

Create Your Own Economy

A Publication of The Renschler Company

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This is a tale of two investors with the same opportunity. One prospered and the other...well, you'll see.

Our first investor was tired of writing one check after another to pay for a 20-year-old cooling system that he had in his home. He estimated he could easily save \$800 each year in maintenance calls and the added energy costs that came from running such an old, inefficient piece of equipment. He saw the door of opportunity open when he asked the person servicing the cooling unit if their firm would install a new, energy-efficient cooling system. The service technician said that indeed he could replace that old unit with a high efficiency unit for \$5,000!

At that point, our first investor thought he had opened the door of opportunity only to be shocked by the \$5,000 price tag. His first impulse was to close the door fast! But, first he had to prove this was a bad idea by using a payback calculation which sounded like this: If I spend \$5,000 today, how long until I get my money back given I will be reducing my annual operating costs by \$800? The math is easy and goes like this:

$$\text{Payback} = \$5,000 \div \$800/\text{year} = 6.25 \text{ years}$$



Who wants to come up with \$5,000 and then wait over six years to get the money back? This was obviously a bad idea, that old cooling system is looking better now, and our first investor walks away believing he saved himself from ruin.

Instead, our second investor borrows the \$5,000 from a bank by taking-out a 15-year, 6% APR loan and gives that \$5,000 to the service technician to install a new cooling system. The payment on the loan is just \$500 each year. Since the second investor reduced his operating costs by \$800 a year with the installation of a new cooling system, his positive cash flow is:

$$\text{Positive Cash Flow} = \$800 \text{ saved} - \$500 \text{ loan payment} = \$300 \text{ net savings each year}$$



Keep in mind that the \$300 of annual income (savings) starts

immediately, no payback period, and our second investor never puts a penny into his investment. Which investor are you?

Want to know more about how this technique can be used to build wealth for you and/or your clients with no waiting period? Stay tuned for the next issue of *Create Your Own Economy*, or contact Eric Truelove at 608.827.1169 or erict@renschler.com.

For more information please visit our website at www.renschler.com.

Which investor are you? Do you concentrate on payback or return on investment using borrowed funds? Next month we will provide a real-life "food for thought" example.

Sincerely,

Bernie Lange, President
608.827.1164



Renschler Company's Director of Sustainable Design, Eric Truelove, provided a complete heating, ventilating, and air-conditioning (HVAC) design for the Madison Investment Advisor's 11,000 square-foot office building. HVAC includes a ground source heat pump system and air-to-air energy recovery. First year energy bills scored in the upper 90th percentile of Energy Star®. This facility received a Focus on Energy Award of Excellence in 2012.