ROI-CALCULATING ACCURATELY

The phrase "return on investment" (ROI) is thrown around a lot, but do you know what it really means and how to calculate it?

Three ways to calculate ROI
Cash-on-cash If $20,000 is invested and it grows by $10,000, it’s a 50 percent cash-on-cash rate of return, which is great for wealth building.
Total amount of investment If you put $20,000 down for a $200,000 mortgage, the growth is happening on the $200,000, not what you originally put in. This is arguably less relevant because the amount made on what was originally put in is more important and helpful.
Lost opportunity cost When you’re looking to raise money with another person’s money, you need to demonstrate the loss he could incur if he doesn’t invest. If you have an investment that pays a 20 percent interest and the lender has money in something that only pays 5 percent, you need to show him how much he is losing if he passes up your opportunity.

What the rich do that we don't
The rich develop a wealth building niche that allows them huge rates of return on what they do—real estate, investing in the market, your day-to-day business. Once they make the money, without fail, the wealthiest of the wealthy buy bonds, key bills or some other type of fund that pays a return of three percent to five percent. They want to protect their principle. They only roll the dice in an area of expertise where they can expect a safe return.