



THE DIFFERENCE BETWEEN BEING RICH AND BEING WEALTHY

Firstly let me start by wishing all friends of Kasi Initiatives a very successful 2013. I spent a great deal of time debating what would be a pertinent newsletter for the month of January that will set the tone for the year 2013. A number of subjects came to mind but one in particular stood out.

Over the Christmas break I managed to catch-up with an old friend of mine, we discussed a lot of issues but the most distinct one was a question he asked me - what was the difference between being rich and being wealthy?

I obviously gave it my best at explaining the difference between the two but I thought doing more research on this would actually be beneficial, not only to me and him but to all friends of Kasi Initiatives.

Without delaying this any further let's see what research had to say about this topic.

ACCORDING TO TYRONE SOLEE

How many of you have heard of a "get-wealth-quick scheme" or someone toasting for riches, I bet none of you have, but of "get-rich-quick scheme" or toasting for wealth you probably have. Being rich and being wealthy seems to be synonymous as both involves having lots of money. However there is a big difference between the two, according to Tyrone Solee.

What could be classified as an obvious difference between rich and wealth is knowledge. Let's take for example a person like Warren Buffet; he is wealthy because he knows how to make money while someone who has just won the lottery might be rich with no knowledge on how to make money or make that money work for him to create multiple streams of income.

How many times you have heard of stories of people who have inherited money or won the lottery and couple of months or years later it's all gone, I guess more often than never. Yes, some wealthy people can also lose their wealth just like rich people but the difference is the ability to use that knowledge to rebuild that wealth while most rich people never recover and they are dubbed one day millionaires.



RICH AND WEALTH TREE

Let's take a look at the rich and wealth tree to elaborate further on the differences between rich and wealth. Two men were given two options to choose from, one choice was a fully grown tree with fruits (money, instant gratification) and the other was seeds (Investment, long term gratification).

The one man choose a fully grown tree as he could start reaping the rewards immediately, while the other took seeds though needing time to grow them, his aim was growth and learning how to take care of these trees.

A year later both men were called in for evaluation on their initial choices. The man with a fully grown tree choice had eaten all the fruits from the tree, did not take care of the tree nor replanted the seeds from the fruits he had eaten and the worst, tree was dead. He now had to take on odd jobs to feed himself. The man, whose choice was seeds, had grown his own trees which were starting to yield fruits which he could eat from sustainably and could sell of the excess for profit.

Now think of most actors, musicians, athletes (especially our beloved soccer players). Chances are they fall under the same category as the man who chose a fully grown tree with fruits (obviously with some exceptions). They make a lot of money, invest in fancy cars, live in gigantic houses, go on lavish vacations and so forth while not investing on assets that will create multiple income streams. The minute they stop working, they stop generating income and can no longer afford the same lifestyle since no money was invested.

Most wealthy people do not stand out as much as the rich. While the rich flaunt their money, the wealthy tend to live subtle lifestyle, but still adventurous lives. The wealthy make money regardless of whether they work or not.



WEALTH MEASURE AND INDICATORS

Wealth is not an overtime success; one must learn to distinguish an asset from a liability. It is necessary to focus on creating and buying income producing assets to generate a passive or a portfolio of multiple income streams. Teaching our kids, nephews, nieces this could easily be one of the most important lessons, as the younger they can start the more they can leverage on the true power of compound interest.

Rich people work for a pay check, just like the greater percentage of the population, the difference is their pay check is bigger than the average person and they can secure bigger loans to buy bigger things. Wealthy people on the other hand have their money and other people working for them. If this is not yet clear what the difference is between rich and wealthy, then I urge you to ask the likes of MC Hammer, Donald Trump, Warren Buffet, Gary Coleman, Marvin Gaye, Jabu Pule, even Abraham Lincoln if you can.



Now that you have a better understanding on the differences between rich and wealthy and you have decided to choose seeds, the next thing to do is calculating and monitoring your wealth ratio on a monthly basis to properly administer the financial and economic aspect of your life. The formula is as follows:

$$\frac{\text{Passive Income} + \text{Portfolio Income}}{\text{Total Monthly Expenses}}$$

- Passive income is residual income such as rental income from real estate properties, interest from savings and so forth.
- Portfolio income is income from trust funds, bonds, shares and other marketable securities.
- Total monthly expenses are costs associated with living on a monthly basis.

The objective is to reach a level at which your passive and portfolio income are equal or greater than your monthly expenses. The moment you have 1:1 ratio or more then you are on your way to financial freedom. On the other hand, if your wealth ratio is less than 1 then you are still in the midst of financial dilemma, and your cash flow does not meet your basic life expenses.

One has these two route choices to choose from (the fully grown tree route or the seeds route)

