

“It’s been almost 20 years since we’ve been out of college” Travis said as we reminisced about our college days over coffee.

“I know it seems like it was ages ago.”

Travis was a good friend of mine. We’ve know each other since college. He’s always had a good financial sense so I was considering working with him since he became a Registered Investment Advisor.

“You know,” he continued. “You really caught my attention in college because you always had money in the bank, unlike the rest of our friends. I never asked you, why that was?”

“Oh. That was because of what my Uncle Pat taught me.”

“I remember you talking about him before. What did he teach you that made such an impact?”

I laughed slightly as the memories came back along with a mix of emotion. “Wow, where do I start! Well, my Uncle Pat owns a successful construction company. He built it from the ground up, worked hard to get there, and in the midst of his great success, never lost his level head. His motto: ‘You should never allow your own personal bias get in the way of learning something new. You get the facts and see what the math has to say about it!’ There’s always a lesson when hanging out with Uncle Pat.

“When I was about 20, he suggested I come work for him. There were only three conditions:

1. It would be 30 days straight
2. 16 hour days
3. Digging ditches every day

“I had my hesitations until he offered me two payment options I couldn’t refuse:

- A. \$100,000 after 30 days or,
- B. Start with one penny a day but the balanced doubled every day for 30 days
(\$5,368,709.12 using a calculator)

“Well, I can do the math and went with option B. You can imagine my elation dreaming about what I’m going to do after 30 days of work and finally seeing that crisp white envelope. But not everything turns out the way we expect.”

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“Keep going, you’re doing great!” Uncle Pat smiled over his sweating Pepsi.

No matter. I wiped my grimy hands on my jeans and re-gripped the shovel. My thoughts turned back to which island I was going to relax on first, once I got paid. Which beach was whitest? Which had the fewest sharks? I better book a flight soon – only five days left!

Five hot days of sweat, dirt, and exhaustion later I was cleaned up and in Uncle Pat’s office.

“Well, you made it. Congratulations. As promised...”

I reached out, shook his hand and accepted the white envelope. I could smell the paper, clean and fresh as opposed to the earthen smell from the past 30 days. It was welcome – especially knowing it held my future.

I opened the envelope. For just a few seconds, all I could hear was the pounding in my ears. The room grew extremely hot and I felt betrayed by the man I'd trusted for years.

"\$48,196.86? What is this?" Is all the response I will politely repeat.

"Now don't get upset, John. While you accepted one of my options, you did not specify the environment I would pay you out of. You were given the money you were promised. What you received is what is left after taxes have been taken out."

I could feel a lesson coming on.

"Why don't you take a seat, John. There are three environments your money can work in. Pay attention now – the environment you put your money into is more important than the specific strategies or any tactics being used. Can you guess what environment I'm talking about?"

"No, but I have a feeling I'm about to find out"

"Yes you are. The three environments I'm referring to are taxed-as-you-go, tax-deferred, and tax free. I chose to have your money work in a taxed-as-you-go environment."

"Well that really sucks. Because if I had known that I would have chosen option #1. You cheated me out of \$52,000 dollars. But I did the math, where is the \$5,368,709.12 dollars coming from?"

He said, "That's an example of a tax free environment. Where your money is unaffected by tax. Now the third environment is tax-deferred, most known to be 'qualified accounts'. And given that example, it would have grown to \$3,758,096.38 dollars."

"Well tax-deferred is way better than tax-as-you go, why couldn't I have had that one?"

He said again, "You neglected to ask me what environment I was going to have your money work in."

It's sometimes those painful examples that you remember the most.

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"That's a powerful lesson, John" Travis interjected as he leaned back in his chair, bringing me back to the present day.

"So the first lesson I learned – the one that made the biggest impression on me to this day – The environment your money is working in, is more important than the specific tactics and strategies that are being used."

"That's a good lesson to live by. I never heard someone put such an emphasis on the environment so much."

"That was just the first lesson I learned that day. The second one almost made my head explode."

"Sounds messy." Travis joked as he sipped on his coffee. "Tell me more about this next lesson..."