

# Do You Suffer From LOC?



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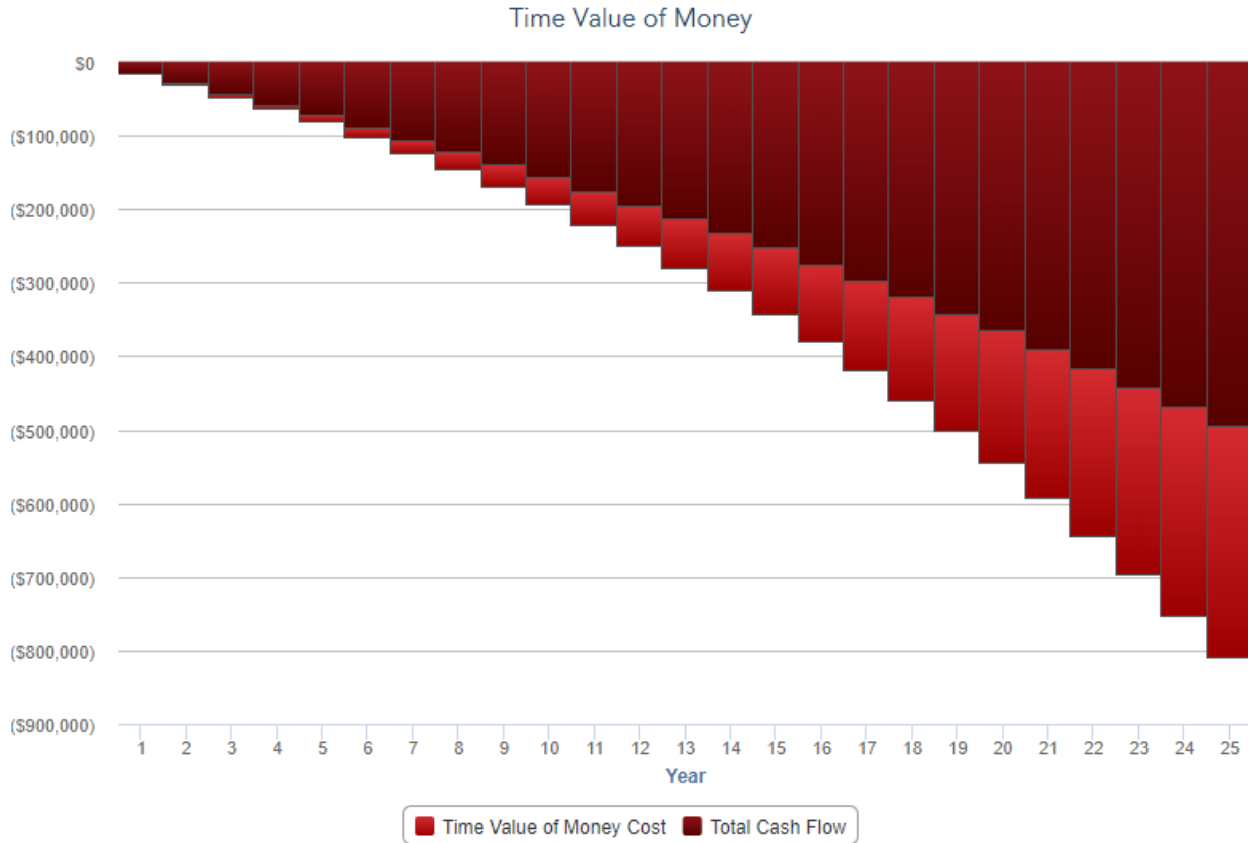
Let's assume today is your lucky day! Let's imagine that I am going to give you \$10,000 and you can do anything you want with it! You can spend it, you can use it to purchase a new jet ski, or perhaps purchase airline tickets and a hotel for that trip you have been contemplating taking your family on. Now, let's assume that before you were able to even decide on what you will do with this money, you lost it. Perhaps you threw it out accidentally in the garbage, or it flew out the back of your car windows while driving. That would be a total bummer for sure! My question to you is this...How much money did you lose? If your answer was \$10,000 you are wrong! Let me explain. LOC, is short for Lost Opportunity Cost. It is a term that is not used often in our everyday lives, but is most likely happening to us every day, most often without even realizing it.

In my example of losing the \$10,000 before you were able to spend it, consume it, or even save it, let's assume you are 40 years old. If your expected enjoyment age is 65, excuse me.... retirement age (I really don't like to use the word retirement; it sounds so outdated. I love calling it enjoyment, because if you are not consuming your time working anymore, you are enjoying your time not working) then you would be expected to work another 25 years. That 25-year time gap between age 40 and age 65 is time that your money has the opportunity to grow in value. If the \$10,000 is now gone, you will LOSE the opportunity for that money to potentially grow, earn interest and compound to be a larger value by age 65. For example, if you could earn an interest rate of 4% over 25 years (forgetting about taxes for a moment on any earnings, and let's assume the return is linear, meaning it's 4% each year), your \$10,000 would now be worth \$26,658. If you can put the math together, your LOC or Lost Opportunity Cost would be the potential for it to grow to over \$26k.

Now take this concept and apply it to everyday life. The small things, such as going out to dinner, has a LOC. Getting a new iPhone 11pro has a LOC. We can argue that you get something of value, or a need such as food, but if it isn't something that is appreciating in value, there is a LOC, period. Some LOC's we can avoid, others we cannot. There is always the basic needs of life that we must pay for. However, having the knowledge of this concept can really help you to be more aware of it, and make more intelligent financial decisions, that can produce a greater financial outcome for you. LOC is a massive force and one of the largest eroding factors of wealth.

Consider this example below. We are going to examine a married couple, each with car payments totaling \$1,200 a month (\$500 and \$700). That is \$1,200 a month coming off their balance sheet

to finance car purchases over 25 years, assuming age 40-65. Each 5-year period, the cost of the new car purchase increases 3% for consideration of inflation (the fact that items will cost more over time). As you will see in the example below, purchasing depreciating assets like cars over time will have a massive LOC on wealth building potential.

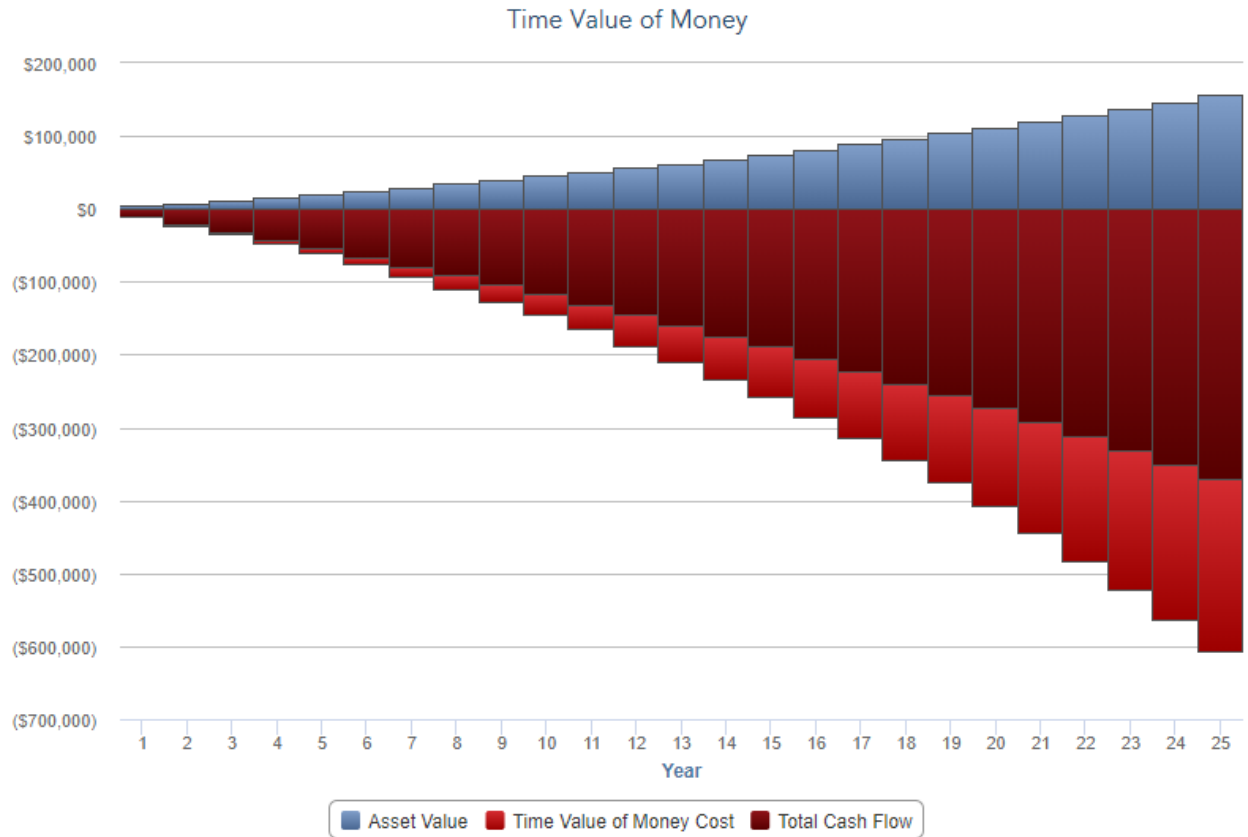


Summary	
<b>Assets</b>	
Beginning Asset Value	\$0
Future Asset Value @ 0%	\$0
<b>Cash Flow</b>	
Expenses	\$494,443
Time Value of Money @ 4%	\$314,260
<b>Total Costs</b>	<b>\$808,703</b>

As you can see, the combination of car payments and the LOC on making those car payments means this couple will have \$808,703 missing from their retirement assets! This assumes they could have earned 4% on the \$1,200 a month car payment over 25 years.

Now let's examine an alternative scenario, in which this couple chooses to purchase cars that do not cost as much and can save \$300 a month over 25 years. In the chart below, you can see that this has a pretty large positive affect on their outcome. This would mean that they can save the

\$300 a month, and in keeping with our same example, earn 4% on that \$300 a month for 25 years.



Summary	
<b>Assets</b>	
Beginning Asset Value	\$3,600
Future Asset Value @ 4%	\$155,922
<b>Cash Flow</b>	
Expenses	\$370,833
Time Value of Money @ 4%	\$235,695
Total Costs	\$606,528

As you can see, the savings of \$300 per month, now being used towards an asset that appreciates over time, can put \$155,922 back in this couple’s pocket over this same 25-year study period.

What can we take away from this study? Having an awareness to LOC can help us to make more financially intelligent decisions now that can have a major positive impact later. When purchasing something new, ask yourself, is it worth it? This does not mean that we cannot enjoy life and participate in buying items we truly want. It does however give you the financial intelligence to be more aware of the impact your financial decisions have on the long term. Working with a financial model that can test these principles in your life helps give you the

awareness BEFORE you make the decision. This is because you can stress test your decision first and see the outcome before you participate in it.

This can help to improve your overall financial well-being! When you think with the mindset of “how will this impact my areas of protection, assets, liabilities and cash flow” you can make more intelligent decisions. Perhaps the recapture or avoidance of LOC can be redirected on your financial model to increase your wealth and protection. Therefore “holistic” financial decision making is so important. Making financial decisions in an isolated manner does not give you the ability to understand how that decision will impact your other critical areas of financial importance.

### **Ask yourself if you are suffering from a case of LOC!**

Check out [my website](#) and follow me on [linkedin](#)



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