



STRENGTH INVESTING 101

A WEALTH FACTORY TOOL

STRENGTHVESTING

101

Leverage Your Instincts And Magnify Your
Results with the Investment Scorecard.

STRENGTHSVESTING'S INVESTMENT SCORECARD

We designed this worksheet to help you understand and mitigate risk by aligning your strengths with your investments.

The Strengthsvesting Investor Scorecard can be used to evaluate the risk that comes with any investment, given the financial and personal circumstances of the investor. This scorecard is based on a more complete understanding of risk, an understanding that goes far beyond the standard “High Risk/High Reward” fallacy preached by the mainstream financial media.

Risk is not tied solely to an investment's traits and characteristics. Rather, risk is what you get when you mix an investment's traits with the knowledge and understanding that the investor brings to the investment.

As such, an investment that would prove unreasonably risky for one investor might be only slightly risky, or not at all risky for another investor.

How can the same investment pose different levels of risk to different people? Quite simply, the difference in risk is equal to the difference in understanding of the investment's value proposition.

Understanding the value proposition of an investment means, in part, understanding who benefits from the transactions involved, and how this benefit is repaid.

It goes far beyond just knowing the interest rate paid on an investor's principal. Rather, it requires you to understand how a company uses your invested money to create value in the marketplace, how this value is perceived by potential buyers in the marketplace, and what they are willing to pay for this value.

Below you will find 10 Investment Scorecard questions, which you will assign a value between 0 and 5 based on how well you feel you understand the investment. These questions are used to create a final score for any investment you run through this tool.

A perfect score of 50 indicates that you have a well-established understanding of an investment's value proposition, and are able to mitigate your risk in this investment to near zero.

To use this tool, think of one investment in particular at a time.

10 INVESTMENT SCORECARD QUESTIONS

Answer each of the following questions using a scale of 0 to 5, as explained in each question.

Q: 1 To what degree is the investment in line with my personal values?

There are investments that are completely against your values, and on the other end of the spectrum, there are investments that are totally in alignment with your passionately held beliefs.

You can rate how closely aligned an investment is on a scale of 0-5, with 5 being something that is very much in line with your values and that you are passionate about.

0 = Entirely against your personal values

5 = Total alignment with your passionately held beliefs

Score: _____

Q: 2 Is the value created delivered to only a few individuals or to many?

The fewer the people, the less impact. Ideally, a good investment will have a positive impact on many people, not just a handful of individuals. The more people who benefit from the value created, the more likely there is to be a healthy return.

0 = Few people

5 = Many people

Score: _____

Q: 3 To what degree does it utilize my Human Life Value?

Ideally, an investment will utilize your Human Life Value which might be your time, your expertise, or any of your abilities.

If you have the ability to utilize your Human Life Value, that's going to lower your risk. The higher the score, the better the situation. The lower the score, the less influence you have over the outcome. This is where people get into more of a gambling philosophy around their investments.

0 = Very little Human Life Value opportunity available to you

5 = Much opportunity to offer value with your expertise, time, and/or knowledge

Score: _____

Q: 4 To what level am I able to establish arbitrage?

Arbitrage is borrowing money to invest at a higher rate than the rate you paid for the loan. For example, if you borrow money at 3% and then invest that money to earn 6%, you just created arbitrage.

Banks do this every single day.

Another way to create arbitrage is to borrow money to increase the rate at which you produce.

For example, when a company goes public, it's actually creating arbitrage. The company is essentially borrowing other people's money by selling shares of their company stock. And the buyers of the stock, in essence, are lending their money because they believe that this particular company will be productive with it.

If it were your company, then your goal would be to increase your company's production with the borrowed money. Your hope is that your ability to produce with that money is greater than what you're committing as a dividend or payout to shareholders. This is arbitrage.

For your investments, is only *your* capital involved, or are you leveraging other people's money to earn a higher return?

0 = No arbitrage, only your money

5 = Very high levels of arbitrage, you're leveraging other people's money

Score: _____

Q: 5 To what degree could I recover or recreate the lost principal in the event that the investment starts to decline?

A lot of people start to panic when investments decline, or they'll move to something else after it's a little bit too late. They have no knowledge or ability to recoup losses.

If you have expertise in a particular industry or investment and know how to invest effectively around that arena, then chances are you'll be more successful at recovering or recreating lost principle.

Many people don't think about their own abilities to recoup losses when they invest, they think more about what a great opportunity they have in front of them.

0 = Little to no chance of recovery

5 = Full recovery

Score: _____

Q: 6 How am I going to get out of the investment (exit strategy)?

This is a question that most people rarely ask when they invest. They're more worried about how to get *into* the game, than how to get out later.

But when you come into an investment opportunity, you should be looking to cover yourself on both sides.

Ask yourself: “What is my entrance?” **AND** “What is my exit?” Also, how secure is the exit strategy you have planned for the investment? Will it be difficult to withdraw or utilize?

Let’s use an example of a 401(k) plan. You may make a 7% contribution from each check and your employer matches up to 4%. Your entrance strategy would be pretty clean.

Plus, you don’t really feel the money leaving because it comes out of your check before you see it.

So just on an entrance strategy alone, if that’s the only thing we looked at, then thumbs up.

Now when asking the exit strategy questions though, will it be difficult to withdraw or utilize? In most cases, it is extremely difficult to liquidate the money in your 401(k) should you need access to it. So that’s the other half of the equation to consider.

0 = no plan for exit strategy or very difficult to withdraw and utilize

5 = you deeply understand how to withdraw and utilize investment proceeds

Score: _____

Q: 7 To what degree does the investment provide an opportunity for immediate cash flow?

Some people defer cash rewards for years and years, and may never even see a profit, as is often the case with 401(k)s. Society has been taught the accumulation theory, and people bought it hook, line and sinker--and look where it’s got them.

Cash flow is usually a better indicator of how successful an investment is. When you have cash flow come in today, you’re able to use that money to fund your Soul Purpose, rather than just letting it sit idly accumulating (or losing value) over time.

Also, it's better to have three million dollars kicking off 300,000 in cash flow than 5 million dollars kicking off 150,000 in cash flow. It's not about net worth, it's about unlocking that net worth and having that money come directly to you.

0 = no cash flow now

5 = Steady incoming cash flow now

Score: _____

Q: 8 How much control do you have over any of the characteristics generating the return from the investments?

Investment returns are only as valuable as the ability of those involved with the investment to produce them. If you don't have a clue how an investment worked in the first place, then what do you think the chances are of being able to reproduce the same results if the market changes?

If you have no impact upon the characteristics of the investment, and how those returns can be manipulated and recreated, you probably don't have a right to be playing in it, or at least you're not going to score really high on this question.

0 = Little to no control or input on investment return

5 = Maximum control over investment return

Score: _____

Q: 9 To what degree is the investment secured with liquid collateral?

Right now we see some banks that don't have very liquid collateral, and for many reasons, such as it's locked in a massive piece of land with lots of

different people involved. Plus, some collateral simply doesn't have a whole lot of value.

Liquid collateral means something you could actually sell and exchange for some form of cash. If it's backed, that's an additional layer of security.

0 = Little to no collateral backing the investment

5 = Investment fully backed with collateral that can be accessed in a timely manner

Score: _____

Q: 10 To what degree is the investment dependent upon the continuation of current market conditions?

You can take opportunities that come up within current market conditions, and do really well with them. But you have to realistically analyze what the current market trends are, and how dependent your investment return is upon this current trend.

If this trend discontinues, how will this affect my investment?

(Note: In some cases, you could be completely dependent upon current market conditions continuing, and still have a perfectly executable exit strategy. But there's still a risk because no one can predict exactly when a market will change or shift.)

0 = Totally dependent on the continuation of current market conditions

5 = Not affected by changes in market conditions

Score: _____

TOTAL SCORE: _____

TOTAL SCORE: _____

In Conclusion...

As you run your investment opportunities through these ten questions, you'll get a new score for every investment.

The closer the investment score is to 50, the better the investment matches your personal strengths and the lower your risk. It's also wise to set a minimum score an investment must reach before you're willing to invest money that should be going towards your strengths.

Used regularly, this will be a valuable benchmarking tool for every financial move you make from here on out.

Build the Life You Love,

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WHAT IS WEALTH FACTORY?

Wealth Factory helps entrepreneurs, business owners and working professionals achieve economic independence as quickly and efficiently as possible.

We do this through financial education and personalized services that leverage your existing business to help you manufacture wealth instead of waiting for it to happen.

This innovative and proprietary approach to personal finance and investing can help entrepreneurs gain economic independence in as little as 1-2 years.