WEALTH FACTORY

THE ULTIMATE GUIDE TO

OPTIMIZING LOANS & FREEING UP MONEY WITH THE CASH FLOW INDEX

Consumer debt in the U.S. is nearly as high as it's ever been. In fact, it's just shy of $13 trillion and almost equal to the dangerous 2008 levels.

New bubbles have also formed. Student loan debt has ballooned to $1.3 trillion.

Auto loan debt surpassed the $1 trillion dollar mark for the first time in 2016, and the latest figures show American auto loan debt has grown to $1.35T.

In short, Americans are swimming in debt. The average American household has $16,061 in credit card debt and an average of $132,539 in total debt.

The truth is, almost everyone acquires some debt in their lifetime.

And how you go about paying off your debt can have a profound effect on your financial safety, security and wealth creation potential.

Many people feel the key is to simply stick to a budget, which means cutting things out of your life. However, we know that budgeting sucks, which is why most people struggle with it.

Focusing on cash flow works better because it tackles the root of the problem first. Then it systematically eliminates debt while still allowing you to enjoy your money along the way.

So the methods we show you in this guide will not only help you eliminate debt quickly and safely, they will also help you increase your cash flow and live wealthier now.

Build the life you love,
The Builders at Wealth Factory

5 STEPS TO SAFELY & QUICKLY "CASH FLOW" YOUR WAY OUT OF DEBT

Step 1 — Build Liquidity First

Before you ever start trying to pay down your debt (your obligation to someone else), you should first have at least three months of income (and ideally six months) in a liquid savings account. You want to protect yourself first.

This is like the instructions you hear on an airplane: Always secure your own oxygen mask before assisting others.

Because if you have no cash reserves, what happens when you pay down your loans but then experience an unexpected cash flow crunch? You simply increase your loan balances again or even worse, miss payments or go into default.

So before you even get started with paying down debt, step one is to build your cash reserves.

This seems counterintuitive, but it is a critical first step. It puts you in a much safer and more sustainable position.

Step 2 — Use Cash Flow Recovery Techniques to Increase Your Cash Flow

We have dozens of cash recovery techniques we teach our clients, but one super easy and quick method is to raise your insurance deductibles.

You don’t want to do this until you have your 3 months cash reserves in place. But once you have your cash reserves, raising your deductibles will decrease your monthly premiums. This increases your monthly cash flow which can then be used to strategically pay down debt using the methods in the following steps.

The overriding principle here is that when you approach debt elimination the right way it affects almost every other aspect of your finances. This is a more comprehensive approach that takes every factor into consideration, rather than simply looking at your debt in a vacuum.

Taking the time to put these steps in place first will assure a smooth, safe, and highly effective debt elimination process to follow.

Step 3 — Blast Through Your Loan Repayments Using A Formula Invented By a Former Rocket Scientist

You may not know this, but we have a former Rocket Scientist on The Accredited Network team.

He’s now a Cash Flow Optimization specialist, and he’s applied his engineering skills to come up with some incredibly efficient ways to recover lost monthly cash flow.

Using his techniques makes you a little richer every month without working harder.

One of those is a very cool formula anyone can use called a Cash Flow Index (CFI).

It helps you **pay off your loans 2-3 times faster** than if you don't have a plan.

This **saves you interest and gives you more money to invest**, to put towards your business, or to just live a little wealthier.

To calculate the CFI, you simply plug a couple numbers from your loan statements into the formula (it has nothing to do with the interest-rate)...

And out pops a roadmap that tells you which loans to pay off first ... and the exact order to pay them off in the most efficient manner.

We'll go into more detailed examples of how this works in next week's newsletter, including giving you the exact formula.

Step 4 – Use the Investment Cash Flow Index to Turn Dead Assets into New Cash Flow

If you've followed the first three steps, you now have liquid cash reserves, extra cash flow, and a roadmap for which debts to pay off first.

Now it's time to see if you can accelerate things.

To do this, we turn to another simple formula called the Investment Cash Flow Index.

We will be going over detailed examples of how this works later in this guide.

For now, just understand that the Investment Cash Flow Index tells you which investments are doing great, and which ones you should consider cashing in.

And it does this in an objective, non-emotional way. You just look at the score and rank your investments.

Cashing out inefficient investments and using the proceeds to pay off or pay down inefficient loans is one of the quickest ways to dramatically increase your monthly cash flow.

Then, by tapping into your Investor DNA, you can use that extra money to buy new cash flow investments.

These kinds of efficiencies have a multiplying effect on your wealth over time.

Step 5 — Restructure Your Debt through Loan Consolidation

The final step is to look for ways to restructure your debt. The goal is to **minimize your interest payments and maximize your cash flow.**

Then you can attack your remaining debt strategically, using your increased cash flow to eliminate one loan at a time.

For example, if you own a home, you can look into a streamline refinance on your existing mortgage.

Assuming you have enough home equity and a good credit rating, roll as much of your non-deductible loans (credit cards, auto loans, etc.) into your refinance it as possible. This not only lowers your monthly payments, the tax deduction will also increase your cash flow.

> ***CAUTION:*** *Do NOT attempt this if you're undisciplined and your spending is out of control. If you're just going to charge your credit cards back up again, you'll just sink deeper into debt.*

HOW TO USE THE CASH FLOW INDEX TO QUICKLY & SAFELY ELIMINATE YOUR DEBT

The Cash Flow Index (CFI) is a scoring system to help you identify the efficiency of each of your loans. It allows you to pay off the most inefficient loans first. It then prioritizes the repayment order of all remaining loans to maximize your results.

Why Should I Care?

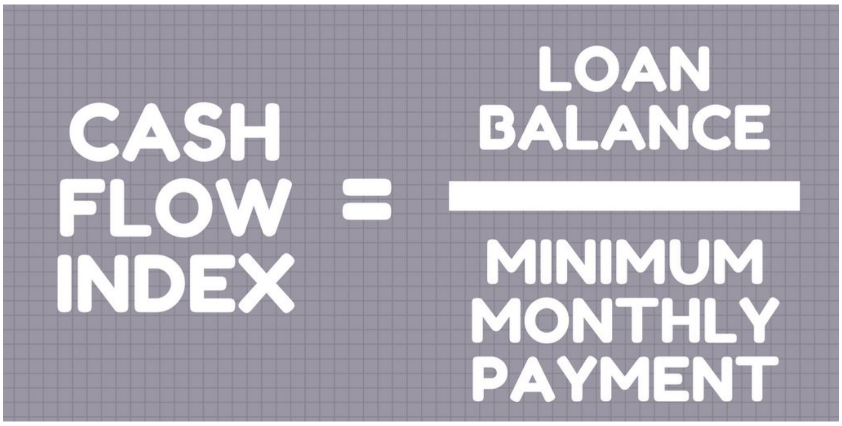
How you go about paying off your debt can have a profound effect on your financial safety, security and wealth creation potential. We've discovered over the years that a cash flow focus always wins.

That's why the Cash Flow Index works so well. It tackles your payables from a cash flow perspective first. Then it systematically eliminates debt while still allowing you to enjoy your money along the way.

So the Cash Flow Index we show you today will not only help you eliminate debt quickly and safely, it also helps you increase your cash flow and live wealthier now.

How Does It Work?

To determine the Cash Flow Index of your loans, take all your various loan balances and divide each of them by their respective minimum monthly payments:



A high number (over 100) means the loan is efficient. A low number (under 50) means it is inefficient.

So whichever loan has the lowest CFI number is the one you should pay off first.

It doesn't matter what the interest rate is on the loan. The most important thing is how efficient it is, which is what the Cash Flow Index measures.

It may seem counterintuitive at first.

But results are the only thing that matter.

Here Is An Example

Let's say you have the following loans:

Home Loan Balance: $228,000
Interest Rate: 7%
Monthly Payment: $1,665
Cash Flow Index: 137 ($228,000 ÷ $1,665)

Auto Loan Balance: $16,500
Interest Rate: 8%
Monthly Payment: $450
Cash Flow Index: 37 ($16,500 ÷ $450)

Credit Card Balance: $13,000
Interest Rate: 12%
Monthly Payment: $260
Cash Flow Index: 50 ($13,000 ÷ $260)

Student Loan: $107,000
Interest Rate: 3.9%
Monthly Payment: $650
Cash Flow Index: 165 ($107,000 ÷ $650)

Investment property loan balance: $50,000
Interest Rate: 5.5%
Monthly Payment: $2,000
Cash Flow Index: 25 ($50,000 ÷ $2000)

It may seem to make sense to pay off the credit card first because it has the highest interest rate.

In fact, most financial advisors and pundits will always tell you to focus on the highest interest rates first.

We've discovered through years of testing that ignoring the interest rate and using the Cash Flow Index gives you superior results.

By knocking off the inefficient loans first, you free up a ton of cash flow to work on other debts. This has the intended "snowball" effect of eliminating them in order, in the most efficient way.

In the case listed above, paying off the investment property loan (CFI of 25) first frees up $2000 per month.

So if you have extra cash to put towards debt retirement, put it all toward that loan first.

Next up would be retiring the auto loan (CFI of 37) which then frees up $450 per month. That amount can then be applied toward the credit card balance (the third lowest CFI).

Paying off the investment property loan and auto loan first means you can pay off both faster than if you started with the credit card, or try to pay them off equally.

What About Loans With a CFI above 50?

Once you've retired all your inefficient loans (those with a Cash Flow Index under 50), it's time to look at the rest of your debt.

Any loan with a CFI between 51-100 is a good candidate for restructuring.

For example, you may be able to renegotiate a lower interest rate, lengthen the amortization schedule, or consolidate the balance into a more efficient loan.

We help clients do this in our 1-on-1 services. In fact, we helped one business owner lower his minimum monthly loan payments from $17,000/month to $5,000 per month. Needless to say, freeing up an extra $12k per month was a huge bonus for his business.

Any loans you have with a CFI score over 100 are cash flow efficient. There's really no need to be paying more than the minimum on them.

In fact, trying to pay down efficient loans (like making double payments on a home mortgage with a high CFI) instead of saving or investing that money could negatively impact your cash flow.

More on that next.

The best part is that once you have all your inefficient loans retired or restructured, you can start making extra investments with the freed up cash flow.

And in the next section, we'll show you exactly how to do that with the Investment Cash Flow Index.

HOW TO TURN DEAD ASSETS INTO NEW CASH FLOW WITH THE INVESTMENT CASH FLOW INDEX

By following the steps outlined in the previous sections you will have liquid cash reserves, extra cash flow, and a roadmap for which debts to pay off first.

Now it's time to see if you can accelerate things.

To do this, we turn to another simple formula called the Investment Cash Flow Index.

We'll see how it can potentially turn dead, unproductive investments into new cash flow to power your business or your life.

The Story

According to the Economic Policy Institute, the average American household has $95,776 in investments.

And accumulation-based financial planners have drilled into the American psyche that you should NEVER ever touch that money.

"You're in it for the long haul" they preach.

As a result, many people have tens of thousands, even hundreds of thousands of dollars locked up in "dead assets" that could actually be helping them create real, sustainable, and predictable cash flow instead.

And as you know by now, sustainable cash flow is the key to reaching economic independence as quickly as possible.

Why Should I Care?

As we showed you last time, we've discovered over the years that a cash flow focus always wins over an accumulation-based financial philosophy.

What accumulation-based financial planners often don't tell you is that as long as your money is invested in their company's funds, they continue to get paid on Assets Under Management (AUM).

But when we rise above the smog of "accumulation" bias, we see a much clearer cash flow picture.

And the fact is, sometimes it is financially smart to cash out an inefficient investment and use it to pay off an inefficient loan. The net gain to you is more cash flow.

Is it something you should always do? No, not necessarily. That's why it's important to have a financial team who can look at ALL of the potential side-effects of your financial decisions.

However, the first step in gaining clarity is to see which investments are efficient and which ones are duds. That at least gives you a great head start to making great financial decisions.

In this section, we'll take a look at a simple scoring system called the Investment Cash Flow Index. It objectively shows you which investments are cash-flow inefficient.

We'll look at the formula itself, and then walk through a few examples to see exactly how this can help you increase your wealth much more quickly.

How Does It Work?

To determine the Investment Cash Flow Index of your individual investments, run your entire portfolio through this simple formula:

$$\text{INVESTMENT CASH FLOW INDEX} = \frac{\text{INVESTMENT AMOUNT}}{\text{MONTHLY CASH FLOW FROM INVESTMENT}}$$

Unlike in the Cash Flow Index that we looked at last, the closer to zero your Investment Cash Flow Index is, the better off you are.

So in this case, a low number is good.

A high number means the investment is highly inefficient as far as cash flow is concerned. Remember, we focus on cash flow because it's predictable and measurable.

If an investment doesn't create cash flow, it is speculation. That doesn't mean it's bad, necessarily. But it's definitely not something you can be certain about.

The Wealth Factory way embraces the economic value of certainty, and that's what cash flow investments provide.

It's what the ultra-wealthy use to win the money game, so it's what we like to use too. Plus it adds safety and reduces risk.

Some Common Examples

So let's take a look at some typical example investments and calculate the Investment Cash Flow Index for each:

Mutual Fund:

Invested: $100,000
Asset Value: $105,000
Monthly Cash Flow: $0
Investment Cash Flow Index: **∞** INFINITY ($100,000 ÷ $0)

> ***Important note:*** *An "investment" that doesn't produce any cash flow has an Investment Cash Flow Index of infinity, which means it's speculation. Even if you have an unrealized capital gain, that does nothing for your cash flow.*
>
> *Now you may have reasons to hang on to speculative investments and we don't have time to go into the pros and cons of that here. But our general rule is that if an investment doesn't cash flow, it is a dead asset and should be open to consideration for cashing it out. Then that money can be redeployed in a more efficient, predictable way.*

Dividend Stock:
Invested: $35,000 (1000 shares paying $0.24 per share quarterly)
Asset Value: $34,000
Monthly Cash Flow: $80
Investment Cash Flow Index: 437.5 ($35,000 ÷ $80)

Rental Property:
Invested: $50,000 (down payment, financed the remainder)
Asset Value: $200,000
Monthly Cash Flow: $1000
Investment Cash Flow Index: 50 ($50,000 ÷ $1000)

Small Business (or practice):
Invested: $1,000,000
Asset Value: $1,250,000
Monthly Cash Flow: $50,000
Investment Cash Flow Index: 20 ($1,000,000 ÷ $50,000)

As you can see, the business has the lowest number. This isn't always the case, but in many cases it is. Which is why we often suggest that investing in your own business is your best investment ever.

The rental property is also fairly efficient at 50 — so even if you are not a business owner, you can still find efficient, cash flow investments outside the stock market.

The dividend stock is not very efficient, but at least it cash flows (and to be fair, it can become much more efficient over time, especially if you reinvest dividends at first).

But the mutual fund with no cash flow is ultimately a dead asset. You are speculating that it will make some capital gains. Maybe it will. Maybe it won't. The problem is you have no certainty and no way to plan ahead.

So what can you do?

Creating Cash Flow Out of a Dead Asset

In many cases, it may make sense to cash out highly inefficient investments (with a high index) and use the proceeds to pay off or pay down inefficient loans (those with a low index).

Most people chafe at this idea. They like the "security" of seeing a big positive number in that investment account.

But a cash flow focus tells us that overall, it's an inefficient use of our money.

Let's go back to the example above.

Let's say you cash out the $100K in a mutual fund that hasn't been earning any cash flow.

Instead, you could then use it to immediately pay off inefficient loans.

Imagine you had an inefficient credit card debt that is costing you a perpetual $500 a month just to keep treading water.

By paying that off immediately with a dead asset, the $500 monthly amount you had been paying is now freed up as new cash flow.

You can use that extra cash flow to pay down the other loans more quickly. Or, if your remaining loans are already efficient, you could instead use that $500 per month to buy new cash flow investments. Or reinvest it in your business (or whatever current investment has your lowest Investment Cash Flow Index).

This is just a small example, but these kinds of efficiencies have a multiplying effect on your wealth over time.

There's a lot more we can say about this, and these are the types of scenarios our Accredited Network providers help our top clients with on a 1-on-1 basis.

> ***CAUTION:*** *Cashing out an investment to pay off a loan can be very efficient, but may have other effects on your overall financial blueprint. It's best to consult a Cash Flow specialist or your own wealth team to make sure you understand all the implications.*

Fortunately, the math is so simple that you can run these numbers yourself just to get an idea of how efficient your existing loans and investments are beforehand and then take the numbers to your financial team.