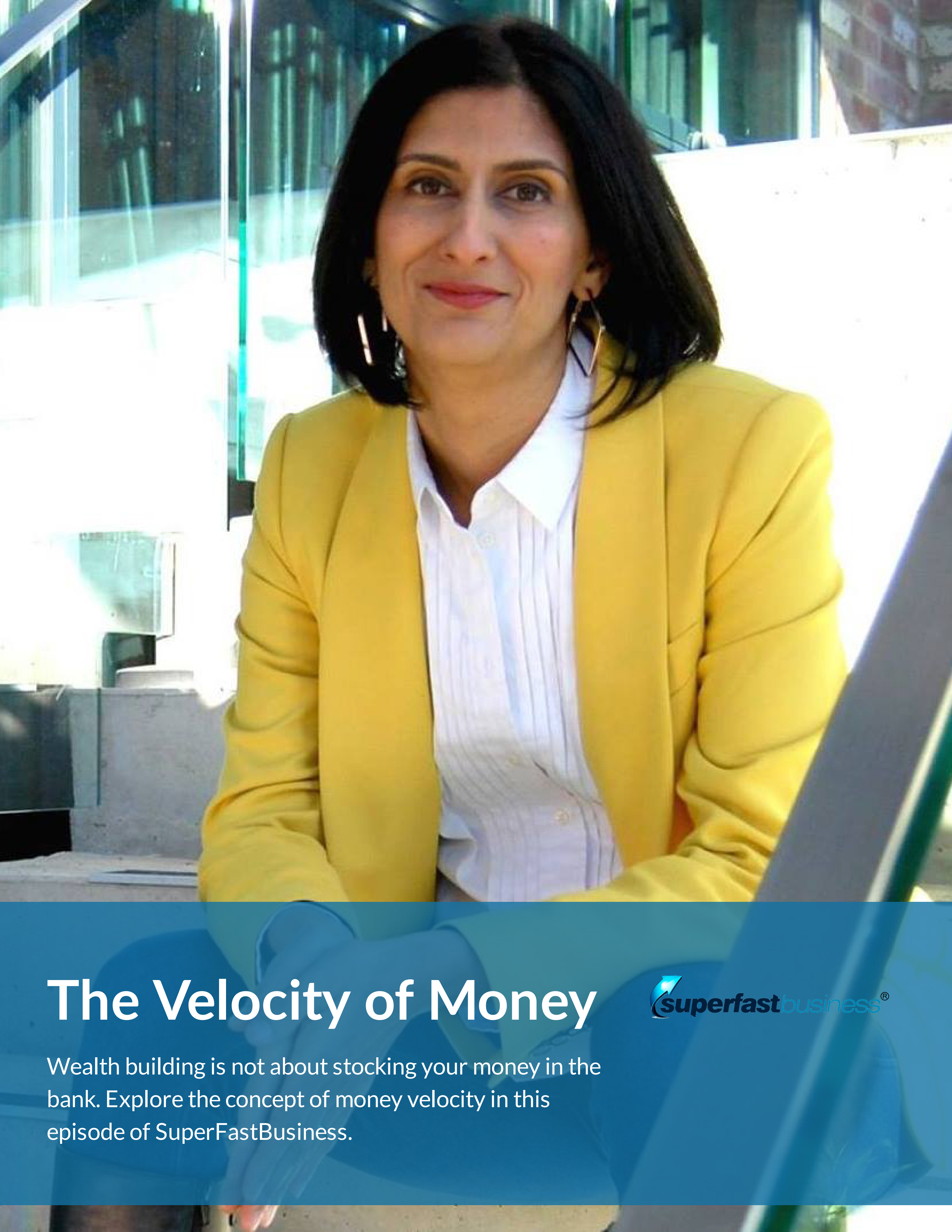


The Velocity of Money

Wealth building is not about stocking your money in the bank. Explore the concept of money velocity in this episode of SuperFastBusiness.

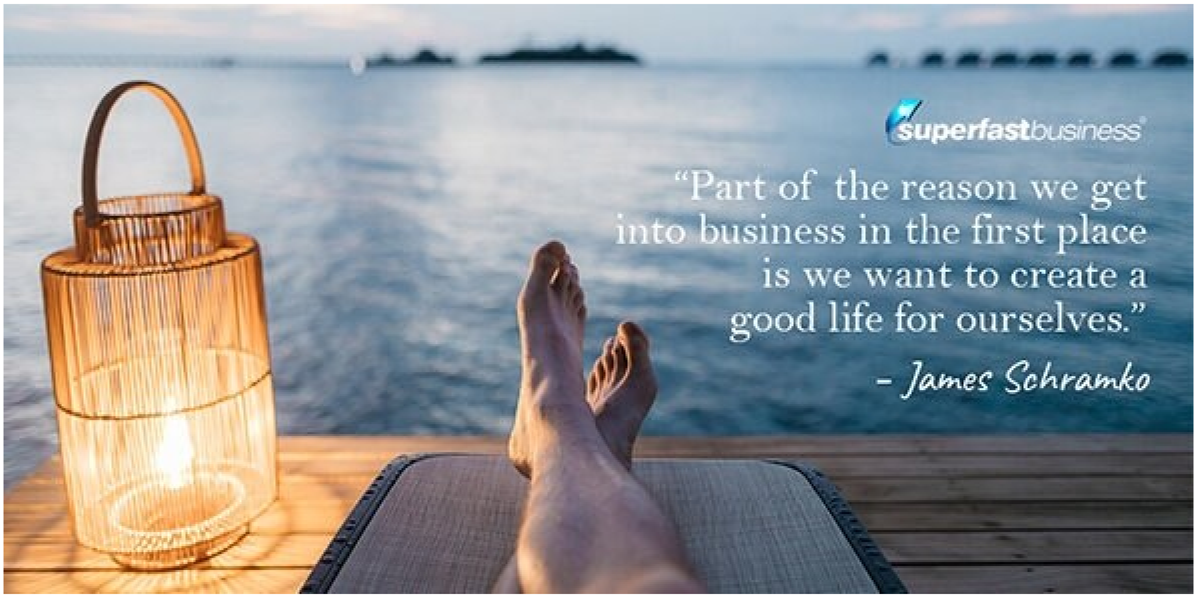
Salena Kulkarni

James: James Schramko here, welcome back to SuperFastBusiness.com. This is episode 878. Today, we're going to be talking with Salena Kulkarni about the velocity of money. And I am definitely not giving financial advice. I want to get that out there nice and early. Welcome, Salena.

Salena: Thanks, James. Great to be here.

James: I'm just the host, facilitator. I know you're a wealth coach. I imagine you're not giving advice either. But this is just a general discussion that might be useful on the topic of wealth building, that you can then of course, go and seek your own financial adviser or whoever else you do, something like that, right?

Salena: Oh look, I think if we kind of cut to the chase, I think the fundamentals of wealth building are universal. And it's hard not to apply things like this. But yes, go and ask someone sensible before you take any crazy action.



Why this topic might interest you

James: Now, this is not our first episode. We have already recorded an episode about the foundations. So I would recommend we go back and listen to that, and we'll link to it in the show notes, if you wanted to start off on this sort of topic. But this is an area that I'm personally interested in. I know that's tautology. I'm interested in this topic, because that's, of course, part of the reason we get into business in the first place is we want to create a good life for ourselves.

And I've found life can be better with money and with other types of wealth. And for me, like, you start to get wealth from freedom, you start to get wealth when you get to do things that satisfy your soul. You can be rich in family, if you can spend time with them. And you can, of course, discover other things, whether it's cooking or whatever.

One of my most exciting things that I'm doing at the moment is I'm getting software that allows me to 3d model surfboard shapes, because I'm getting much closer to being able to produce my own brand. I already own a brand, and it's trademarked, and we have a website, and we've built prototypes, but I'm just going to that next stage now.

So whatever that is for you, whatever wealth means, this episode is going to give you some solid foundations that you can go away and sort of think about or speak to whomever. Now, you've had a little bit of a shift since we spoke last time, you're getting really clear now on who you help, and how you help them. And you've even got a new website, so I'm going to mention that here. It's called inkosiwealth.com. That's I-N-K-O-S-I-wealth.com. What does inkosi mean?

Salena: That's actually a great starting point. So inkosi is the KPI inside of my world. That's the key metric for measuring success. Obviously, there's others as well. But it's kind of like our flagship and all star. And it's a reference to how much passive income you have accumulated as a percentage of your baseline goal. And one of the things I know about money is people can be a little bit touchy about sharing their numbers, about wanting to tell people what they're worth. And so inkosi is the great equalizer.

So whether your aspiration is, I want to build an eight-figure passive income stream, or, I want to build 100,000 in passive income, the inkosi metric of describing what percentage of your ultimate goal have you achieved means you can share that openly. So, inkosi is the Zulu word for tribal leader. And you articulated it really well, just now, James, but I think that really, the ultimate goal of wealth is really about impact, you know, its influence.

Wealth, choice and habits

And unfortunately, I think too many of us are trapped in whatever work we do, and we don't have the choice. And so we don't kind of explore the dreams and aspirations and impacts that we want to have in the world. So yeah, that was a long-winded story about inkosi. But yeah, inkosi is simply the Zulu word for tribal leader.

James: Well, I like how you've applied it in a wealth context. Interesting that you say, we don't have a choice or whatever. And that certainly would be the default setting for a lot of people. And one thing I love doing, we had a previous guest on this show, Lloyd. And we were talking about a story about where I actually showed him that he did have choices, and he made some changes and came up with a great business.

I think that's certainly true of wealth building. We have a lot more choice or control than we think. And I noticed in Australia, the big banks are shutting down their little kiddie banking program. And it's about bloody time, because I remember when I went to cash out my kid's saver when I was sort of in primary school, I think, and I'd been saving since infants, there was nothing left after they took all the fees out, like literally nothing. I couldn't take $1 out.

I think they got onto that sometime back. But now, I think if you're just leaving your money sitting in a bank account and getting the .001 percent, or whatever very, very low amount it is, you may be making a choice that you think is secure and conservative, because that's probably what your grandparents or the builder generation were all about, preservation, because they went without butter during the war time, and they would hang on to what they've got.

But it turns out some of those old habits that we have might be actually really damaging us, because there's a lot of other things we could do with our money. But what I've learned, especially from speaking to you, Salena, is that most people aren't aware of what other things you can do.

What is the velocity of money?

But before we get to that, because I do want to come back to it - in fact, I want to have multiple episodes over this - let's just start off with this topic of velocity of money, because I think this is a fundamental underpinning to the way that everything else happens after that. So when we talk about velocity of money, what does that actually mean?

Salena: Where I'd like to start is maybe even just describing the problems that I witnessed. And I think that will dovetail nicely into, what is velocity? I think business owners, especially, they think they've got all the time in the world to start thinking about wealth building. And the justification for putting it on the back burner is we're playing the long game.

And so what I witnessed is people pump really hard to make money in their businesses. And then they allow it to stockpile or let it sit in really lazy assets. And they don't do much around converting it into wealth. And I think traditional wisdom tells us that we should squirrel and save our money in things like managed funds and shares and hand over decision-making to someone else.

And we get sold this idea that compound interest is what's going to get us to the finish line and, you know, leave it with me, and I'll do the right thing. And the traditional playbook says, trust in investments that will deliver you what you need, when the time comes. And I think the average Joe business owner or otherwise, thinks that the model of getting to the right wealth amount by 65 years is okay.

In the meantime, the idea is, buckle up and hope that the people managing it don't screw it up for you. And I think when I talk to business owners, what they're actually really worried about, is that they have put their blind faith in investments. And they've got this huge reliance on just their income stream from their business.

But I guess, why I love this concept of velocity of money, and it's something that I've spoken extensively about even inside with my clients, is that if you do have your eye on the ultimate prize, which is getting that autonomy that we just spoke about, that time, you can see that there are much more effective ways to fast track wealth building, which will ultimately give you the freedom to spend time exactly as you want.

And I think the thinking that I believe in, and it sounds like you do, as well is, a business is a mechanism for building wealth, but it's a vehicle for greater freedom. And I think sometimes we forget about that. So we can bring some energy and cadence to our investing so that we're actually directing our wealth, then age becomes an irrelevant factor when we're talking about financial freedom.

So we want to design our exit, step off whenever we choose or, you know, have the impact that we want. But effectively, velocity of money is about how quickly and effectively we can take $1 and put it to work not just once, but over and over and over again.

Various stages of income

James: Yeah, that's really interesting. I mean, we're already talking about an enlightened group of, if someone is a business owner, because even before that, I mean, there's two stages before that, that I can think of. One is the stage where people don't work at all, and they're on benefits. And there may be totally legitimate reasons why that's the case. In Australia at least, there's quite good government support for people who can't work. There's even a fair bit of support for people who won't work.

And their plan is, it's got to be low impact, right? They're basically going to be getting handouts for as long as that gravy train lasts. And their plan is just to basically draw from society, from that social benefits. The next stage is people who are employees, and they probably really are into that sort of, get a job, get paid, go to school, get a good education, get a good job, be a doctor, lawyer, solicitor or whatever, or then some trade or blue-collar work, forklift driver, it's okay.

And they're definitely in the sort of general society thing. And they most likely will not have enough or a surplus by the time they retire. If they've been in police force or something like that, they might get some industry payout that tops them up a little bit and gets them a line above the pension.

Of course, there's lots of other countries, people listening to this show in countries where there is no retirement or superannuation. The plan there is usually, have a lot of kids and climb to the top of the scrapheap. And you know, try and clamber over others and try and get something and be supported later in life by family.

And it's really fascinating to see, a lot of the people who work really, really hard and achieve things quite often come from a poor background, because they've sort of had something kick in, and they have to activate. A lot of the billionaires, I know Frank Lowy for example, several others, I've read Frank's book, Pushing the Limits, it was great. He had nothing. He came to Australia without even English. He had absolutely nothing, came from concentration camps.

So they tend to sort of overcompensate. I think even Warren Buffett talks about having a fairly meager background. So it's interesting to see that we have different layers. There's relying on the pension. There's the have-a-job thing, and then there's the business owners.

We've already activated some mode that says, Hey, I'm going to take on risk, I'm going to take on responsibility. I'm going to employ people, I'm going to pay payroll tax, superannuation, contractors' wages. I'm going to earn revenue, and contribute back into society with wages. And I'll be responsible for that.

But then, there's just that one more step where they could say, Well, aside from putting me to work and my team to work, why don't I put my money to work? And that's the part I've been really interested in lately, because as you go from scramble to moderate success, to wow, there's actually a surplus, it's like, what do I do with that, without being foolish?

And it would be fair to say that most people have not developed this wealth muscle very much. And some people are brilliant and have developed it extremely well. And it is possible, even with a reason, like an average income job, to build quite a wealthy portfolio if you get into it early enough, and you have the right information, and you're into the right assets.

And just to sort of put a little bow on the top of this point, at the moment that we're recording this, there's some crazy stuff going on in the world of crypto. Now, maybe by the time this publishes, there's a whole bubble burst, maybe it's still going like crazy. But you know it when all the internet marketers are onto it. And then beyond that, regular normal people who never knew anything about this are telling me about it now.

So I'm super concerned that it's become a fad. Like even, I heard a story of a surfboard shaper who put in 100 grand, and it's now worth one point something in the last couple of months. And when he's sharing it with his customers, I'm just thinking, Okay, this, you have to put to the side, perhaps there's a little bit of a moment in time.

Wealth-building and timing

So it's pretty hard to know where to get good education and what to do. But let's just keep going down on this topic of timing. I think we've established a case that we should get into it as early as practical. And tell me about the ninth wonder of the world, because that probably comes into play at some point.

Salena: Oh, yeah, look, absolutely. But there was so much gold and different threads in what you just said, James. I just want to tell you a quick story, a Warren Buffett story, which I think supports everything you said. You know, not many people realize that Warren Buffett who's currently worth about 84 point something billion, most of that, 81 billion out of that 84 billion, he only made after his 65th birthday.

So if you were to take his returns over the last however many years he's been investing, he's averaged about 22 percent per annum. So no question, he's a good investor. But what's really interesting is that most of that happened because of the time. So he's a good investor. But if you break it down, his secret is time. He started investing when he was 10, and he didn't retire. So yeah, there's a great story in that, I think.

James: He's also got a Charlie Munger.

Salena: Oh, he does have a Charlie Munger, absolutely.

James: You know, and that's what I see your role for the people you're helping, you're like their Charlie Munger, you're the one that looks at all the stuff. You've got your mental models, you've got your contacts, which is a huge part of what you do.

What do the wealthy people do?

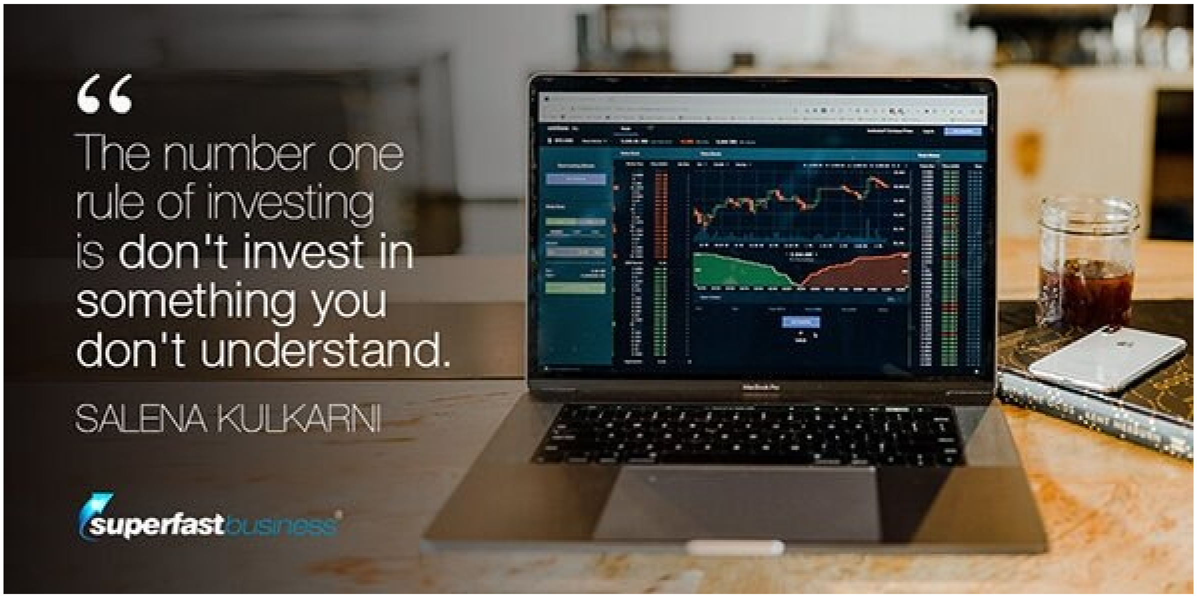
It's like Peter Drucker taught me about business, it's about doing the right things. If you're going to do wealth stuff, you need to have the right contacts, and you need to know, what are the super wealthy people doing that you never hear about down in your local coffee shop or from your Uber driver. Like, it's just a quantum leap away. And some of them sound probably even boring when you discover it. But it's just not generally discussed.

Salena: Absolutely. I mean, for me, relationship capital is the new gold. So yeah, absolutely. But circling back, look, there's that running joke that Einstein talks about, compound interest as the eighth wonder of the world. I genuinely believe that things like the velocity of money is, if that's true, then velocity of money is the ninth wonder of the world.

And if I talk a little bit about how you see it in everyday life, I think intuitively, when people think about the velocity of money, people sort of understand it as a concept. But the problem that I see is there's a disconnect between the actions that you take and how you think about it. So it's our biases that either swing us towards or away from specific investments, and you just mentioned crypto. Sometimes people are led by, you know, I think I can get a certain return, and they're not thinking about it.

James: Total greed. Absolute greed gland. It's still so very hard to say, Well, how could a picture of an ape be worth so much? It might very well pan out to be amazing, especially for artists. We hear Gary Vee talk about it. So that gives it some credibility, where artists will be selling things with royalties, and I accept that that's more than likely. I've even loaded some up to sell because I think it's interesting.

But I've seen some people go crazy, like I know someone who's put every last cent they have into this hype mania. And they don't understand any of the fundamentals whatsoever, like, it's right up there with placing a bet on a horse race, as far as I'm concerned for that person.



Salena: Absolutely. And, you know, I think we talked about this in our last episode. The number one rule of investing is don't invest in something you don't understand.

James: Well that's Buffett’s saying, isn't it around this type of investment class?

Salena: Warren's saying is, rule number one, don't lose the capital. Rule number two...

James: Don't lose any money.

Salena: Yeah, so rule number one. That's what he's saying.

James: They also asked him about things like this hypey stuff. And he's like, I don't understand. He didn't really invest in it. But then there are people like, I think Gerry Harvey, he's a retailer in Australia, he was kind of pooh-poohing the idea of online retail for a while there. And then he had to come to the party. So it could be a case where it really takes off, and you get in early enough, but I think you can be too early.

Like in the original dot com mania, it went too fast, too hot, and then it crumbled, and then it rebuilt. So that's probably what we're going to see with things like that. And we've already seen it with some of the coins, of course, jump up and jump down. They're very erratic.

Measuring money's velocity

Salena: Absolutely. But look, I think when we're talking velocity of money, I think it's a reference. It's simply a reference to how many times a single dollar changes hands, but there's actually a couple of ways that you can measure it. And what we need to understand essentially, is that if you're in an economy, for example, where there's high velocity of money, the perception is that it's a very healthy economy, because what we read from it is if people feel good, then they're spending money.

And if you think about all the stimulus that's flowed into the economy over the last 12 months, the driving purpose behind all of that is to make us feel good so that we actually spend the money. But when we're talking about velocity in business, and then velocity in investing, it's easy to understand when you think about a shop that sells widgets. The goal of the shop isn't to buy the widget, the goal of the shop is to buy the widget and sell it and restock the shelves over and over again.

And that process of turnover is what we call velocity. And so, the business owner knows they're not in the business of accumulating goods. They know that they're in the business of creating velocity. But unfortunately, and I don't want to generalize here, but the typical baby boomer was taught to squirrel, and save, and pay off debt, and invest for the long haul. And they were probably pretty sound principles after the poverty of whatever it was.

James: Well, it was the builder generation before them that would have imprinted them.

Salena: Totally.

James: I spent a lot of time with my grandparents. And they went through war. Probably only in the last year or so, where we've had a pandemic sweep the entire world, have we got to another scenario that could be even remotely similar to war. It's a war on a virus instead of a war on another country. But some people do think it's actually war about country or even governments versus populations.

Like, whatever's going on, you'd have to think, imagine that, but on a pretty grand scale in a time without some of the resources. But they did it tough, and I think they really valued when they could hang on to something and have it, they would value that. And so they had oldschool doctrines. But this is pre-internet as well. I think the internet changed a lot, because the internet allowed anyone to have a business and succeed quickly without having to go to university, or work their way up through an apprenticeship.

It sort of happened to me. I was able to jump across from a regular job into an online business, transporting all my skills. Peter Drucker talked about the age of the knowledge worker way back in the 60s. And it finally panned out in the late 90s, early 2000s. And here we are. And I think what you're saying is, and I certainly read this in the economy, there's going to be a lot of changes with things like inflation, and some of the vehicles where we used to park our money will get left behind.

Should you rely on financial institutions?

Salena: Absolutely, I think that's a good segue. I think, financial institutions in particular, I think they teach us one thing, but they practice another. So they tell us, accumulate your money on our shelves, like, stack your goods on our shelves, don't touch the money.

James: That's so true. I know of an investment bank have high-profile clients, and they pay a guy to do Forex trading for them. And he makes them like, an 80 percent return month on month with Forex, and they pay out their clients, like, 15 percent. And they pocket the rest. And they're paying their regular savings account clients, like, one percent.That's why I think things like DeFi are super disruptive.

And as soon as people can deal with each other directly and not involve a bank, which you can do now on the blockchain, it's like the crosshairs are out, it's just a matter of time now. And as much as governments want to try and regulate it, or whatever, it only seems to drive the value of it up, the more they try and suppress it, because people realize, well hang on a minute, there's actually another option. All we need is our little metamask and some Aetherium or something, and we can start moving money between each other without having to involve a super big organization.

But I guess it's a matter of, where do we want to put that money that's better than sitting in a savings account? How can we put that dollar? Let's do a practical example of velocity. If I give you $1, what do you do with that dollar?

Salena: Well, I think just to kind of round out that point that you're talking about is that, banks rely on us to believe our money's there, and we can withdraw it of any time. But I think we need to start thinking more like banks, because the banks' returns aren't based on the percentage they charge us. That's what we think. The banks make money by working out how many times they can take the same dollar and lend it to as many people as possible.

Creating movement for your money

So that's their version of velocity of money, even though they're telling us to stack our money on their shelves. So if we're going to think like a bank, and think about, well what are our other opportunities, what we're really trying to work out is, how do we create movement and gain multiple uses of our money?

So if we were to go to an example, how about I make it really practical, it's like, imagine you have $100,000. I think that's just a nice round number. Now, you could take that $100,000, and you could go and stick it into the bank, and just get simple compound interest at five percent. And what I have worked out is that if you took that 100,000 now in five years, it would be, say, 137,000. So that's pretty good. Like that's the lowest level of velocity, a little bit of velocity.

So let's add a bit more velocity. Let's say you took that $100,000 and put it into an asset, which could actually compound. So you went to the bank, and you said, Lend me more money, and I'm going to go and buy, say, for example, a house. Now you could go out and theoretically, control a house of, say, half a million dollars. And in five years, that larger asset has compounded with that extra velocity. And it's now worth, let's say, 638, something like that, over five years.

And then you've made, you go, Oh, Well, I've made $138,000 now, but let's add even more velocity. Let's say at the end of each year, you took whatever money you'd make, and put it into a cash flowing asset at five percent. You do the same thing, you take that money, you go and buy the house, and then each year, for some reason, the banks will say, Oh, I'll let you take that off the table and put it into a five percent yielding bank account.

At the end of five years, you'd have $785,000. So you've made 175. And then the final, which, you know, these are all in a perfect world, if you took that $100,000, bought not only one leveraged asset, but at the end of every year, used your gain to buy another leveraged asset, then you'd end up with 1.245 over five years.

So, all I'm trying to say here to people is, you've got to start thinking in terms of, you know, obviously, the banks aren't going to let you pull that money off the table every year, because they're just not that way inclined. But there's a lot of learnings in just getting your head around the simple math.

So simple interest in this 100k example I gave you, 28,000, all the way through to, you know, if you added a little bit of velocity, you 5xd the result. If you added more velocity by compounding into simple cash flowing assets, you made 6.3 times. And if you added more velocity by using further leverage, you nearly 10xd it.

James: So does velocity of money simply mean reinvesting?

Salena: It's about turning over the same dollar. So if you put $1 in, how do you get it back out and then put it into something else?

James: I did that last year with Bitcoin, over and over again, and I got slugged with capital gains tax.

Salena: I know. Well, there's that. And that's why I'm saying we're not talking about, in a perfect world, unfortunately, there's the wrangling that goes with the banks, which is why things like DeFi are a very exciting proposition. But I think there's some key learnings that people can take away and apply.

And that is that the velocity of your money is what will determine the size of your wealth. So it's like a boulder rolling down the hill, you know, it starts out slow, but once momentum gets going, you can actually start compounding at an amazing pace. And that's why Bill Gates, you know, there's a joke that he can't even give his money away fast enough, it just grows too fast.

A second lesson here is, the more you leverage, the faster you will be able to reemploy your money, the faster you'll be able to build your wealth. So that's just a no brainer. But leverage is really just compound interest using somebody else's money. And that's not to say you should always leverage it. I mean, this is just a principle of wealth building, but to be an investor, you need to receive money, and invest it forward.

Playing with other people's money

And once you're playing with the house money, there's nothing to lose. And professional gamblers know this, and I'm not advocating gambling at all, but once they're playing with house money, and they still got their money back in their pocket, that's how they get creative.

Professional investors who get their money back and then use the cash flow from their investments to make further investments, they understand the same thing. So when you're building and playing with cash to build wealth, you reduce the risk to your own money. And so then if you make a bad investment, you can weather it, and it's all okay.

James: OPM, hey, other people's money.

Salena: Other people's money.

James: It's exactly my strategy. In Sydney, there used to be RSL clubs, but especially the big club that has poker machines and cheap roast dinners. I used to go there when I was a kid, 18 years old, and play snooker on the big tables because there weren't many people there, and they had cheap alcohol.

Anyway, sometimes I'd put, like, $5 or $10 into the poker machine, but if I got a payout, I'd always take my initial capital back out, put it in my pocket and only play with the winnings. And I still do that now. Even last year when I bought and sold the bitcoin several times, as soon as I made a profit, I took my seed money out, and then everything after that was just speculative, and I could afford to lose 100 percent of it, and I was no worse off.

And it follows Warren Buffett's rule, I suppose. Same last year, I was trading US stocks, and I doubled my money fairly quickly. And I took my original capital out, and then just played with the profits. And so, I wasn't staying up at night worried about my trade, or whatever. Basically, whatever happens, happens now. I've set my limits, I've set my strategy. And I've followed my own system.

And it wouldn't matter if the whole thing melted to the ground, because I didn't lose more than my initial capital after I got past that first phase. So it's a good strategy. What you're talking about, the snowball, is exactly what I teach about memberships. They're a bit of a hassle to set up, got to find your offer and get it all lined up.

And once you get an offer that converts, and you then work on retention, keeping customers, then it grows and grows. And I'm happy to report with SuperFastBusiness membership, I just looked at last month's figures, so even now, at this late stage, keeping in mind I started this membership in around 2009, still having its best months because of that magic of getting in early and continuing to work it.

In conclusion...

So the big idea from this episode is that you want to start building your wealth muscle early. You want to get that money working for you, just like a bank would, and put it out to work. Don't let it sit around, be lazy. Salena, if someone wants to get in touch with you, how do we do that?

Salena: Probably the easiest is just via email. So salena@inkosiwealth.com.

James: Love it. We'll put all your details here in Episode 878, SuperFastBusiness.com. We will transcribe it. If you've got a question for Salena, I'm inviting her back for more episodes. So just email me your question, or email Salena your question. And we'll make sure we cover it on a future episode.

Just a final reminder, I'm not giving wealth advice. The things I'm talking about are really just my own styles and interactions, and I'm just facilitating a conversation here with Salena, and we're just talking in general concepts, but hopefully, we've given you an incentive to take an interest in your own wealth building. And we look forward to catching up with you in a future episode.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