LESSON FIVE

Dynamics of Financial Freedom

REALISTIC RISK TAKING

THE NATURE OF GROWTH

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Growth is the process of attempting to exceed one's limits by striving for a goal. You are observing the process of growth when you watch your toddler step into your shoes, put on your coat, and play grown-up. Growth is the goal when the young athlete raises the bar one-half inch to attempt a new personal record for high jump or pole vault. Growth is the objective when you begin developing your *Plan for Financial Independence*.

Growth always involves risk. The toddler clumping along in Daddy's shoes often suffers a fall. The young athlete who raises the bar faces the possibility — even the inevitability — of knocking it down in the process of improving performance. You experience a similar risk as you grow toward financial freedom. Not every decision, not every action produces instant profit; but all together, the actions you take, the decisions you make, and the plans you put into operation nurture your personal growth, as well as the growth of your fortune. You grow when you are willing to take risks.

Risk taking can be wild, unrestrained, and foolhardy, or it can be deliberate, controlled, and courageous. Unrestrained risk taking produces a few outstanding successes, but ultimately leads to failures even more dramatic. Controlled risk taking, on the other hand, results in occasional isolated failures, but is marked by gradual growth and more and more consistent success.

THE ROLE OF ATTITUDES

The words you heard in your early years — especially those you have internalized and accepted — to describe

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financial transactions play an important role in your attitude toward taking risks. You will find it difficult to take the risks necessary for growth if you customarily think and talk in these terms:

Gambling in the stock market;

Speculating in real estate;

Betting on a sure deal; or

Running the risk of going into business for yourself.

On the other hand, you will feel comfortable embarking on ventures necessary for financial growth if you have internalized concepts like these:

Investing for the future;

Taking advantage of owning real estate;

Profiting from opportunities; and

Benefitting from personal business ownership.

Holding on to old attitudes and old beliefs about yourself impedes growth. Willingness to accept new ideas and new attitudes, to attempt new behaviors, and to acknowledge personal responsibility for your actions leads to the personal growth needed to achieve financial freedom.

Take the time to examine your attitudes toward taking risks. Some risks that you previously considered foolhardy, too speculative, or too likely to lead to failure may now be feasible as a result of the changed conditions in your life — including your increased maturity and personal ability. Recognize the need for changing your attitudes to match new conditions and new personal competency.

THE NEED FOR SECURITY

The idea of risk taking is unpleasant because it implies the possibility of loss — the loss of possessions, of love, or of self-esteem. The possibility of suffering loss poses a threat to security. Because security is one of the basic human needs, most of us will go to great lengths to avoid any action or circumstances that threaten our established level of security.

The attitudes that you have formed and the habits of behavior you have followed over a long period of time are closely related to the need for security. Most of us actively seek to care for our financial needs for the present and make some provision for the future. These attempts follow many different patterns:

> Many older people who lost their savings through the failure of banks or the crash of the stock market resolved never to take financial risks again and have followed the practice of hiding their savings in shoe boxes in the closet or in a mattress.
>
> Others who are a little less cautious view ready money as a source of security but also want to earn returns on their money; they invest in Savings Accounts, Certificates of Deposit, or Money Market Certificates, which can easily be turned into cash.
>
> Some people are willing to invest their money only when they are personally involved in management of the assets and activities connected with the investment. Personal involvement fulfills the need for security because they possess confidence in their own competence.
>
> Still others feel confident when they invest in enterprises that have proved profitable over a long period of time. They are content with the steady, though small, income and growth from such investment opportunities.
>
> Finally, there are those who find satisfaction for their security needs in the pursuit of high profits and large returns through investing in ventures which others might consider speculative or highly risky.

Assess your personal need for security. If you have rejected investment opportunities that promise a relatively high return on investments in favor of protecting your nest egg for retirement years, now is the time to take a close look at what is happening to your retirement fund. The rate of inflation that has characterized our economy since mid-century has eroded

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the buying power of savings far faster than the growth provided by the rate of interest available in conventional savings programs. If you are seeking security for retirement, your only hope is to multiply retirement dollars now through aggressive investment strategies.

You may choose to satisfy the need for security by conservative protection of one portion of your assets to provide stability coupled with aggressive use of the remainder as high leverage tools. For example, if you own your own business, you may wish to maintain a high equity in your building or plant facilities to protect the stability of your business in the event of a temporary recession. You might wish to maintain a relatively high equity in your home as protection for your family in the event of your death or disability. You may even investigate the possibility of establishing a family trust that will insure your family's security if you are no longer able to manage your estate.

Once you have detemined your own level of need for security and provided whatever protection is necessary for your emotional comfort, give yourself permission to take controlled risks. If early conditioning has made it difficult for you to take risks, reprogram yourself with affirmations such as these:

I have good business judgment. I analyze investment opportunities and make creative decisions for taking advantage of opportunities.

I am a good decision-maker and problem-solver. I find creative solutions to any roadblock I encounter in my investment program.

I use my knowledge and skills to develop my Plan for Financial Independence. *I deserve the rewards I earn by following my* Plan.

THE PROCESS OF RISK TAKING

If you have been hesitating to risk making that first investment to move toward financial freedom, you can gain self-confidence and assurance from recognizing that risk taking is a process you can plan, predict, and control. Learn the process and use it a few times. When you approach risk taking within a controlled structure, overall success will mark your efforts. Although you experience some setbacks or reverses, your overall direction will be forward.

Study these steps in successful risk taking and incorporate them into your attitudes:

1. *Set a goal*

   A crystallized goal is the logical basis for taking a risk. When you have crystallized your thinking, clearly stated your goal, and developed a plan of action for its achievement, you have a sound basis for evaluating how much risk will be involved in achieving that goal.

   If you do not have a clearly-defined goal, risk-taking is ill-advised — even foolhardy — because you have no standard against which to measure the inherent opportunity for success or chance for failure. On the other hand, a clearly-stated goal, an understanding of your personal values and priorities, and a carefully developed plan of action provide a framework for control and remove the guess work from risk-taking.

2. *Analyze the opportunity for benefit*

   When you recognize an element of risk connected with one of your options for reaching an important goal, take the time to analyze the potential benefits. Ask yourself questions such as these:

   — If I take the risk, what return can I expect on my investment?

   — Is there a safer or more conventional option that would bring the same degree of return on investment?

   — What personal benefits will I enjoy if taking the risk leads to success?

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When you analyze the opportunity for benefit that can be yours by taking a particular risk, you have additional data that will help you determine whether you wish to commit yourself to that course of action.

3. *Assess possible losses*

Now remove your rose-colored glasses and take a look at what might possibly go wrong and what consequences you would suffer if the risk proved too great. Ask yourself questions such as these:

— What is the worst thing that could happen?

— What financial loss could I suffer if things go wrong?

— What personal effects would I feel if this project fails?

— Could I bounce back both emotionally and financially if the project fails?

— Could I gain valuable experience or knowledge even if the project is not a complete success?

Once you have identified possible losses and assessed their importance, compare them to the possible benefits already identified.

4. *Accept personal responsibility*

As you compare the possible benefits and losses that might come from taking a particular risk in your investment program, it is possible to ask yourself an important question:

Is it worth it to me?

When you know your goal and understand its priority in your own value system, you can look at the projected benefits and possible losses and decide whether you want to invest not only your money, but your time and effort in the suggested project. You have the data necessary for making a good decision about taking a risk. All that remains is to make the decision and accept responsibility for implementing your plan of action.

As your *Plan for Financial Independence* takes shape, you will begin to enjoy the exhiliaration familiar to every entrepreneur: the thrill of the chase, the excitement of confronting challenging obstacles — and winning.

Growth always involves risk. The growth process proceeds by a series of experiments, starts and stops, by a search for a path around obstacles and by tentative steps toward a higher level. Because growth involves risk, it may, indeed, bring temporary failure or setbacks; but refusing to grow involves an even greater risk. For it is impossible to maintain the *status quo*; if you are not growing, you are slipping backward.

Include in your *Plan for Financial Independence* some goals for learning to take the risks that can bring you the full achievement of your financial goals.

While you are listening to Lesson Five, continue working on **Cash Forecasting** in your *Plan for Financial Independence.* At this point in the development of your financial goals, you may be able to project your forecast for no more than a single quarter. As you gain experience and begin to operate your investment program, you will soon be able to make more accurate projections. You will quickly see the value of **Cash Forecasting** when you establish and begin to reach goals for increased earnings and for savings. Your projections will let you evaluate investment opportunities realistically as you have a clear basis for knowing what funds you will have available and what commitments you must fulfill.

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