough in a way, it's easier to play. Now, it's not as easy to win always but it's easier to play. Now, what do I mean by that? The technology, I mean, imagine starting a business in the '60s, you're gonna be brick and mortar most likely, how do you advertise, how do you get the word out? You got to get in the yellow pages, you got to put up a billboard, you got to do direct mail, boy, not today. The internet allows anyone to start a business, you go to your Go Daddy or whoever and spend whatever it is, a few bucks a month, you've got a website, you've got a presence, people can go, you got ecommerce, they can send you money, you got credit cards now. Imagine in the '60s when everyone wrote a check or was cash, mostly cash businesses in the '60s. Now, boy, you've got Apple Pay and credit cards and Bit Coins and all kinds of ways to have money sent to you, never it's been easier to create a funnel for people to send you their money than today so business is easy to play.

Now with that because it's easier, you got every Tom, Dick and Harry, you've got that competition again so it's easier to get in the game and play but it might still be very, very difficult to win because you've got to separate yourself in a bigger haystack, you've got to be that needle that really shines out. You put your business on the internet, you're the smallest



needle in the biggest haystack you've ever seen with millions of sites so it's easy to start your business, it's easy to play and if you lose, it doesn't cost as much, it's not as risky as in the past to start a business but I'll tell you, it's still a difficult thing to do.

But it's a great lever and what I mean by that is this, you've heard of leverage with money, other peoples' money, OPM in real estate. Well in business, I don't think it was OPM, I think it's OPE which means not other peoples' money, other peoples' everything, other peoples' energy, other peoples' experience, other peoples' education, other peoples' efforts. When you have leadership and that's all business is is leadership, you work on your business not in your business, that's a big difference between in the cash flow quadrant being a B and being an S. S is work in their business, Bs work on their business, big, big difference.

Bill Gates in all of the hours that are put in the Microsoft, his personal hours working on that business pale comparison to the multitude of hours that were worked in that business while he was there. And so business owners lever other peoples' money, other peoples' education, other peoples' effort, experience, other peoples' energies and it's just the most powerful lever when you have that many other people helping you do your common goal. Of course you can only work so many hours in a week yourself but with 100 employees, you can get so much more done just by becoming a leader. And I think Henry Ford was a great model of that. He always used to say, look, I really don't know anything but I've been able to organize the people that do to create some pretty cool things here so business is a great lever.

Another thing about business is taxes, the tax advantages. Look, any country you go to in the world needs business, if you don't believe that, go to Greece, if everything is government, where you get your taxes from? You need jobs, businesses provide opportunities for people to showcase their talent, showcase their energy, showcase their education to give value to the world. Without a business, most people don't know how to go out and do that and they need a job. And so the job allows them to showcase their education and their experience and their energy and their expertise, all those Es are there. And so as a result, the tax codes are going to be much more friendly to the businesses and much less friendly to the people who have jobs because having a job has its risk but having a business seems to be more risky in peoples' minds and so if that's the perception, we've got to entice people to start businesses by giving them tax breaks. Nothing kills cash flow faster than taxes and so by using business, books, mentors are more valuable than books, I'd rather have Tom Wilright as a mentor than read his book but if you're just getting started and you wanna go from ignorance to awareness, at least you won't get to proficiency but pick up his book Tax Free Wealth and you'll see very, very quickly how a business can help curve or even, in some cases, eliminate the wealth sucker, the wealth destroyer that is taxes, these taxes.



So business is a great place, you've got great leverage with other peoples' everything, you've got great tax advantages with business and you know what? It's just flat out fun. I failed in, my wife shakes her head because I said, hey, let's start another business and it's fun because I've had businesses fail, I've had some succeed not to the degree of a Bill Gates or a Steve Jobs or Richard Brandson or even a Mark Cuban but you don't need to do that to get out of the rat race, you can have a nice little business that gives you an income grazing your expenses and that's awesome. Then you can focus on the more important things, that's a little bit on business.

If you like people, if you like leadership, if you like organizing and leading people then business is a great place and if you want to learn those skills which is me, business is great place. And I'm still learning those skills, learning from mistakes but I'll tell you, it's not for the faint of heart and there are blood, sweat, tears building that BI triangle, so there is business. I'd encourage everyone to start one, we live in a world where capitalism thrives and why not participate in capitalism by business if that's what the world allows you to do?

Okay, real estate, much, much, much less difficult than business but yet certainly lot more difficult than paper. And so what is real estate do? Well, here's some things to think about. We had a wedding we attended, it was Tom Wilright's wedding over in Hawaii a couple of, when was this, last year, a few months ago? And we brought our kids over there and it was so beautiful place, beautiful wedding but it just so happened that the big island Hawaii, the volcano was erupting and once in a lifetime experience, people flying there from all over the world just to see it coz it hadn't been that active in many, many, many years like decades since it was active. And we got in helicopter and flew around and we went up to the national park and looked over the view point at night, it was spectacular because we were seeing real estate created. And that's the point, real estate, it's space and there's only so much space in this world and the people are multiplying at a much, much, much, much faster rate than the spaces being created. And so to be able to stake your claim and to be able to control an amount of that space during your time here on earth, boy, that's lucrative because people need space, food, clothing and shelter and so it's a huge deal. Real estate is gonna be in demand, people need space to do things, they need real estate. So that's one nice thing about real estate.

The second thing is real estate allows us to leverage each other peoples' money easier, it's easier to raise capital to get in, buy the book of the real estate than to start a business. If you go in to a bank and you wanna buy some real estate, they'll finance the bulk of it because there's collateral that's valuable, it has inherent value so they'll finance the bulk of it very easily. With a business, boy, tougher to get them to finance the bulk of that, probably have to go to other angel investors most likely, other types of venture capitalist with your idea because really how business starts out is an idea, there's nothing concrete to it, business is ideas. Real estate



doesn't start as an idea, it starts as a piece of ground, a space that we need to use in the world so it's much easier to lever than it is in business as far as other peoples' money is concerned. And boy, it's about debt, it's the value to do that and of course I mentioned taxes why real estate is a business and so there's gonna be some incredible tax advantages right there.

Another thing that's nice about real estate is it's negotiable. In the stock market, you're gonna pay the price based on supply and demand of millions of investors around the world and institutions and all these different people represented in supply and demand. You don't gonna go to the New York Stock Exchange, negotiate very much between the bid and the ask price, maybe a couple of pennies in a high liquid stock. But I'll tell you, real estate offers opportunities where value is in the eye of the beholder, I say that again, value is in the eye of the beholder, it's much different than stock, much different even in business and pricing in business, you can negotiate.

I'll give you an example, beauty is in the eye of the beholder, value is in the eye of the beholder. Let's say a person is in a nasty divorce and that's kind of, is that an oxymoron, nasty divorce, they're all nasty, right? They weren't be getting divorce but let's say these people just absolutely hate each other, now, that's gone from love to hate and here they have this asset, this home and the thing this couple struggling with is time being attached together, it's unbelievably painful for them to remain attached together, it's miserable, it's painful, it's like having your teeth drilled out in a dentist chair having to be together. Well to get top dollar for a piece of real estate, it takes time, the higher the price generally, the longer it'll take to find another person that sees that as valuable as you do. Let me say that again, the higher price you want, the longer it will likely take to find another person that sees the same value as you do, it takes a long time. So if you want to sell something quickly and you think time is more valuable than money, again, if time becomes more valuable than money, you'll sacrifice money for time. So this divorce, this couple that is getting divorce that hates each other, maybe their home is worth 250 and they're gonna split that down the middle and they'll take their 125 apiece and you say, well put it on the market for 3 months and maybe I'm gonna get 125,000 dollars and I think it'd be worth taking 115,000 dollars if I could just get rid of her today and she's thinking, now, I'll take 115,000 dollars if I could just get rid of him today. So we're willing to drop that price by 20 grand, almost 10% just to get away from each other, just to get this thing sold, solved, divvied up, you take yours, I'll take mine, never wanna see you again. And those are opportunities that don't happen in a stock market coz it's liquid, you click it, you're gonna get top dollar or whatever the market says. And so there's instances in real estate.

Another great example, probate or in a death. Let's say there's 6 siblings like in my family, 6 siblings and let's say the father passes away and let's say his home is worth 200,000 dollars, let's make it easy, 180,000 dollars. And so divided 6 ways, well, how does that work? 18 divided



by 6, what is that? 30,000 dollars apiece? It's just not that much money. So if I could sell it today to get 25,000 dollars and just get it done instead of 30 then I don't have to deal with this anymore and we can get this state settled and get it divvied up. And so if I'm willing to take a 5,000 dollar or 2,000 – 3,000 dollar reduction times it by 6, I can be big amount of money that we're willing to discount that property as a family just to get rid of it because each of us individually, it's just a matter of a few thousand dollars, it's not that big of a loss. So real estate allows for negotiation, big time, it allows for people to have beauty in the eye of the beholder and value in the eye of the beholder.

Bad memories, I had a friend of mine who moved in to our neighborhood and I said why'd you move? He says, well, my girlfriend died young tragically, she had a heart attack in our kitchen and I came home one day and there she was in the kitchen, I don't wanna be in that kitchen anymore, that's not a good memory for me, I wanna sell this house and I don't wanna be there anymore. So there's different ways to negotiate with real estate and you're not a village raper when you do this, someone needs to sell because they're going in a foreclosure, you're helping people with time in a better situation. So real estate can be very, very, very, very, very, very attractive because it's negotiable, it's levered, it's got great tax advantages, it's a necessity of life, it's a great, great deal there, it's really, really fun to provide housing for people.

Okay, let's talk about a few of the advantages, and we could talk about disadvantages of real estate too because disadvantage of real estate is not liquid so if you decide you want to sell it quickly, you have to decide if you want money or time, right? And if you want top dollar or need top dollar, that can be a struggle, you might have to wait a long time to be able to sell your property. If property value has dropped and you're locked in in a mortgage and if you get upside down in real estate, it's tough to liquidate, it's tough to sell without taking big, big losses so it's not always liquid. It's very important to cash flow it because you have to be able to hang on to that stuff at times and if it's not cash flowing, boy, that real estate can eat you alive so education is the key.

Let's talk about commodities. Commodities are ones I'm interested in, I don't own a lot of commodities, you only got some silver exposure, I've got some gold and oil that I have in the safe and I'm very much interested in oil, I usually mess around with oil via paper assets but I have a really good friend of mine and the license plate on his Ferrari says fracked because he's in the oil business. Really great guy, he and I have done a lot of investing together, was very fortunate to get to know him, his name is Bret and they bring in all kinds of money from oil and he doesn't trade, he trades oil too on the market like I do but his main source of income from oil is from some oil leases that he inherited from his father. His father went out and got all these oil leases bought as mineral rights on all these property and when fracking technology emerged, it turned in to goldmines on each property so now the oil companies pay him a



percentage off every barrel they suck out of there and so that's why he has fracked on the license plate of his Ferrari now because he's a commodities guy and he's an oils guy. I don't know how long those wells can last, they can last 10 years, they can last 20 years, I'm sure there's oil wells that have lasted longer but his children have a legacy they'll inherit from their grandfather from commodities and oil and what a great way to set yourself up with cash flow, I mean, you get the right type of investment in oil, it just pumps it out of the ground and check comes in to the mail so that's a lot of fun to know about commodities.

Commodities are controlling primary wealth. When tertiary wealth goes to pot, we're still gonna need to eat and if you control the fish in the ocean and corn in the field, you're in a pretty darn good spot coz people need to eat. Look, it's food first then it's clothing then it's shelter. So people wanna drive in their cars and type on their iPads and they need commodities to do this. That's something I wanna learn more about, of course an oil can create tax advantages. Commodities tend to hold value especially when times get tough. You look at oil and oil has had its ups and downs, it's had huge highs and then drops in the '08 times and then huge runs again then drops in the year 2014ish – 2015ish but I'll tell you, I don't mind owning oil because it's not ever gonna be free and I don't mind owning silver and gold because it's never gonna be free. A company can go bankrupt, no question, a real estate can get upside down and go bad but if you have a piece of gold in your pocket, that historically, it's hard to get that stuff out of the ground. If you have some oil, some gasoline in your gas tank, hey, that stuff is hard to get out of the ground and it's stuff people want. So commodities can be a great hedge against inflation, if the currency is falling and people don't want money, they still want food and gold and gas and those types of things so great advantage to commodities.

Let's talk a little bit about paper assets, that's the one I'm most known for when people tune in and listen to me. I love paper assets is the first investment for people not because it might be the best for them but because it'd be the best education for them. There are similarities and rules you learn as an investor, for example, a concept is risk is related to control, well that's true in business, commodities, real estate or paper. Where's the easiest place to learn about risk in relate of control? Paper by far. There's so many different business concepts, exit strategies, trends, fundamental analysis, all of these basic building blocks for investing, they occur in real estate, ???[0:28:15] trends, business ???[0:28:17] trends, commodities ???[0:28:18] trends but the stock market is the easiest place to learn trends.

And the answer is because it's also scalable. You wanna get in the oil business, you're not gonna be able to do that for 50 bucks but you know what? You can participate in the same business Warren Buffet is called Coca Cola for a few dollars, you can take the money, a portion of cash that you get from your paycheck, a portion of that currency and you can scale it down



and invest in stocks of all kind and prices. There's always a stock investment and equity position you can take with almost any amount of money so these skills can be learned.

So from an educational standpoint of learning investing, hop in to paper and do it virtually for free in a paper account, the scalability and the ability of the small guy that doesn't need to be capitalized to learn investing and actually invest and learn by doing, I think the paper assets are the easiest place to do it. You go out and buy 10 shares and then it's like my sons, where do you think I've taught my sons? We do a lemonade stand for business but even easier than that, we have their stock investments, they can, my son can go out and buy Disney for 100 bucks and we can go out and we can buy McDonalds stock for 100 bucks so for 1,000 dollars, my sons can have 10 shares of their stock, they can go out, they can earn their money in their lemonade stand, put it in stock and learn investing at age 7 and 9.

So it's scalable down to where you can participate without massive amounts of money. Like I said, it might not be the best asset class where you do ultimately but if you want to learn investing, I'd rather learn with a few shares of stock than I would million dollar apartment building with a few units in it, maybe a million dollar fourplex or million dollar sixplex, you're getting six units while you can get 6 units for 6 shares of stock for lot less than a million dollars, I can tell you that right now. To get even a mobile home, maybe it's 5,000 – 10,000 dollars, why don't you buy stocks for 100 bucks and you could learn how to manage the risk of that asset, you can learn how to look at the trend of that asset, you can learn how to exit. And exit with stock is also much easier, it's much easier to exit and get something out of a stock than it is real estate, it's just not liquid and stocks are liquid so there's liquidity. Now, the down side of that is it's volatile, when you can get out of something, you're gonna have flash, crashes and kinds of problems but it's just a great education, it's a great place to start.

Another thing stock also has its leverage, there's something called the margin account where you use other peoples' money similar to debt but the real leverage comes with the options market where we have agreements of things we might do but we don't have to do. And other word for option is choice and when we purchase choices, that gives us huge leverage because we're setting up to do something maybe if we want to but we don't have to and that puts a person in a position of leverage, very, very, very, very powerful to buy choices rather than to actually buy the equity and take an equity position so it's scalable.

Another thing about paper that you could consider is by far, of all the asset classes, by far, in my opinion anyway, I think it's more an opinion, I think it's a truth is that it is easier to capitalize on downward movements, catastrophes, crashes, it is easier to make money and boy, you look at George Soros and he made a billion dollars on the yen in 2013 because the yen crashed and tougher I think to make money in real estate when the value goes down. When the



value is down, you can get upside down pretty quick, hard to liquidate but to make money can be done but to make money in the downside of things, in a recession, in a depression, when the GDP drops, when people stops spending money, when demand falls and rents go down and prices go down. If prices of oil go down, my buddy Bret makes less money. If prices of rents go down, Kenny and Robert might make less money. If the prices of computers go down, Bill Gates and, well, he's with Milly and the foundation now but Microsoft will make less money. So when prices fall, that generally translates into making less money. Not in the stock market man, when prices fall, oh my word, you can position yourself easier there to make money on the downside than any other asset class I know.

So in stocks, we have leverage via options without debt, we have scalability, it's extremely, extremely agile, you can make money when it goes down and it's liquid, you can get out of it very, very quickly. You know what? If a house starts on fire, you pound a for sale sign in the front yard say fire sale, no one's gonna buy it, it's on fire. When the stock gets on fire, you click a button and boom, it's liquid, you can get rid of that thing before it burns down and there's still something to sell.

So that's a little bit on the asset classes, great discussion on business, real estate, stocks or paper and commodities. Now of course, this is not a comprehensive discussion, there's more to business that we'll delve in to in future episodes, there's more to real estate, we're gonna delve in to it in the future episodes, we're gonna delve in to commodities and I'm gonna bring in some commodities guys that we're gonna interview and have them teach us more about it. And of course stock, there's so much more detail to go in to. But as you think about increasing cash flow in your life right whether you're driving in your car or sitting listening to your headphones or on your computer, however you're listening, think about the assets that you have right now, think about where your personal strengths might be, think about what you like to do or you want to do, what do you have passion for and begin to pursue an education and say what can I do this week to learn more about business? Is there someone I can have lunch with, is there a mentor I can seek out? Is there a prescription I can subscribe to? How can I learn more about business? Are there things I can do to learn more real estate, commodities or paper? And that's my challenge to you, find an asset class that you like to know more about and go learn something new about it because with knowledge comes cash flow.

Alright, great discussion on the 4 asset classes. Again, I congratulate you and always thank you for joining us and we hope you find value and insight in these podcasts as we talk about all things cash flow to help you buy assets, bring more cash flow to your life. Hey, get out of that rat race, there's so many more things in life that you and I can do that are bigger and more important than money and if we can solve that money problem, I'll tell you what, life can be a



real different experience. Alright, until next time, this is Andy, go out and make yourself some more cash flow, get educated.

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