***Chapter 4***

**The Best Investment**

***A successful business must continually increase its net worth in order to reduce the risk of failure.*** The company that manages to grow successfully is constantly reinvesting time and money into the processes and people that make up the company, in order to get the greatest return on investment. When seeking an employment opportunity, if given a choice, the people with more skills and experience will choose a wealthy, successful company over a mediocre one; thus bringing with them the best ideas and processes, giving the wealthy company a large advantage on its competition. For an illustration of this point, please see Figure 4-1 and Figure 4-2.

**Growing Income**

**Higher Income Year after Year**

Company Assets

Assets Generate Income

Assets generate income

Company Assets

Income

Income

Income is taken out of the business

Redistributed to owner & investors

Reinvest income to create **more** assets

**Figure 4-2**

**Figure 4-1**

If your business is your best investment (as it should be), by investing more in it you will increase your profit, cash and net worth over the long haul. As an example, you should use some of your current assets to invest in existing processes or to create new ones, such as marketing, which will then create more sales thus increasing your net worth. By reinvesting your income into your assets, you create more profit, more cash and increase your net worth. Ask yourself: What is your profit now? What do you need to do to increase it? Please see Figure 4-3 for an illustration of this point.

**Marketing Process**

Strategy

Budgets

Pricing

Products

Promotions

Lead Generation

**Current Assets** ($100,000)(Investments)

People

Time

Money

Training

Consultants

Create New or Reinvent Processes

Create More

**Sales**

Lead Processing

Appointments

Contracts

Presentation Back Log

Prospects

Equals

**More Assets** ($120,000)

More Profit

More Cash

Increased Net Worth

**Figure 4-3**

The illustration in Figure 4-3 shows that you can increase your assets by constantly reinvesting a portion of them back into the business. Figure 4-4 on this page shows the performance difference between an average company that takes all of the money out of the business causing net profits to decline and an above average company that reinvests a portion of their current assets into improving their processes, people and innovations.

Above Average Company

- Constant Reinvestment of Assets

Average Company

 - With No Added Investment

**Figure 4-4**

***Why Reinvesting is the ONLY Choice for You***

Typically, owners of small to mid-sized businesses feel that they should invest their profits in a conventional manner; such as in either the stock market or real estate. Although both of these avenues of investment have proven to be profitable ways of securing a positive return on your investment over time, they both have significant uncontrollable risks involved with them. Reinvesting in your business can become a lower-risk way of balancing your portfolio to both long and short term investing.

When investing in the stock market, you usually must have the luxury of time for your investment to grow substantially enough to make it worthwhile. For example, if you are 30 years away from your retirement, the money that you invest in the stock market or mutual funds has the luxury of time. Your level of risk is reduced with short term negative fluctuations in the market because you have the comfort of knowing that eventually the market will come back up.

However, if you are nearing your retirement age and are fortunate enough to be the owner of a successful business, it is more lucrative of an investment for you to put some of the money back into your business so that it will grow the net worth of the company and increase the assets; thus increasing your share of the profits and building your net worth at a much faster rate. If you take money out of your company and invest it in the stock market when you are nearing your retirement age, you may be negatively affected by short term fluctuations in the market. For example, if you continue to invest the bulk of your money into the stock market, you are more likely to experience a loss on that investment because you may have a sudden need for the money and therefore may be forced to sell stocks that are below what they were valued when you purchased them.

Investing in real estate is another conventional investment practice that may be better fit for someone that has time for their investment to increase in value. One of the downfalls of tying up your investment dollars with real estate is that it is not a liquid asset. For example, if you own a piece of property that is worth $500,000, this is not money that you can readily access when needed. You would have to find someone to buy the property at the price that you list it for in a time frame that is convenient for you in order to make the investment worthwhile. If you are in a hurry to sell the property because you need cash, you may not receive the full amount of what the property is worth and will possibly be taking a loss on the original investment. When you have finally sold the real estate, not only might you have incurred a loss, but you will also have to pay taxes on the money you earn from doing so. Of course, you could borrow against the equity, but how much debt do you really want to incur as you get older? Real estate investment, like stocks, is a long term play for those people with time on their hands.

**When you reinvest some of your money back into your company, you will turn a quicker profit and grow your business.** Ensuring the continued success and growth of your company into the future will benefit you in ways that other investments cannot. Reinvestment can generate much larger returns, which will then create more money for you and more money to reinvest back into the business again. This is a perpetual process that improves with every fiscal year; if done correctly. Reinvesting is less risky than other investment options and you suffer fewer penalties on the money that you receive in hand from the investment. Unlike other investments, when you reinvest in your business you have some control over how that money is used to benefit both yourself, your employees and your company’s future. Reinvesting in your company to make it more successful will also help to better the futures of your children and grandchildren; allowing them the fortune of inheriting a successful company that will provide the kind of future that you have worked so hard to give.

Over time you can diversify business ownership, real estate and stocks to create a balanced portfolio.

Please refer to Figures 4-5 and 4-6 for an illustration of why reinvesting in your business is the **only** choice for you. Figure 4-5 shows the five year history of the Dow Jones (^DJI), S&P (^GSPC) and NASDAQ (^IXIC) stock exchanges. Figure 4-6 is an illustration of the success that can be achieved through reinvesting your profits back into your company.

**5 Year History of Stock Market**



**Figure 4-5**



**Figure 4-6**