



Private Capital Reserve Strategy

Many firms have large capital equipment needs

This white paper introduces a powerful non traditional option

Acquiring equipment usually means financing, leasing, or purchasing

Many of us have large capital expenditures.

SO HOW DO THE MOST SUCCESSFUL CEOS MEET THOSE NEEDS AND KEEP WINNING FINANCIALLY?

First of all, from a capital standpoint, understand that **you finance everything you purchase.**

This is a very simple, yet very important concept that most fail to grasp. So, I repeat: You finance everything you purchase.

Here is how. You either forego interest and returns when using your own money or you pay someone else interest to use their money. In doing so, you lose what that foregone interest or return could have earned; we can call this your “opportunity cost.”

When repeated, this behavior becomes very expensive. Whenever you borrow money and there is a fixed payment schedule, you pay something called amortizing interest.

Each payment includes a little more principal and a little less interest. This continues until the payments of principal, plus the interest, equal the term of the loan.

Thinking of leasing equipment? Please do not be fooled into thinking that leasing equipment is less expensive. It is not. It is much more expensive than common bank financing, no matter what the lease “factor” is.

When quantifying the imputed interest rate, most capital leases are in the 9-15% range. Leasing may be good for your cash flow; however, it is not less expensive.

Compounding the issue of utilizing inefficient or expensive resources, too many people mask financial mistakes with high cash flow.

Think about it, have you ever made a financial decision where the results were unexpected or disappointing? You are a smart, sophisticated and savvy business professional.

Why does this happen? **Could it be that decisions were based on misinformation, missing data, myths, or misconceptions?**

There is a better way. Let’s explore this further by returning to the

It begins with building your “collateral capacity”

We will call this account your Private Capital Reserve (PCR)

amortizing discussion.

REMEMBER THIS: COMPOUNDING INTEREST ALWAYS OUTFRONS AND OUTPERFORMS AMORTIZING INTEREST. It works best over time and works great when it is uninterrupted, untaxed, and undelayed.

You may say you knew this already, yet are you practicing this in your business decisions? Is there evidence of this knowledge in your behavior when funding your capital equipment needs?

Most are making that capital purchase through leasing or paying for it out of your own pocket. There is an alternative, one that is used by the smartest investors and consequentially, some of the most successful CEOs.

IT BEGINS WITH BUILDING YOUR “COLLATERAL CAPACITY.” Do not be alarmed if you are not familiar with this term, because if it were common, you would already be doing it – and so would your competition.

Building your collateral capacity usually takes place in an asset protected account.

We will call this account your Private Capital Reserve (PCR).

IMPORTANT NOTE: PCR IS A STRATEGY, NOT A PRODUCT. Also, it is a savings strategy, not an investment.

This strategy creates conditions necessary for your account to grow and to compound without delay and without xxxxxxxxxxxx tax. With this strategy, you are using dollars for which you have already paid tax.

You can access this account for any reason, at any time, without penalty, and with no tax.

While the account continues to grow and to compound, and while you retain liquidity, use, and control of the money.

There are limitations.

CONSIDERING THE LOW RISK OF THIS STRATEGY, YOUR POTENTIAL FOR GROWTH WILL BE LOWER THAN THE MARKETS. You also will not take on the risks associated with the markets.

In fact, your money is always there and your principal is always protected. As long as you follow a few simple rules, you can never lose your money.

While you neither take on the market risk nor access the comparable potential for growth, you still will get competitive rates of return.

You can access this account for any reason, at any time, without penalty, and with no tax

You build your personal wealth and security by using the safe and tax-advantaged Private Capital Reserve Strategy

Your PCR can be used for the purchase of cars, xxx, equipment, funding mergers and acquisitions, etc.

Currently, many accounts are paying 4.5% and up tax-free, with a guarantee minimum on the order of 1-2% (in 2015).

These rates could go up and they could go down. However, you will never lose the money in your PCR.

As you build your PCR, your account continues to grow.

Another potential limitation is time.

IT TYPICALLY TAKES FOUR TO NINE YEARS TO BUILD A REALLY EFFECTIVE PCR.

How does it work? After you have built your collateral capacity sufficiently, say by saving \$100,000 per annum, you will have approximately \$745,000 in seven years.

This money will continue to compound at a solid rate.

Now, let's say you need to purchase new equipment with a price tag of \$375,000. The equipment has a technological life of five years.

Had you leased this, the payments might cost you \$8,500 per month and it would likely be near obsolete five years from purchase.

Now that you will pay cash (not your cash), you have negotiated the price down to \$350,000.

This is already a savings of \$25,000.

That savings can earn a significant amount of interest for you, adding again to your already growing collateral capacity; however, for the sake of staying focused on this article, we will discuss that another time.

Put simply, you "lien" your PCR to access the cash, saving you money off of the top and buying you tons of opportunity in the future. Then what?

You reduce the lien by paying it down. You choose the amount you would have paid had you leased the equipment—the same \$8,500 per month for 60 months.

Your PCR can be used for the purchase of cars, vacations, equipment, funding mergers and acquisitions, etc.

WHAT IF YOU SKIP A PAYMENT?

Not a problem. This is not a structured loan.

You can skip payments for a very long time if you must. It is better, though, not to.

Soon you would have the original \$700,000 you paid into your account, plus the interest it earned, plus the amount you used to reduce the lien, totaling a whopping \$1,050,000.

To review:

1. You have all the money you put into the account
2. You have all the payments you would have paid to a bank or leasing company
3. You own the equipment.
4. Your account was never depleted
5. Your account earned interest on the full amount

You can achieve this by simply utilizing the power of the velocity of money multiplier to your benefit.

RATHER THAN BENEFITING THE BANKS or the leasing company, you build your personal wealth and security by using the safe and tax-advantaged Private Capital Reserve Strategy.

We're talking about your firm and your passion; doesn't it make sense to pay yourself for growing it?

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ABOUT THE AUTHOR



MITCH LEVIN, MD, CWPP, CAPP, *THE FINANCIAL PHYSICIAN™* developed his interest in financial matters while working in the Harvard Graduate School, where he was instrumental in setting up, what may be the first and completely student-financed long-term endowment campaign through insurance and derivative products.

In the early 2000s, Dr. Levin retired from active practice of eye surgery to devote himself to philanthropic endeavors and to his family.

Ultimately, this led him to begin a new career in the field of wealth management and he became “*The Financial Physician™*” and President of Summit Asset Protection Group, LLC.

Summit is a Florida registered insurance agency providing a wide array of insurance products and services to individuals, families, organizations, and institutions.

Dr. Levin is a two-time national best-selling author, trusted advisor and accomplished public speaker.

His published works include a multitude of professional articles and papers, as well as the books *Power Principles for Success; Goal!, The Financial Physician’s Ultimate Survival Guide for the Professional Athlete; Shift Happens; Smart Choices for Serious Money;* and *Cover Your Assets: How to Build, Protect and Maintain Your Own Financial Fortress.*

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