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# Financial Fitness

## MODULE 5: Baby Step 4(Invest 15% for Retirement)

### **CLASSWORK**

- \*Check-in on Money & Life
  - \*Baby Step 4(Invest 15% for Retirement)
  - \*Making Margin~Act Your Wage
  - \*Working Your Baby Step
- Homework

### **HOMEWORK**

1. *Fill out your Budget(either Cash Flow Planning Form or software like [www.everydollar.com](http://www.everydollar.com))*
2. *Fill out Making Margin worksheet*
3. *Keep working your Wealth Step!*



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## **Baby Step 4: Invest 15% of your Gross Income for Retirement**



\*Invest in a diverse blend of mutual funds/index funds that line up with your values, preferably in tax-favored vehicles such as the Roth IRA & Roth 401K.

\*Invest in rental real estate or businesses that have cash flow.

\*Get help from an investment or real estate professional you trust; a good rule of thumb is to find someone with the heart of a teacher, not the heart of a salesman.



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## Building Wealth is Easy

Once you are out of debt, with an emergency fund, and have purchased a home, your extra money can start to grow. This does mean you have to control your lifestyle, and keep being intentional with your dollars. You will probably want to treat yourself with a little more personal spending once you are out of debt, but you should still be able to save 15% of gross(pre-tax) income each month.

For self-employed people, gross income indicates take-home pay, after business expenses but before taxes.

The average American household makes \$60,000 a year. 15% of that is \$9000, or \$750 a month. Making investing a priority in your budget, after giving, is a no-brainer way to build wealth. Your cash continues to breed cash. It's delightful! And there are so many things you can invest in according to your values.



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## Investing in the Stock Market

The stock market is a common place to invest, and where many people already have investments if they work for a company. A 401K or IRA are simply the tax status "basket" that your investments are stored in. A 401K is an investment vehicle usually sponsored by your workplace, in which you invest tax-free, and then pay taxes on the growth of your investments later. For self-employed people an IRA or Individual Retirement Account, allows you to contribute \$6000 per year(\$7000 per year if you are over 50) on your own, without company sponsorship.

Roth IRAs were introduced in 1997 by Senator William Roth, as a way to avoid paying taxes on investment growth. The Roth IRA is preferred for individual investing because you pay taxes on your contribution up front, but not on the growth. So if you contribute \$200,000 to your Roth IRA over 20 years, and it grows to \$1,000,000, you do not pay any tax on the \$800,000 in growth.



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The SEP retirement account, or Self Employed Pension, allows contributions up to \$57,000 a year, but it is not tax-free on the growth.

You can use various investment vehicles to get to your 15%. If you have a 401K through your workplace that allows you to invest 8% of your gross income, you can then invest the remaining 7% in a Roth IRA. Self-employed people can invest up to \$6-7000 in their Roth IRA and then invest the balance of their 15% in the SEP.

What do you put in your investing "basket"? People usually invest in stocks, bonds, or mutual funds. Stocks are extremely high risk with potentially high return. Bonds are extremely low risk to low returns. Mutual funds are medium risk with medium returns on average. What is a mutual fund? Mutual funds are investments that are basically, bundles of stocks that are managed to reduce risk. They can have different themes, or be sponsored by different mutual fund companies.

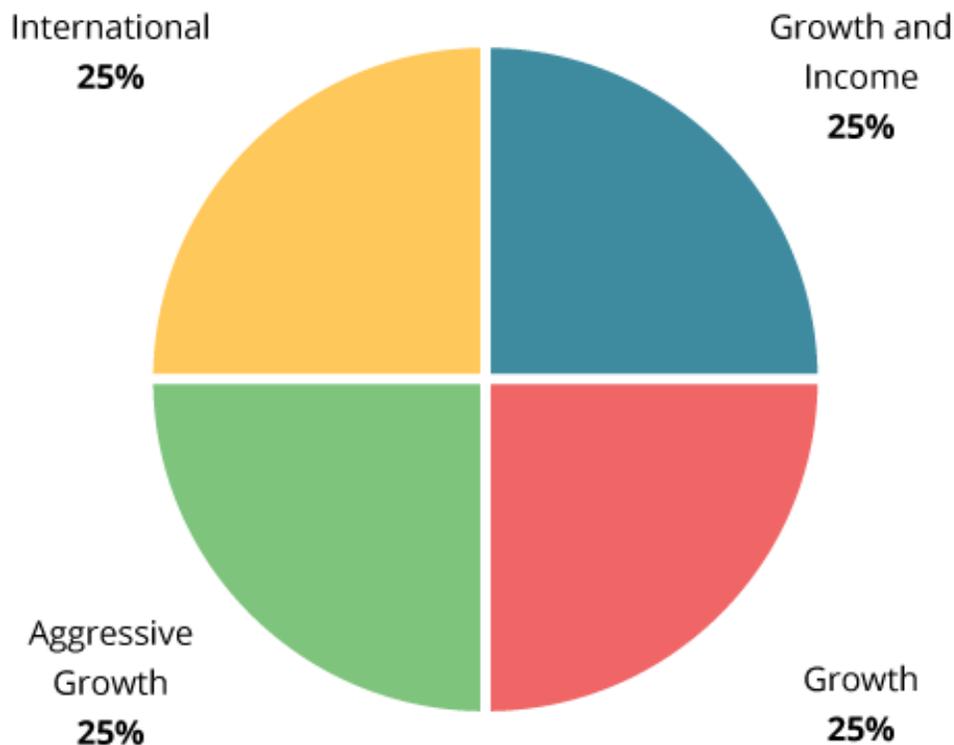


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It is recommend you “diversify” your investments by spreading them across different categories. This helps you maintain growth while reducing risk.

**Spread your investments evenly across these four mutual fund categories.**





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## **Socially Responsible Investing**

Socially responsible investing, or SRI, has had a huge boom in the last 20 years. SRI funds are examined based on social, environmental, political or religious criteria. And once experimental, now SRI funds have good 10-20 year track records, often with growth that matches the market. They are now profitable!

If you have concerns regarding the environment, gender equality, or social justice, you may want to have your investment advisor help you with SRI. A lot of people with large nest eggs unfortunately do not even know what they are invested in. They may be in funds that do not line up with their values. It is worth at least a conversation with your investment advisor to find out.



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## **Invest SOON and OFTEN!**

Invest as soon as you have finished the first 3 Baby Steps. Compound interest grows exponentially over time! People who invest even just a little in their 20s are far ahead of those you invest more, later.

For those who are middle aged or older, it's not too late to invest. But it does mean those folks need to invest more per month, and more consistently, in order to build a good nest egg.



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AGE	BEN INVESTS:		ARTHUR INVESTS:	
19	2,000	2,240	0	0
20	2,000	4,749	0	0
21	2,000	7,558	0	0
22	2,000	10,706	0	0
23	2,000	14,230	0	0
24	2,000	18,178	0	0
25	2,000	22,599	0	0
26	2,000	27,551	0	0
27	0	30,857	2,000	2,240
28	0	34,560	2,000	4,749
29	0	38,708	2,000	7,558
30	0	43,352	2,000	10,706
31	0	48,554	2,000	14,230
32	0	54,381	2,000	18,178
33	0	60,907	2,000	22,599
34	0	68,216	2,000	27,551
35	0	76,802	2,000	33,097
36	0	85,570	2,000	39,309
37	0	95,383	2,000	46,266
38	0	107,339	2,000	54,058
39	0	120,220	2,000	62,785
40	0	134,646	2,000	72,559
41	0	150,804	2,000	83,506
42	0	168,900	2,000	95,767
43	0	189,168	2,000	109,499
44	0	211,869	2,000	124,879
45	0	237,293	2,000	142,104
46	0	265,768	2,000	161,396
47	0	297,660	2,000	183,004
48	0	333,379	2,000	207,204
49	0	373,385	2,000	234,308
50	0	418,191	2,000	264,665
51	0	468,374	2,000	298,665
52	0	524,579	2,000	336,745
53	0	587,528	2,000	379,394
54	0	658,032	2,000	427,161
55	0	736,995	2,000	480,660
56	0	825,435	2,000	540,579
57	0	924,487	2,000	607,688
58	0	1,035,425	2,000	682,851
59	0	1,159,676	2,000	767,033
60	0	1,298,837	2,000	861,317
61	0	1,454,698	2,000	966,915
62	0	1,629,261	2,000	1,085,185
63	0	1,824,773	2,000	1,217,647
64	0	2,043,746	2,000	1,366,005
65	0	<b>\$2,288,996</b>	2,000	<b>\$1,532,166</b>



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## **Investing in Real Estate**

Many people like to grow their nest egg through rental real estate, either residential or commercial. Real estate investing is a viable strategy, since homes to live in are always in demand. It is recommended you pay off your primary mortgage first before purchasing rental real estate. It reduces your risk considerably if the real estate market declines. Several people I know had multiple properties and had to sell their primary residence in 2008 due to having too much real estate debt.

Once your mortgage is paid off, by all means, buy extra properties! Use the same rule as with Baby Step 3b: 20% down on a 15 year fixed rate, with a mortgage that is no more than 25% of your takehome pay. Once you purchase your rental, your renter will help pay off your mortgage for you, which ups your net worth. Your rental income should be about double the mortgage payment in order to cover vacancies, repairs, insurance, and taxes.



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## **Investing in Businesses**

Another option is to invest in a business that cash flows. Sometimes this is a business that is managed and operated by someone else, but that creates profit for the owner, YOU. Look for businesses with good profit/loss statements that do not require you to do the day-to-day operations. Otherwise, you have bought a “job”, not an investment. If the business is something you love and want to run, make sure it is profitable too.

Many businesses people invest in are not necessarily sexy or glamorous. Look at the numbers! Do they cash flow beyond expenses and payroll with a good profit margin? Business owners who build million dollar net worths can be in financial services, healthcare practices, business management etc. but they can also own drycleaning companies and auctioneer services.



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Kathy ~ is a Conscious Money & Business Coach, Founder of Conscious Living Fair and the Creator of the Wealthy Woman Signature Program, as well as Wealthy-Preneurs Changing the World facebook group~ where you build wealth to help you fulfill your mission & purpose.

For 20 years Kathy has built several successful healing businesses which helped her to fund a middle-class lifestyle, support spiritual teachers & charities, purchase a home and create investments. As she has prospered, Kathy also has coached other entrepreneurs to build their businesses and increase their net worth.

On average Kathy's students and clients pay off debt/save \$5-15,000 every 3 months. Kathy's mission is to help 10,000 coaches & healers become wealthy so that we can all make the world a better place! She gives heart-centered entrepreneurs a practical plan so that they can have total business "Zen" around manifesting money and building wealth.

[www.kalicoaching.org](http://www.kalicoaching.org)

