Here's how to build wealth

ASIDE FROM winning a lottery, inheriting millions or becoming a master thief, there are three measurable ways to build wealth: savings, investments and tax conversion.

Simpy put, you have to spend less than you earn, make prudent investments and use legitimate tax incentives to amass your fortune.

Why then is it so difficult for most of us to become financially independent? The reason, said financial planner Martin J. Cohen, is no different from those for losing weight, exercising or attempting to quit smoking. That is the requirement of self-discipline.

YOU CAN OBSERVE by the fiscal precedents established in Washington D.C., that financial discipline has been out of style for a few decades, and current lifestyles dictate spending more than that we make in the hope that our earnings catch up to bail us out.

There is an adage, "People don't plan to fail; they just fail to plan." And so the simple secret of wealth accumulation is a disciplined, long-range financial plan based on personal goals.

Your plan must be framed in your own lifestyle objectives: social, political, psychological, spiritual, cultural and financial. Without a commitment to a realistic financial plan, it is easy to fall prey to the emotionalism of slick advertising and the incomplete coverage of economic events.

Constant exposure to these forces and unscrupulous promoters often leads to ill-timed investment decisions based on speculation rather than objective business evaluation.

INEFFECTUAL DECISION making and procrastination in your personal planning will guarantee you will not accumulate wealth. Financial decisions must be based on complete information, an evaluation of the risk vs. reward, and a comparison of rate of return objectives vs. your individual suitability.

Once you have evaluated your needs and the possible alternatives, act decisively to implement that decision. If you tend to procrastinate, try to determine why you delay making decisions and what information you will need to act. There will be some mistakes and ups and downs along the way, but a consistent and long-term approach to savings and investment will make certain that you do accumulate some money.

If you double the value of a penny every day for 30 days, you will have compounded your penny into more than $1 million. Voila! You are then a millionaire. Time compounding at above-average rates over long periods of time is one of the great secrets of wealth accumulation.

IT WILL TAKE personal discipline, a well-managed vehicle and preferably a tax-advantaged or sheltered investment to assist in your goal of financial independence.

If your timing is bad and you are the emotional type who buys high and sells low, it essential to find some long-term investments that compound at above-average rates of return. Well-managed mutual funds and public real estate partnership demonstrate excellent long-term records of investment return.

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Preservation of your capital is a critical element in successful wealth accumulation. If you lost 50 percent of your principal, you have to make back 100 percent to break even. Most investors lose money by poor investment timing and crowd following.

As human beings, we have a tendency toward linear thinking that concludes, if an investment in stocks, bonds, real estate, oil, art, silver or diamonds is rising in value, it will continue to rise. Conversely, if prices have dropped dramatically, we decide our investment no longer has value or will continue to decline.

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