How To Preserve Your Wealth
July 27, 2014

You've worked hard. You own your own home. You have a little savings and a 401 (K) or IRA. How do you make sure that the money you've earned retains its purchasing power? How do you preserve wealth? This article is not about gaining wealth, not tax strategies to reduce the skimming of your income by the Federal Government. It is about preserving your current $$$ value, your accumulated net worth. There are 4 ways to preserve wealth, 4 separate vaults in which you can store the value of the money you have now.

Naturally, when we talk about money, it is only worth what it can buy for you at the given time you want to spend it. Inflation erodes the value of money. If you need money for bread, and the price of a loaf goes from $4 to $5 in the next 10 years, your stored $4 now will not buy the loaf of bread in the future, only 80% of the loaf. This is inflation.

Inflation, often announced with changes in the Consumer Price Index, is expressed as a percentage increase over how much it cost for a basket of goods and services the last time it was measured. Currently, inflation in the U.S. is 2.1% p.a. That is, the basket of what the average person buys cost 2.1% more in May 2014 than it cost in May 2013. If the value of your wealth did not rise by 2.1% for the same year, you lost money!

People storing wealth put their money in these 4 places, and it is my recommendation that you diversify your wealth into these 4 categories. As a rule of thumb, it wouldn't be a bad idea to store 25% in each category, though some people may want extra weight in one class over another.

1. Cash & Liquid Savings: This includes your checking and savings account, C.D.'s and Bonds (Federal, State or Local Government).

All these items are essentially very secure but low-interest investments. In other words, this is the portion of your $$$ that you want SAFE & READILY AVAILABLE. (This is what "liquid" means). The downside of this category is that you lose against inflation. This portion of your wealth is safe and easily retrieved but is actually losing value in the vault over time.

2. Stocks: You should invest something in the Stock Market. Most people feel uncomfortable handling this themselves, because choices must be made regularly. The stock market is profitable, and your return should exceed the inflation rate, but stocks these days MUST be traded from time to time.

Buying and selling stocks is necessary in this era. It is no longer appropriate to use Grandad's system of "Buy & Hold Forever." Therefore, you will probably need a trustworthy Broker who, of course, does remove some of those gains that would have been all yours if you did it yourself.

Edward Jones is developing a 'family friendly' business in this regard but some Edward Jones representatives have very limited skills. So you may want to use a Merrill Lynch or a Charles

Schwabb. This decision should be made carefully, but stocks form the second pillar of wealth preservation.

3. Real Estate: Owning your own home, preferably without debt, is a means of preserving wealth and, similarly to the Stock Market, can rise or fall in value over time.

From an Alaska point of view, it is my considered opinion that real estate in Anchorage will maintain an appreciation rate above the inflation rate for the next decade. This is because the economy of Alaska, though “steady as she goes,” is fundamentally sound. Despite rumors, the State has enormous natural resources, a strategic location for military as well as international freight, and is an increasingly attractive destination to live in. Your real estate assets should also include at least one income property, though it does not need to be in Alaska if cash flow is better elsewhere.

4. Gold and Other Precious Metals or Items: In my view, over the long term (10 to 30 years), this is the most “Inflation Proof” investment of all and should comprise at least 25% of your wealth. The category includes Gold (literal, physical gold preferred) or gold investments, Silver and Other Metals, Diamonds, Artwork and Antiques.

Within this category, I recommend half be allocated to Gold. While stories and predictions abound over the precious metal (currently around $1,300 an ounce) and, keeping in mind it has no industrial use, it is my sincere belief that, as an Alternative Currency in its own right, you MUST put some of your Dollars here.

That is, use some of your current money to purchase non-money. Gold is the “alternative” wealth storage used by Sovereign Governments the world over. It is not only an inflation hedge but a safe haven in the event of global crises which are all but certain to be heading our way in the years ahead.

Even though Gold has flattened out in dollar value over the last 5 years, even fallen in value, it is my absolute and strong opinion that it is set to rise in the next 5 years. Gold will most certainly increase because it is recognized worldwide as an Inflation-Hedge, and Inflation is coming, I promise you.

Experts I respect predict $1,500 an ounce by mid-2015, and $2,500 an ounce is not out of the question within the next 3 years. The reasons for this are complex but you stand to gain as much as 54% on gold in the next 5 years. Such a bet should only be placed with half of your quarter of your wealth so, even if I am wrong, you won’t hurt much. However, professional investors worldwide would not be without Gold as a balancing mechanism, or hedge, somewhere in their overall portfolio.

Be Healthy, and Wealthy, and don’t throw away what you worked so hard to gain.