

The New 3-Legged Stool

By Dominic Garcia

Back in the day, most people depended on their pension, social security, and investments to take them through retirement; this was otherwise known as the “3-legged stool.” In an ideal world, this would still be the case today. However, much has changed over the last couple of decades. Pensions (defined-benefit plans) have declined in favor of 401(k) and other defined-contribution plans, placing the onus of securing retirement income on the employee. Concerns about the depletion of reserves used to fund Social Security benefits have caused many investors to reconsider their reliance on future benefit estimates. So, what is the new approach to setting yourself up for a comfortable retirement? The answer for some may be to spread out among real estate, business ownership, and investments. These three avenues can offer the most potential for ongoing cash flow.

Understanding that it is easier said than done, owning a business can be an essential tool for creating wealth. More importantly, a true business with substantial value must focus on two things: recurring revenue and established processes. It is one thing to own a business, but another to own a process that can grow beyond the owner. A great book to learn more about this topic is *Traction* by Gino Wickman. Owning a business comes with a unique set of challenges that need to be understood and planned for.

Real estate has done well in recent years. But regardless of appreciation, the core focus of real estate investors is cash flow. Their goal is to create enough return on their rental income to outpace what they could otherwise earn elsewhere. Like owning a business, real estate presents a distinct set of risks that also requires careful planning. Unfortunately, what has been a somewhat easy task over the last decade, is now becoming more difficult as prices rise. Cap rates that were once 14-16% have now declined closer to 4-6%. There will always be opportunity in real estate; however, it is a little less now.

The one leg that remains is investments. Although some people may have concerns during years of volatility, investments continue to stand the test of time. That said, it is a game of patience and understanding. Investments can also move separate of the real estate market as there are significantly more areas to select from. Whether choosing from commodities, private markets, or public equities and fixed income, there are many ways to diversify beyond what is transparent in our economy. If done correctly, this can be the most liquid and efficient planning tool.

Throughout all market cycles, one leg will typically outperform the other; the hard part is determining when and how to take advantage of each opportunity. The primary goal is to build assets that generate cash flow and have little correlation to each other.



*Rochester Wealth Strategies, LLC is an Independent Registered Investment Adviser located in Downtown Rochester.
RWS is a Fiduciary and Fee-Only financial advisory firm (248-434-6550).
This article is provided for informational purposes only. Please consult with your trusted advisor before engaging in any transaction.*