WHAT WOULD THE ROCKEFELLERS DO?

Getting a House or a Car with Your Bank

Financial gurus will tell you that you should always pay cash when making big purchases like a house or a car. They tell you never to finance if you can help it in order to avoid unnecessary interest payments. In some cases, they are right. But if you use Cash Flow Insurance, we have a surprising fact for you: financing big purchases can actually make you rich.

> **Taking out loans from your Cash Flow Insurance policy can make opportunity cost work in your favor. It can create positive cash flow that can increase your wealth, all while allowing you to make those big purchases. How?**

The fact is, while financing costs you in interest payments, paying in full with cash costs you in opportunity—this is called "Opportunity Cost." Simply put, opportunity cost is what you miss out on when you choose one option over another. In other words, every decision you make in life includes an

opportunity cost—the option you did not take. And it can cost you thousands of dollars each year if you don't understand or acknowledge it.

However, taking out loans from your Cash Flow Insurance policy can make opportunity cost work in your favor. It can create positive cash flow that can increase your wealth, all while allowing you to make those big purchases. How? Through the law of uninterrupted compounding.

Compounding is the strategy of putting your money in an investment that pays interest, and then taking the interest you've earned at the end of the year and reinvesting it with your original stake, so that your interest continues to earn a return, as does your principal. As this process is repeated year after year, your earnings snowball, and your wealth grows. As you can imagine, the longer you allow your money to compound uninterrupted, the more it grows. And if you allow it to compound uninterrupted over many years—the key to successful compounding—it can produce a fortune. For example, if you have $10,000 in an investment that is growing at 10% interest, over the first forty years it will grow into $452,593—not bad, but not amazing. But then, with compounding putting the interest back into the investment, something amazing happens: by year fifty, you'll have a million dollars. By year sixty, you'll have more than three million!

Here's the catch: this amazing growth can only happen if the compounding process is uninterrupted—in other words, if you never pull any money out of the account. For example, if you made an early withdrawal of $150,000 from your account in year forty, then in year fifty you'd have $745,941 instead of one million dollars. By year sixty, you'd only have two million, instead of three—a full one million dollars less, just because of a $150,000 withdrawal. Even that small amount could cause your wealth to plummet.

The point is that interrupting the compounding process by liquidating all or even part of your funds is a big destroyer of wealth. Unfortunately, these interruptions happen all the time without you even realizing it. If you have a 401(k), a decline of 20% in the stock market would interrupt the compounding process, because your account balance would have dropped by 20%. If you have a college fund that you start putting money into when your child is born, and then you liquidate it to pay for tuition expenses, you've interrupted the compounding process after only eighteen years. Moreover, if you cash out part of your 401(k) or IRA to make a large purchase, it will interrupt your compounding as well.

When you pay cash for big purchases, the compounding process is interrupted. However, when you pay for those same purchases using your Cash Flow Insurance policy, the compounding process is not interrupted. Why? Because when you take out a loan from your Cash Flow Insurance policy, you are not actually taking money out *from* the policy; you are borrowing *against* the policy.

Thankfully, we know an account that will let you compound your money AND access your money without interrupting the compounding process—and that account is a Cash Flow Insurance policy. Here's how it works:

In a bank account, brokerage account, 401(k), etc., when you pull out money for a big expense, you either liquidate your savings account, sell your stock, or get rid of your mutual funds. This frees up your money for use in the purchase, but then the money is no longer earning

for you and no longer participating in the compounding process. As we've seen, this can greatly impact your long-term returns.

When you pay cash for big purchases, the compounding process is interrupted. However, when you pay for those same purchases using your Cash Flow Insurance policy, the compounding process is not interrupted. Why? Because when you take out a loan from your Cash Flow Insurance policy, you are not actually taking money out *from* the policy; you are borrowing *against* the policy. The insurance company with whom you hold your life insurance policy will lend you money up to the amount you've saved in your policy, knowing that even if you don't pay it back, they can just deduct it from your death benefit when you die.

Because you are borrowing against your policy and not from it, the actual cash in your policy remains untouched. No money is removed from your account. Therefore, the money in your account can continue to compound and grow, completely uninterrupted. Then, when you've paid the loan back in five or ten or however many years—with interest paid to yourself, as we've discussed—you are paying back into a cash value that is exponentially higher than when you took out the loan.

This may still sound a little "out there," so let's take a look at a specific example: buying a car. Let's compare three different ways to buy a car, and see what happens over a twenty-year span if you buy a new car every five years:

1. **Buying a car with credit**
2. **Buying a car with cash**
3. **Buying a car by borrowing against your Cash Flow Insurance policy**

To make the comparison easy, let's say in all three of these cases, you are starting with zero dollars to put toward this purchase.

Buying a car with credit is the most common purchasing strategy. Credit means borrowing someone else's money in order to get the car you want immediately. Then, you pay off that loan—in this case, let's say you pay off the loan over the next five years. When buying with credit, the opportunity cost is the interest you pay on the loan. After five years, you've paid off the loan, and it's time to buy a new car. However, when you factor in a 2.5% rate of inflation over those five years, you'll have to borrow a little more in order to buy the same quality car. This will repeat every five years over the twenty-year span.

If you wanted to buy a car with cash, the first thing you'd have to do would be save up for it. In our scenario, starting at zero, there would be no way for you to buy a car with cash today. In order to buy a $25,000 car within five years, you would need to save $413 a month. However, once that 2.5% inflation rate is calculated, in five years that $25,000 car will cost $28,285. So in order to buy that car in five years, you either need to increase your savings to $468 a month, or have your savings earn 2.5%.

When buying with cash, you face two opportunity costs. During the five years of saving, your opportunity cost is not having a car. Then, once you buy the car and your cash reserve goes back down to zero, your opportunity cost is not being able to use that money on other things—including emergencies—as well as not being able to earn any interest on that money.

Buying with credit and buying with cash have the same ultimate result: at the end of each five-year period, you end up with a car you own outright, and zero dollars in cash remaining. The difference is

just that with credit, you get your car immediately, and with cash you have to wait. But financially speaking, it doesn't make much of a difference which method you use, cash or credit.

Now, what this doesn't yet take into account is any interest earned on the saved cash. Let's say that you are saving the exact same amount of cash each month that you would be paying back, with interest, on a loan. Then, let's say you're putting that saved money into a traditional savings account or CD, which these days has about a 1% interest rate. Even with this small interest rate, you would have more at the end of every five-year period than the cost of the car. And at the end of the twenty-year span, you'd have accumulated an extra $11,938—much better than using credit and ending up at zero! The downside, of course, is that you still can't get your car right away at the beginning—you still need that initial five years to save up. However, if you are able to take that five years, you are actually much better off buying with cash than with credit.

Thankfully, there is a third option that gives you the best of both worlds: using your Cash Flow Insurance and taking out a policy loan against your cash balance. If you are starting from zero, you will still need that initial five-year period to save up. However, when you take out that loan against your policy, you leave your money in your account to continue compounding, uninterrupted. So, when you pay back your loan, you are back to your full account balance—plus all the compounding interest you have earned during those five years! Instead of ending up after twenty years with $11,938 more than when you started, you'll end up with over $20,000 more—77% better off than you were paying cash.

As if that wasn't great enough, there's also the fact that you are not paying interest to a financial institution. Imagine if you took a

five-year, $20,000 loan out from a bank at 7% interest. Your monthly payment on that loan would be $396.02, and at the end of the five years, you would have paid $3,761.44 in interest alone. Why not pay that money back to yourself, rather than to a bank?

This strategy can be used in all your large purchases, not just on cars. You can even use it to buy your dream house! Borrowing money from banks, credit card companies, or other lenders is in fact one of the most damaging things you can do to your wealth. It puts you in a hole that can be almost impossible to dig your way out of.

By taking out a loan from yourself via your Cash Flow Insurance policy, you not only get all the benefits we've already discussed—like paying interest to yourself instead of to a bank—but you are also allowing uninterrupted compounding to build your wealth even as you spend. By using Cash Flow Insurance, you can turn opportunity cost to your advantage by harnessing the power of uninterrupted compounding, while still spending money when you need it. In other words, with Cash Flow Insurance, you can accumulate wealth not just by saving, but by *spending*!