Get Rich Quicker - The 3 Types Of Money That Grow Your Net Worth Transcript

RM [00:00:04]
Hello my friends. Welcome to Capitalism.com. I'm Ryan Daniel Moran and thank you for giving me a shot on such a clickbaity title of a podcast episode. We're going to get rich quicker today and we're going to do that by diving into the 3 types of money and how to optimize for those that build our wealth the fastest.

RM [00:00:26]
This is going to be very counterintuitive to a lot of what is taught in this world of making money and building wealth and building companies and it's going to really help a lot of you change your mindset in a way that is literally going to help you get rich quicker. So, this is going to sound backwards to some of you and when you get it, it will be a mindset shift for you that will cut off the length of your journey by 10 years or more.

RM [00:00:59]
So, today, we're just going to go ahead and dive right in and we're going to go into how to get rich quicker. First of all, we should talk about, what is rich? What does it mean to be rich and how do we measure being rich? Most of us measure the amount of money that we have by net worth. Net worth is probably the best measure that we have in terms of your economic impact.

RM [00:01:27]
But it is a flawed or at least an incomplete way to measure how rich you are. For example, the media, and specifically politicians, give Jeff Bezos such a hard time. Poor Jeff Bezos. Richest man in the world has done a lot of good and sure gets a lot of hate from politicians. This poor man. But Jeff Bezos has a net worth of somewhere around $150 billion dollars and it is often said, well, he could do all these things with his $150 billion dollars, he could end hunger and he could do X, Y, and Z but the truth is Jeff Bezos cannot spend his money.

RM [00:02:07]
In fact if Jeff Bezos did spend his money it would all go away. Here's what I mean. Jeff Bezos' wealth, the amount of money that he has, is tied up for the most part in his companies, including Amazon.com, so I don't know how much of his wealth is based in Amazon.com, but let's say it's $100 billion. If Jeff Bezos goes out and liquidates, meaning sells his stock, his Amazon stock, and he puts it out in the marketplace, he's the biggest shareholder in the company.

RM [00:02:39]
What happens when the biggest shareholder in a company liquidates stock? Well just like inflation, just like putting more money into the system, when there's more stock available the price or the value of each one goes down and it would also signal to the marketplace, Jeff Bezos is dumping his Amazon stock, what does this say?

RM [00:03:02]
What would happen is that Amazon stock would crater. It would go from $3000 dollars a share to $1500 dollars a share, and now Jeff Bezos just lost $50 billion dollars. Now, he may have liquidated $50 billion dollars in cash that he now has, but he's lost $50 billion dollars in his total net worth. Jeff Bezos can't spend all of his money but his net worth is $150 billion dollars.

RM [00:03:34]
I tell you all of that because how we measure how rich you are is incomplete. So, most people get very lazy about how they measure their wealth and that holds them back from actually building wealth and becoming rich. They tend to value their own wealth, the amount, how rich they are, based on how much cash they have, how much they can spend and this is where people get stuck in a trap that keeps them poor for a very long time.

RM [00:04:10]
Now, one of the things I want to teach you today if you get nothing else from today's episode is this. There are 3 types of money, there's 3 of them. There's cash, there's value, and there's equity. Cash is the amount of spendable money you have, and cash is worthless until it is spent. In fact, the purpose of having cash or having money in the bank or credit is to be spent, it's to be deployed, it's to be transferred to something else.

RM [00:04:48]
Cash has no internal value. There is the debate about whether or not cash is king or cash it trash. Well, here's the end of that debate. Cash is king when there is an opportunity for it to be transferred. So, if there is an economic meltdown and now you can buy houses on sale in San Diego, California at a discount, cash is king because now you can transfer it into something.

RM [00:05:21]
But until it is available to be transferred, cash it trash because cash has no value, its only purpose is to be transferred. So, most people will evaluate how rich they are just on how much they can transfer, how much they can buy today. That gets them into trouble because then they start to play the game of, how do I optimize for how much I can buy? In other words, how do I

optimize my life, how do I optimize my business so that I can get rid of any money that comes in?

RM [00:05:59]
When you optimize for cash, you're just optimizing for the amount that you will transfer to something else but very little thought gets put into the other 2 categories which is where wealth is actually built. So, let's move on. Value is the paper value of things that you own if they were sold. So, what is the cash value of the stock in your portfolio? What's the cash value of your house if you were to sell it? What's the cash value of the art or the other investments that you might have if you were to transfer them to something else, if you were to turn them into cash?

RM [00:06:42]
Your portfolio goes up and it goes down, but it doesn't mean anything until you transfer it into cash. The irony here is that the longer you tend to keep things in value, the more value it tends to create. And then the 3rd one is equity. Equity is the value of the things that you own that are not liquid. This is your businesses and the private businesses that you've invested in. So, the business that you start has a value to it. The business that you own and control, it has a value.

RM [00:07:20]
When we talk about selling a business, this is what we're talking about. It is the amount that someone is willing to pay or invest in the asset that you built. So, there's cash which is all about transfer, there's value which is the paper value of the things that you can sell, and then there's equity. That is the amount of money that it is worth for things that you can't sell quickly. Alright, are you still with me? Because if you get this, you're going to be a rich person very soon. Results may vary.

RM [00:07:57]
Now, once again, most people optimize for cash. They start cash flow businesses, they try to get raises, they look to incrementally increase their income. But that doesn't build wealth and it doesn't make them rich. What makes them rich is by optimizing for the other 2 types of money, that's value and equity. Here's an example to help you get this.

RM [00:08:24]
Let's imagine 3 employees. Employee number 1 cleans ... Is a janitor, cleans school, makes $50,000 dollars a year. By the way, I've done a really good Youtube video about how to get rich making $50,000 dollars a year. You can, you can. If you were to never make more than $50,000 dollars a year, you can be a multimillionaire, a multimillionaire like an 8-figure millionaire. You

can do it. If you don't know how, you should go watch that video. Just go to my Youtube channel. I'm Ryan Moran on Youtube.

RM [00:08:56]
So, we have 3 employees and they're all janitors that make $50,000 dollars a year. Employee number 1 goes for a raise. He or she is optimizing for cash, so he or she tries to negotiate going from $50,000 dollars a year to $55,000 dollars a year, and the boss says, well, we need a year of service time and we need to account for standard of living here and you need to accomplish this, this, and this, and then we'll talk about taking you from $50,000 a year to $55,000 dollars a year.

RM [00:09:37]
And then after he or she gets a raise, he tries to negotiate for another one to go from $55 to $58. That person is optimizing for cash. They're trying to get a raise. Employee number 2 is still a janitor, but this janitor simply says, I'll take my $50,000 dollars a year and I will invest 20% of my income into stocks. If all this person did was put that $10,000 dollars a year into index funds, the S&P 500 which has an average of about a 9.7% return per year over the last 50 years, well, let's run the numbers here.

RM [00:10:25]
$10,000 dollars year 1 at a 9% interest is an extra $900 bucks. That person just got a raise of $900 bucks a year. The next year, same person puts in another $10,000. That goes up 9% as well. Well now that person just got an $1800 dollar a year raise. The next year, $10,000 more goes in so now we have $30,000 dollars, it's actually $33 something, and that's growing at 9%. Now this person's getting an extra $3000 dollars a year. This compounds and goes up and goes up and goes up until that person has a portfolio of hundreds of thousands if not millions of dollars.

RM [00:11:13]
The person who is employee number 1 who optimized for a raise or getting more cash will never, ever be able to do that but because employee number 2 started optimizing for value instead of cash, they got rich and it took some time but they got rich quicker. Now let's go to employee number 3. Employee number 3 goes to the owner of the business and asks, how can I increase the value and the equity of this business? What can I do in my job, in my role in order to help this business grow? What do I do in order to help this place get more customers or attract a higher-level client?

RM [00:12:07]

And so, this person is still cleaning toilets but now he's doing it thinking about the end client and looking for opportunities to change the way the business is structured, or adding new decorations or new niceties that attract the right client. And now, the boss or the manager sees this and promotes employee number 3. Well, employee number 3 just got a raise, great. But eventually the boss or the manager keeps looking at this person and says, do we need to give you stock options? Do we need to give you a department? Do we need to give you your own division of the company to run with ownership?

RM [00:12:51]
Now, these of course are fantasy examples, but my question to you is which of these 3 employees builds the most net worth the fastest? Obviously the answer is employee 2 and 3. If it's a good business, then the person will get rich the fastest by increasing the equity of the business. Now, how does this apply to you as an entrepreneur?

RM [00:13:21]
Well, as an entrepreneur, I'd like to invite you to ask yourself which of these 3 you are optimizing for. Most people who call themselves entrepreneurs are simply pursuing more cash. And that's great as a starting point. There are plenty of cash flow businesses that can be extremely profitable. I day trade stock options on the side. It's fun. That doesn't build value or equity. It gives me more cash which allows me to invest more. It's mostly just fun.

RM [00:13:58]
But if you are going into a business like selling stuff on Amazon or being an affiliate marketer or having a blog or taking on clients, these are all cash businesses, they are cash flow businesses and they're fine. But they won't make you rich. It is very hard to get rich by optimizing for cash because once again, the purpose of cash is simply to be transferred. Until you transfer it into something else that grows, that's value and equity, then you can never be rich. You might have some temporary purchasing power but that purchasing power in the form of cash is being eaten away by inflation, it's sitting idle in the bank, and it doesn't do anything for your lifestyle until it is spent and once it's spent, it is gone.

RM [00:14:54]
That is not rich. That is staying on a hamster wheel. There are businesses, of course, that do optimize for the other 2 forms of money. For example, if you're a real estate investor or if you just take the cash that you make in your cash flow business and you put it into real estate. That is a way to build value. Or if you do things like private investments, or if you have a VC fund or if you have a fund like I have, where I raise money from investors and invest them into brands and businesses that I help oversee and mentor.

RM [00:15:34]
That is building value. It's building long term value that makes you rich. And that comes down to a combination of your own skill sets and the opportunities that present themselves to you. When you hear me reference the Fund, or the Capitalism Fund, that is the investment portfolio that I've put together where I invest in businesses that come from our community, that come from the Capitalism.com audience. So, I have investors who have entrusted me with capital to put it into businesses and entrepreneurs that are good.

RM [00:16:10]
And what we look for is a business that at least has the first million in sight and a business where I know that I can come in and provide help, advice, and a network to help that business grow. I specialize in ecommerce businesses, especially ones that have audiences because I know that I can hit a few buttons and help their sales grow.

RM [00:16:32]
So, if you're an entrepreneur with a business you're really excited about and you're willing to grow and you need capital and advice in order to become an 8-figure company, you can put a notification on my desk over at Capitalism.com/fund. This is probably the only place where you're applying for me to give you money rather than the other way around. So, Capitalism.com/fund is where you or someone you know can fill out a form and put it on my desk and to see if it's something that I might want to invest in.

RM [00:17:02]
But real wealth is built in the 3rd type of money. It's equity. And equity can be built much faster than the other 2 types of money. So, if you go into a business and you start selling on Amazon or you start an ecommerce company or you start a blog and you're an affiliate on there, most people are simply optimizing for cash, but what if you took the same exact business and you optimized for equity instead?

RM [00:17:39]
Here is an example of what that would look like. Let's imagine a new entrepreneur who starts a pet supplies business. This pet supplies business is going to take its sales on Amazon, might ... Maybe some Shopify sales. It's going to get its exposure through Amazon pay-per-click and some sponsoring of influencers and you've got $10,000 dollars to build this business. That's a very typical for people who have read my book, seen my videos, listened to the podcast, joined Amazing.com, have ... Any typical entrepreneur is familiar with that kind of an approach.

RM [00:18:23]
Their entire focus is going to be on bootstrapping, increasing their exposure, their ranking, getting reviews, getting customers, selling more product. And if they're really successful, they may be able to take that business to a profit of $500,000 dollars a year over a couple of years. That's possible. Great job, you did it well, awesome work.

RM [00:18:50]
You've now got a business that's spitting off $500,000 dollars a year. Depending on how long you hold the business and what you do with that $500,000 dollars a year will determine what your net worth ends up being. Let's say, for example, this person says, I built this to $500,000 dollars a year, I've been reinvesting most of the money back into the business, so now I want my payday. I'm going to go and sell this business and it looks like I can get 4x my EBITDA, my profit, for selling this business. So I'm going to get $2 million dollars. Hot darn. Hot dog. After taxes and all that jazz, you're left with a little over a million bucks, great job. You did really well on this.

RM [00:19:40]
Actually, let's just say you kept all of it. You got your $2 million dollars and now you can go figure out your next thing. It took you 4 years to be able to get your $2 million bucks. You're now ahead of most people. That's scenario 1. Here's scenario number 2. Somebody comes into the game and says, I want to build as much equity as possible, meaning I want to build the biggest pie. I want to come into this and build a company that has the most value, the most equity, the biggest impact that I can.

RM [00:20:19]
So, I'm going to cast a vision for a business that has that high equity. So, what you do instead is you cast a vision for this pet supplies business and you raise $500,000 dollars at a $2 million dollar valuation day 1. Well, guess what you just did? You just built the same amount of net worth from the start as the person in scenario 1 who grinded and built the whole thing for 4 years. Run these numbers.

RM [00:20:58]
Person 1 bootstrapped a business optimizing for cash flow and in 4 years built $2 million dollars of equity when they sold their business. They were optimizing for cash. They got 4x their cash, and now they have $2 million dollars of equity that they take off the table when they sell. Person number 2 says I will raise $500,000 dollars from investors. I'm going to sell 25% of the business at a $2 million dollar valuation.

RM [00:21:30]
Guess what I just did? I just created $2 million dollars worth of equity based on the vision that I'm casting day 1. Now I have 4 years to deploy $500,000 dollars to make this as valuable as possible. So, what do I do with that? I take my $500,000 dollars and I go hire a great Amazon agency, and now I go reserve $100,000 dollars for the next 8-12 months to be purely for customer acquisition.

RM [00:22:08]
Then I'm going to hire an operations manager who's done this before, they've run a pet supplies business and I can go compensate them with shares if I want to and I'm going to pay them really well. I'm going to pay them $92,000 dollars a year. After 1 year, I've had an agency, I've had advertising, I've had an operations manager, and if you made zero profit, if you lost all of that money, you would now have only deployed $200,000 dollars. You still have $300,000 dollars to invest in the next line of products. You have $300,000 dollars to experiment with different forms of advertising, to sponsor more influencers.

RM [00:22:53]
Of course within that year's time, you'll have figured out your sales systems, you'll have figured out the best way to be selling your products, you'll probably have launched all 4 products that take you to a million dollar run rate, you have an operations manager, and you have an ads team that is starting to scale you, and you've still got money in the bank. After a year, you're super profitable, your investors are seeing the value of the business go up, and theoretically you could then go do another raise at a $9 million dollar valuation.

RM [00:23:27]
Within a year's time, you have passed the person who is optimizing for cash flow. And the only difference is that you're now thinking about, how do I build value and equity, rather than, how do I optimize for cash flow? The tradeoff is that you won't get the same amount of cash flow in the short term. You will have to give up the high salary, or taking profits off the table, until the business is producing enough value and equity to allow you to do that.

RM [00:24:07]
There's a short term tradeoff but at the same time there is a short term result of your wealth, how rich you are, is the same or even greater than those who optimize for cash. The longer you stay optimizing for value, the longer you keep your stocks invested, the longer you hold onto your real estate, and the longer that you optimize for equity, meaning the longer you keep reinvesting into the business, the richer you get and you get rich quicker that way.

RM [00:24:48]
My acquaintance Moiz Ali, the founder of Native Deodorant, that's that company that I wrote about and talk about that sold for $100 million dollars in about ... After being founded in 18 months. He put out a Tweet recently that I thought was so profound, and it said something the the effect of it used to take an entire lifetime to become a billionaire and almost everyone failed at it. Now you can do it in 5 years. What an amazing world. Something like that.

RM [00:25:19]
What I loved about that was that the way you become a billionaire is by optimizing for equity, and it is true that you can become a billionaire on paper by building the equity of the businesses that you either buy or start or invest in. You can do that within 5 to 10 years. You've got to have a great business of course. You've got to do this really well.

RM [00:25:47]
But part of building a great business is simply being willing to think less about cash and more about value and equity. If you do that, you'll get rich quicker. That's the irony of this because most people are evaluating how rich they are on how much money they can spend, but the way that you get rich the fastest is by leaving the cash in the form of value, stocks, real estate, things that are growing, and equity, meaning your business and the businesses that you invest in.

RM [00:26:21]
Isn't this fun? Do you get how if you simply look at your business from a perspective of how much equity I'm going to build, it builds faster. If you can confidently show up in front of investors and influencers and advisors and tell them that you are optimizing for that, you will have no problem raising money. That's what we help people do inside the Incubator. They cast a vision, we encourage them to value their companies at a million dollars day 1.

RM [00:26:53]
And they cast a vision for how that is going to be accomplished. The beautiful irony of this is that the bigger vision you cast, the easier it becomes to raise money, the easier it is for you to be able to justify that valuation. For example, I passed on this deal but we were pitched a deal inside of the Fund where somebody was starting an oatmeal brand and they were valuing the business at $10 million dollars day 1, pre-revenue, they had no prototype or inventory. We passed but they raised it. They raised their million bucks. Good for him, good for that entrepreneur.

RM [00:27:38]

Now, I couldn't justify it as an investor, I just couldn't do it. But other people did and there's all kinds of reasons why they did justify that value, but check this out. Now that entrepreneur has a million dollars that they're going to use for prototype development, marketing, building a team, acquiring customers, advertising on podcasts, and as that money gets deployed, as it gets invested, as it gets transferred, it builds the equity of the business and we'll see what it's worth in 3 years. Maybe it won't make it and it will be a colossal failure, or maybe they deploy that money well and it becomes worth $50 million dollars.

RM [00:28:26]
That's the gamble you are taking. You are the steward of the capital, and your job is the make the equity go up in value. If you can get that, you can be as rich as you want to be because your job now is to grow the value of the equity rather than your own personal cash flow. It actually requires you to be unselfish and you get rich quicker in the process.

RM [00:28:55]
By the way, if you want help doing this it's what we do in the Incubator. Just go to Capitalism.com/inc. You can see the model where we do this, and I would love to help you because I'm really enjoying sitting in the position of advisor to the brands who are casting visions, and eventually I want to be at the point where I can actually help them with the raises on these businesses because if someone casts a vision that builds long term equity and then I can take it to my group of investors and participate in the upside, we've done something really cool and we can write our own checks on building really fun, exciting companies.

RM [00:29:38]
That's how you get rich quicker. I hope to see you at Cap Con here in a couple of weeks. There's going to be a bunch of people who are building awesome brands in the same room building value and equity. Come join us. Alright, thanks for listening to today's episode. Hope to see you and talk to you guys soon. Take care.

RM [00:29:56]
If you found value in this podcast and you're ready to go deeper, here are 3 resources where we can help you. 1, you can grab my book 12 Months to $1 Million on Audible or Amazon. It has over 1000 reviews and it's the playbook to building a 7-figure business. 2nd, you can join our community of entrepreneurs who are following a plan to build a 1% net worth by building businesses and investing the profits. You can get plugged in at Capitalism.com/1.

RM [00:30:26]

And 3rd, if you're looking to go deeper and build a 7-figure business that you can sell, you can work closely with us inside the Capitalism Incubator and you can get on the waiting list and find out what we do over at Capitalism.com/inc. That's Capitalism.com/inc.