

# CASH COWS, PIGS AND JACKPOTS



THE SIMPLEST PERSONAL  
FINANCE STRATEGY EVER

**David Trahair, CA**

Author of the National Bestseller *Enough Bull*

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# **CASH COWS, PIGS AND JACKPOTS**

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STRATEGY EVER**

**David Trahair, CA**



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*To Emily Yeskoo and her family.*

Emily Yeskoo has a rare neurodegenerative disease that is terminal. At the age of 10 she was given three years to live. She is now 19, thanks to her fighting spirit and the loving support of her family: her mom Lindsey, dad Paul, brother Chris and sister Madeleine.

Emily is the inspiration for Toronto's first pediatric palliative care hospice called Emily's House. It will provide 24-hour care to terminally ill children so they don't have to face spending the rest of their lives in a hospital ward. It will be a place where they can learn, play, develop and grow . . . to be just kids, in a comfortable, child-friendly setting, with personalized family-centred programs.

It will also offer a welcome break to parents faced with the ultimate stress each and every day.

A portion of the proceeds from the sale of this book will go to Emily's House.

For more information please visit  
<http://www.philipazizcentre.ca/childrens-hospice>.

# Acknowledgements

I could not have written this book if I had not been trained as a chartered accountant. In fact, finding the CA profession when I was a lost 23-year-old fresh out of university kind of saved me.

The CA profession has also recently given me the opportunity to teach and learn from other CAs. I give courses based on my books to CAs and other accountants in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Through these courses I have met many incredible minds, some of whom have been instrumental in developing the content of this book.

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There are also many other CAs who have provided valuable advice, feedback and encouragement, including Ron Graham, Phil Goldband, Jeff Goldberg, Peter Poulimenakos, Peter Shennett and Brian Quinlan.

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complexities of Canadian income taxes, as well as fully bilingual. Thanks for all your feedback and contributions, Michel!

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And of course to my kids. My buddy for life, my son, Kyle, and my angel, my daughter, Cassidy. You make life worth living!

Last but not least, the love of my life, my amazing wife, Elaine. Love forever.

# Introduction

I have been researching and writing about personal financial issues for more than a decade now and have taught my theories to thousands of CAs over the last few years.

I have had lots of feedback and it has now become crystal clear to me:

**Our quest to build wealth and secure a comfortable retirement often ends up making us poor and others rich.**

Simply put, the accepted method of building wealth doesn't work anymore.

Think about it for a moment.

We are persuaded that the way to get wealthy is to build our assets and net worth, since that is the “true” measure of wealth. It's the measure of the value of what we own less the amounts that we owe. So we end up trying to build our assets—we load up on real estate, for instance, buying big houses and rental properties. Or we put money into the stock market, many of us using expensive mutual funds to do so.

And many of us use debt to do the building.

But you know what? The strategy is wrong. It's faulty logic that is sending many Canadians, and people around the world, on a journey to the poorhouse.

Why?

Because it ignores the one thing that overrides any strategy designed to build wealth.

It ignores the basic principle that has always existed.

It ignores the base logic that anyone who is truly rich knows.

It is this:

**What we should really be focused on is not getting rich but plain old *cash flow*.**

Simple, isn't it? Yes, it is. It always has been and it always will be.

If you want to secure your financial future, forget all the fancy strategies like “leveraging” (borrowing to build wealth). Forget the fantasy that the stock market is going to make your financial dreams come true. Discard the notion that real estate is going to be the ride to wealth like it has been for past generations.

Forget those things because believing those concepts is likely to set you up for failure in the tough years that are coming.

## **Cash Is Not King**

When I started laying the foundation for this book, I originally began with the old saying “Cash is king.” But the more I thought about it, the more it didn't make sense. After all, with the extremely low interest rate environment we are in these days, sitting with cash is probably not the thing to do because it grows so slowly. Just look at what your bank savings account is paying—maybe 1%? Converting your assets to cash makes little sense as a result.

So what is “king” when it comes to personal finances? The answer is simple, and it's been the answer since money was invented. Here it is:

## **Cash Flow Is King**

The more I think about it, the more I am convinced that cash flow really is king.

Aiming to build a million dollars in net assets sounds like a good plan—after all, that's how millionaire status is judged.

The problem is that trying to get there often leaves people well short of the mark. One of the main reasons for this is that they bleed cash each and every day in their pursuit.

## **Who Gets Rich off You**

And who benefits from that? The people who know how to get rich by ensuring a cash flow gold mine for themselves—the investment companies that charge mutual fund fees, trailer fees, and commissions; the financial institutions that loan us the money to live the “lifestyle of our dreams” and then charge a huge amount of interest to service those debts; and the brokers who convince us to borrow to invest and “leverage” our way to riches.

## **It's Not Just Them, It's Us**

But it's not just the financial institutions that feed the problem. In many cases, it's just our own logic that leads us astray. Take the idea of building wealth through acquiring real estate.

The truth is that buying too much real estate is often a sure-fire way to go broke because of the huge costs of acquiring and maintaining property. Simply buying too big a home to live in leaves many people poor—they simply can't afford the mortgage and the upkeep.

## **Want to Get Rich Quick?**

This book was written to get you back to the basics. It was written to shine a light on why the current method of building wealth is a mirage, a trick designed to make others rich while sentencing the rest of us to a lifetime of

constantly trying to get ahead, of aiming for the brass ring of financial freedom . . . and never reaching it.

If you still believe that you can get rich easily, quickly, automatically or even instantly, I can't help you. Put this book down and pretend it does not exist. There are plenty of other books out there that make promises like that. Many of them sell millions of copies. Well, at least someone is getting rich.

If you are one of the many people who will buy anything that promises to reveal the secret to getting rich easily, this is not the book for you.

I just picked up such a book that promises quick and easy riches. It's a very short, simple book—only 120 pages—but the premise when you actually read it is just silly. To get rich all you have to do is set a definitive goal for the amount of money you will make in a certain number of years and it will happen. C'mon.

Well, the introduction says it has been published in 30 editions all over the world and sold more than a million copies.

And that is the problem—millions of people still believe there is a trick to getting rich and many put their financial lives at risk trying to find the secret.

## **Back to Basics**

I hate to bring you back to earth but there is no secret to riches and, the sooner you realize that, the sooner you will be on the path to true financial freedom.

That is what this book is about—it's the plain truth about what is really important and exactly how to secure your financial future. Oh, and it is so simple you should be able to explain it to your kids.

Here it is.

# 1

## The Cash Cow Strategy

It's very, very simple. From now on, before you spend any more money on anything, before you jump into an investment opportunity, before you sign a deal for a new car or a new house or condo, before you put another cent on your credit card, before you borrow another dime, stop for a moment and consider the cash flow implications of the thing. Ask yourself these questions:

- Is this a cash cow?
- Is this a cash pig?
- Is there a potential jackpot later on?

If you do this from now on, you will transform your personal finances. You just might find that you'll significantly decrease your stress level as well. If you embrace this concept, it has the power to change your life for the better. I know because it changed mine.

Let me explain.

### Cash Cows

If you look up the definition at [www.investopedia.com](http://www.investopedia.com) here is what you'll see:

*A business, product or asset that, once acquired and paid off, will produce consistent cash flow over its lifespan. This term is a metaphor for a dairy cow that produces milk over the course of its life and requires little maintenance. A dairy cow is an example of a cash cow, as after the initial capital outlay has been paid off, the*



*animal continues to produce milk for many years to come.*

That would be a good thing to have, agreed?

Think about the things in your life that provide cash for you on a consistent basis.

What do you think your biggest cash cow is going to be? Your job? Maybe your RRSP? Perhaps your investments? What about a rental property? Maybe you're lucky enough to have a guaranteed defined benefit pension plan—will that be your best cash cow? What about your small business if you are self-employed?

Your answer is so important I'm going to ask you to put this book down, close your eyes and give it some thought. What is the thing in your life that is going to bring in the most amount of cash over your lifetime?

Don't rush this. The more you understand what we are about to discuss, the better off you'll be.

Pull out a piece of paper and a pen. If you have a notebook or an iPad, start your word processor, and write or type the following:

The thing in my life that will bring in the most cash in my lifetime is:

Because I want to give you the benefit of finding out a bit about how you think and how you prioritize things, I'm not going to reveal it to you here. You'll have to wait until the next chapter. Resist the urge to look ahead—it won't be long.

## **Cash Pigs**

A cash pig is the opposite of a cash cow. It is something that constantly drains cash from your pocket. That doesn't mean it's a bad thing. Many cash pigs are useful, sometimes vital,

things that many of us can't do without. Can you think of one?

How about a car?

A car is a cash pig no matter whether you buy or lease. It serves a vital function—getting us to work, for instance—but there is no doubt it is a cash pig. It requires cash to buy it whether we pay with a cheque, take out a loan or lease it. There are also all the annual operating costs such as gas and oil, insurance, licensing, repairs and maintenance, etc.

For most of us, the fixed and operating costs add up to thousands of dollars a year. Again, that doesn't necessarily make them bad; it just means they eat up a lot of cash. And of course some of them are bigger pigs than others.

The purpose of identifying things that are cash pigs is not so we can avoid them at all costs. The purpose is to realize how much cash they will cost us so we can make sure we choose one that we can afford and not one that would bleed our bank account dry.

## **Cash Jackpots**

Winning the lottery is the most obvious example of a cash jackpot. No doubt about it—in fact, winning millions of dollars or more (tax-free) would be the definition of a jackpot.

But the odds are very long.

The key point to realize is that cash jackpots are rarely guaranteed. They are usually just potential jackpots. But potential jackpots come with a big risk—the risk that the jackpot may not happen at all.

Betting your future finances on a potential jackpot is like playing with dynamite. Don't do it.

But it seems to me that many people spend a vast amount of time (and sometimes money) hoping for a jackpot. The problem is that this opens them up to being ripped off. In

*Enough Bull* I talked about simply avoiding any situation that could result in personal financial disaster if it went wrong. I talked about Ponzi schemes.

A Ponzi scheme takes advantage of people who are hoping for a jackpot. It is a scam where the perpetrator convinces people to give them money and in return they'll usually be offered a “guaranteed” high rate of return on their money. In reality the schemer just spends all the money, usually on a lavish lifestyle. The “guarantee” is a lie. There is no such thing as a guaranteed high rate of return.

I now see stories of the latest Ponzi scheme nearly every month. In fact, there were two stories of major Ponzi schemes within 10 days recently in the Toronto newspapers. The dollars lost are staggering—one of the schemes saw \$129 million evaporate.

## **This Is Not a Philosophy; It's About Cash Flow**

Keep in mind as you read further that we are thinking about the cash flow implications of things so we can make better financial decisions. We are not making a determination about the value or worth of the things.

In other words, we are not making a judgement that cows are good and pigs are bad.

It is also not a philosophical statement about whether things that have the potential for a jackpot are to be avoided. Some jackpots are good and some are not.

It is simply to get you to think about how each decision you make is going to affect what goes in and out of your bank account on a daily, weekly and monthly basis. Note that “cash flow” does not mean just actual cash, it includes all methods of receiving and paying money. That includes actual cash you receive, but also electronic deposits such as

your paycheque as well as money transfers from others. Cash you pay out can be in the form of actual cash withdrawals from your account as well as cheques you write and electronic payments and transfers out to pay bills, etc. And of course anything you buy using a credit card, even though it does not have to be paid back until later, is outgoing money that affects your cash flow.

## **Cows and Pigs Can Change**

This is also not a permanent branding procedure. Things can, and often do, change characteristics over their lives. A cash pig may become a cash cow later on.

RRSPs would be a good example. As we work and put money into them, they take cash out of our bank accounts, even after you factor in the temporary tax refund you receive for the contributions. They are cash pigs as we make contributions to them.

The payoff comes after we retire. When we start drawing money out of them, they fit the definition of a cash cow. Obviously just how good a cow they are depends on how well our investment strategy worked over the years.

## **One Person's Pig May Be Another Person's Cow**

In some cases the same thing may be a cash pig to one person and a cash cow to another.

Take a gold credit card with a balance owing, for example. The customer pays interest at over 20% on any balance he can't pay off. The bank collects that interest every month. For the customer in this arrangement, that credit card is a cash pig. For the card issuer, it's a cash cow.

Which side would you rather be on?

# Cash Cow, Pig or Jackpot?

There are hundreds of things that we come across in our lives that significantly affect our cash flow. In most cases it is tough to put one label on a thing.

Some cost a lot of money up front, and continue to demand cash year after year to maintain, but they provide the potential for a large windfall gain at the end. That would be a cash pig with a potential jackpot. The house you are likely sitting in comes to mind.

Other items may cost very little up front and provide a jackpot of cash at the end. A penny stock that actually does take off and sells for 1,000 times what you paid is arguably neither a cash cow nor a pig. It's a low-cost bet that pays off—a jackpot.

A cash pig may serve a useful purpose, or it may not. A smoking habit fits the bill as a cash pig without benefits. There is also no hope for a jackpot for a smoker, just years and years of cash drain (and, of course, probably much pain and suffering).

Let's discuss a number of common things.

## A House or Condo

What about the biggest asset that most of us will ever own—our house or condo? Well, I have owned three different houses and I can tell you a house is a cash pig.

Again, that doesn't make it bad. In fact, I would argue that a reasonable house that we can afford is one of the best investments we can make. But a home is costly from a cash flow point of view. That is because, just like a car, there is the cash required to buy it (the down payment and closing costs) plus all the ongoing costs such as mortgage payments (including interest), property taxes, insurance, heating and electricity, repairs and maintenance, etc.