

THE BANKING EFFECT

**How to Acquire Wealth
Through Your Own Private Banking System**

4th Edition

Dan Thompson

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Dedication

In my previous book, I dedicated it to my Father, Del, who at the time was losing a battle to liver failure. He is my Dad, my mentor, my friend, and my teacher. He is the one person I could talk to who understood. His life was not an easy one, but it was a happy one. He made the most of every situation and saw the good in people quickly.

He was extremely good with people and as a business owner, his customers enjoyed buying from him.

Several months ago my Dad lost his battle with his disease and passed away. It was a sad day. Although I know he's much happier now, as he can spend time with my Mom who preceded him, we will all miss him.

Almost everything I know is somehow rooted in what he taught me. For that I say, "Thanks Dad, you are the best!"

Once again the dedication for this book goes to my Dad.

Preface

There has been a significant demand for writing this second book. My first book, “**Discovering Hidden Treasures**” has been an overwhelming success. It was written to help the business owner incorporate strategies that will help him/her in creating wealth and extracting wealth from their business.

The first book helps the business owner utilize other non-traditional methods of retirement planning as well.

The question then arose, how does one implement the banking concepts discussed in “**Discovering Hidden Treasures**” within a family or personal situation? The simple answer is, “the same way” albeit there are a few differences. However, the strategies are easily incorporated into the family finances - in fact, it’s even easier. In this book, “**The Banking Effect**,” we will walk through the banking process step by step which again could be used by the family or the business owner as well.

There are a few concepts that have been carried over from the first book to this book, simply because they need to be understood whether you are a business owner or not.

Both books will certainly complement each other and a person who owns a business may glean additional information from this book, and vice versa.

One addition to this book is the area for **NOTES**. At the end of many of the sub-chapters, there is a space for notes. This is a great place to write down your thoughts, questions, and ideas. Take advantage of this section. Write down financial information and objectives where appropriate. This way, when you talk to someone who can help implement your banking system, you will have notes to refer to for all your questions.

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Foreword

Why another volume? Good question! My first book “**Discovering Hidden Treasures**” is full of valuable ideas and strategies that can really help. It seems like that would be good enough, but unfortunately it’s not. There is so much to think about and learn from the economy, investing, and understanding the “banking effect.” Developing and implementing the techniques and strategies are important, but seeing them in action can be something quite different. Similar to the first book, most of what is discussed in this book is meant to get you thinking. Not all ideas work for every situation, thus understanding alternatives can be extremely beneficial to the reader.

Once again you will be introduced to ideas that you may have never heard of before, nor knew they existed. Why? I wish I had a good answer for that. The only thing that I can think of is “comfort.” Not YOUR comfort, but the comfort of those from whom you seek financial advice. These “Financial Advisors” get comfortable with their products, they may not be looking for better solutions, and worst of all they may not be able to even look “outside-the-box.” And why is that? Because of who they work for, or who they are affiliated with. Yes it’s true; many financial firms dictate what products their advisors can promote and sell. Your advisor’s hands might be tied. He/she may not be able to offer certain products to you. In addition (and this in my opinion is much worse), he/she may be “coerced” into selling you their specific products in which the company makes a greater profit!

Either way, be it out of comfort or control, an Advisor who cannot bring, embrace, or furnish his clients with some of these ideas and concepts may not only be hurting himself/herself and their future but ultimately you, the investor, looking for strategies and ideas that really work.

“If what you thought you knew was true turned out not to be true, when would you want to know?”

– Don Blanton

After reading this book you may find a lot of things that you thought were true about money, risk, and investing - but in reality are not! Question is: **“When do you want to know?”**

Current Economy

How Did We Get Here?

A few years ago, I was hiking in the Sawtooth mountain range near Stanley, Idaho. If you have never seen this mountain range put it on your “Bucket List” as it is a beautiful site to see. I was with a group of 11 other hikers. We had been hiking all day long and everyone was getting pretty tired. It didn’t help that we had taken two “detours” that took us two or three miles in the wrong direction. This added to the miles we hiked for the day. What was interesting is that our guide had a GPS with him. His GPS had shown him a couple of “short-cuts” which would have supposedly saved us time and miles; so we took the short-cuts. To our chagrin both short-cuts turned out to be dead-ends. At each dead-end we had to turn around, go back the way we came, and start again from the point of our detour.

After two such “detours,” when presented with the third opportunity to take a short-cut, we all yelled in chorus, “**NO!**” We stayed on the trail that we knew would get us to the lake, which was our stopping point for the night, and a trail that had been proven, time and time again.

Even with a GPS, which was supposed to show us the way, we still got lost and added many hours to our hike for the day. It may have eventually lead us to the lake, but we would have needed mountain climbing gear, chain saws, bull-dozers, and logging trucks to make it – so much for the GPS.

Now please understand, I’m not slamming the GPS system, it did its job. I love technology and have a couple GPS systems in my cars and rely on them often. What it does show is that there are proven “roads” that even new technology cannot improve upon. Maybe you have experienced this before: My GPS does not always take me on the most direct course. Just recently on a trip to Portland, I was winding all through several subdivisions to reach my destination. When I looked on the map I found that I had taken an unnecessary “tour” of the Portland suburbs. Even though you would think that a GPS has the most up to date directions, it is not always the case. Alright, enough about GPS technology- on to my point!

How many detours has our government taken with the economy, thinking it was a short-cut, veering off the proven road, only to find a dead-end, or worse; a disaster? I get the feeling they are telling us that they have a GPS and we will not get lost. They tell us that they have new technology that really works and will get us there the fastest way possible. Even though you can read about past failed policies, economies, and even failed governments, today’s politicians seem to think that THIS time, the short-cut, will be different and we will reach our destination faster.

It seems they want us to forget about the path that is proven and the path that will get us to where we want to go, and the path that built this country from nothing. They tell us the short-cut will get us there faster. I want to know: “**Who is reading the GPS for this economy?**”

Here are some facts about the economy:

- Our Stock Market was cut in half. It has made a recovery, but is far from recovered. There is still fear that it may not be what it used to be and there is even talk about a double-dip recession.
- Real Estate experienced 50-80% declines depending on where you live. In parts of Michigan, you can't give your house away. Developers went bankrupt by the thousands.
- Interest rates are still at an all time low. This is good and bad. Good if you are a borrower, bad if you are elderly trying to live off your interest. The real problem is they may be artificially low.
- Our debt is increasing by the minute. When I first started writing this book our national debt was: \$11,948,941,200 and counting up faster than I could type. By the way, that is **11.9 TRILLION DOLLARS**. The day this book went to be published the debt had grown to, \$13,706,012,500,000. Our debt has grown by 2 Trillion in the last couple of months. Check and see for yourself where it's at now at www.usdebtclock.org
- China owns 791 Billion in American Debt as of August 2009. What would happen if they wanted to cash in? What demands could they put on us? Japan owns 731 Billion.
- Our mortgage debt is 14.29 Trillion. One problem though; our homes are not worth that much anymore. Some estimates in home values are as low as 7 Trillion. We owe more than our homes are worth - we are upside down in mortgages throughout the country.
- According to the US National Debt Clock, www.usdebtclock.org, the US has over 106 Trillion in unfunded liabilities. This includes Social Security, Medicare, and prescription drug liabilities. By the way, our GDP (Gross Domestic Product) is 12 Trillion. This means we have almost 9 times more in liabilities than our entire country can produce in one year.
- Taxes are being raised in one form or another. If not by the actual tax-bracket rate, then by the levies put upon businesses and users of certain products. Gas tax, sales tax, property tax, use tax, cigarette tax, tax on tax.....you get the idea, you will see an even lengthier list later. You may be in the lowest tax bracket that you will ever be in. There are no two ways about it; the government is spending faster than it is collecting. Sooner or later you and I are going to have to come to the rescue, and then it will be our turn to "bail-out" the government. Boy, I'm really looking forward to that!
- Here are some other interesting facts:
- Government tells us that healthcare is breaking families and putting them on the streets and in poverty. They had to "fix" this situation NOW or we were all going to go bankrupt or die from lack of medical care. They also tell us the doctors will do unnecessary surgery, maybe even cut off your feet, just to earn a buck.
- Government tells us that we will all soon be sun-burned from global warming and that all our crops will burn in the heat and we will eventually be wiped off the planet because we create too much carbon dioxide.
- Our educational system is deteriorating and has been decreasing in its ability to educate for years. On the upside though our children do know more about why Johnny has two Mommies.

That will get you into Harvard. The answer of course is to throw more money at it. I know, get the GPS, there has to be a short-cut!

- It is okay to pray, meditate, talk about, teach about, accept, and respect any religion, in public places, and in public schools, as long as it's not a *Christian religion*. If you are going to talk about Jesus in a public place, you better put the muzzle on, and quick, because the ACLU will have you in a lawsuit so fast that your head will spin. If you are a teacher and talk about a Christian God, get ready for the battle of your life ... not to mention your job. Feel free however to talk about any other God, Goddess, Muslim, Alternative Lifestyle, Atheism, or cult worship, as you choose, just do not speak of Christianity.
- Schools can only teach "proven science" when it comes to the earth's creation. In other words, Darwinism and the Big Bang Theory are certainly proven undisputed scientific truths. There can be no discussion on creationism or anything even remotely religious when it comes to the earth's creation or somehow we are mixing "Church and State."
- You may also discuss and talk about Socialism, Communism, and any other "*ism*" except Capitalism. To be a Capitalist means you are greedy, thieving, and conniving, and you are taking advantage of the poor.
- The small business owner is getting squeezed from taxes and additional demands put on them to protect the employees. As a result, new hiring has almost come to a halt.

So there you have it. Now that we have our challenges laid before us, let's see if we can make some headway on how to solve some of our problems and how to make financial decisions based upon what we are faced with. It may not be an easy task, but what choice do we have? Our economy has changed and we must adapt.



TAXES

Before we get started on taxes, let's take a look at some of the taxes we pay....whether you know it or not!

Federal Income Tax	Personal Property Tax
State Income Tax	Property Tax
Estate tax – when you die	Real Estate Tax
Accounts Receivable Tax	Service Charge T ax
Building Permit Tax	Social Security Tax
CDL license Tax	Road Usage Tax
Cigarette Tax	Sales Tax
Corporate Income Tax	Recreational Vehicle Tax
Dog License Tax	School Tax
Excise Taxes	State Income Tax
Federal Unemployment Tax (FUTA)	State Unemployment Tax (SUTA)
Fishing License Tax	Telephone Federal Excise Tax
Food License Tax	Telephone Federal Universal Service Fee Tax
Fuel Permit Tax	Telephone Federal, State and Local Surcharge Taxes
Federal Gasoline Tax (44.75 cents per gallon)	Telephone Minimum Usage Surcharge Tax
State Gasoline Tax	Telephone Recurring and Non-recurring Charges Tax
Hunting License Tax	Telephone State and Local Tax
Inheritance Tax	Telephone Usage Charge Tax
Inventory Tax	Utility Taxes
IRS Interest Charges IRS Penalties (tax on top of tax)	Vehicle License Registration Tax
Liquor Tax	Vehicle Sales Tax
Luxury Taxes	Watercraft Registration Tax
Marriage License Tax	Well Permit Tax
Medicare Tax	Workers Compensation Tax

That was fun, wasn't it? And that is not an all-inclusive list. It's no wonder that people get into the 50%-80% tax bracket pretty quickly when you add up all the potential taxes one has to pay.

I'm sure you know by now that taxes are huge expenses for all of us. Taxes can amount to 40%-60% of all the income we will earn in our lifetime. It single handedly is the largest wealth transfer we face, and it does not appear to be getting any better.

With the current spending that is going on, the debt our country is racking up, it leaves us little doubt that tax rates may be going up. If you notice on the list above, most of the taxes we pay are "silent" taxes. In other words, we do not account for these taxes anywhere on our tax returns. Most of them are just soaked up into everything we buy. If Congress cannot tax us openly by raising the tax brackets so we can all see, they certainly can find a way to sneak additional taxes on us with excise taxes that are silently killing us.

Financial Reality

Back to the Future

Did you ever see the movie, “Back To The Future II?” Wouldn’t it be great to be able to go forward in time, get a sports book that has all the major winners for the next 40 years and then bet on them? What would be even better is if you could pick up a few Wall Street Journals from 2055. What would it be like if you knew about and could invest in companies like Microsoft, eBay, Yahoo, or Google? Knowing exactly what companies to buy while they are in their infancy, for pennies, could prove to be very lucrative! Anyone have a DeLorean?

Unfortunately the only way to know what you should have invested in is to look back and wish you would have had enough insight or “smarts” to invest. Most investors miss the big opportunities.

Even today when picking a mutual fund, what is one of the first questions asked? What is its past performance? Even though it is clearly written on every form of advertising material that “past performance is no guarantee of future results” we all want to know if this fund, stock, bond, or REIT has performed in the past. If the truth was told, most investors invest in a fund because of past performance. That is why every year when “MONEY” magazine posts its ten best funds for the year, scores of investors run like sheep to invest their money into one of those funds. What most *sheeple*, or investors don’t know is that rarely does one of the top 10 funds ever repeat year after year. In fact, sometimes the best funds are the obscure funds that are small and closed to new investors.

The truth is everyone invests based on past performance. Even asset allocation models are devised, analyzed, and created from past performance. Which is why you can’t trust the allocation models year after year because they change, and unless you make those adjustments yourself or have them changed automatically for you, your model may have changed without you knowing it.

A good example is this: Years ago you would not find many allocation models that included Precious Metals... i.e., gold. But what has happened to gold over the past few years? It has been a winner! So what does nearly every model include now? You got it. Gold, or at least precious metals, as most all metals increased in value. The problem is they are changing their model AFTER the fact. What good is that to you? Now you get to buy gold at all time highs. It may go higher, but the point is that the model was adjusted and changed based on past performance! Pretty frustrating isn’t it? It’s like, “Thanks for telling me how I *should* have invested over the past decade. I could have figured that one out myself - Einstein!”

Our Tax System

The next battle we have is our current tax system. We hear the cries for our politicians to tax the rich and give it to the poor. But does that really work? Will that promote hard work and the desire for gain? Below is a story of 10 men and it depicts our tax system.

Suppose ten men go out for lunch every day and the bill for all ten men comes to \$100. If they paid their bill the way we pay our taxes, it would go something like this:

The First Four men (the poorest) would pay nothing.

The Fifth would pay \$1.

The Sixth would pay \$3.

The Seventh would pay \$7.

The Eighth would pay \$12.

The Ninth would pay \$18.

The Tenth man (the richest) would pay \$59.

So, that's what the ten men decided to do.

The ten men ate at the sandwich shop everyday and seemed quite happy with the arrangement, until one day, the owner threw them a curve. ***"Since you are all such good customers,"*** he said, ***"I'm going to reduce the cost of your daily lunch by \$20."*** Lunch for the ten now cost just \$80.

The group still wanted to pay their bill the way we pay our taxes. So the first four men were unaffected. They would still eat for free. But what about the other six men, the paying customers? How would they divide the \$20 windfall so that everyone would get his fair share? They realized that \$20 divided by six is \$3.33. But if they subtracted that from everybody's share, then the fifth man and the sixth man would each end up being paid to eat his lunch.

So, the owner suggested that it would be fair to reduce each man's bill by roughly the same percentage that he was previously paying, and he proceeded to work out the amounts each should pay.

And so the fifth man, like the first four, now paid nothing (100% savings)

The Sixth now paid \$2 instead of \$3 (**33%** savings).

The Seventh now paid \$5 instead of \$7 (**28%** savings).

The Eighth now paid \$9 instead of \$12 (**25%** savings).

The Ninth now paid \$14 instead of \$18 (**22%** savings).

The Tenth now paid \$49 instead of \$59 (**16%** savings).

Each of the six was better off than before. And the first four continued to eat for free. But once outside the restaurant, the men began to compare their savings.

"I only got a dollar out of the \$20," declared the Sixth man. He then pointed to the Tenth man and said, "but he received \$10!"

"Yeah, that's right," exclaimed the Fifth man. ***"I only saved a Dollar, too. It's unfair that he got ten times more than I!"***

"That's true!" shouted the Seventh man. ***"Why should he get \$10 back when I got only two? The wealthy get all the breaks!"***

"Wait a minute," yelled the First Four men in unison. ***"We didn't get anything at all. The system exploits the poor!"*** The nine men surrounded the Tenth and beat him up.

The next day the Tenth man didn't show up to eat, so the nine sat down and had lunch without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them to pay even half of the bill!

And that is how our tax system works. The people who pay the highest taxes get the most benefit from a tax reduction.

Tax them too much, attack them for being wealthy, and they just may not show up anymore. In fact, they might start eating overseas where the atmosphere is somewhat friendlier.

For those who understand this crazy system, no explanation is needed.

For those who do not understand this simple story, no explanation is possible.

Bottom line is this: No matter what you think about government, politicians, healthcare, Democrats, Republicans, or the stimulus, it is almost a guarantee that taxes will have to go up at some point - and probably dramatically, maybe more than we've ever seen before, especially if our Government cannot reduce spending. Think about this: what if you are in the lowest tax bracket that you will ever be in for the rest of your life? If that is the case, when would you prefer to pay your taxes, now at the current rate, or later at a higher rate?

The cry is to further tax the rich, but don't you think they will figure out a way to avoid increased taxation, such as take their business overseas? What would that do to America? The poor certainly aren't going to be paying a higher tax.

Notes



Retirement Plans

There is one other source of tax revenue that you might want to think about... or on second thought, maybe you don't want to think about it because it might turn your stomach. Remember all that money that has been put into retirement plans for the last 20, 30, 40 years? Do you know how much are in those plans?

According to the "Employee Benefit Research Institute" In 2004, there were 6.7 TRILLION dollars in 401(k)'s and IRAs alone. This does not account for defined benefit plans and pensions.

Reuters had an article on June 9, 2009 that stated there were \$14.9 trillion in retirement plan assets through 2008. As you know, this is down substantially from its all time highs. Many 401(k)s became "201(k)s" after the recent market decline. That is a clever way of saying that 401(k) values have been cut in half!

The question is how do you think the government views these assets? Do you think they think of them as "your" money or "their" money? My bet is they think of it as their money, or certainly as their potential tax stream.

Do you know who came up with the retirement plan concept? The Government. **ALWAYS** remember this important phrase: ***"What the government giveth, the government taketh away!"***

Has it ever crossed your mind that the government could change its mind and make this money taxable at anytime? I actually don't think they will be that bold, but they may have another trick up their sleeve.

Is it possible that the government could add an excise tax to all distributions? In other words, they could plead their case that by their benevolence, you have been able to put tax deductible dollars into an account and have it grow tax-deferred all these years. The government had to do without because it allowed you to defer your taxes that were rightfully theirs. However, let's not argue about how benevolent the government has been. How about a compromise? Rather than make the entire account taxable now, they will add a small pittance, maybe an additional 8-10% to your tax bill as you take it out. It's a small price to pay for the government allowing you to use their money all these years... isn't it?

It's called an Excise Tax and I've heard rumors that it is already in the works. If it's a possibility, does it change your thinking on government-sponsored retirement plans?

Remember, if you used a government plan to "defer" your taxes, all you did was POSTPONE the inevitable tax. It isn't a matter of **IF** you will pay taxes on the money. It is a question of **WHEN**. In the next chapter, we will discuss how there are only two ways you could actually win with a retirement account. And both of these ways may be in jeopardy. It might be time to rethink your retirement planning strategy.

Saving for Retirement

I'll bet if you ask your financial advisor or your CPA what is the best way to save for retirement or avoid taxes, the number one answer is: ***"Invest in a retirement plan such as an IRA, SEP, or 401(k)." It's an easy answer. It's the conventional answer. And it's one that you will not argue against as it is not the first time you have heard this answer, and everybody does it, so why not you?***

So why is this the typical answer coming from every financial advisor? Simple. Do you know what they say about running water? It takes the path of least resistance. Well why would your advisor or CPA try to talk you out of a retirement plan when it's the path of least resistance? They won't! To explain the intricacies of a winning retirement plan and the multiple alternatives takes too much time. You would have to shift your thinking, too. In all, it is much easier to tell you to put your money in a "known" retirement plan, than to explain your alternatives. After all everyone's doing it! **JOIN THE CROWD!**

But why is a qualified plan the preferred method of choice? Good question. Who designed qualified plans anyway? The answer is the Government. Since 1913, the tax code has gotten ever larger and more complex. Many will argue that the tax code, since the beginning, is unconstitutional. But at this juncture, that is a losing battle. Each year hundreds, if not thousands, of new pages containing additional sections are created in the tax code. We have exceptions to many of the tax rules, and one of them concerns retirement plans. The retirement plan exception to the tax code essentially states that a person who invests into a retirement plan can defer the tax until later. A better word for "defer" is "postpone," I think that tells most of us that at some point the tax WILL be paid. If not by you, then by your heirs. But someone will "pay the piper."

I'm going to tell you the only two ways to win in a retirement plan. When we POSTPONE our taxes we are gambling on two hopeful outcomes:

1. We hope that whatever we invested in will grow and produce more capital than we invest.
2. We hope to be in a lower tax bracket when we retire than we are in now.

Those are the ONLY two ways to win in a retirement plan.

In the first issue, the problem is that investors may experience very little return, or can even lose what they invested if the markets don't perform. They are literally gambling with their future retirement.

Given those terms, many of us would probably become much more conservative in our investment choices knowing we could lose our retirement savings. But we are lured like a fish to a shiny object in the water. For the last several decades, the markets have given enough performance to lure us in and in many cases, keep us investing. Those who've been invested during the last 10 years ("The Decade of Nothing"), have probably seen little to no return, but are hopeful that it will change and give us another run-up before retirement.

We have to be realistic as to what the future of the markets may bring. More importantly, now more than ever, we have to look at the invested money as "risk capital," which means it is money you can

afford to lose. If you can't afford to lose it, then you should not be putting the funds at risk - simple as that!

The second issue is one that has to be looked at closely as well. Are you going to be in a lower tax bracket when you retire, than you are now? Many seniors I work with are finding that is not the case. Recently, I was talking with a 71 year old widow who said that she was in a higher tax bracket now than when she was working and wished she had not put so much money into her retirement plans. Not only is she in a higher tax bracket, but her income is now creating additional tax on her Social Security. She is extremely frustrated because that was not the plan. The plan was to be in a lower tax bracket and thus pay taxes at a lower rate on the money she saved. She said she would have been better off paying the tax back when she was working, had dependents, and more deductions.

This is a real life example and not an uncommon one. If you are mildly successful, you may find yourself in the same situation if a substantial amount of your retirement income comes from a pension or a retirement plan.

Now, I don't have a crystal ball, but with all the new debt and stimulus going on in this country, do you think it's possible that all of our tax rates are going to rise? If you look at what we need in order to cover the interest on our debt, plus our annual budget, it does not take a mathematical genius to realize there is not enough tax revenue to meet our obligations. It's going to have to come from somewhere.

If tax rates do rise in the future, or if you think they may rise, you might consider paying the tax now--while it's predictable, rather than postponing the tax to be paid at a higher rate in the future. Maybe it's time to examine, with the help of a tax professional, some alternatives for your situation.

Let me give you an example of how taxes and retirement plans work, and an alternative way to beat the taxman. When I was a teenager we had the opportunity to pick fruit at the many orchards around central California. Let's suppose one day the boss came to me and offered me this proposal.

"I'd like to help you save for your future and I want to give you two choices to help you in that endeavor." Here they are:

Option 1: If you choose, you can take a portion of your earnings and invest them in our fruit orchards. You will avoid any current income tax now (tax deduction). You can use your money to purchase more land and grow more fruit. When you finally retire, we will calculate the value of your Orchards (account value). Then, at that time, we will require you to pay the taxes due on the entire sum. You may be in a higher or lower tax bracket when you withdraw your money. If you die before you withdraw your funds, then we will tax your heirs.

Option 2: If you choose, we will take out the taxes on your current earnings as you work. We will then allow you to invest your after tax dollars in our orchards. But when you take out the money in the future, you will not be taxed on the growth. The entire amount is yours, so the only tax you have paid is on the initial investment.

Which option would you choose?

Option 1, as you may have supposed, is what we would call a government-sponsored retirement plan. It is an IRA, 401(k), SEP and so forth. We postpone the current taxes due now, but when we withdraw the money in the end, we have to pay the taxes on the entire amount, no matter how much

it has grown - or shrunk. When we die, our heirs will pay the tax. It is estimated by Employee Benefits Institute that this can amount to as much as **70%** of the account value when including both income and estate taxes.

Option 2 is a very seldom used strategy that you may not have known about, at least not in the form described above. Many of you will guess that it's a ROTH IRA, and you would be correct as to how a ROTH works, but you are limited as to what you can put into a ROTH account each year and so it can be difficult to maximize this strategy. So a ROTH will only work on a limited basis. Very shortly we are going to talk about a strategy that will work very similar to Option 2, and in addition there are no 59½ rules about when you can get the money, and there are no 70½ rules regarding when you have to take money out.

There is inherent safety built in as well. In addition, if handled properly, your heirs will never have to pay the tax on the money either.

Option 2, imposes taxes on our current income, hence, on our contribution, but once inside this vehicle, we can avoid tax on the growth forever. And the best part? **IT IS NOT GOVERNMENT SPONSORED!**

When I think of retirement plans this same quote comes to mind, **"what the government giveth, the government taketh away!"**

What would ever prevent the government from eliminating retirement plans and calling all taxes due and payable? And could they impose the excise tax? What could be an incentive for the government to immediately tax retirement plans and to potentially add an excise tax? How about owing **TRILLIONS** of dollars in debt, and much of that debt is to foreign countries who may ask for the debt to be paid?

Think about the deferred taxes on 7 Trillion Dollars. At some point, those slimy politicians are going to want to get their greedy little hands on that money.

So is a government-sponsored retirement plan the best place to be saving your retirement funds? Can you use alternatives that may in the long run be more beneficial to you?

And what about the investment risk? Most people who have retirement plans usually turn the management over to someone else and then hope that they perform well. They hope the stock market goes up and that they picked the right stocks or the right mutual funds. They hope the fund managers diversified properly so that in the event of a crash, they will be somewhat protected. They hope the investment advice they get from their employer or another financial advisor will make them all kinds of money and that they will be told when to get out if the time comes.

Is this wishful thinking? Do you know anyone who has been successful at doing this? How about you and your experience? Is it working?

Notes



Truth in Returns

In recent years, Crestmont Research has calculated some amazing truths when it comes to the stock market (www.crestmontresearch.com).

We have been told that if we hold on to mutual funds for long periods of time, a decent rate of return is very possible. These “long” periods of time have increased over the years. What used to be proven in ten years now has to be stretched out twenty to thirty years in order to show a decent return when trying to convince investors to buy and hold.

So what happens if the market yo-yo’s up and down? Do investors need to worry? My contention is that down-turns or losses have a much greater impact on wealth than does the upside. Even if the negative return is the same as the positive return, the negative has a greater impact than the positive.

Case in point: Let’s assume an investment of \$100,000 into a mutual fund, and it had a 20% gain one year, and a 20% loss the next. We would most likely figure that this investor has a 0% return and original principal back. Let’s see:

Year 1:	\$100,000	+ 20%	\$120,000
Year 2:	\$120,000	-20%	\$96,000

WHAT! How did that happen? This investor actually lost 4% or \$4,000 of his original investment. The negative return had a much greater impact on his total return. Let’s carry it out 2 more years using the same returns, up 20% then down 20%:

Year 3:	\$96,000	+ 20%	\$115,200
Year 4:	\$115,200	-20%	\$92,160

So even though the markets are staying even year after year this investor continues to whittle down the original investment. And it doesn’t matter if we reverse the order - in other words by having a loss first, and then a gain. The same result occurs:

Year 1:	\$100,000	- 20%	\$80,000
Year 2:	\$80,000	+20%	\$96,000

The moral of the story is **DO NOT LOSE MONEY!**

In the above example, the mutual fund company would average the 2 years and come up with a 0% return. However, you know this is not the case. I will say that deep in the recesses of the prospectus of mutual funds, where very few people read, there is a real rate of return example that would show that this investor actually lost money. But at the outset, if you were only looking at the average rate of return, it would indicate 0%.

What I found interesting about the Crestmont Research numbers is that if you were able to eliminate the downside of the stock market (or in other words, take away all the years where the stock market went down), all you have to do is get 30% of the market’s gains to perform just as well as the guy who

rode the roller-coaster up and down. In other words, give me 30% of the upside and none of the downside, and I'll have as good a performance as the buy-and-hold investor who rode the waves.

Along these same lines, what happens if a market drops 40%? Will a gain of 40% put us back to break even? No! If the market were to drop 40%, it would have to gain over 66% to get back its original value. What's even worse is that a 50% drop in the market requires a **100% return** to get back to where you were.

What's more is that the "**real return**" is much worse than even the average suggests. The real return takes into consideration the losses, which again have a much greater effect on the total.

Let's look at three different scenarios below. Each one of these has an *average* 5% rate of return, but because the losses have a greater impact you will see how it affects the real return which is the return the investor will actually see on their statement:

Scenario 1	
Year 1	+15%
Year 2	-10%
Year 3	+10%
Average:	5%
Real Return:	4.41%

Scenario 2	
Year 1	+25%
Year 2	-15%
Year 3	+3%
Average:	5%
Real Return:	3.71%

Scenario 3	
Year 1	+30%
Year 2	-25%
Year 3	+10%
Average:	5%
Real Return:	2.31%

Now you can see that the losses in the market have a greater impact on wealth than the gains! The larger the losses, the less the compounded return will be. Can you imagine the compounded effects during the 2008-2009 market downturns?

The stock market from 1900 through December 2008, averaged 7%. However, its *real return* is 4.6%! That is a big difference isn't it? Now calculate the tax on that and where are you?

Crestmont went on to look at time periods for investors. As we know, long term is now nearing 20 years. Over the last 40 years, you could usually get a return over a 10-year period, but this past decade has eliminated that statistic. So what if we look at 20 year periods?

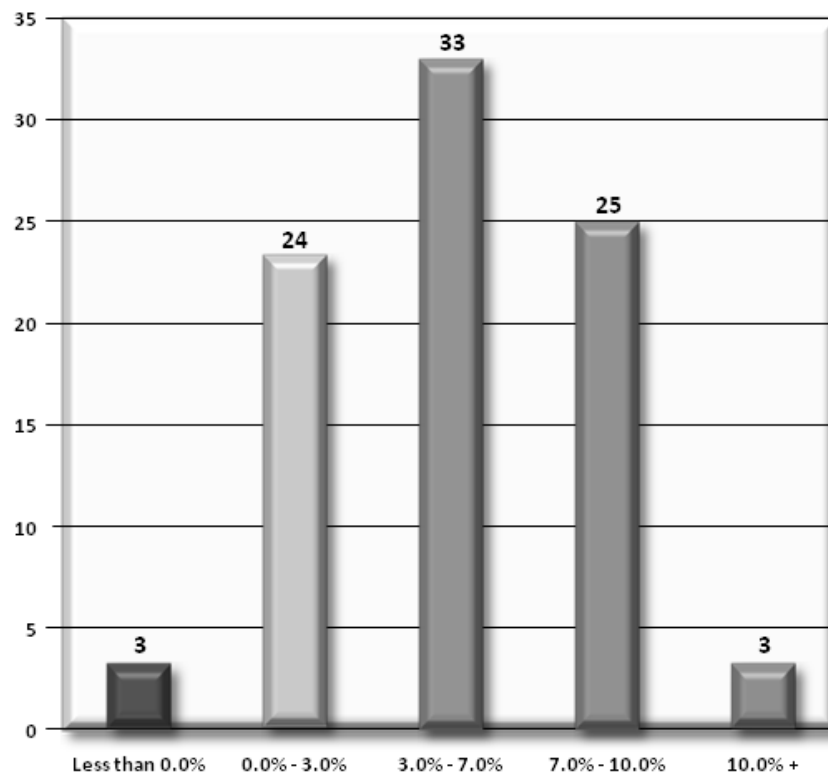
Crestmont has analyzed every 20 year period since 1900. There have been eighty-eight 20 year periods. For example, from 1900 to 1920 is a 20 year period. From 1901 to 1921 is another and so on and so on.

So what have actually been the returns in the stock market over those 88 periods consisting of 20 years each if we calculate the return after inflation?

The way it breaks down is as follows:

Number of periods with 10% or greater return:	3
Number of periods with 7% - 9.9% :	25
Number of periods with 3% - 7% :	33
Number of periods with 0% - 3% :	24
Number of periods with less than 0% :	3

The graph looks like this:



You could essentially throw out the highest return years which were 3 of the 88 years and throw out the worst years which were 3 of the 88 years as well. Now we have more than 50 of the 88 periods returning less than 7%, not including taxes.

The question becomes a risk versus reward proposition. To risk all of the money (because you have to assume you could lose all of your investment), for what may be minimal upside of less than 7% over a 20 year period; is it worth the risk?

Next time you are thumbing through a financial magazine or looking in the newspaper at mutual fund returns, keep in mind that average returns, compounded returns, and actual returns may have completely different results.

Notes



Talk Show Effect

What are the Differences (FEN)

I'm often asked what the biggest difference is between what I teach and what they hear from the talk show gurus on the radio and TV. It doesn't matter if it's Dave Ramsey, Suze Orman or some other "expert," I've heard most of them. I call them the "Financial Entertainment Network" or **FEN** for short. They throw out their advice on the airwaves and have no accountability to the caller. That is why I call their advice, for the most part, "entertainment."

Many larger cities have local "experts" giving advice on the radio too. Whether by coincidence or because of the lack of imagination they all seem to be preaching similar ideas, most of which, have been recycling for the better part of a century. Guess what? It's not working! The traditional financial planning and investment strategies are failing, and failing miserably.

I think that Dave Ramsey does have some good ideas for getting out of debt, most of which requires discipline and control over your finances, something that I completely agree with.

Bringing to the forefront some much needed financial counsel in regards to getting out and staying out of debt is good use of the airwaves. We may argue over how to accomplish the objective, but nonetheless getting America out of debt is a worthy cause and they are bringing the conversation directly to the people.

For those of you have not read "Discovering Hidden Treasures," which is my book for business owners, many of my concepts will be new and refreshing. From my perspective, there is a significant difference between me and the FEN (Financial Entertainment Network) crowd.

My clients may be somewhat different than the average FEN listener. Many of their callers are in debt up to their eye-balls, thinking about bankruptcy, foreclosure, or how to get out of the credit card mess. My clients, however, typically have money (some a little, some a lot), are trying to protect it from the tax-man, are tired of losing money in non-performing investments, and are looking for strategies to create, retain, and transfer wealth. So in fairness, my "average" client is not usually listening to FEN about how to pay off a credit card.

I also didn't write this book to pick a fight with the FEN gurus. I don't want to single out any particular FEN host. But there are some things I want everyone to understand. There are some stark differences in our way of thinking when it comes to the overall techniques and strategies to employ for creating, maintaining, and passing on wealth. Let me give you some examples.

The 12% Mutual Fund

I really get frustrated when the FEN hypes buying into a mutual fund that averages 12%. The problem is finding a mutual fund that performs this well. It is like finding a needle in a haystack.....or ten haystacks.

According to Investopedia, there are now more than 10,000 mutual funds! So which three, four, or ten funds are you going to buy? What will be your criteria? Past performance? Industry? The Fund Group? Or are you going to buy whatever a financial magazine or broker recommends?

And what if your employer doesn't offer one of these 12% mutual funds, how will that affect your retirement plan at work?

I did some research to find the 12% fund. I narrowed down my search by picking one of the most highly respected investment companies, one that has been around for decades, and one that would certainly have the diversification of funds that we are looking for. I chose "Vanguard Funds" to illustrate what I'm saying.

Vanguard has three funds that meet the 12% average return. I had to go back to 1984 to produce this return. Two of the three funds that met the 12% average are "sector" funds. I never hear the FEN talk about buying sector funds.

Sector funds are those funds that focus on a specific "sector" of the economy. In this case, Energy and Health Care were the performers. In both of these cases, the majority of the earnings were returned from 1995-1999. What was happening back then? Well if you are old enough to remember, it was one of the most significant market movements in history, spurred on by the dot com phenomena.

Speaking of the dot com era. There were many, many mutual funds from the dot com sector created back during those three or four years. But where are they now? Kind of interesting how the management firms slowly and quietly eliminated the dot com funds. Hmmmmmm?

Regarding the two funds at Vanguard, the Health Care fund's 5 year average is 2.25% and the 10 year return is 5.06%. The Energy fund has a 2.25% 5 year average and 11.96% for 10 years. If we eliminate the 1995-1999 returns the Energy fund is ONLY fund at Vanguard that came close.

The only Domestic (non-sector) stock fund that performed above 12% required us to once again look back all the way to 1984, which also includes the dot com era. The fund was a Large Cap Growth Fund, which is closed to new investors. It is interesting to note that the 1 year return is 1.97%, the 3 year is 5.12%, the 5 year is 2.24%, and the 10 year return is 0.39% (as of 8/31/2010). As mentioned, this fund made the majority of its return from 1995-1999 and has, as the 10 year return indicated, barely scraped by with a positive return for the last 10 years.

Now I know in the financial world, we speak of 10 years like it was a week's vacation, but folks, 10 years is a long time! Not many investors want to give up a decade of their lives hoping they made the right decision only to look back at break even or just slightly ahead of what they invested.

As an investor, suppose you invested in this fund in 1995 and were extremely happy through 1999. The question is would you have the wherewithal to stay in the fund for the next 10 years and essentially

make nothing? When would you have called it quits and moved onto another fund? Or how about being a new investor in 2000? After seeing these amazing returns since 1995, you are encouraged that this fund is a performer, so you invest. How many years would you wait for a return? Ten years later, you've averaged 0.39%.

I recently wrote in my blog (www.becomingyourownbank.com/blog) that many advisors, in searching for double digit returns, are looking back as much as 30 years to find decent performance. Now I realize investors should be looking long term, but throughout the 80's and 90's, one only had to look back 3, 5 or 10 years to show decent double digit returns, but 30 years?

I happen to know the average investors' mentality, and for one they will not invest for 30 years into a specific fund if they don't see performance to keep them motivated to stick with it. In fact, two or three off years will put most investors into a panic. And secondly, what if they are wrong and picked the fund that didn't perform? Thirty years wasted and no DeLorean to go back in time to start over! Most investors will not take that gamble.

The bottom line is that it's not realistic to suppose an investor can average 12%. There may be a few years here and there, but to wait 30 years and look back in hopes that you did, is not very practical given the emotions of a typical investor. If you have a 5 or 10 year timeframe, it's not reasonable to think you'll average 12% in this market environment. In fact, you may have to accept a flat or even negative return. Looking back at the previous chapter we have a market that will typically give an investor a 5-7% before tax return, nowhere near 12%.

Taxes: In addition to the unrealistic 12% returns, taxes are never part of the calculation. It's easy to grab a "time value of money" calculator and run a 12% return over the next 20 to 30 years and come up with wonderful numbers. But what is not explained is that most funds have a significant turnover ratio. In other words the fund manager buys and sells stock so often within a year's time, they forego long term capital gains treatment.

Essentially all gains and dividends are taxed at ordinary income rates if a stock is bought and sold within 12 months. If a stock is held longer than 12 months, it will get preferential capital gains tax treatment, which may be changing if the Bush tax cuts "expire." However, few funds hold stocks long enough to take advantage of the long term capital gains.

According to the "Motley Fool," a financial website, the average fund turns over 85% of its portfolio within the year and many have greater than 100% turnover ratios.

That being understood, the taxable income that a mutual fund throws off needs to be paid each year from some source. Even if you take the money to pay the taxes from another account, such as a savings account, it still affects your overall net worth. To be accurate, we need to calculate the "after tax return" of the fund when determining the accumulated value over time.

So, if I'm in a 28% federal tax bracket, and 5% State bracket, that is an overall 33% tax bracket. If my 12% return from a mutual fund came in the form of dividends and short term capital gains, my after tax return is closer to 8.04%. What that means is this:

Suppose I use the FEN approach and assume I can get a 12% return on my money over the next 30 years. Let's put in \$10,000 per year and see how taxes can affect the outcome:

Yearly Investment:	\$10,000
Rate of Return:	12%
Period:	20 Years
Results:	\$806,987.35

Looks pretty good doesn't it?

Now let's calculate the **"AFTER TAX"** return:

Same numbers as above

33% Tax Bracket

Result: \$496,608.34

The results are significantly reduced because of taxes!

Now think about this, first off, I hope you realize that finding a 12% annual return mutual fund is near impossible and it is not practical for you to expect it year after year after year. That kind of return is certainly nothing you can count on....or bank on....because one bad year can wipe out decades of growth.

Most funds use the S&P 500 as a barometer of performance. The average return over the past 10 years for the S&P 500 Indexed Fund managed by Vanguard is -1.91% per year on average and is one of the least expensive funds available. In other words, as an investor in this fund you would have lost money at an average of 1.91% per year – as of August 31, 2010.

After you take into account taxes, the after tax average rate of return since 1976 for the Vanguard Index Fund is 6.7%, assuming a 33% tax bracket. And by the way, just in case you didn't remember, you had to take 100% of the risk if the markets dropped or crashed. There is no safety net in the stock market or mutual funds. You must risk it all. You may be getting a sense by now that achieving a 12% average rate of return is highly unlikely.

Side note: In contrast, did you know that the average dividend paying whole life insurance policy paid 5.5%-6% (tax free) over the last 100 years? That is year in and year out, predictable, and with NO RISK. Interesting isn't it?

There was a very interesting article written May 7, 2009 titled "Investors Behaving Badly." The article even quotes John Bogle, who is the founder of Vanguard Funds. It said:

Emotions continued to play havoc with investor returns in 2008. DALBAR's update of its Quantitative Analysis of Investor Behavior (QAIB) study found that while the S&P 500 has returned 8.35% over a 20

year period ending in 2008, the average equity investor earned just 1.87%, which was less than the inflation rate of 2.89%. Bond investors fared no better. They earned returns of just 0.77% compared to 7.43% for the index.

The DALBAR update isn't surprising. The QAIB has consistently shown a large gap between the returns investors actually earn and the return they could have easily earned with a buy-and-hold strategy.

Other studies have confirmed DALBAR's findings. John Bogle in *The Little Book of Commonsense Investing* calls it the **grand illusion** — the returns reported by mutual funds aren't actually earned by fund investors. He estimates that over a 25 year period ending in 2005, the average mutual fund investor earned 7.3% compared to the 12.3% for the benchmark. The shortfall isn't limited to active fund investors. Bogle also notes that index fund investors earned 10.8%, a full 1.5% shortfall compared to the index over the same 25 year period.

This graph shows the performance of the average equity, fixed income and asset allocation mutual fund investor over the same time windows:



2009 QAIB Study Update, Dalbar Update- Investors Still Lagging the Market

Notice that the above graph depicts as long as 20 years, ending 2008. Whereas the 25 year study done by Bogle, referred to in the article, ended in **2005**. What has happened since 2005? As you know the markets were cut in half over the following few years. Although there has been some recovery through 2010, there is still a long way to go to get back to 2007 levels. And remember if an account suffers a 50% drop in value, in order to get back where it was before the drop the account has to gain 100%!

The reason I point this out is because Bogle says the average investor earned 7.3% up until 2005. However if we include the last 5 years - accounting for the market debacle - I suspect these numbers are dramatically inflated as compared to reality.

Once again I'd like to point out that expecting a 12% return in mutual funds is, at the very least, wishful thinking.

Notes



Average versus Actual

Even though we touched on this concept previously it's vital that you understand this fact. It's a reality that investors need to be aware of; it's "Average Return" versus the "Actual Return." So what is the difference?

The average return is a simple calculation, add up all the annual returns and divide by the number of years, will give us an average. The actual return is calculated by adding or subtracting each year's performance numbers - in other words, the *real* rate of return.

I've said for years that the impact of a loss has a much greater affect on your portfolio than a gain. Here is an actual example of a fund. According to the "Money Chimp" website from Jan 1, 2001 to Dec 31, 2010 (11 years) the average return for the S&P 500 was 3.55%, but is that the actual return?

2010 14.32

2009 27.11

2008 -37.22

2007 5.46

2006 15.74

2005 4.79

2004 10.82

2003 28.72

2002 -22.27

2001 -11.98

Date Range
Jan 1, 2001 to Dec 31, 2010
"Average Return = 3.55%
Annualized Return "True Return" = 1.31%
Standard Deviation: 20.20%
\$1.00 grew to \$1.14

To find the "**real return**," you have to add/subtract the annual return each year and start each year with the new value. In essence, if I start with \$100,000 and earn 10%, the following year I start with an account value of \$110,000 and so on. This is called the "Compound Average Growth Rate" or CAGR.

Suppose an investor put in \$100,000 Jan 1, 2001 and had the performance as shown above. The actual account value at the end of December 2010 would be \$114,000, which is 1.31% compounded. Each dollar would have earned 14 cents. Divide the growth by the amount of the investment, \$14,000/\$100,000 and you get 14%. Divide that by 10 (years) and you get **\$1.14** per dollar invested in REAL RETURNS. The "average return" your read about is 3.55%. Did this investor get the "average return?" Doesn't look like it. The "real return" was significantly less.

This is what happens when you have years with losses. In summary, the actual return will likely be less than the average return if you have any years with a loss. If you only have positive returns the actual return will likely be higher than the average return, and in reality it's the **real returns** that we all care about, isn't it?

This is why I say "don't lose money. A loss has greater negative impact on your portfolio." Notice one other small item. The "Standard Deviation" is over 20%, which essentially means the index can fluctuate 20% either way in any given year. That can be a wealth killer if it goes against you.

As an interesting exercise, what if I told you there was a way to participate in the market upside, but never suffer a loss in any year no matter how poorly the markets did? Remember back a few pages when we discussed the Crestmont Research? They have shown that if an investor were to get 30% of the upside, but take no losses in the down years, they would do just as well as the investor who rode the highs and lows. Problem is that wasn't possible, but it is now.

Let's suppose I could give you 65% of the market upside, but every year the market had a loss you would take a zero for the year (no losses). Using the performance numbers from the previous page here is what it would look like if I took out all the losses and made them "0" and in the years of a gain I credited you 65% of the S&P 500 index upside:

65% of the Upside – No Losses

2010	14.32 X 65% = 9.38%
2009	27.11 X 65% = 17.62%
2008	0%
2007	5.46 X 65% = 3.56%
2006	15.74 X 65% = 10.23%
2005	4.79 X 65% = 3.11
2004	10.82 X 65% = 7.03%
2003	28.72 X 65% = 18.66%
2002	0%
2001	0%

The average is 6.95%. The account value is **\$192,318 as compared to \$114,000** if you have to account for the losses as in the prior example.

To figure out the average, do the following:

First, we need to get the Total Return. Pretty simple:

$$\text{\$192,318} - \text{\$100,000} = \text{\$92,318 Total Return}$$

Next we divide the total return into our original investment to get a Total Percentage Return -

$$\text{\$92,318} / \text{\$100,000} = 92\%$$

Finally we divide Total Percentage Return by the number of years –

$$92\% / 10 \text{ years} = 9.2\%$$

Not bad, we average 9.2% with no risk, no losses, and only 65% of the market gains.

Do you see how impactful losses can be and what a negative effect they can have on your portfolio? Conversely, gains (even less than 100% of the market) prove to be above the averages when, over time, there are no losses.

Most investors, if given the choice, would rather take the above scenario; have no losses, participate on the gains, and the compounding of their gains, rather than 100% of the upside in the good years and 100% of the losses when the market drops. Why? Because in the long run the only way the market can beat them, given this scenario, is to never suffer a loss again, and how likely is that? When do you think the market may have another loss?

I would ask you if given these two scenarios which would you rather have?

Invest in the market and get 100% of the upside. Risk 100% of your capital, i.e. suffer the losses too. In 10 years, have **\\$114,000**.

Invest in a vehicle where your principal is guaranteed. Get 65% of the market upside, no losses. In 11 years, have **\\$192,000**.

I think most of us would prefer the second option.

FYI: There is a way to participate in 60-70% of the upside of the market, but never suffer a loss in a down year. This is a retirement planning strategy that might work for you too.

Again, you need to avoid risk, avoid losses, and participate in the market upswings. Conversely FEN's would have you take risk, search through ten thousand funds to find a winner, and then hope and pray there are no losses along the way. In addition FEN still gives the impression that 12% mutual funds are available and can be found, or that over a 30 year period, 12% will be your average. Is it worth risking 30 years to see if they are right? What about 10 years? Will you sacrifice 10 years hoping you achieve this average?

As a former broker, I can do all the research in the world, and still, I will not be able to find the several mutual funds needed which meet the FEN criteria. Finding one would be a miracle, finding four or five for the necessary diversification would be like winning the lottery several times over.

Another real problem is that unless you have lived your life perfectly in sync with the market swings, in other words you have worked and saved and invested while the market was flat, then retired when the market was high, chances are the economy has affected you.

Let's suppose we did find a fund that averaged 12% from 1987 to 2007. However, we all know what happened towards the end of 2007. We gave back a decade's worth of gains within a few short months. Let's suppose it is 2006 and you are going to retire at the end of 2007. Your 401(k) is worth \$600,000. You've calculated the income that you will receive from Social Security as well as the income supplemented by your 401(k). Everything looks great. Then, within a few months your 401(k) turns into a *201(k)* and the market value is cut in half. Would that have any effect on your retirement plans? I bet it would! It is one thing to have the time to wait out the market when your thirty years old, but an entirely different scenario when you are 65. The market may never recover in your lifetime.

It no longer seems practical to rely upon the stock market and mutual funds for predictable growth. Back in the 1980's and 1990's, this seemed like a logical approach as, for the most part, if you held a fund for 3-5 years you made money. In the current environment not only is a 3-5 year hold a craps shoot, but holding a fund for 30 years seems emotionally impossible to ask an investor to do. Most investors are not willing to hope and pray that they picked the right fund and wait 30 years to see if they were right! Being wrong could and would have devastating consequences.

Notes



Drive Free Retire Rich

I hate to keep picking on the FEN, but I saw a video on one of their websites called “Drive Free, Retire Rich.” Nice title, kind of catchy, but in reality it’s pretty far-fetched. Why? The simple reason is that the entire concept is predicated on this mythical 12% per year mutual fund. It’s neither possible nor practical to assume that such a thing exists and could be relied upon for your financial future.

Don’t get me wrong.- I like the idea of self funding your vehicles, and the truth is if you didn’t lose any money and earned a 0% rate of return you could accomplish the same thing. What I object to is the enormous amount of money you are projected to have at the end of your 40 years of buying cars, based on the 12% annual return... it’s just not reasonable.

The savings part I get. He encourages people, in this example, to save \$475 per month, and then pay cash for a car out of a portion of the savings. I’m all for that! The issue I have with this is that he wants you to save this \$475 per month into a mutual fund with a 12% per year average.

He goes on to say that every 60 months, you would have the money for a new \$20,000 car and you would still have money in the fund to grow. That part is accurate. If you save \$475 per month at 0% return you will have \$28,500, which is plenty to buy a \$20,000 car and have \$8,500 to spare.

It’s the assumed return that I disagree with along with the investment of choice. The FEN says that in 10 years you would have \$100,000. In 20 years, \$475,000. In 30 years, \$1.6 million. And in 40 years, you would have 5.5 million.

Wow! Great numbers. Pretty attractive. But let’s take a reality check. Remember this “average return” may not be the “actual return” and we must account for taxes.

Let’s take a quick look to see the reality of this “free car” plan. We don’t know what mutual fund FEN finds at 12%, and in fact, he doesn’t give out any fund names. After watching his video I noticed they use 12% as the market average. Therefore, I’m going to use an S&P 500 for our comparisons. I’m not going to take out the car cost every 5 years as this would lessen the values even further (so the values below are much higher) and would be much more difficult to calculate. I’ve also used the “compound annual growth rate” instead of the average. Average return, as discussed, would appear to be higher until you did the real math. The compound annual calculator is the “real” growth.

Note: The calculator I used had historical data up until December of 2009, so all returns go back from that date. I used the S&P500 calculator at Moneychimp.com.

Years	Total Invested	FEN Projection	After Tax	ACTUAL (After Tax)
5	\$28,500	\$39,181	\$35,172	\$33,467
10	\$57,000	\$110,000	\$87,677	\$58,647
20	\$114,000	\$474,595	\$283,063	\$101,708
30	\$171,000	\$1,676,709	\$718,477	\$673,034
40	\$228,000	\$5,644,149	\$1,688,788	\$1,031,449

As mentioned, if you took \$20,000 out for a car every 5 years, by year 40, you would have taken out \$160,000 and that amount, at interest, would significantly reduce these numbers.

I am certainly not suggesting that there isn't some good we can glean from this illustration in order to purchase a new car every five years, but the notion that you would have \$5.6 Million dollars at the end of 40 years is highly unlikely and literally impossible if all we did was take into account taxes along the way.

It's a great idea to be "self-funding" for all your car purchases, but there is a better and more predictable way of accomplishing this. I would hate to have to rely upon a stock market returning 12% each year to meet my objectives. By now, I hope you can see the tragedy in relying upon a stock market that even going back 40 years has not produced a real 12% rate of return -even before tax! What if you need to buy a car in the year the market drops considerably?

Consider the decade from 1999 to 2009. The S&P's real return has been less than 1% per year. That is 10 years where you would have been better off in a CD or even a money market account. In addition, and what makes you really sick, is that had you invested in a mutual fund you would have effectively taken a 100% risk with your money. There would have been no safety net, no guarantee, or no insurance to protect the downside, and in reality you could have lost it all.

2011 was looking like a fairly decent year. However, in less than two weeks during the month of August the entire years gains were wiped out and much of what was gained in 2010 as well. How many times can you afford to do this?

Millionaires

I have never met a mutual fund millionaire!

Let me clarify. There are millionaires who have purchased or invested in mutual funds, but I have yet to meet the person who only invested in mutual funds and became a millionaire. Most wealthy "investors" made their money in their business or some other fashion. Think about all the wealthy people you know. How did they amass their fortune? I doubt you will find one that just invested in mutual funds.

Pay Taxes as You Go

I want to point out the difference between the before and after tax numbers. The 40 year projection of \$475 per month earning 12% per year is 5.6 million. However, look at what happens if the IRS gets their chunk of taxes each year. The result is almost 4 MILLION dollars less - \$1.6 million versus 5.6 million. Wow! Taxes are something that you must account for in this scenario.

Now think about this, what if you could put after tax dollars into a plan and never pay tax on the growth.....ever?

From the above example, using real returns (not the average), and accounting for taxes over the last 40 years, you would have a net result of \$1,031,449. That equals an actual after tax return of 6.29%. In a 33% tax bracket, in order for a taxable account to net 6.29% it would have to get a return of 8.37% before tax.

In other words, if we have an account that grows at or near 6.29%, but we don't have to pay tax on the growth, we will essentially be able to achieve the same return as an account getting 8.37%, but is taxable.

This will typically translate into greater risk. In essence, if we seek a higher rate of return it is typically coupled with greater risk. The more aggressive we have to be to meet our objective the greater the risk.

Bottom line is, we can take less risk if we don't have to reduce our return with taxes every year.

There is a lot of power in an account that, if handled properly, will never be taxed again!

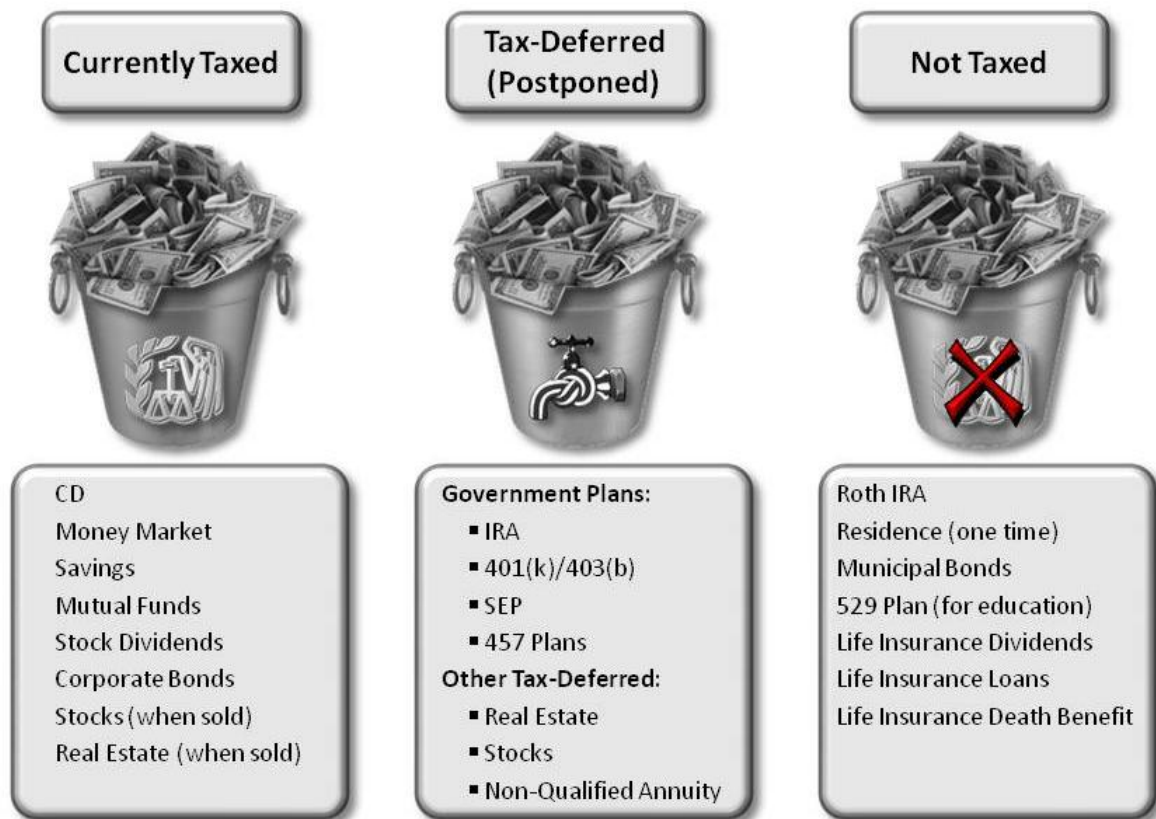
Notes



Understanding the Tax Buckets

I'm often asked about the tax implications of various investments. It seems everyone is interested in avoiding taxes if at all possible. However, more investors understand the implications of postponing taxes as well.

Below is short list of investments and their current tax status.



In both of the **"CURRENTLY TAXED"** and the **"NOT TAXED"** buckets, the investment is made with after tax dollars. Whereas the bucket of Government-Sponsored plans is made with pre-tax dollars. What I'm finding is that when seniors begin to access income for retirement, they become extremely discouraged. They find that most of their assets, and thus their income, derive from accounts that have never been taxed. In many cases, income from these sources might even push them into a higher tax bracket.

There are strategies that we incorporate to offset some of the retirement plan required minimum distributions. However, the most effective way is to plan ahead, early in life, and have a large pool of assets in accounts that will never be taxed again. As you can see very few alternatives remain in the **"NOT TAXED"** bucket.

The conventional thinking is that when you retire you will need about two-thirds of what you were making when employed. The idea being you will have fewer expenses and be in a lower tax bracket.

I recently heard a very interesting story by a man talking about his father.

He said, in 1960, he came across a tax return of his fathers. In 1960, the tax brackets neared 80%. However, you could deduct just about everything you bought. After all his deductions, his marginal tax bracket ended up at 12%.

Twenty-five years later he retired. He in fact, retired on two-thirds of his income. But now his tax bracket was **28%**. With little or no deductions he had very little wiggle room. This is not just a 16% increase in tax rates. This equates to a **133% increase** in his tax table.

This man's tax bracket actually increased during retirement and now he has really no way of reducing his income. The reason is that the majority of his income is coming from his retirement plan. In reality, he would have been better off paying his taxes at 12% or even 20% back then and then placed his money in an account where it would never be taxed again.

Can you imagine where we may be in the next 10-20 years? Do any of us really believe that tax rates will improve in our favor?

Notes



Managing Your Home

Paying Off Your Mortgage

Before we get started on this subject, let me point out, from the depths of my soul, that I will NEVER try to talk someone out of paying off their mortgage if that is what they feel they want or need to do. This is simply a financial discussion about the pros and cons of doing so. But there is no right or wrong way, only the way that gives you the most comfort.

If asked, most homeowners who are intending to pay off their mortgage as quickly as possible would say the primary reason is for “peace of mind.” If worst comes to worst, at least they have a roof over their head. Have you heard that before?

Again, if that is the objective, I’m behind you 100%. However, there may be a better way to “skin this cat.”

Let’s talk about the ways one can pay off a mortgage:

First and foremost – don’t have a mortgage, pay cash for your home. However this is not very practical for most people unless you buy a home that appreciates in value and upon the sale you roll the proceeds to a smaller home and pay cash.

Second – Add additional principal to each month’s mortgage payment. For instance, maybe you could add \$50-\$100 each month which reduces your principal thereby taking off many years from your mortgage.

Third – Save money in another account (we will call it a “*side fund*”) and build it up to a point where you could pay off your mortgage with the side fund’s account value.



In order to really understand the big picture, let’s look at a mortgage from the banker’s point of view.

When a loan/mortgage is made, the most risk the bank will ever be at is the first 30 days. Why? Because every month a payment is made, the less risk the bank takes. Each and every payment puts the bank in a safer and safer position.

The more equity you have in your home, whether it is by making payments - thus reducing the principal balance on your mortgage - or by market appreciation, the safer the bank is. If a bank must foreclose on you, the lower your principal balance is, the better chance the bank has to recoup their loan.

So, if I’m the banker, one of the best things you can do for me is to pay down your mortgage balance quickly and it doesn’t hurt my feelings one bit if you have a 30 year instead of a 15 year mortgage either.

Two questions always arise:

1. Is getting a 15 year mortgage really the best way to go, if in fact, I want to pay off my mortgage as fast as I can?
2. Is putting the banker in a better or “safer” position each month, by paying down my mortgage early, in *my* best interest?

Notes



Equity

We will get to those answers in a minute, but the first question we have to ask ourselves is “Do I want to *store* equity in my home?”

First off, there are two ways to do what I call *STORE EQUITY* in your home.

1. We can pay off our loan balance earlier/faster and build up equity that way.
2. Equity can build naturally through market appreciation.

One happens because I “force” it to happen by taking more money out of my cash flow and storing it in my house - by paying down my mortgage early. And the other happens naturally, or incidentally, as part of home ownership. The home increases in value without the homeowner doing a thing.

Note that in a down market, a homeowner can be upside-down -- where the home is worth less than the mortgage. This is a problem many families are facing today and why so many of them are walking away or short selling their homes.

Here is a great question for you. What is the rate of return on the equity in your home?

It’s fun to watch people get out the calculator and calculate how much they paid for the house, how much it’s worth today, divided by the number of years they’ve lived there and on and on. After they struggle with the calculator for a bit, I give them the answer. ZERO. The answer is always ZERO. Equity gets a 0% rate of return year in and year out no matter what!

Huh? How does that work? Equity has NO EFFECT on the value of your home. Home value goes up, or down, based on the market conditions of real estate, not equity.

Think of it this way. If you have a home worth \$200,000 and the market drives the price up to \$300,000. That is a \$100,000 increase in home value. Was the value of the home determined by your equity? In other words did a realtor come by your house and determine its increase in value based on how much you owe or how much equity you have? Of course not, that would be silly. Did it matter if you owned the house free and clear or if you had a \$200,000 mortgage? NO! So, in fact, the amount of equity you have has NO bearing on the home’s value, thus equity gets a 0% rate of return every single day, every month, every year.....every decade.....forever!

To think of it another way, suppose I have this same home and I own it free and clear. My home goes from \$200,000 to \$300,000. Some people would say that I made 50% on my money. I invested 200,000 and now it’s worth \$300,000. If I sell it, I get \$100,000 which equals a 50% return.

But.....what if I didn’t put ANY money down and had a \$200,000 mortgage. What is my rate of return now? I still made the same \$100,000 because the market went up. You see, equity or lack of equity has no factor in determining the price of the home. I would argue that the man who owned his home free and clear made a terrible investment. He could have made the same \$100,000 if he only put \$10 bucks down! His equity made a 0% rate of return while sitting in his home (mortgage interest is addressed later in the “Pay-Off” section).

A Wonderful Investment

Let me describe for you this “wonderful investment.”

- You can determine the amount of your monthly contribution.
- You can determine the length of time you will make the contributions.
- You can add more, but not less, than the originally determined contribution.
- If you attempt to pay less, the financial institution will keep all your previous contributions.
- The money is not liquid.
- The money deposited into the account is not safe from loss of principal.
- Each contribution into the account results in less safety of principal.
- The money deposited earns a ZERO percent (0%) rate of return.
- Your income tax liability INCREASES with each new contribution.
- When the plan is fully funded, there is NO income paid out, ever.

How much do you want to invest?

You probably guessed that I just described your home mortgage! You could use the same set of bullet points for a cash buyer and then add:

Your principal invested will only be available at the time you can reasonably market your home, locate a buyer, and then wait for funding. If you did need to access some of your funds, you would be at the mercy of the bank to give you a home equity line of credit or a first mortgage.

Pay-Off

So now that we understand that Equity doesn't provide any growth on money, let's determine the best way to pay off a mortgage.

Going back to the question -

If I want to pay off my mortgage, should I add additional principal payments to each payment?

The answer is simpler than you think, and I'll bet if you take a minute you will know the answer too.

Since equity gets a 0% rate of return, it doesn't do me a whole lot of good to store my money in the home as it will not grow (or lose) in value based solely on market conditions, not equity.

If I can get a rate of return equal to or greater than my mortgage interest, after tax, then I can pay my mortgage off FASTER by saving the extra payments in a side fund rather than adding extra payments to the mortgage payments.

Let's assume a 33% tax bracket for both fed and state. Assume I can get a \$200,000, 15 year mortgage at 5.0%, and have a payment of \$1,581 per month. The payment at 5%, for a 30 year loan is \$1,073 per

month. There is a difference of \$507 per month. So I take the 30 year mortgage, but take out of my cash flow the cost of the 15 year mortgage which is \$1,581. I pay \$1,073 to the mortgage company and I put \$507 into a side fund.

I would need to get 3.35% or better, after tax, in my side fund to pay off my 30 year mortgage in year 15. Any return above that will allow me to pay my mortgage off even faster. At year 15 my mortgage balance is about \$135,000. My side fund also has over \$135,000 in it.

If my side fund were to average the same rate of return as my mortgage interest, after tax, which is 5%, I will be able to pay off my mortgage in 14 years 4 months. At 6% my side fund will be able to pay off the mortgage in 13 years 8 months.

Now here is the clincher. In comparing a 15 year and a 30 year mortgage, the cumulative tax savings are much more significant in the 30 year mortgage. Let's look at year 15 for both mortgages.

YEAR 15

15 year mortgage	\$27,946
30 Year Mortgage	\$42,578

If I were to save my tax savings in my side fund too, my account value would grow even faster allowing me the option of paying off my mortgage even sooner.

In the end a 30 year mortgage will have over \$61,000 in tax savings over the life of the loan. If I were to save the tax savings at 5% interest I would have over \$167,800 in my side fund by the time my mortgage was paid off.

It is a matter of HOW you handle your mortgage that can either help or hinder your wealth.

Notes



Safety

Question, who is safer with every mortgage payment? You know the answer, it is the banker. So, if you were to add substantial principal payments each month to your mortgage, are you putting yourself in a safer position? The answer is, NO!

Question, if you need to get money for an emergency, and all of your money is *stored* in your home because you have added additional principal payments, who do you have to ask for some of your money? The answer is.....The BANKER!

Question, if I owe \$50,000 on my remaining mortgage balance, and I have \$50,000 in my own side fund that I control, am I technically out of debt? Could I pay off this mortgage any day or anytime I want to? Sure I can, it's MY money. On a balance sheet, I would technically be debt free.

Question, if I have \$50,000 in my own side fund, and I run into an emergency, lose my job, get injured and I can't work for a few months, can I use the money in my side fund to help me through my situation? Absolutely! No questions asked, it's my money! I can make a lot of mortgage payments (and other payments) with \$50,000.

If I needed to get money out of my home equity because I lost my job or was unable to work, do you think the banker would give me a "loan" on my equity? Chances are he's not even going to talk to me if I don't have a way to repay him with immediate payments. But he would surely appreciate all the extra payments I made throughout the years of paying down my principal!

Hopefully you are seeing that you not only lose control over your equity, but there are a lot of reasons to keep money in your side fund, rather than storing it in your home.

Here are a couple of other reasons:

- Sinkholes - Florida – try getting a loan, or sell a home with a sinkhole.
- Market downturn – National Problem.
- Katrina – People were stuck, No home equity loans.
- Disability
- Unemployment
- Business Opportunities
- Emergencies
- Credit application, FICO Score, bank control

The stories from hurricane Katrina were numerous. People were hurting and needed money.

Can you imagine walking into the bank and saying, "Mr. Banker, I have \$50,000 equity in my home. I'd like to get some of it out."

"Well," he says, "didn't your house get flooded by hurricane Katrina?"

“Yes, but it’s my money. The money is in my house. You have it. We have been making extra payments every month. We need to rebuild our lives. We will be fine in a few months. I only need \$10,000 to survive and keep our kids fed and clothed for a while.”

His final reply is “Sorry, I can’t help you. We don’t do business like that. And by the way, if you don’t continue to make your remaining house payments, we will have to come in and take the home too.”

Now how bad do you wish you had that side fund instead of equity?

The bottom line is that having your money in a side fund gives you options - it will be there if, or when, you need it. You won’t have to fill out an application or justify getting your own money to anyone. If you want to pay off your house, you can. But there may be better ways of going about that, rather than sacrificing your side fund and storing equity in your home. Remember if you have the money to pay off your home, safely stored in your side fund, then you ARE out of debt.

Notes



Seniors

Do you know what is happening in America with our seniors? I'll bet you have seen the same commercials that I have. Almost every night I see a commercial for a *Reverse Mortgage*. Do you know what that is?

In a nutshell, many of these seniors choose to "store" their cash in their home. Having little else to fall back on but their home, they are making a deal with the reverse mortgage company to essentially mortgage the home. The senior will receive payments based on their life expectancy and their home value. Upon death the bank will come in and take the home, sell it, pay off the balance of the "loan" and maybe have a bit leftover for the kids.

Obviously many seniors are on a fixed income and have no way to take out a home equity loan. So once again the banker is in control of your money, and the only way to access it is according to their rules, and you can't do a thing about it.

What a tragedy. Luckily they have their home, but what if they had a side fund filled with their "equity" rather than having their equity in their home. Maybe they could generate the income needed to not only make the mortgage payment, but to have a better lifestyle as well. Even a hundred thousand dollars in a side fund could make a big difference in their life.

Let me add this comment before we leave this discussion. There may come a time in your life where you have plenty of money, plenty of assets, plenty of income, and paying off your home will not hurt you financially. You won't have the need to access your equity (no need for a reverse mortgage). You may do it just to get rid of the hassle of payments. If that is the case and that's what you really want to do, then have at it. In the meantime, you may want to think about the home ownership strategy very thoroughly before you lose control of your money... and have to go by the bankers rules to get it!

Personal and Private Banking

Now let's really get after it! Most of you bought the book to discuss how to create your own banking system. So let's get to it!

We are going to go through a step by step process and when we are finished you will understand the following:

- **What is a Private Banking System?**
- **How Does It Work?**
- **How Do I Start My Own Banking System?**
- **How Do I Use My Banking System?**
- **How Does It Benefit Me?**
- **How Do I Make It Part of My Lifestyle?**

What is a Private Banking System?

To understand the private banking system, you need to get a grasp on some financial concepts which we are going to briefly discuss next. In addition, you need to start wearing a different hat when it comes to how you view your money. It's time to put on the banker's hat. Sit in his/her chair and view yourself from their eyes and how they view your money in their bank.

When you spend cash you need to understand exactly what that means to you in terms of cost.

You have to get a sense of how important capital is and how to use it wisely.

You are soon going to realize a couple of truths that no one has ever told you.

For most people, it is not the rate of return that is going to create wealth, yet most financial advisors are always talking about rate of return, as if that is what really matters.

ALL capital has a cost... even yours!

Controlling the "banking equation" in your life will create wealth faster than "investing" and without risk.

Managing the amount of money that you send to someone else, (debt) will be more impactful to your financial situation than rate of return will ever be. For now, we are not going to address mortgages. Certainly one can use their banking system for their mortgage as well. However, in the beginning, this may be too great a challenge, but can be part of the overall objective throughout the years.

Restaurant Business

When my wife and I were a young married couple I somehow landed a job as a manager of a small restaurant chain in the San Francisco Bay Area. I did this while I decided what I really wanted to do for a living. What I learned there became invaluable experience for what I now understand about creating wealth.

I knew nothing of the restaurant business and had never even flipped burgers as a teenager, so the food business was all new to me. I knew nothing about running a restaurant and what I came to realize later is that neither did the owners.

The restaurants were funded by an investment group who was managing money for US citizens working overseas and would, upon their return, want to have thriving businesses to come home to. The investment group, which would probably be called a Hedge Fund today, decided there was a lot of money in restaurants.....and so they opened three of them. I managed one location, but soon became the “district manager” over all the locations.

The investment group thought it was going to be an easy business model; create a menu, serve the food, and collect the profits.

I could write an entire book on the owner’s mismanagement of funds and delusions of grandeur, but I’ll save that for a later date. At the time I was more naïve than they were and followed orders. But looking back, the principles they implemented to run a business were disastrous.

There is a saying that I’m sure you’ve heard before, “there is no such thing as a free lunch.” Well, I beg to differ because, as part of my compensation, I was literally given a free lunch.....everyday!

We, as the managers, were able to eat a free lunch, dinner, snack, dessert, or whatever we wanted to eat, whenever we wanted to eat, and as much as we wanted to eat. And that included our immediate family, too.

It was great, mainly because our specialty was premium ice cream desserts. I can taste the milk shakes and sundaes now.....man they were good. *I think I need to take a break for some ice cream!*

The problem is that the investment group didn’t understand money and they essentially let us managers “steal” capital and profits from the company. There were times you would feel guilty about eating your free lunch in front of the employees and so I would ultimately share a dish or two of ice cream with them as I did not value our “capital,” which was the food, simply because the owners didn’t either. I felt I was being a good manager and treating the employee’s right.

The truth is a business can never survive when it’s employees (in this case us managers) were eating the profits up every day. The investment group could have taught me a very powerful lesson about money that could have helped me for the rest of my life. Sadly, it became apparent that they didn’t know the lesson themselves. Inadvertently, I did learn the lesson, but we all learned it the hard way.

They should have taught me that in order for a business to grow, it needs to take its profits and reinvest them back into more inventory. Then it must turn over that inventory as often as possible, and

as many times as possible, in as short a time as possible, using the same dollar. It is the velocity of money, using the same dollar over and over again to create profit.

Let's look at a real example. We sold a delicious sandwich called the "Pilgrim." It was a turkey sandwich with Swiss cheese and avocado. It came on toasted sour dough bread and was one of my favorites (followed up by a chocolate and hot fudge sundae... but I digress). The sandwich sold for \$5.00.

I was never made privy to the actual cost of the sandwich, but let's say the total cost was \$4 after all expenses. This assumes overhead and employee costs. So we made a 25% profit, not bad.

That means that for every four sandwiches we sold we had \$20 in "income" to essentially put into more inventory to buy all the ingredients for more sandwiches. Out of that \$20 we technically had \$4 in profit.

Now here come us hungry managers and their families.....taking advantage of our "fringe benefit" of free food!

Almost every day my wife would come into the restaurant and we would have lunch together. Let's assume we both ate a Pilgrim Sandwich for lunch. I won't even include the sundae or shake or dinner, too, if I worked late in this example.

If the cost of the sandwich is \$4 that would mean that we ate \$8 worth of inventory (at cost). Now, using your quick math skills, how many sandwiches do we have to sell at \$1 profit per sandwich just to break even and replace the inventory that we just ate? Correct! Eight sandwiches! In reality, we ate the profits of eight customers during one quick lunch together. But here is where it really gets disgusting. The eight sandwiches we would have to sell would only cover the cost of the ingredients (inventory). To get the same economic value, i.e. both capital cost and profit, the restaurant has to sell 12 sandwiches (8 for the inventory and 4 for the profit we could have had) just to cover the two of us eating one free lunch!

I can't remember how many people we ended up serving in a day, but let's assume we had 48 people come in for lunch. My wife and I were eating the income of one quarter of the lunch customers. Once more, there were two managers (and sometimes 3 in a store), and the owners of the investment company came in and ate free on a regular basis too! This means that on a normal day, two managers would eat the income of half of its customers. How could we survive in business? Short answer, we couldn't and we didn't!

In essence, we were *robbing* the business of both inventory and profit with every mouth full.

The moral of the story is that the investment group did not understand money. They supposed that since the sandwich didn't cost that much to make that it would be no big deal for the manager to eat for free. They viewed it as a \$4 daily bonus (\$8 if you count the two of us).

They were NOT honest with themselves about money or ignorant at best. They didn't understand how the velocity of money works, and how to look at all the inventory as if they were a banker guarding his money. Every banker wants his money back and interest, too!

In the end, you could say we ate our way out of business, although the free meals were only one component of the equation. The stores collapsed, ran out of money, and the investors lost it all.

Incidentally, the investors fired the investment group and who knows what happened to them. If they didn't figure out how to be honest business owners, they are probably all in the poor house by now.

So what should they have done differently? First of all, they should have understood "velocity," which is the number of times the business (or a banker) can take the same dollar and use it over and over again to make a profit.

In this case, the dollar is the profit from the sale of a sandwich and the capital used to buy the inventory. Not only should they have kept their original capital invested (the cost of the sandwich...4\$) but they should have rolled the profit into more inventory to make more sandwiches, too.

Let's go back to the four sandwiches in the above example. The net cost of the sandwich is \$4; you never want to *eat* or waste your original capital, so this must be reinvested. Four sandwiches will sell for \$20 total. The investment group should have realized the power of compounding by reinvesting the entire \$20. This \$20 will now buy enough inventory for 5 sandwiches. Those 5 sandwiches now produce \$25. Now we can buy enough inventory for more than 6 sandwiches. Those 6 sandwiches bring in \$30, enough to inventory 8 sandwiches....and so on and so on.

At some point, the business will have plenty of capital and sell sandwiches to capacity, or in other words all the sandwiches they can sell in a day. Now the business has "excess" income or what we like to call PROFIT! This is when the investment group could have started giving managers bonuses for managing the inventory and profit correctly, based on productivity and capacity, instead of giving away the restaurant to "thieves" who not only ate the income, but the invested capital as well.

Using profit to benefit the managers is a great way to incentivize them and keep the business running like a tight ship. The investors should have made the managers buy their own food which would have helped them understand the value of the inventory and capital invested. Then at some point, they would have all benefited from the profits.

This concept must be understood if you are going to create your own banking system.

Just like being a good, frugal, and honest restaurateur, as the banker of your money you must make good use of the capital inside your banking system, pay back all loans, with interest, and do this over and over again and never think just because it's your money that you get a free lunch!

If you must take some of the profit to live on, such as during your retirement years, you would only do this AFTER the bank has sufficient time to generate a profit and there is excess.

Then and only then, if you would like to take a distribution as the owner of the "bank," and it won't affect the integrity of the bank in continuing its "business," you can. That is being an honest banker and an honest business man.

Understanding Economic Value Added

Another principle that needs to be understood before we discuss the private banking system is **“Economic Value Added” (EVA)**.

EVA is an accounting term. We could spend hours on how this is calculated, but rather than going into the complexities of the calculation and how to determine EVA through accounting principles, we are going to make this a very simple and easy discussion.

At its very essence, **Cash is King!** Cash has a cost, cash should be valued, and there should be an “economic value” imposed by using your cash - in other words a return ON cash and a return OF cash.

Although EVA is typically used in the corporate or business world it would be well for families to understand EVA too and implement the simple principle which is, ALL CAPITAL (CASH) HAS A COST.

The concept of EVA is relatively new and was originally implemented back in the late eighties by Coca-Cola. Now nearly every major corporation implements some form of EVA.

It stems back from the fact that many corporations when expanding would use corporate profits (cash) for the expansion. They would disguise this use of cash as “capital expense” or “capital investment.” I say disguise because in reality it was cash being used without a return. They were kidding themselves. The justification was that the expansion would create additional production, thus revenue, thus profit. However the actual cost of the cash was never calculated. Hence, EVA was born.

In its simplest form EVA asks, “What is the cost of capital?” And then implements that cost. If I were to borrow capital/money from someone else’s bank, what would the cost of that money be?

The question I ask my clients is why is their money not as valuable to them as the bank’s money is? Why are they willing to pay for the cost for using the bank’s money (interest) yet they are not willing to pay themselves for the cost of using their own money? As if this is a savings.

EVA asks the corporation, why are you not treating your money at least as valuable, if not more valuable, than the bank’s money?

In the end, here is how it works.

Suppose I’m a corporation and I have cash to expand. I decide we need to add another, building, plant, new equipment, or whatever - something that requires cash. In order to do this, I need to take cash from our coffers or borrow the money from a lending institution (someone else’s bank). In the past, spending the cash would have been the most desirable option. After all, the corporation would not have to pay interest on the capital and it would get a return on the cash invested if the company’s productivity increased.

The problem is, there was no accountability for the cash infused and no return OF cash nor return ON cash (interest). The company did not value their cash at least the same as using someone else’s cash. They were “eating their inventory.”

However, the EVA process treats corporate cash the same as borrowed cash. If a plant were to get a new assembly line and equipment, then that plant needed to treat that cash as borrowed money, even

though it came from corporate. There was a loan made, a payback schedule was implemented, and a cost of money (interest) was applied. The simple theory is if the plant can't afford through increased productivity to pay back the loan, then this is wasted money and the corporation is "fooling" themselves into thinking that this is a good investment. The plant and its new equipment should have the capacity to pay back the loan or corporate should not make the loan/investment in the first place. It would in fact be a bad investment if they couldn't get a return of and on their cash.

On the other side of the equation if corporate infused capital into the new plant, the manager at the plant better be able to produce the income necessary to pay back the loan or he/she was in trouble. What was the result? Productivity increased dramatically. Schedules were tighter, waste decreased, efficiency increased, and ultimately so did productivity. The plant now needed to have enough capacity to not only keep its doors open, but to pay the loan back as well. In the case of Coca-Cola, their stock went through the roof for several years because productivity equals profit and shareholders like profit.

The simple formula is if you use cash it should have a cost associated with it. Whether you are buying a new car or a washer and dryer, cash/capital has a cost! When you spend money there is an actual cost. You would normally only have one of two choices when making a purchase, but I'm going to give you a third choice:

1. You can use someone else's money (like the corner bank) by borrowing from them and pay them back the original loan amount and the interest for the use of the money.
2. You can use your cash and give up the interest that you could have been earning had you been able to keep your cash saved/invested. This is called opportunity cost - the cost of lost income or return due to disposing of your cash – forever.
3. This third option is new to most people. You can treat your cash like corporations do through the use of EVA and take loans on your cash and pay the loans back with both principal and interest. This way your cash is earning a rate of return and you are paying yourself for the use of the capital rather than paying someone else for the use of their capital.

In Options 1 and 2 you will end up with nothing to show for it except the depreciated item you purchased. For instance, if you bought a car, you would end up with a car and whatever its depreciated value is.

In Option 3, you not only have the car, but you have the original capital and the interest you would have either paid to someone else or lost to opportunity costs. Your net worth will actually increase when making loans to yourself.

There is no other choice. It is one of the three. However, most people never supposed that there was an Option 3.

EVA Realized

Treat all major purchases you make like borrowed cash. If you don't have the ability to repay the loan with interest to yourself, then you might be kidding yourself that you can "afford" this purchase. Or perhaps YOU need to be more productive in your work, or devise ways to increase your income/ profits similar to a corporation.

In addition, if all you did was pay cash for purchases the lost opportunity cost can be a significant amount of money. Your inventory, or in this case your cash, will be eaten up, gone, history.....and where does that leave you in the long run?

Notes



Opportunity Cost

Let's take a minute and discuss Opportunity Cost.

Let me ask you this: Suppose I were to offer you stock in a company that today sells for \$40 per share. In addition I guarantee you that in 5 years, it will be worth \$20 per share. How many shares would you like to purchase? Hopefully you said NONE!

This is exactly what we are doing when we pay cash for a depreciating asset such as a vehicle. Assume we are considering a cash purchase for a \$40,000 car.

We are essentially putting \$40,000 into a vehicle that is pretty much guaranteed to be worth half, or less, in 5 years. In other words, our \$40,000 is going to dwindle down to \$20,000.

When we pay cash for an item we give up the "opportunity" for that money to work for us and grow....forever! In our example, we are giving up the opportunity for growth on \$40,000 that we used to purchase the car for cash. Look at the various interest rates and years illustrated below. The chart shows what \$40,000 could have grown to in the future had I not used cash for my purchases:

Years	5%	7%	10%	12%
5	\$51,051	\$56,102	\$64,420	\$70,493
10	\$65,155	\$78,686	\$103,794	\$124,233
20	\$106,131	\$154,787	\$269,100	\$385,851
30	\$172,877	\$304,490	\$697,976	\$1.4 Million

Let's say I could get a safe and reasonable 5% rate of return. Twenty years from now, that car cost me in "opportunity" over \$106,000. If I can make 7% on my cash, that could equate to over \$154,000. That amount of money might make a difference in someone's standard of living during retirement. The result is that paying cash may seem like a great alternative to financing, which it does, but is it the best way to make a purchase?

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How Does It Work?

Now let's talk about creating your own Private Banking System. This is a paradigm shift from where most of us are in our financial minds. It's a concept that has been around for 200 years, but seldom discussed by advisors as a means of generating wealth, mostly because even they do not know or understand the impact it can have on your wealth.

The concept is pretty simple. Rather than spend cash on a depreciating asset and lose opportunity cost as previously discussed, you save the capital in a private banking system. When you need to make a purchase, you borrow from your private banking system. The important thing is that you must treat this loan as if the money was borrowed from a lending institution such as the corner bank.

It is extremely important that you are an "honest banker" and that you don't steal from your bank. In other words when you take a loan, you must repay the loan. Treat yourself as well as you would treat any other lender. Using funds with this method will assure that you replenish the principal used as well as the interest normally paid to other lenders. It's now all back in YOUR bank.

In order to make all of this work, we must first capitalize the private banking system. Similar to getting a bank charter, a newly established bank needs to have capital reserves in order to make loans. Our private banking system is no different. We need to have capital in order to make loans. We have to save, transfer in, or invest capital into our private banking system. This can be rather quick, or may take some time, depending on your current income and asset availability.



How Do I Start My Own Banking System?

Now that you have a sense of how a Private Banking System might be utilized, the question then becomes... where do you capitalize the “bank?” From now on, I’m going to refer to your private banking system as “your bank.” Please do not confuse this with an actual chartered bank.

One other term that I’ll use is “capitalize.” When I use this term it means to save, invest, or deposit money into “your bank.” When you capitalize your bank, it will be for a short period of time, such as 5 years, and with a pre-defined amount of money.

There are several places you could capitalize your bank. Here are a few:

- Savings Account
- Checking Account
- Money Market
- CD
- Mutual Fund (with very little risk or volatility)
- Bond or Bond Fund

But as you will see, the most important thing we can do is protect the capital. Your bank needs to be guaranteed, safe, predictable, tax-advantaged, and liquid. This will become extremely important for a banking system.

All of the above options are available for the capitalization phase, but what if there was a place to capitalize your bank that would also offer you the following?

- Tax deferred growth
- Tax free access to your money, forever, if handled properly
- Guarantees
- Liquidity, Use, and Control
- No IRS involvement
- Unlimited contributions
- No 59½ or 70½ rules for distribution
- No Probate
- 200 + year history

The IRS calls this vehicle an **IRC-7702**. The problem is that very seldom is this vehicle sold properly, particularly for banking purposes. What is this vehicle? It is a maximized and over-funded Permanent Life Insurance Policy. Now for those of you who have had a bad experience with an insurance agent or an insurance policy, or have a not-so-pleasant view of Life Insurance, let me see if I can address some of the same concerns that I had myself.

My career has been very investment oriented. I believed that the way to wealth was by taking risk, staying fully invested, asset allocation, diversification, dollar-cost-averaging, and rate of return. Sound familiar? You have probably been preached the same “buzz words” by the advisors you have worked with.

Insurance was one of the necessary evils that I had to address, and the faster I got through it, the better. I was told to advise people to buy some term insurance in case you get hit by a train, and be on my way. I thought, like many advisors, that in order to attain wealth, you needed to take risk by investing. Once you had sufficient assets to take care of your family, if you “kicked the bucket”, then you could drop the term insurance. Like many advisors, my mind was closed to any type of permanent insurance, not to mention the fact that whole life insurance was boring!

I also listened to the so called FEN (Financial Entertainment Network) “gurus” on the radio and TV (some of them are still out there) preaching against permanent insurance and saying things such as, agents get paid more by selling permanent insurance and that’s why they sell it, the returns are not high enough, and on and on. I have come to realize that these “gurus” are the worst types of peddlers on the planet. They, along with many other advisors, do not understand how wealth is created, retained, and transferred. For the most part, they are talking to the uninformed with little money. Remember, they are entertainers.

Did you ever see the books called “The Magic Eye?” The books are filled with pictures that look like nothing more than psychedelic colors. But if you look closely, squint your eyes, and look cross-eyed, somehow a 3-D picture appears. They made posters you could hang on your wall. The pictures were everywhere. I used to be fascinated with them and got pretty good at finding the hidden pictures quickly.

Insurance and the Magic Eye pictures have a lot in common. As I began to meet and work with very wealthy clients, I began to see things more clearly. Like those hidden pictures, it began to appear to me that the wealthier someone was, the more insurance played a part in their overall financial picture. The wealthy were not afraid to talk about insurance and position large dollars in a policy. It wasn’t like those gurus on TV and the radio had proclaimed. The wealthy used insurance to their advantage.

I also noticed that as those who followed the “buy term” mantra got older, they could no longer afford term coverage, and were usually forced out of it by cost or health. Statistically, only 1% of those who buy term insurance die with it intact.

Those who had the real wealth, used permanent insurance in some remarkable ways. Now I see it everywhere! Like the hidden pictures popping out at me, insurance can be quite a find. But I was stubborn and it took me a while to finally see it.

Nearly every wealthy person I know has incorporated life insurance as part of the overall plan for several reasons:

- It’s tax friendly
- It’s probate free
- It’s the easiest asset to transfer at death
- Gives peace of mind

- Allows for greater charitable contributions with tax benefits – (we have an entire strategy devoted to this.)
- Pays estate taxes with pennies on the dollar.
- Instantly provides for family left behind.
- It has tax advantages that no other investment does.
- Becomes a great retirement resource for families and business alike.
- Income from life insurance will not affect Social Security benefits.
- Works like your own private bank.
- Helps create a family banking system to be passed on from generation to generation.

The last two items on the list are what most people never knew. In fact, a policy that is correctly designed really has more characteristics of a bank than it does an insurance policy. It is quite remarkable.

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What Type Works Best?

For banking purposes a mutual, dividend paying insurance company that issues a whole life policy has the characteristics best suited for banking. In reality, these types of policies resemble a bank more so than an insurance policy.

In addition, the insurance component has a level cost throughout life. The objective is to actually die with a whole life policy. That may sound morbid, but it makes little sense to pay premiums into a policy for 15-20-30-40 years and then cancel it before you die and walk away from all of that money, talk about opportunity cost!

For now we will ignore the death benefit in your banking system. It's a bonus that will pay out and immediately fund another banking system for your family if you were to die. But it's not the underlying reason to purchase the policy... banking is the reason. In fact, we want to buy the very least amount of death benefit that we have to, in order to gain the tax benefits associated with the policy. The death benefit will continue to grow, keep pace with inflation, and be a welcomed benefit to your family.

What Most People Don't Know

Did you know that if you ever financed a purchase from a furniture store, car dealer, electronics, or a myriad of other items, most likely you were financed by an insurance company? Many finance companies borrow blocks of money from insurance companies and then mark up the rate to their customers. They make money on the spread. Most likely, if you've ever financed anything, you were paying – indirectly - into an insurance company. As the owner of a policy, you will likely be a lender to other financial institutions that borrow money from insurance companies for financing.

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Saving or Investing?

Quick question, is there a difference between *saving* and *investing*?

I love the water. I'd pretty much rather be on or around water than almost anywhere else on the planet.

This past summer we had our daughter and granddaughter over to the house and as was the case on many warm days, we ended up in the pool. Our granddaughter is only about 5 months old, so what do you think the first thing her mother did when it was time to get into the water? You guessed it, she protected her. How? By surrounding her with an inflatable tube that held her nice and tight and then Mom also stayed right next to her holding onto the tube. She wanted to make sure that her baby girl was safe and to be close enough to help her if by chance she began to topple over.

On the other end of the pool was our 14 year old daughter. She was swimming around without any tube or inflatable. She was jumping off the diving board, swimming to the bottom of the deep end of the pool, and essentially had no protection around her.

Saving and investing are as different as our granddaughter and our daughter in the swimming pool. When we save we have protection, safety, and in some cases, we even have someone there to hold onto us in case of financial problems... we have guarantees.

Like our granddaughter in the tube, she was in the pool and having fun, but was protected, safe, and had someone there to help her if she needed it.

Our daughter on the other hand was unprotected, in the deep end and could, if not careful, find herself in trouble. Like swimming in the deep end without protection, investing requires that you take a risk. Even though it may be fun, and can be fun, we have no protection. We are at risk. We can run into trouble, and even drown if we aren't careful.

My point is that there is a significant difference between *saving* and *investing*. Saving typically means your money is going to be there for you. You don't have to worry so much about the dangers and pitfalls. Whereas investing requires you to accept the risk of loss if the markets should change along with the dangers associated with the investment. Investing is not necessarily a bad thing, but it's not like savings... there is a difference.

Sadly many people think they are *saving* inside of a 401(k), but when you look at the underlying assets, typically mutual funds, they are in fact *investing* and have no guarantees of the outcome.

We all know someone (maybe even ourselves) that has lost money in an investment of some sort. It could be stocks, real estate, or even a 401(k). As long as you are aware of the risk, and can accept the risk, and ultimately can live with the risk of loss, then there isn't anything wrong with investing. However, after living through the growth years of the eighties and nineties, I think many of us have a warped sense of what risk really is. 2007-2009 have perhaps awakened many of us into what risk really is! Yet we still see people funding their 401(k)'s, IRA's, and mutual funds with what they perceive as *savings dollars* into accounts that are meant for *investment dollars*.

When we talk about creating your own banking system, we are talking about *SAVING* **not** investing. This money that goes into your bank needs to be safe, liquid, and even have a guarantee associated

with it. It has all the necessary ingredients to let us save our money safely and so that it is there for us when we need it, or if our families need it... even at death.

Real Life

So how do you handle all of the following situations?

In our financial lives we have to prepare for several things:

- Save or Invest for future.
- Prepare for emergencies.
- Make purchases of needs and wants:
 - Cars
 - Homes
 - College
 - Toys....

And a hundred other things in a lifetime.

- Create, manage, and pass on our wealth.
- If we invest our money then it's most likely not available for purchases.
- If we spend our cash then it's not available to save/invest.
- If we borrow money for our purchases then our income is reduced and diverted to someone else for the use of their money (debt).
- If we buy term insurance and live a long life, we will probably have wasted all that money because we will most likely cancel it before we die due to expense or health or both.
- If we buy whole life insurance and die young, we could have gotten a better bang for our buck with term insurance.
- If I wait until I'm old enough to get out of my retirement account (59½), who knows what tax rates will be? I could get killed with taxes.
- If I take risk with my money and invest it at the wrong time, I could lose some if not all of it, or could have wasted years if not decades waiting for a return.
- If I sit in an account at 3% when the stock market is rising at 8%-10%, I could have earned more.
- If I have an opportunity come along for which I need money, but it's all in my retirement plan, I'll miss out.
- If I want to open a new business but have no money available to me, I'm stuck.
- If I become disabled or can't work for some reason, I'll never be able to qualify for a loan, and I'll have to save and pay cash forever.

- If I own my home free and clear, I'll be safe, I think.
- If all my money is in my home and homes drop in value, chances are I'll never see that money again.
- If I have a lot of equity in my home and need it, I have to bow down to the banker and hope I qualify for a loan to get some of my money.

And those are but a few of the issues that many of us face each day. I'm not sure there is a perfect answer to solve every one of those issues. So how do I combat as many of the issues as possible?

In a word: **BANKING**

I think it's safe to say that most readers of this book have been told that you must invest to prepare for the future. The typical investment for retirement is the employer-sponsored 401(k) or the IRA. We are told that we need to diversify our portfolio. We need to invest in the stock market. We need to have our money at risk in order to achieve the rates of return necessary to accumulate enough money for retirement. Do you think that's true? If so, what about all those people whose financial lives have been cut in half over the past few years because of a crashing economy? Aren't they kind of out of luck?

For now, let's agree that we need to save money for the future. We all have to prepare for two outcomes in our lives.....

In one life, we live long and prosperous to a ripe old age before we say goodbye to this earthly life.

In the other, we die earlier than expected.

Since none of us have the exact date of our deaths, we have to make some choices that will be beneficial to us and to our families no matter which life we end up living.

I tease my clients a bit by saying, "tell me when you are going to die and I will set up the perfect plan for you."

Most advisors would have you buy term insurance and invest the difference. If they are right and you die tragically at a young age, all is well, and your family will be protected. Term insurance works well if you die young.

If they are wrong and you live a long life, I hope your *investments* did well and the risk was worth it because chances are the cost of the term insurance will be so high the older you get that you will likely drop it long before you die. If your investments performed and you no longer need/want the death benefit then you lucked out. If you want or need to continue buying term in your late 60's and 70's be prepared for some whopping premiums. In many cases, people pay more into a term policy than the death benefit pays out if they live a long life. What a waste!

I still can't figure out why these radio talk show guys don't want you to die with all the insurance you can buy. It is THE best asset to die with. Yet they would have you drop your insurance and die with investments that may or may not protect your family, may or may not be worth more than you put in, may or may not produce enough income to survive, and are subject to probate, and worst of all are subject to taxes. It makes no sense to me. I have to believe that they just don't get it. They don't understand banking, but hopefully by the time you finish this book, you will get it!

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Term Insurance - Case in Point:

I ran several hypothetical term insurance quotes comparing 15 companies and using the median cost for illustrating this discussion.

If we take a typical, healthy man at age 30 and he buys a 20 year Term policy, he can do it relatively inexpensively. For \$450 per year, he can get \$600,000 in death benefit. Pretty decent.

Twenty years later when he is 50 years old and needs to renew his insurance, if he decides to buy another 20 year term, his premium will go from \$450 to \$3,486 for a \$1.6 million in death benefit.

Why did I go from \$600,000 in death benefit to \$1.6 million? There are two reasons. First off, if I compare the death benefit in a term policy to the death benefit in a whole life policy with its dividends buying "paid up additions" (more death benefit), in 20 years, the whole life policy would have \$1.6 million in death benefit. To keep things on par, the person in our example would now have to buy \$1.6 million in death benefit in a term policy to equal what he would have had with the whole life policy.

Side note: It should be noted, and probably obvious, that he will be paying much more into a whole life policy than a term policy. The additional funds will create cash value. He'll be able to save and use the cash value for all his "banking" needs.

The second reason the death benefit needs to increase is due to inflation. 20 years have gone by and \$600,000 won't buy what \$600,000 used to buy. Because of inflation the death benefit needs to increase to keep the standard of living the same.

His premium at age 50 is still somewhat manageable. It's \$3,486 per year. This is almost 10 times what it was, but he is getting older and we have increased his death benefit, too.

Twenty years later, let's suppose it's 2007 and all that money he had *invested* (at risk) in his retirement plan (mutual funds) has grown substantially. If he did the "buy term invest the difference" approach and invested his excess funds, after he bought term.....just like the radio guy told him to do.....then most of his assets are tied up in mutual funds or other risk investments.

At this point, he is trying to determine if his family will be okay without him and his income if he were to die. He looks at the 401(k) and his other investments and it seems like there is plenty in there to take care of them. In addition, his house has increased in value dramatically! And then....slam, bam, crash, bust! The market plummets over 50% in matter of months. From 2007-2008, his 401(k) is hammered and is now worth about half of what it was just months before. His home, that he paid off, has a value of about half of what it *was* worth. The banks have tightened up in their lending practices and will not give him a home equity loan any longer. His so called equity has vanished into thin air, and his net worth has decreased - dramatically.

It is a double whammy! Both his retirement plan and his home values were wiped out without any warning. Where is that radio guy now? Oh, he is telling him to wait it out and be patient. Hello! He is 70 years old, how long will he have to wait for the markets to recover so he can start living again?

He and his wife decide that they better keep the term insurance because it may be the only thing the family will have if he were to die. BUT.....there is a big problem. He is quite a bit older now and the cost of that same 20 year term insurance policy now is \$36,500 per year. The cost jumped from \$3,486 to over \$36,000 per year. If the premium is too high, he can opt for a 10 year Term for \$16,500 per year.

However, if he is still living at the end of the term period, the 10 year term on an 80 year old is \$65,870 per year. The cost of term insurance now becomes a huge impact on their lifestyle.

How long can he pay those premiums out of a sunken 401(k) and a house that has lost its value too?

Then the TV add comes on... "How about a Reverse Mortgage?" Argh... and no DeLorean to go back in time and do it all over again... this time the safe way.

If he were to live a very long life it is quite possible that he will pay MORE in premium than his death benefit will be at his death. What a waste!

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The Long Life

Hopefully a long life is in your future. This is the assumption most of our clients would like us to make, and quite frankly the most difficult of the two “lives.”

There is a way to provide for those short term needs if an unexpected and early death occurs, plus it's simple and inexpensive. There isn't anything wrong with creating a banking system, but if there isn't enough death benefit in the beginning of the process, add a small term rider to the policy. It will not only make provision in case of a tragedy, but it will also be convertible into permanent life if/when funds are available to create an even larger bank for your family to use. It's a win, win situation.

If you live a long life, you need to prepare for some sort of retirement. This means you need to save or invest. In the meantime you have all these pesky expenses that come up which take away your income. You may also want to enjoy some of the things this world can give you such as cars, boats, second homes, vacations, and so forth. You can finance these items or pay cash. Or you could choose the third option of being your own banker.

What if your retirement and your savings could be propelled by the purchases you make in your lifetime?

Why rely on outside forces to dictate your retirement when you could essentially control the outcome?

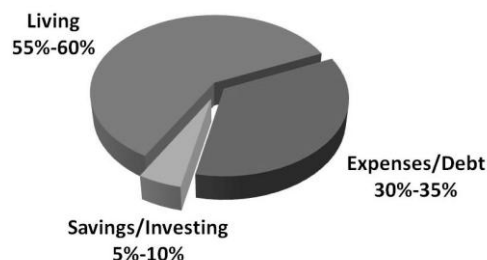
Wouldn't that take away a lot of the unknowns? Will the market go up, down, sideways? How much will I have in retirement? How will I make my purchases? And on and on!

By controlling the banking part of your life you naturally, incidentally, control the future outcome of your financial situation as well.

In addition, it is YOUR capital that you are using and managing.

Most weeks you will find me sitting down with couples and looking over their finances. I've seen it a thousand times. It seems the same situation presents itself time and time again. What I find is typical in most family's budgets: A breakdown of the after-tax income which goes something like this:

Where Money Goes After Taxes



I want you to see something that might shock you at first and then the light will go on and you'll say, "Duh, why didn't I think of that?"

Here we have typical Mr. and Mrs. American, we'll call them Fred and Wilma, and they are trying to create a future nest egg to supplement their future income needs with 5%-10% of their net income. Let's forget about the 60% living expenses for now and assume we can't do a thing about that, even though we probably could over time.

We can even assume that they may have taken as much as 6%-8% of their pre-tax income and put it into some sort of retirement plan. But again let's forget about that for now.

Once you see the overall picture here, you will understand why families are encouraged and even "forced" to take so much risk with their savings and investment dollars. For this example, I'm going to use 5% of their income dedicated to saving/investing.

Look at what the 5% savings has to do for them. The 5% savings has to get such an outlandish and unattainable rate of return, just to keep them above water. Why? This is due to the fact that the 5% savings has to compensate for the 35% of their income which is wasted by being diverted for debt purposes. It is unnecessary if they understand banking. I have found that most people unknowingly give away a majority of their lifetime of income to someone else because they did not know there was a better way.

Let me go back to my restaurant story. As we learned, in order for the restaurant to make a profit it had to sell 12 sandwiches just to make up for the 2 sandwiches that my wife and I ate for lunch. Now add in another manager and his/her spouse, maybe a child or two, and what do you have? You have a restaurant that can NEVER sell enough sandwiches in a day to compensate for the "waste" that is taking place by the managers eating up the profits. We were literally going backwards every day. It was just a matter of time before the restaurant ran out of money.

Let's compare this to Fred and Wilma. Suppose the sandwiches represented the typical household income. For every 10 sandwiches sold, we ate 3.5 of them (debt). 6 of them went to cover overhead (living expenses). That leaves us 0.5 sandwiches (saving/investing).

It looks like this:

Income	10 Sandwiches Sold
Debt	3.5 Sandwiches Eaten
Overhead/Living	6 Sandwiches
Leftover to Save/Invest	0.5 Sandwiches

This half a sandwich is supposed to replenish the 3.5 sandwiches we ate (debt) plus create profit the restaurant hoped to earn (wealth).

We know the sandwiches sold for \$5.00. This means that the 3.5 sandwiches that we eat (debt) comes out to \$17.50 ($\5×3.5).

This means that in order for Fred and Wilma's 5% savings to keep up with the debt, they will have to sell the half a sandwich (0.5) for \$17.50, just to stay afloat! Anyone want to buy half a turkey sandwich for \$17.50? It is tasty.....but probably not worth \$17.50.

In reality, we had hoped the restaurant could survive and live off of the profit of 0.5 sandwiches. Impossible! In a sense, we are asking the restaurant to do two unattainable things:

- That the restaurant survive on the future sandwich sales (rate of return) to compensate for our current eating (debt/expenses).
- That the half a sandwich would earn enough to cover our eating (debt) and create a profit too. In other words, the half sandwich would have to sell for \$17.50 to break even.

Not only is that impossible in the restaurant business, but it's impossible in the investment world too!

Okay.....back to Fred and Wilma.

In their financial situation, we are asking 5% of their money to make up for 35% "loss" (debt) and to

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create a nest egg for their future too! It can't be done. The rate of return is not only unattainable, but it's so incredibly high that the chance of loss is greater than the hope for gain.

A Better Way

Looking at this situation suppose Fred and Wilma make \$100,000 after taxes.....it is easy math.

5% of \$100,000 is \$5,000 – This goes to **Saving/Investing**

35% of \$100,000 is \$35,000 – This goes to **Debt Servicing**

If I invest \$5,000 and I can find this fictional 12% paying mutual fund, purported by the radio "gurus," the account will grow to \$5,600 at the end of the year. My return is \$600. Not bad. It is not practical to think I can rely on this every year, but let's assume we can.

Now let's talk about money used to cover their debt which is going through their hands like water through a screen. What if I could take just 2% of the net income that is going to debt and rather than giving it to someone else, I can redirect that back to Fred and Wilma and their family bank?

So they essentially reduce the debt being paid to someone else down to 33% and the other 2% of the debt I now direct to their family banking system. Same payments, same amount of money, only now they have 2% of their overall income being paid to THEIR BANK!

What is 2% of \$100,000? It is \$2,000. If I compare that with the return on the \$5,000 savings it's like getting 40% on the investment ($\$5000 \times 40\% = \$2,000$)....all without risk! We have increased their "return" from \$600 to \$2,000 without any risk.

In their current situation, this couple has to risk \$5,000 every year and hope and pray that somehow, someday they will earn enough to offset their debt and hopefully get \$600 on their investment as well. However, by redirecting just a very small portion of their debt, 2%, to their banking system the equivalent return is \$2,000. Now I'm not a rocket scientist, but I think I'd rather have the \$2,000 than the \$600....but maybe that's just me.

Question: How much risk do you take by saving money instead of giving it to someone else? Answer: None!

So what I effectively did here was increase their net worth or their wealth, by \$2,000, without taking ANY risk, by simply redirecting who they are paying "debt" to.

What if I could show them how to redirect 5%, 10%, or all 35% of their debt back to their bank? Do you think this couple would appreciate sending the same \$35,000 to their banking system each year rather than someone else's bank? Would rate of return be an issue if they were able to save an additional \$35,000 per year? In their current situation they are hoping to make \$600 per year.

Looking at it a different way. What rate of return do Fred and Wilma have to get on their \$5,000 to compensate for the \$35,000 being paid to someone else? Hint....it's huge! It's about 700% per year.

Not sure, but can you get 700% per year on your investment these days?

Is it possible for this couple to bring back the entire 35% or \$35,000 to their bank? Yes, but it may take some time. However, keep this in mind; each year they are getting closer and closer. Their wealth will

build faster by controlling where their debt is being sent. It has a much greater impact on their wealth than the rate of return will ever have on their savings dollars.

I hope you can see that “banking” has the ability to create greater wealth than rate of return ever could.

You can see why so many people are taking their savings dollars, and in many cases the money they would have normally invested into retirement accounts (IRA’s and 401(k)’s), and are now redirecting those dollars to capitalize their banking system. “**Capitalize**” is a fancy word for saving their money in a safe and accessible place, so that they eventually will have the capital necessary to become their own bank! The faster they re-finance their debt with their bank, the quicker they accumulate wealth and can eliminate the “risk” associated with investing.

Try this out with your own numbers and see the result. Input your expenses or cash outlay and determine what percentage of your income you are losing to someone else.

Cash Expenditures are not necessarily a monthly expense. However, you should be aware of the percentage of your income that goes to cash expenditures. It is a real cost.

The payments in this form are annual. So if Car 1 has a payment of \$250, I would take $\$250 \times 12 = \$3,000$. I would put \$3,000 into the form next to Car 1.

For those transferring income to someone else’s bank use the following form:

Annual NET Income:

Payments to Others:

Car 1

Car 2

Car 3

Credit Cards

Boat/RV

Equity Line

Dept. Store

School Loan

Mortgage

Other

TOTAL:

Now divide your total payments into your income. This will give you the percentage of your income that you are transferring to others.

Example: If your income was \$50,000 and your total payments were \$10,000. You would divide:

$\$10,000 \div \$50,000$.

The result is 20% or on some calculators it may read 0.2.

NEXT –

Let's calculate savings and investing.

Savings:

Retirement Plan		
Personal Savings		
Investments		
TOTAL:		

Add the column and again divide by net income.

If I saved \$5,000 and my net income was \$50,000 I would divide:

$5,000 \div 50,000 = 10\%$ or on some calculators it may read 0.1.

Let me fill one in as an example:

Annual NET Income:

\$50,000

Payments to Others:

Car 1	4,620	(385 x 12)
Car 2	3,000	(250 x 12)
Car 3		
Credit Cards	1,200	(100 x 12)
Boat/RV	2,880	(240 x 12)
Equity Line	2,400	(200 x 12)
Dept. Store	600	(50 x 12)
School Loan	1,000	(83 x 12)
Mortgage	18,000	(1,500 x 12)
Other		
TOTAL:	\$33,700	

Income to Debt Ratio: **67%**

Savings:

Retirement Plan	1,500	(6%)
Personal Savings	2,500	(5%)
Investments	1200	(100 x 12)
TOTAL:	\$5,200	

Savings to Income Ratio: **10%**

A couple of things to keep in mind. Most families in America do not save 10% of their income. According to the Bureau of Economic Analysis, the average family saves 5% of their disposable income. Out of the 95% left – about 23% goes to food, entertainment, charity, hobbies, vacations, gifts, and so forth. The rest to debt. Keep in mind that this is a very optimistic example. Yours may be better, if so, congratulations! Or it may be worse – ouch!

For the moment, let's take out the mortgage in the calculation. Why? Most people will find it difficult to think they can pay off their mortgage and give up on a means to create wealth before they even start.

Let me impress upon you something very important. Even if their *debt to income* ratio was 10%, that is 10% too much being transferred to someone else. It all adds up and its wealth this family is missing out on.

So, let's see what has to happen in order for this family to create wealth.

Forgetting for a moment about the mortgage and the other 23% going to the family's lifestyle – this family is transferring \$15,700 to someone else each year. They save \$5,200. If we go back to the restaurant - what can we learn from this example? Essentially, we are asking the \$5,200 to earn enough return to make up for the \$15,700 that is being transferred to someone else. What is the rate of return needed for the \$5,200 to break even and at least get back the \$15,700 lost? The \$5,200 needs to earn 201% every year just to break even. This means after the 201% return is credited, year end, the saving/investment account will have \$15,700 in it. The really sad news is if you want to do more than just break even, and have the \$5,200 saved/invested as well, the account now needs to return 301%. At 301% the account will be worth \$20,900 ($15,700 + 5,200$) at year end. Do you know where you can consistently get 301% on your money year after year? What about 200%? 50%, okay – what about 10%?

This family's saving/investment will never be able to compensate for the amount of money being given away each month, each year, and each decade to someone else.

We know we are not going to find 300% returns every year – right? Well, let's see what happens if we use 12% return on our savings/investments. The return the financial "gurus" say we can get.

\$5,200 at 12% will return: \$624

What if I could redirect just one car payment back to this family? Let's take the smaller car payment of \$3,000.

So now I can save or bring back to this family the \$3,000, which is being sent to someone else, and this time have the family be the banker. What kind of return does that equate to? i.e. what is the equivalent percentage rate of return on the \$5,200 of savings? In other words if the \$5,200 needed to generate \$3,000 (car payments for the year), what is the rate of return required? $3,000 \div 5,200 = 60\%$.

By redirecting one car payment out of their total income, they have an equivalent return of 60% on their savings. We have substantially outperformed the savings/investment account. We also know that 12% may be impossible to find and way too risky. Yet bringing the car payment back to their private bank is like getting 60% on their savings with NO RISK at all!

Can you imagine if we can redirect ALL their expenses back to them? Or even half? As Ben Franklin said, "A penny saved is a penny earned." It's time to start saving and redirecting all those payments to others back to a private and personal banking system.

The main thing is to get started ASAP in creating your own banking system. It may take a few years or more. But in the long run who cares. At some point you will be winning the game.

Continuing the way most Americans are now will be a guarantee that they will never create the wealth they could have had by incorporating banking in their life.

Why is it that most financial advisors spend the majority of their time trying to figure out how to invest, diversify, and allocate the \$5,200 and pay no attention to the 60% of their income being paid to someone else? Which is impacting their long term wealth the most?

The next question that arises is what about paying cash? If I have no debt I can save my income and then pay cash for the items I purchase. This is true, but you can't forget a foundational principle: **Even cash has a cost**. The lost opportunity on cash is enormous over a lifetime.

Using the same data chart, plug in the cash you spend each year. You might find that same 40%-60% is going through your hands and you are losing the growth you could have had on that money forever.

Annual NET Income:

Cash Expenditures:

Clothes	<input type="text"/>
Maintenance	<input type="text"/>
Technology	<input type="text"/>
Cars	<input type="text"/>
Boat/RV	<input type="text"/>
Vacations	<input type="text"/>
Other	<input type="text"/>

Cash to Income Ratio:

Savings:

Retirement Plan	<input type="text"/>
Personal Savings	<input type="text"/>
Investments	<input type="text"/>

Savings to Income Ratio: _____%

Now calculate a simple moderate rate of return on your cash spent each year. Suppose this same family spent 15,000 on cash purchased items per year. In 20 years, at 5%, that equates to \$520,000. In 30 years, it is over \$1,000,000. What could you do with that money during retirement? Do you think it could make a difference in your lifestyle?

Notes



Wealth

Wealth is a funny thing. There is no number pegged to wealth. You can't Google wealth and find out how much one has to have in order to be considered wealthy. Wealth in fact is a relative term. What one man may consider wealth is another man's poorhouse.

I told you a few chapters back how much I love the water. I pretty much swam or water-skied every day during the summer growing up. I remember being in the pool and somebody would throw down the swim challenge. At my house we were always racing each other.

What one person thought was a fast swimmer, another one thought was slow. It was all relative, mostly due to age, size, and experience.

I really like to scuba dive. My wife tolerates it, but I can't say she really likes it. Being that she's not as "water tolerant" as I am - swimming is not her thing. In fact, she hates putting her head under the water, which is why scuba diving is not a top priority for her.

I'm always teasing her that if a shark comes along I don't have to be that fast of a swimmer. I just have to be faster than her!

If I'm with a group of divers, I don't have to swim faster than the shark. I just have to swim faster than someone else.

For the record my chivalry is not dead, I would turn and face 100 sharks to save my wife.....I love you dear!



Wealth is the same way, it's all relative. To one person having basic needs satisfied, is another person's poverty. We don't have to be the richest person in the world to have wealth. Wealth is defined as a comparison to someone else or to another group of people (like friends, family, or associates). Remember, you don't have to swim faster than the shark, just faster than others.

Let's get back to Fred and Wilma. If they have figured out a way to stop the bleeding, so to speak, and redirect *to themselves* the debt payments normally going to someone else, then their wealth grows incidentally, naturally, and without risk. If Barney and Betty are still stuck in the debt trap and are swimming slower than Fred and Wilma they are subject to the being eaten by the shark. Their wealth is not keeping pace with Fred and Wilma who figured out how to create their own bank and pay themselves.

Look at it this way. One day everyone on your block went out to the mailbox and found a check for \$1,000,000. In reality, no one became any wealthier than the next guy, right? However, if you are the only one that received the \$1,000,000 check, then your wealth grew in comparison to the others on your block. Your lifestyle may change for the better, theirs cannot.

The person who achieves greater wealth must be doing something different than everyone else. You can't be part of the status quo to achieve something greater than the group.

Banking does just that. If you are controlling the banking function in your life and controlling the debt that others are paying out, you will naturally rise above the status quo. All without risk! It truly is the easiest way to wealth as compared to others who have not found banking or who think that rate of return on their savings is the answer, or that paying cash saves them money.

They will continue to pay out 30-35% of their income to debt service, or lose opportunity on cash, whereas you will be paying yourself that same money. Game over! You win!

Notes



Maximizing Your Income

Let's take a minute and look at maximizing the productivity of your income. The natural bi-product of increasing your "income productivity" is wealth. Let me explain.

Suppose we have a 35-year-old working to bring home the bacon for their family.

At 35 years old he has about 30 years of gainful employment left before he retires at the standard retirement age of 65.

Let's suppose that he earns \$80,000 per year and he gets an average of about 3% a year in raises. Finally, he has a place where he can save/invest that averages 5% rate of return. Here is what it looks like so far:

DATA	
Age	35
Illustration Period	30
Annual Income	80,000
Raises	3%
Rate of Return	5%

The first year of his employment he will make \$80,000. After 3% raises each year the last year he works at age 65 he will earn \$188,525. If we average out all his earning years his income averages \$126,868.

His cumulative "earning power" or earning potential over the 30-year period of time will equate to **\$3,806,033**.

This guy is going to make 3.8 MILLION bucks in his working years. That's a lot of dough!

Now further suppose this guy can save every penny he will ever make, he has no taxes to pay, no expenses, he doesn't need to eat, travel, or spend money on anything. If he could save and invest every penny he is going to make and put it away at 5% his compounded earnings would grow to \$7,957,656. Wow!

So here's what his earning power looks like:

RESULTS	
Category	Income Potential
First Year	80,000
Average	126,868
Last Year	188,525
Cumulative	3,806,033
Compound	7,957,656

Now it's probably safe to say that no one can save every penny they earn. We all have needs – wants – expenses – and of course taxes.

So let's see what happens to this guy's income in a typical family situation.

The first guy with his hand out is the taxman. I don't think I have to go over the long list of taxes again, but it has been said that after all the taxes we pay it comes close to 50% of all our income. However, we are going to tax this guy at 28% federal and 5% state for a total of 33%.

What happens? He immediately loses -\$1,255,991 to taxes. If we were to calculate the opportunity cost on that money, in other words what would 1.2 million grow to over 30 years, his opportunity cost or his lost wealth is over 2.6 million.

EST. EXPENSE RATIOS			
Spending Category	%	Total Paid	Opportunity Cost
Total Taxes	33.0%	(1,255,991)	(2,626,026)

His potential saving from his income has also decreased from 3.8 million to 2.5 million after taxes and his potential compounded return has gone from 7.9 million to 5.3 million.

RESULTS		
Category	Income Potential	Results
Cumulative	3,806,033	2,550,042
Compound	7,957,656	5,331,629

Now we have to put in something for lifestyle don't we? I mean the guy has to eat buy clothes and sustain himself and his family. That typically runs about 15%. So here are the results. He loses another - \$570,000 in income and opportunity cost of \$1.193 million.

EST. EXPENSE RATIOS			
Spending Category	%	Total Paid	Opportunity Cost
Total Taxes	33.0%	(1,255,991)	(2,626,026)
Life Style	15.0%	(570,905)	(1,193,648)

This guy is down to 1.97 million in income now and 4.1 million compounded. That is down from over a 7.9 million - potential.

RESULTS		
Category	Income Potential	Results
Cumulative	3,806,033	1,979,137
Compound	7,957,656	4,137,981

Okay, next step is to add in other costs. This might be for a major repair, new appliances, maybe a remodel or a vacation. There are numerous "other" expenses in our lives. I'm going to be very conservative and put "other" expenses at only 5%.

Here are the results:

EST. EXPENSE RATIOS			
Spending Category	%	Total Paid	Opportunity Cost
Total Taxes	33.0%	(1,255,991)	(2,626,026)
Life Style	15.0%	(570,905)	(1,193,648)
Other Costs	5.0%	(190,302)	(397,883)

You can see the “other” expense took an additional -\$190,302 from income and the compounding lost opportunity of -\$397,883.

This guys income potential is now at 1.7 million and the compounding results of saving 1.7 million is now 3.7 million. Still not too bad.

RESULTS		
Category	Income Potential	Savings Results
First Year	80,000	37,600
Average	126,868	59,628
Last Year	188,525	88,607
Cumulative	3,806,033	1,788,836
Compound	7,957,656	3,740,098

What this shows is that this man after all of his expenses is saving 47% of his income. In other words if this guy were able to save 47% of his income he would have the potential of having \$3,740,098 in his savings or investment account if he were to get an annual return of 5%. That is not a bad retirement is it? I think many of us would be happy with 3.7 million in our retirement accounts at age 65. The question is.....are you saving 47% of your income? Don't worry, you are not alone if you don't, most people do not come close to saving 47% of their income.

This means there must be one other category missing from our expenses. Hmmmmm what could that be? Could it be DEBT and PAYING CASH? That certainly can take a whack out of one's income couldn't it?

Now the average American is below, way below 10% of their income going to savings. In fact, many are going backwards or barely staying afloat. But let's again be generous and suppose this family can save 10% of their income. That means that 37% of what he makes goes to either making payments to someone else or paying and spending cash. Remember opportunity costs on paying cash? You either pay someone else for the use of their money by financing or lose the interest you could have earned by paying cash. Either way, there is a cost.

Here is what our expenses look like now after adding debt service and paying cash.

EST. EXPENSE RATIOS			
Spending Category	%	Total Paid	Opportunity Cost
Total Taxes	33.0%	(1,255,991)	(2,626,026)
Debt Service/Paying Cash	37.0%	(1,408,232)	(2,944,333)
Life Style	15.0%	(570,905)	(1,193,648)
Other Costs	5.0%	(190,302)	(397,883)

This category of debt and paying cash costs -1.4 million of total income and the compounding lost opportunity cost on that money is over -2.9 million.

Alright, so what can this family expect to save and have available to them at retirement time if they save 10% of their income and it compounds at 5%? After all the expenses are taken out of the 3.8 million in income over the earning period the net result is \$795,000 if this family saves \$380,000 and it compounds at 5%.

RESULTS		
Category	Income Potential	Savings Results
First Year	80,000	8,000
Average	126,868	12,687
Last Year	188,525	18,853
Cumulative	3,806,033	380,603
Compound	7,957,656	795,766

We have one other consideration that must be accounted for and that is most people do not implement a tax strategy. This means most of the accumulated funds for retirement are inside of a 401(k) or other retirement plan which means there could be future taxation on the compounded growth of these funds which would ultimately reduce their value even further.

Very few tax strategies let you pay the tax now on current income, but never pay tax again on the growth. A ROTH IRA does this, but you have to deal with 59½ rules and 70½ rules and you are limited on how much you can put in each year. And finally you have to then find a suitable investment vehicle and hope that you don't lose any money.

The banking system will also be “ROTH” like but without government intervention and no age rules and the best part is you can literally have unlimited contributions. In addition, you can use the money for your needs.

Now back to our family.

In a traditional financial planning situation there may be some sort of projection as to how much is needed at retirement. Typically the income necessary is around 65-70% of current income. There are several ways to reach this conclusion, but let’s assume 70% is the number for sake of time and argument. 70% of 80,000 is \$56,000.

When you enter into retirement at some point you will need to make a choice as to your how you are going to handle your principal. If you choose to spend down your principal you may be able to get a lower risk, lower return investment vehicle to create the \$56,000 per year in income. However, you take the risk that you may outlive your money if you didn’t plan properly on when exactly you will die. Oh the small details that drive you crazy!

If you choose to keep your principal in tact and live completely off the interest generated you’ll need to have a large enough lump sum invested in a conservative account that can create the income you need.

If you were retiring today and decided to keep your principal in tact and given the current interest rate environment, here is what you would do. Suppose you felt you could buy a bond of some sort or other safe interest bearing investment and it has an interest rate yield of 4%. Now lets see how much you need in principal to generate \$56,000 per year on an investment getting 4% per year.

$\$56,000 / 4\% = \$1,400,000$.

You need 1.4 million at retirement to generate \$56,000 per year.

As you can see from the numbers above if you were to save 10% of your income and compound that at 5% - by the way about 4% higher per year than the markets have performed over the last decade - you would have \$795,000.

So what to do? Well your traditional financial advisor would come in and say, “Aha, after running the numbers I know what the problem is here, you are only getting 5% on your investments. That’s not going to cut it. I’m one of the best mutual fund pickers and asset allocators around so let me handle your money and I’ll get you 7%.”

Well okay, lets see how that turns out. At 7% the account would grow to 1.1 million. Still not enough.

RESULTS @ 7%		
Category	Income Potential	Savings Results
Cumulative	3,806,033	380,603
Compound	11,095,884	1,109,588

So the advisor says, "Alright, I'm really pretty good at timing the market too, and I'll tell you what, I'll really watch your money and go in and out of the market according to my indicators and I'll get you 10% per year."

If the account could grow at 10% per year it would be worth 1.8 million. You made it!

RESULTS @ 10%		
Category	Income Potential	Savings Results
Cumulative	3,806,033	380,603
Compound	18,884,976	1,888,498

Now all you have to do is hand your money over to this advisor who promises to watch your money like a hawk, time the markets, never have a losing year, and get you 10% return on your money year in and year out with no losses along the way. That's sounds easy enough. The radio guys say they average 12% even though the S&P from January 2000 to September 2011 has actually lost money, but I'm sure this guy can beat the S&P.... can't he?

What is the alternative? You've been taught that you have to take risk in order to achieve wealth and no one has ever talked about another way. What if there is an alternative?

You see, creating wealth has very little to do with rate of return, but has all to do with how much of your income you get to keep rather than giving it to someone else through debt, taxes, and paying cash.

This man in our example is going to make 3.8 million before he retires. The question is how much of it is he going to keep?

If he can invest/save into his banking system and then pay the interest normally going to others when he makes purchases he will eventually redirect plenty of his income to HIS accounts rather than someone else's account.

So lets see what happens if he were to implement the “banking” method.

If he were to redirect just 5% of his income by making payments normally going to others now going to his banking system the results show an account value worth **\$1,193,648** at a compounding rate of just 5%.

RESULTS @ 5%		
Category	Income Potential	Savings Results
Cumulative	3,806,033	761,207
Compound	7,957,656	1,193,648

EST. EXPENSE RATIOS			
Spending Category	%	Total Paid	Opportunity Cost
Total Taxes	33.0%	(1,255,991)	(2,626,026)
Debt Service/ Paying Cash	32.0%	(1,217,931)	(2,546,450)
Life Style	15.0%	(570,905)	(1,193,648)
Other Costs	5.0%	(190,302)	(397,883)

Notice that the lifestyle, taxes, and other costs are the same. All we did was take some of the payments that we being paid to others and redirect them back to his banking system. We went from 37% to 32% on debt service and paying cash.

Now what happens if we really get after it and can reduce that another 5%?

We've hit the 1.5 million dollar mark, exactly where we want to be.

RESULTS		
Category	Income Potential	Savings Results
Cumulative	3,806,033	761,207
Compound	7,957,656	1,591,531

What if we were really dedicated and committed and made sure all our major purchases and expenses went through our banking system first. Maybe we could get our debt service to others down to 20%, say we only have our home mortgage left, and everything else goes through our banking system.

Look at the results! We have **\$2,148,567** in our banking system!

RESULTS		
Category	Income Potential	Savings Results
Cumulative	3,806,033	1,027,629
Compound	7,957,656	2,148,567

Now look at what we've done.

- Put YOU (or in this case your family) in complete control of your destination.
- We took NO RISK – the money will always be in a safe position.
- We redirected payments and cash normally going to others and brought that money back to your accounts.
- We did not have to turn our money over and hope, pray, and trust that it will grow at 10% per year.
- We did not change your lifestyle, just who and how you pay for things.
- We still made our normal purchases for cars and vacations, but this time we went through the banking system and paid the interest to ourselves.
- We achieved our financial objectives!

You see, it's NOT about rate of return as every advisor would have you believe, its all about how much of what you make will you get to keep? The banking system is designed for you to be able to invest in yourself and be the recipient of a larger portion of your income by becoming the banker and receive the interest normally paid to others. The natural result is increased wealth without risk!

Simple – Safe – Predictable

Notes



How Do I Make It Part of My Lifestyle?

Think for a moment about all the things you have purchased in your lifetime.

- Cars
- Furniture
- Appliances
- Medical/Dental
- Vacations
- Remodeling/Improvements
- RV/Motorcycle
- Drapes/Blinds
- And so forth....

Did you pay cash or finance these things? If you are a young married couple have you thought about the expenses you will have in your lifetime? How are you going to handle them?

The easiest way to make banking a part of your lifestyle, is to *make* it part of your lifestyle. Sounds simple doesn't it? It really is.

If your bank is capitalized (has money in it) then every major or significant purchase should run through your bank first.

The easiest example is your next car. If you have the cash value available and it's time for a new car, here is what you need to assess.

First and foremost, can you afford the car? Do you have the extra income needed to not only continue to pay into and capitalize your banking system, but do you also have the income needed for the loan payment? If the answer is yes, then you go car shopping.

Here is one additional benefit of being your own bank that even 0% financing from the dealership can't beat. As far as the car dealer is concerned, you are paying CASH! They don't know, nor even care, that you are getting the money from your banking system. All they know is that you are ready to write the check!

Here's what you may not know. Dealers are still charged for 0% money. In other words, you can make an even better deal on the car if you are paying cash. There is no such thing as free money or 0% money, someone, somewhere is eating it. This can be in your favor when negotiating a better price... if you ask.

Once you have decided on the car you want, you then call the insurance company where your banking system resides and request a loan. Once the money arrives, which can be very quickly, you go and purchase the car. Next, you immediately set up a payment schedule to repay the loan (I recommend an automatic withdrawal payment so you never have to think about it), plus interest. How much interest? If you were the banker how much interest would you like to charge? As much as you can stick to this young couple in front of you, right? Actually it's good to pay yourself more than the prevailing rate and then a bit more for good measure. Several of my clients use 12% as their normal interest rate. In the

end, this becomes a “forced” savings account and it all comes back to you for your use. So don’t be afraid to charge yourself a healthy rate of interest.

Do not be like the restaurant. There is NO FREE LUNCH! Do not “eat” the capital and the profits of the banking system. Do not cheat yourself or your banking system. Pay at least as much if not more than the prevailing interest rates. Forget about 0% or 1% financing, this is your bank... you want it to make money... and lots of it!

The insurance company does not care nor does it get involved in your payment schedule or the interest you charge yourself. That is up to you. You are the banker. Just keep in mind velocity of money, which means, the more often you can use the same funds over and over again, the better it is for your bank.

Pay it back over a normal or accelerated time frame...it does not matter, whatever is comfortable for you. Just be diligent in paying back the loan.

Once the loan is paid off here is what you have done:

- You have **recaptured** the interest you paid for the loan
- You have **replenished** your entire principal back into your money pool, and
- You have a fully paid for car.

Certainly the car has depreciated in value, but your net worth, your wealth, has increased by paying yourself as the banker rather than paying someone else or by losing the cash and the opportunity on the money by paying cash.

All the money (both interest and principal) is back in your banking system ready for the next purchase or opportunity.

In comparison to others, who either paid cash or financed their car purchase with the corner bank, you have increased your wealth. You swam faster than they did and the shark caught up to them.



Insurance Mechanics

If you have had any exposure to whole life insurance concepts, undoubtedly you have heard the hesitation regarding loans. That hesitation stems from the fact that the insurance company will charge an interest rate on the loan. What?

I remember way back in the day, mid eighties, my “trainer,” who by the way did not like permanent insurance, would ask a client who is considering a loan, “Why would you pay interest to use your own money?” Obviously, he didn’t understand how loans worked and wanted the client to get all bent out of shape and hopefully cancel their policy. What a mistake that would be. How did I get stuck with a trainer like that? He must have listened to too many talk radio shows!

Having an understanding of an insurance company’s responsibility to you, the policy owner, might help you see things *as* they are... not as some uneducated “know it all” thinks they are.

Let’s first look at the insurance company’s responsibility. When money is deposited into an insurance policy the insurance company has essentially the same responsibility as a normal bank. They need to put the money to work. They need to very conservatively grow the policy premiums.

However, there is a big difference. Insurance companies cannot, luckily, work with fractional reserves. Unlike a federal bank, the insurance company must have reserves, dollar for dollar, to back up their guarantees. In the Federal Reserve System, they only have to have pennies on the dollar in the bank. This is known as “fractional reserve.”

A typical bank will keep on reserve \$1 dollar for every \$10 dollars of bank deposits. The other \$9 will be loaned out. If you follow the loans and deposits into other banks, you will see that the loaned dollar can be leveraged several times. In the end, they are essentially creating money out of nothing.

Back to the insurance company’s responsibility. The “managers,” if you will, need to get this money working in some fashion. That is their job and that is what they are paid to do. They look for appropriate opportunities to put this money to work. Typically, the assets they look for consist of bonds, real estate, and loans to major finance companies. They need to be extremely conservative and only place funds with the highest probability of protecting the capital.

I want to point out why a **MUTUAL** company is more “banking friendly” than a stock company.

In a stock owned insurance company, the employees, the managers, those who are handling the money, work for the stockholders. As in all stock companies, the profits of the company eventually trickle down to the stockholders. There is nothing inherently wrong with this way of doing business. But the reality is that the policy owner is *not* the top priority of the stock company. The stockholders are.

Conversely in a MUTUAL company, the owners of the company are in fact the *policy owners....that is you and me!* The managers, employees, and those handling the money, work for us... we are both the policy owners as well as stockholders. Eventually, all the profits of the company will trickle down to the policy owners. This is a very significant difference. As a policy owner, the company is yours and the employees work for *you!*

We could spend a lot of time discussing other differences, but suffice it to say that mutual companies work more like a bank that you own. They make it much easier to create your own banking system.

For the remainder of this discussion, I'm going to be depicting how a mutual company works.

If you want to understand a stock company further, as we work through this, think of it this way. Everywhere a benefit is for *YOU* or the *POLICY OWNER* of a mutual company, substitute that for stockholder and you'll see the difference.

As money comes into the insurance company in the form of insurance premiums, they must do several things.

First off, they are required by law to have a reserve set aside for the death benefits that will need to be paid out in a given year. The sad fact is, people will die, and the necessary funds need to be ready to pay out to the beneficiaries.

The next thing the managers need to do is find suitable places for the funds to grow. As mentioned earlier these are typically very conservative investments. The insurance company gives you a guarantee on your money, and its growth, and it's also there in the event of your death, so they must be prudent in where they invest these funds.

In our discussion, let's assume that for all this to work out well for everyone, the insurance company has pegged 6% as the return/growth they need to meet all their obligations and have your cash value grow as well.

If you decide not to use the funds available to you as a loan, then the insurance company puts it to work in other places. It's objective? To get 6% on the money over a long period of time.

However, if you do in fact decide to take a loan, the insurance company looks at this loan just as any other "investment." In other words, their obligation is to work this money for the benefit of the policy owners. The fact that you are the "investment" makes no difference. When you take the loan they need to earn 6% on this money, thus they charge you an interest rate of 6% for the loan.

But remember, they are working for you. You are the owner of the company, if you pay back the loan and the 6% interest charged in this example, who benefits from the 6% return? If you guessed all the policy owners, you are correct. By the way, are you a policy owner? Yes you are!

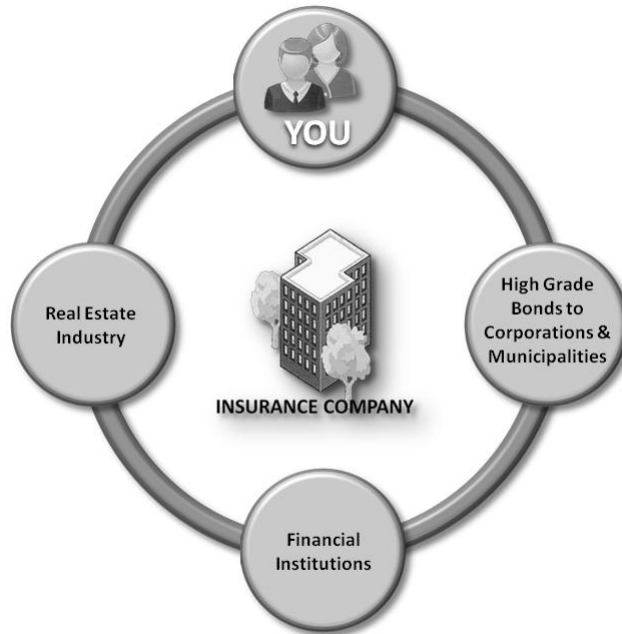
Note: In reality there is an administration cost for the loan, typically half to two thirds of a point. This keeps the doors open, the lights on, and the accounting department open to track the policies, the loans, and pay out death benefits.

The point is that when you pay back the loan, and the 6% interest, the lion's share of the interest paid goes right back to you as an "owner" of the company. As you can see it made no difference to the insurance company where the money was. If you have it as a loan, or if they invested it into bonds, either way, it doesn't matter. They still met their 6% objective.

Again, if you look at yourself as the borrower as any other investment, the results are the same for you and every other policy owner. The insurance company managers fulfilled their obligation and objective by getting 6% on the money, AND, your account grew as well.

In looking at it from the insurance company's point of view, when they consider an investment, here is how it might look:

Possible Investments



As you can see, you are just another option for where the investment dollars can be placed.

What I like is that the interest paid is essentially recaptured capital that I will get to use for my next loan. This builds and builds with each loan that I take and pay back - very exciting!

Notes



Volume and Velocity of Money

We have spoken about velocity of money a few times. In simple terms, it's the number of times we can use the same dollar. In other words, how many loans can we make using the same re-paid dollar? That is Velocity.

Velocity is an important banking function, but volume is where the rubber hits the road, so to speak! Most everyone has experienced interest volume, particularly if you have paid a loan off early or refinanced your home.

Volume is the amount of interest paid over a specified period of time in comparison to principal.

Here is an example:

Let's say I borrow \$100,000 for 15 years at 9% interest. For the first 12 payments, the interest volume is 72.84% - in essence, out of every payment almost 73% went to interest, even though my interest rate is only 9%.

The longer the loan period, the greater the volume of interest will be, particularly in the first few years. Obviously, the payment amount is lower the longer you finance too, but the percentage of interest as compared to principal, per payment, is greater.

If I take this same loan, but amortize it over 2 years rather than 15 years, my interest volume in month one is only 16.94% rather than over 72%. And in month 24, my total volume is 8.8%.

Knowing what you know now about interest volume... think through this next question carefully. ***"If you were the bank, how would you want to structure the loans?"***

Before you answer that question, consider this. The average trade-in at a car dealership is only 36 months old. But do people typically finance a car for only 36 months? No! They usually borrow for 60 to 72 months. This means that the interest volume is much greater for the bank if a 72 month loan gets paid off in month 36. Here is how the numbers work out:

Amount Financed:	\$20,000
Interest:	8%
60 Months Payment:	\$350.65
Interest Volume in the 36th Month:	30.21%

This means that over 30% of every payment went to the bank even though the interest rate was only 8%. It's not the interest rate that banks are "interested" in... it's the VOLUME!

Think about a house. In the first four or five years, it's not uncommon to find up to 90% of all payments going to interest. And guess what? Up until 2009, the average home was refinanced about every 5 years! What does that mean for the bank? **Profit!**

The average interest volume on a mortgage loan is 83%. Before a car is traded, it is 24%. And volume for credit cards is a whopping 75%!

Now back to my question. Now that you understand velocity and volume as the owner of your own banking system, how would you structure your loans?

How about long term loans (5-7 years), at 10-12% interest rate, and then pay them off or refinance them in the first couple of years. This will assure that the majority of the payments go to interest, and does very little to reduce principal. I have even had some business owners do interest only loans.

Once the loan is paid off what should you do? Remember our friend “velocity”? You got it... borrow the money again... and then again... and again! As the banker, you want to take advantage of the borrower (you) to create even greater wealth for the bank. Remember, who is the bank? It's **YOU!** Volume and Velocity are the banker's best friends.

Notes



The Apple Grower

Jim grows apples for his family to make applesauce. On occasion the weather is uncooperative and Jim finds himself short on apples. It doesn't happen often, but when the weather turns cold in early spring, the frost kills the buds and the family is short on apples at harvest time.

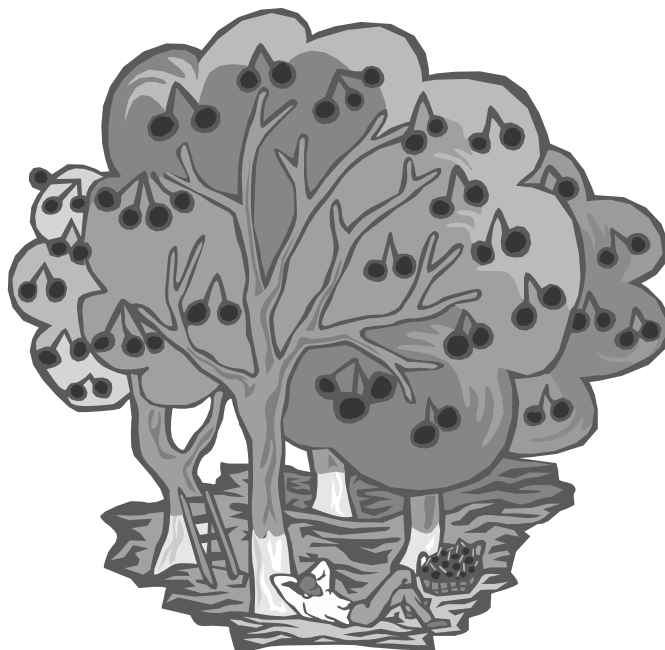
There are hundreds of others like Jim all around the country. Together they decide they will each put a small percentage of their harvest into a pool of apples each year. If one or more of them have experienced an early frost, those families who have a shortfall will be able to draw from the pool of apples and have enough applesauce for the year. Everyone is protected and assured that if the weather is uncooperative the family will still have enough apples for applesauce.

After the harvest and the draws are completed for the year, there are typically plenty of apples leftover. These apples are used to make more applesauce which is stored for the future. If one of the participating families chooses, they can borrow the apples to make more applesauce for themselves. However, at some point the family will pay back the borrowed apples through a future harvest. In addition the family will pay back a few additional apples as compensation to the participating families for the use of the apples. The pool of apples grows for everyone as apples are borrowed and replenished with additional apples.

In a sense, this pool of apples now becomes an *insurance policy* for the family, to "insure" they will have applesauce each year.

If a catastrophic event occurs such as a fire, flood, disability, or even death to the grower, the pool, which now has excess applesauce, will provide the family which suffered the loss with years of applesauce.

Do you know what else is very interesting? They did it all without government intervention.



Why an Insurance Company?

Apples are probably not a high priority in your life. However, the concept of apple grower and insurance is essentially the same. But do we need to use an insurance company?

This is a question that I'm often asked when determining the best vehicle for a banking system. It's a great question. It is quite honestly one of the first things I asked as well. There are several other options for a banking system. Here are few of them:

- Checking account
- Savings Account
- Money Market
- Mutual Funds

However, none of them give you the same benefits as a dividend-paying permanent life insurance policy.

First thing we can do is eliminate the mutual fund as a possible alternative. For one, we do not want to risk our capital. When we want or need a loan, we do not want to have to worry about market timing and hope our money is still worth what we invested. What's worse is, if we take a loan from a mutual fund and the value has dropped significantly, what then? We could end up with less than what we originally invested.

Not only are our premiums guaranteed within an insurance company, but so is a minimum interest rate. Most insurance companies outperform their guaranteed rate. However, it is nice to know that if things got really bad, that you will at least have a minimum guaranteed rate of return. Keep in mind that the interest rate is really meaningless if we take full advantage of the banking system.

Looking at all the options above or any other option other than insurance, there is another downfall that all of them have in common. They are all taxable. Every year, whether you use the money or not, you are sent a 1099 requiring you to claim the interest, dividend, or capital gain income for the year. As previously discussed, this has a major impact on the growth of the account.

Within an insurance policy, all the income is growing tax deferred. You do not get a 1099 for the income earned each year. Furthermore, if we handle the funds properly, we may never be taxed on the policy values again. Think about it, having money in an account where it may never be taxed again can be a very significant financial gain!

Let's quickly go back to the previous example of the business owner. If the owner used any of the above accounts as their banking system (saving, checking, CD, MM), rather than a dividend-paying life insurance policy, and then loaned money from that account, they would not have a legitimate cost of money to deduct, and thus they would have paid taxes on the full amount of interest they earned. Although it is a better alternative than no banking system at all, there are no real tax advantages or incentive to pay back the loan. In addition, each year the account outside of a life insurance policy is taxed on the interest earned. This tax liability will be significant over the years. And finally, chances are

the banking system outside of an insurance policy will fail because there are no real incentives to keep it going or tax benefits to warrant the effort.

Dividends

Mutual whole life companies pay what is called a dividend. To put this very simply, a dividend in reality is considered to be a *return of premium*.

Let me give you an example.

Suppose we have a premium of \$1,000 per year. The insurance company arrived at that number by going through their actuarial calculations – i.e. a process to determine, statistically, how many people, and at what age, are going to die this year. With all the mortality data available to insurance companies, they have become very skillful and adept at pinpointing the death claims in a given year.

In our example - let's make this really simple. Out of the \$1,000 that the insurance company takes in premium, they have to account for the following:

- Management - Employees
- Offices/Buildings
- Investments/Cash Value – for You
- Death Benefit

A wise insurance company will take more in premium than it expects to pay out in death benefits. Not only are they required to have excess capital available (Capital Reserve Requirement), but it is smart business as well.

At the end of the year, let's assume the insurance company was correct on their death benefit assumptions, they lived within their budget for expenses, and managed the excess cash conservatively as well. The insurance company then calculates all of the "expenses" and realizes it has leftover money. In other words - excess premium. What the insurance company projected would cost \$1,000 to cover only cost \$910.

This leaves the insurance company \$90 that can be returned to the policy owner as a "dividend." In reality, it is a return of premium.

Because the initial premium – in our case the \$1,000 – was after tax income, the return of premium or dividend is NOT taxable.

Once again if the insurance company is conservative they will keep some of the \$90 in reserve and send the remaining amount to each policy owner in the form of a policy dividend. The dividend can be used to purchase more insurance, commonly referred to as PAID UP ADDITIONS, or reinvested into cash value, or taken directly as additional income.

A very important note: Dividends are paid out based on FACE AMOUNT or death benefit. The amount of the dividend is usually stated as so many cents per thousand dollars of death benefit. The greater your death benefit, the greater is your policy dividend. This will be very important to understand later. Just remember "dividends are paid on death benefit."

Dividends for many companies have been paid for over 100+ years - consistently.

Now, here is the best part. For most mutual insurance companies, the dividend is paid even if you have a loan outstanding.

There are two types of accounting procedures for the dividend. One is a “non-direct recognition” type and the other is a “direct recognition” type.

When a non-direct recognition company policy owner has an outstanding loan, the company does not “recognize” the loan, and thus pays the dividend as if there was no outstanding loan.

Other companies are referred to as “direct recognition” companies - which is not all that bad. What this means is that they “recognize” the loan and the dividend is reduced slightly.

There is an important concept to understand here. An insurance company can typically do better by investing the money rather than loaning it to a policy owner. Insurance companies are restricted by the state governing bodies as to how much interest can be charged on a policy loan. This is typically tied to the Moody's Bond Yield.

If an insurance company can earn 7% by investing. Yet they only charge a borrower 6% for loans, this is in effect a 1% loss to the company. In a direct recognition company, this 1% is absorbed, by the reduction of the dividend, by those who have outstanding loans. Petty simple and fair.

In a non- direct recognition company, this 1% discrepancy is absorbed by ALL policy owners, whether they have a loan or not. Those without loans may consider this a penalty of sorts.

The advantages to a direct recognition company are more in terms of fairness. Those with loans supplement the lost investment costs. While those who do not have loans enjoy a larger dividend. This can be a substantial benefit later in life such as during retirement when one wants to supplement their income with the tax free dividend. In a direct recognition company the dividend will be higher for those without loans, whereas in a non- direct recognition company the lost investment costs are continually shared amongst all policy owners.

Quite frankly because there are pros and cons to each, the important thing to remember is the banking concept works well in either scenario.

In reality, having a direct recognition or non- direct recognition company is not overly critical. One has a greater benefit while taking current loans. While the other has a greater benefit when not taking loans and living off the dividends.

Here is what is critical. When a loan is taken, not only does the policy continue to earn interest from the borrower, which is typically you, but the money inside the policy is also earning interest and dividends, possibly a reduced dividend, as if there were no loans taken out in the first place.

Now compare that with other options for a banking system. Can you walk into your local bank and ask to withdraw money from your Saving/Checking/MM/CD account, and then ask them if they will continue to pay you interest as if your money is still in the account? I think NOT!

This is what you are doing when you use a dividend paying whole life policy from a mutual company as your bank! You continue to earn money on your cash value or through dividends EVEN WHEN YOU HAVE AN OUTSTANDING LOAN!

Paid Up Additions

“Paid up additions” (PUA) is an extremely important component not only to a whole life policy, but to the banking system as well.

For now, let’s discuss what a PUA actually is. At its very essence, it is fully paid for insurance. Each premium payment into a whole life policy is split into the “base premium” and the “PUA.”

The base premium is the cost to keep the policy alive. That money goes to the cost of insurance and also increases cash value. But remember the cost of insurance isn’t a one year term policy - it is for an entire life expectancy.

Suppose you are 25 years old and in good health. From the insurance company’s perspective if you purchase a one year term policy, the insurance company is only obligated to pay out a death benefit if you died this year. That is probably a very safe risk. The insurance company would likely bet that you won’t die and thus would cover you for a one year term policy very inexpensively. Statistically speaking, the insurance company is going to win this bet. In fact, only about 1% of all the term insurance bought ever pays out.

However, if they were to cover you for your entire life, they would have to receive a larger premium. It is similar to a time value of money calculation.

Let’s suppose an insurance company contracted to cover your death for \$100,000 during your entire life. The company would have to know the probability of your death and at what age. I don’t know what the answer is, but let’s say it’s 78 years old. The insurance company will then need to calculate how much money they need today in premium in order to invest it and make sure they have the \$100,000 to pay out at death. They expect to pay it. As you can imagine that might be a complicated calculation. But insurance companies are very good at this calculation. The brains behind these calculations are called “Actuaries.”

Paid up additions are unique to whole life policies. They allow the insured to buy more death benefit without opening a new policy or proving insurability.

Previously when discussing dividends we said that dividends are paid on death benefit. I like to think of the insurance policy in terms of a “dividend reinvestment program” when buying a stock, commonly called a DRIP.

The death benefit is similar to the number of shares I own in the stock.

The dividend in a stock company is paid out on a per share basis. So, the more shares I have the larger the dividend will be.

In a DRIP, my dividend buys more shares of stock each year at the current stock price.

This repeats itself year after year. I accumulate more shares of stock each year and my dividend subsequently gets larger and larger.

In a whole life policy the death benefit are like the “shares.”

The dividend is paid out on a per share basis (death benefit).

The dividend is used to buy PUA's, or more shares – more death benefit

The death benefit increases each year with the PUA.

The dividend increases with the purchase of more death benefit (shares).

Once PUA is purchased, there is no longer a cost of insurance for that amount of death benefit. It is FULLY PAID UP.

In the end, the larger my death benefit, the greater my dividend. And as a reminder, dividends are income tax free. I may choose to supplement my retirement from the dividends alone.

Although dividends are not guaranteed to be paid out each year, as mentioned many companies have been paying dividends for 100 plus years.

A banking policy will incorporate very high Paid Up Additions Rider. This will create almost instant cash value as well. Each year the PUA is funded, the policy will continue to increase the death benefit, but more importantly, additional cash value will be available for banking purposes.

The side benefit is the increasing death benefit. This is extremely important in keeping up with inflation or purchasing power.

Let's suppose we buy a \$500,000 policy today and the death benefit remains constant. What happens to the purchasing power of that \$500,000 thirty years from now due to inflation? Put another way, will \$500,000 buy today what it could have bought back in 1980? Absolutely not!

Whole life has a built in mechanism to continually increase the death benefit through PUAs. This will be a wonderful benefit to your family. It will protect them from a significant loss of purchasing power years from now while increasing a tax free dividend as well.

I hope you are catching on that a properly designed and funded whole life policy has so many side benefits in addition to acting more like a bank than a traditionally designed insurance policy. What's more, this type of policy has been around for as long as 200 years, but few take full advantage of its widespread benefits.

The financial world has become so complex and so complicated it's nearly impossible to decide who to believe or what products to invest in. Advisors lure you in with talk of high rates of return, when in reality that is not what is important. Remember, when you chase high rates of return, who's at risk, the one making the recommendation or YOU?

Understanding and controlling "financing" or "banking" is much more important and will have a much greater impact on your wealth than rate of return.

The typical financial planning community has it all wrong.

The Final Benefit

Rarely when discussing banking do we concentrate on the “final benefit.” What is the final benefit? It is the lump sum of money that is paid out at the death of the insured – The Death Benefit.

If a policy is designed more for banking than for death benefit, a wonderful thing happens. Not only is the policy’s cash value growing while you are living. But in the tragic event of the insured’s death, an instant estate is created and a legacy of the banking system lives on.

This is no small benefit. Remember when we discussed the need to prepare for two lives? One you live a long and prosperous life and die at an old age. And in the other, you tragically die young. A properly designed banking system can accommodate both lives. While living, your wealth will naturally grow by using the banking system for all your purchases. But, if by chance death comes early, the wealth that you would have created over your lifetime will be instantly created and your family will have the necessary means to financially survive. It truly is a win-win process.

Loans and Death Benefit

It is well to note that when you take a loan, your death benefit is reduced by the amount of the loan.

Suppose I have a 1 Million dollar death benefit and I take out a \$50,000 loan. My death benefit will now be reduced to \$950,000 until I pay the loan back. However, suppose I were to die right after I took out the loan. My family would get \$950,000 right? But, they would no longer pay back the \$50,000 loan, so what is the effective death benefit? It is still 1 million dollars. At death, the full death benefit is paid out, be it through loans previously taken, or directly from the insurance company.

If my family were smart, they would take the 1 Million and as quickly and as feasibly as possible they would start more banks and keep the family banking system intact for generations to come.

Loan Process

I love coaching basketball. I noticed that every good coach has a teaching process in order to have a successful team. I find it very helpful to first build a foundation, and then teach more advanced concepts and intricacies of team basketball as the season progresses. Depending on the “Basketball I.Q.” of the players, I may be able to implement our complete system very quickly or it may take all season.

The important thing is that everyone understands the “basics.” More advanced players will be able to use their skills to enhance the basic foundational principles. But more importantly, those players with less experience will not get lost along the way. As we build from the ground up, the entire team grows as one, and we find success throughout the season.

As with the basketball process, the banking system is a very simple process to follow. However, it does help to have some foundational principles ingrained before we make it too complicated. Those of you who have more financial experience will see other ways and opportunities to implement the system.

And those who are less experienced will not get lost in the “*infinite*” use of the banking system, and can implement the basic foundational strategies immediately.

In order to see the banking system for what it is, it is also helpful to see how the corner banker sees you.

Let’s talk about the three ingredients necessary for a bank to thrive.

- A bank must have a **depositor**.
- The bank must have management to facilitate the loans. We will call these employees **THE BANKER**.
- The bank must have a **borrower**.
- Since banks are not “Investment Companies,” they make their money, by providing loans to borrowers, not from investments.

If any one of these three players is missing, we do *not have a banking system*. If there were no depositors, the bank would not have money to lend. If there were no borrowers, the bank could not pay depositors or make a profit and would have to shut its doors. If there were no banks, depositors and borrowers would somehow have to find each other. There would be no liquidity for the depositor either. A depositor who found a borrower would have to wait until the loan was paid in full to get their money back. The borrower may have a very difficult search to find a lender and vice versa. There are many more issues that would face us, but you get the point. All three players are necessary in the banking system.

It looks something like this:

Using Traditional Banking System



The depositor opens an account at the bank and deposits funds into it.

The bank accepts the deposits and now needs to earn a “return” for the depositor.

The bank finds suitable borrowers to loan the funds to. The bank loans the funds at an interest rate high enough to pay both the depositor and create profit for the bank.

The borrower then pays principal and interest back to the bank. The bank then pays a portion of the interest earned to the depositor. The bank then looks to re-loan the deposits again and again (Velocity of Money).

For most of us, we have either been the depositor, the borrower, or both. Unless you own a commercial bank, you've probably not been the banker.

Here's an interesting thought. Have you ever had deposits at a bank in a savings, checking, money market, or CD account and also had a loan from the same bank? Hmmm... are you not essentially borrowing your own money?

Even if your deposit and your loan are at two different banks, or maybe even at a finance company, the concept is the same – you are borrowing your own money. We deposit in the front door and borrow our own money out the back door. However, who really profits from this transaction? If you said “the banker,” you are catching on.

Paying Cash

For a moment, let's look at a cash purchase. If you took your funds and bought a car, for instance, you would have to withdraw the funds from your deposit. You would NEVER be able to make money on those funds again – as you know we call that “lost opportunity costs.” Had you left your money on deposit, the banker would have figured out a way to loan your money, so that he could pay you for the use of it.

What you have effectively done is given yourself a free loan that does not have to be paid back. How long will a bank last if they gave out free loans with no expectation of ever being paid back? In a sense, you have said to yourself that YOUR money is not important to you. Even when you deposit funds in the bank, the banker values your funds, and pays you for the use of them. When you pay cash, you have devalued the use of your funds and essentially indicated that the funds have no real “use value” to you. You give up the use of those funds – forever!

Notes

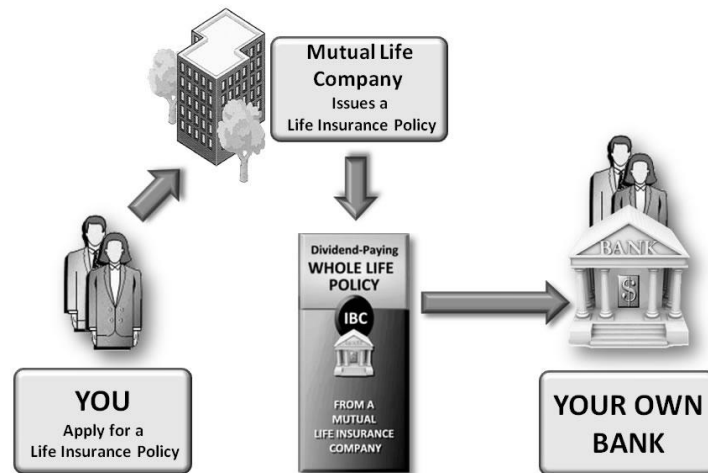


Your Private Banking System

In a private banking system, there are still three players - with some very subtle differences.

The depositor now uses HIS/HER account to “store” the deposits. This is in the form of an insurance policy they own.

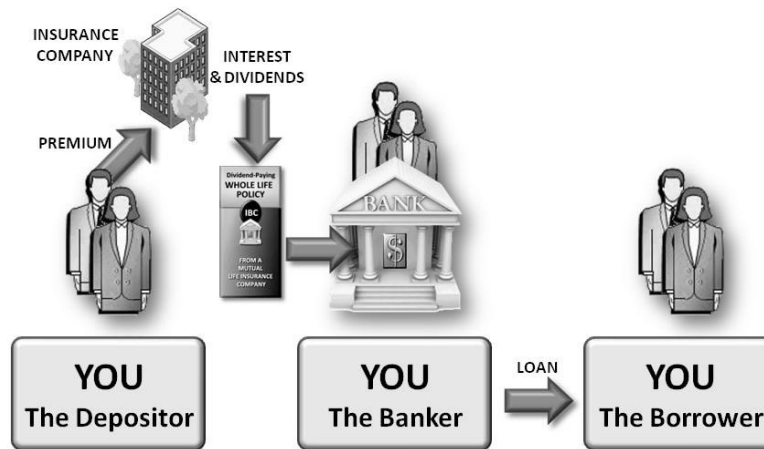
Creating Your Personal Bank System



Here are a few questions:

- | | |
|----------------------------------|--|
| Who is the Policy Owner ? | YOU |
| Who is THE BANKER ? | YOU |
| Who is the Borrower ? | YOU (or anyone else you choose to be) |

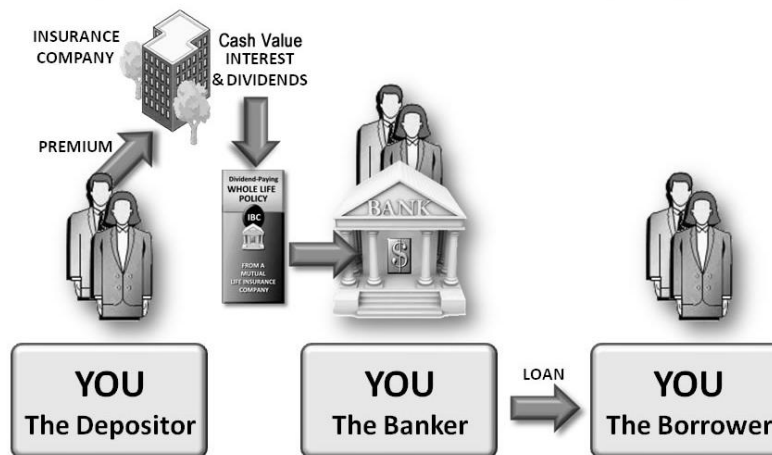
Using Your Personal Banking System



You are all three. You own the policy and make deposits. As the banker of your banking system, you decide what, if anything, you want to loan money for. If you decided to leave it in the “bank”, no problem (there is nothing wrong with cash on hand), the employees of the insurance company will loan the money for you if you do not need or want it right now. Either way, your money will be valued and will make money. In addition, you are, and should be, the borrower for all those things you would normally finance with someone else’s bank or pay cash for.

As the borrower you will pay back the banker (you) and the banker (you) in turn pay back the policy owner (you) for the use of the capital.

Using Your Personal Banking System



You see, the insurance company exists for your benefit. As a mutual life insurance company policy owner, you effectively own the company along with all the other policy owners. This is not the case for a stock company. That is the big difference.

The employees of a mutual insurance company work for you. Their job is to employ your funds into worthy investments or loans. If, however, you decided you would like to use your money for a purchase or for whatever purpose you desire, you are first in line. The insurance company makes you a priority, and by contract, will always, first loan you the funds. You can now control how your money is used.

To follow this through to its conclusion, we want to add one more account into the mix. We want to take advantage of the convenience of our local bank to help facilitate the loan proceeds and repayments.

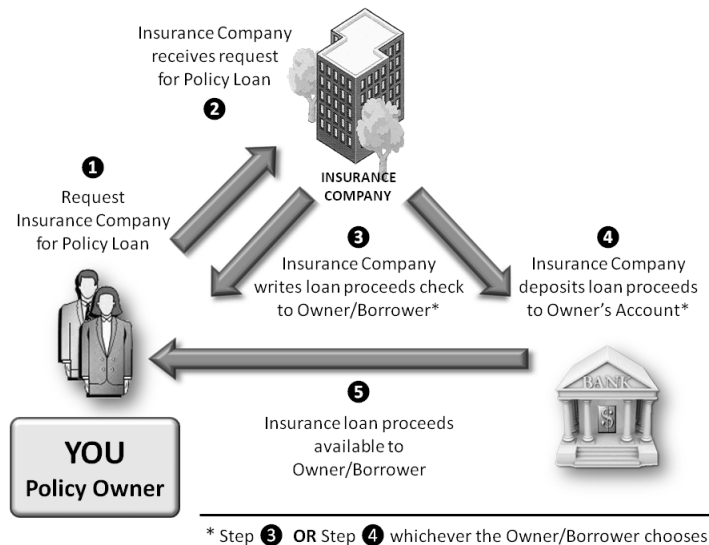
For this purpose, a separate checking account at your local branch will work just fine. This separate checking account will become a part of your overall “banking system.”

For tracking and convenience, we will have all loan proceeds deposited into the separate checking account. All payments will also first be deposited into the separate checking account. Then through the use of automatic withdrawals, payments will be sent each month back into the policy.



Here is how it works-

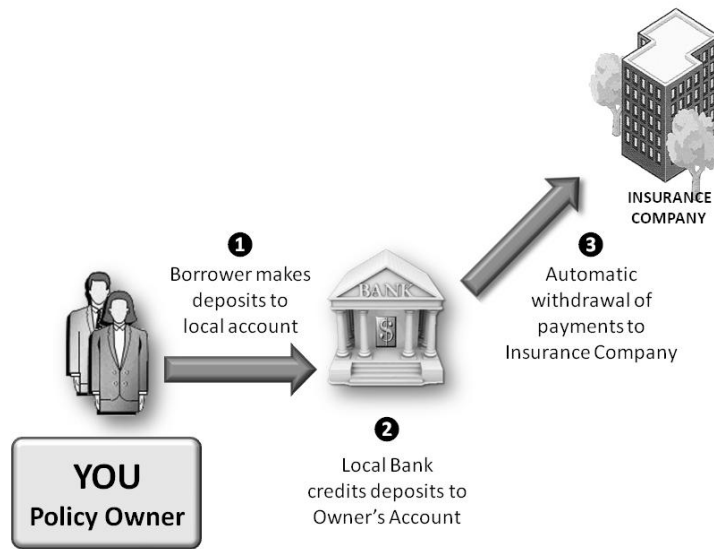
The policy owner will either call/fax/email the insurance company requesting the loan. The proceeds are sent by check to the policy owner who then deposits the check into a separate local account. This account at the local bank will always be separate and will ONLY be used for loan proceeds and payments. The policy owner - and checking account owner - then writes a check to the borrower (who could and probably will be you) who deposits the funds into a different checking account.



The borrower (you) will then make the purchase – car, boat, vacation – whatever.

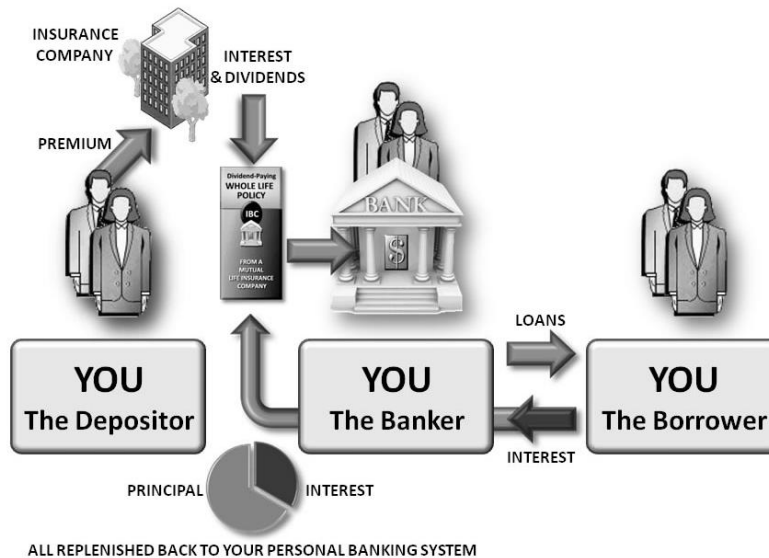
The borrower will begin making systematic payments back to the policy owner's separate checking account.

The policy owner will set up an automatic withdraw from the separate checking account back into the insurance policy.



When the loan is completed the insurance policy (your bank) will have all the *principal and interest* safely stored back into the policy, ready for another loan.

Using Your Personal Banking System



Notes

Insurance Basics

In a universal life policy, the insurance company is essentially buying *TERM* insurance and in addition, there is a savings component as well - a tax advantaged savings component. The issue inside of a universal policy is the *term* insurance. As discussed earlier, term insurance gets more expensive each year. As you can imagine, this will reduce the accumulated cash values substantially as the insured gets older. This is why many Universal policies can lapse or need additional premiums as the insured gets older. The term insurance gets increasingly more expensive.

In a whole life policy, we buy insurance based on our life expectancy. The cost of insurance is constant throughout the insured's entire life. There are several advantages to whole life over universal life, one being there is *not* a term insurance component. In addition, the insurance costs are based upon the age when the policy was purchased, not the attained age. The cost of insurance is spread out over a lifetime, and the insurance company actually expects you to die with the policy.

In a whole life policy, part of the premium buys additional insurance. As you recall from our previous chapter, this is called a "Paid Up Additions" or a PUA for short. For review, a PUA is exactly what it says it is. It is literally additional insurance that is fully paid up for life.

Notes

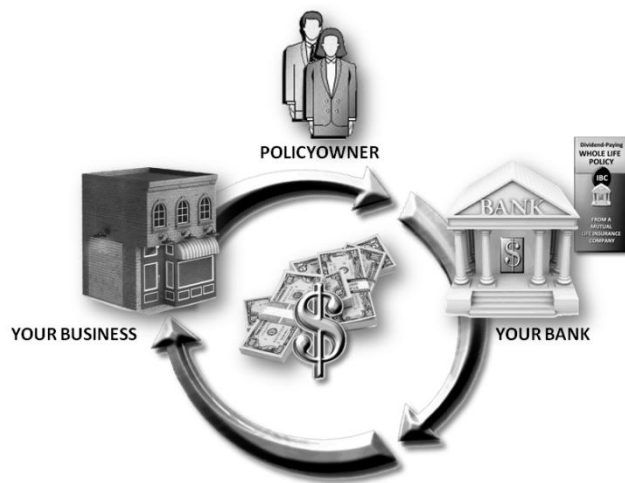


Business Owners

While we are on the subject of the loaning process, I thought I may as well throw in a bit of information for a business owner.

If you are a business owner and your business has capital needs – for any purpose – having your own banking system is really exciting.

Your Personal Banking System is a wonderful way of providing the capital every business needs. What can you use capital for? Anything! Business owners use it for equipment, inventory, flooring, payroll, benefits, expansion, materials, research and development, and even taxes. There are infinite ways to incorporate the banking system into a business. The process is essentially the same. The only change is the borrower is now the business.



Now the business should do a few things as we want this loan to be as official and legal as possible. You may want to seek advice from your tax advisor as to how exactly to set up your books. I do not want to give tax advice here, but show you a concept of how a business may benefit from the banking system.

Please check with your Tax Consultant

The main emphasis here is the business will be the borrower. It will take the loan from you, and make the payments back to you. You will then pay back the policy, AKA, your banking system. We want the business to receive as many tax benefits as a possible. This is the reason most business owners will do the following:

- Get a corporate resolution signed indicating the loan was approved.
- Create an amortization schedule for the payments
- Business will sign a note for the loan
- Set up books for the systematic payments

It is highly likely that your tax advisor will agree that the payments back for the loan are deductible expenses for the business. If that is the case, then the business can effectively reduce its taxable income by the payments it makes for the loan.

Next, you will claim the interest income on your personal taxes.

Finally, you should be able to deduct the interest paid to the insurance company for the loan. Similar to our conversation on using margin in a stock trading account or borrowing money for an investment, the interest charged for the cost of money should be an itemized deduction for you personally.

The net result is you have taken money out of the business as an “expensed” item, interest expense. The business will still get all of its normal tax benefits as well, i.e., depreciation, 179 deduction, etc.

The interest payments should be reported as interest income, rather than payroll (salary, wages, bonus). This is a savings as there are no payroll taxes on interest income - no FICA, Medicare, etc!

You will then deduct your cost of money and pay taxes on the net.

Example:

Suppose you loan \$100,000 to your business on an interest only loan for 5 years at 10%.

Suppose the insurance company charged you 6% for the loan from your policy.

The business would pay to you - and then subsequently deduct - \$10,000 as interest expense for the year.

You would claim the \$10,000 as interest income from the loan.

You then could deduct \$6,000 (6% charged by the insurance company) from the \$10,000 as “cost of money” or interest expense.

This would leave a net taxable income of \$4,000.

Remember the business would have paid taxes on \$10,000 had you not had the banking system in place or decided to pay cash for the purchase.

By going through the insurance company you have a legitimate cost of money, thus a reduction in your taxable income.

Rather than paying tax on \$10,000 you essentially pay tax on \$4,000.

At a 33% tax bracket you would have paid - \$3,300.

By doing the same thing you would have done anyway, but this time it's your banking system, you pay \$1,320 in taxes.

Without banking the \$3,300 was on its way to Uncle Sam.....why not have it directed back to you?

Now, add the tax savings back into your policy and not only have you saved on taxes, but the money is in your pocket now. By the way - as a reminder - where does the lion's share of the interest rate charged to you for loans from the insurance company go? Right back to your policy! The proverbial, “have your cake and eat it too!” You were able to deduct the cost of money and have the majority of that money go right back into your policy.

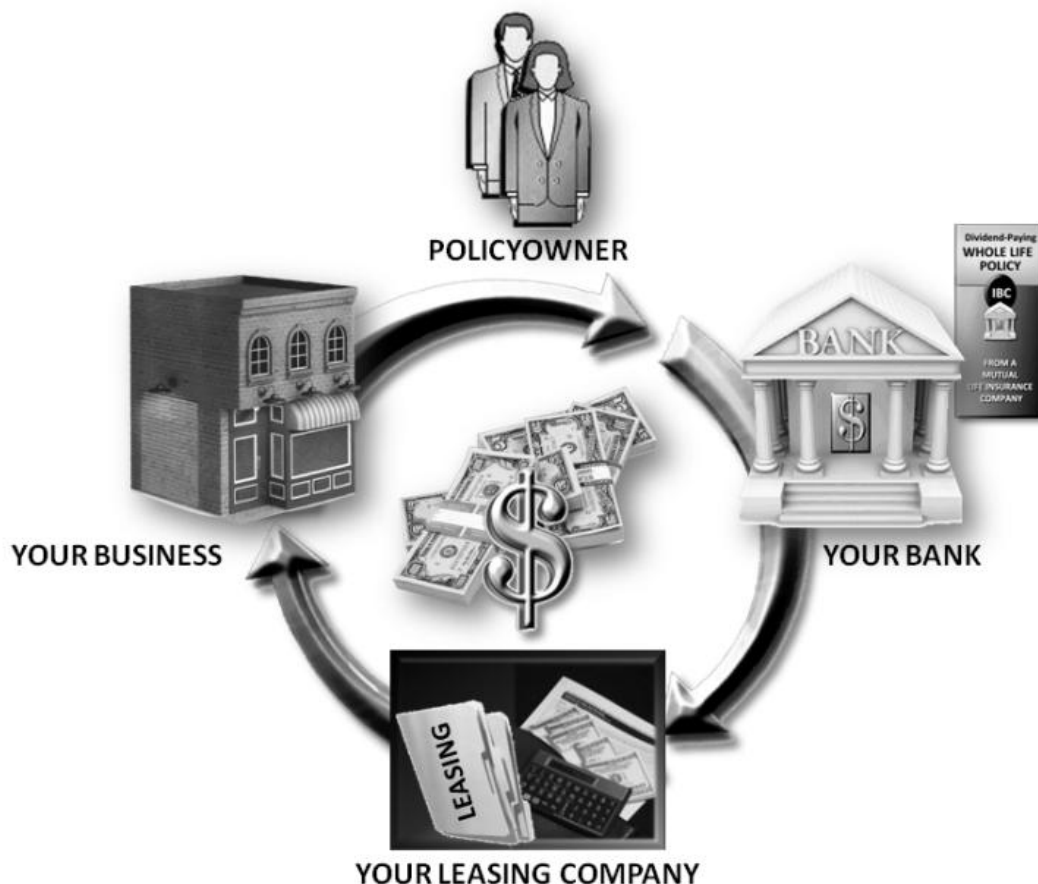
Same cash flow, same items purchased – it was improved upon with banking, and, oh yeah, taxes saved!

This is HUGE over time.

Other ideas for business owners can be found in my book, “**Discovering Hidden Treasures.**” However, creating a leasing company, financing payroll, receivables, equipment, flooring, and inventory are but a few ideas that a business may incorporate.

For example:

If you were an honest banker, by paying yourself back the principal, interest and personal economic value added capital, your Personal Banking System should grow in assets. Once you are able to accommodate all of your financing needs, you may eventually venture into financing other people’s financing needs as well by creating your own financing or leasing company.



Everything Gets Better with Banking

Let me talk with you about investing. You may have gotten the impression that I'm opposed to investing. On the contrary. I just don't believe the traditional financial planning of diversification and asset allocation and all the other buzz words works. In short spurts, or even in a decade, it might. If you've lived long enough to see the cycles go up and down, you will agree that it's not only hard to be patient in those times, but most investors will bail out when they start seeing their money drop in value month after month.

However, I do believe in investing. Of all the wealthy people I've met over the years, I've noticed one thing that almost all have in common. They did it themselves. They steered their own ship. Most of them own their own business or somehow partnered up with a business that was successful. Many of them bought and sold businesses or real estate or some other asset. I said earlier I've never met a mutual fund millionaire. There are millionaires that have purchased mutual fund shares, but I've never met anyone who became a millionaire by solely investing in mutual funds. That's not to say there aren't any- I just haven't met one, nor have I heard of one.

Business owners seem to be the ones that have the most wealth. They worked hard for what they built and they understand the business they are in. In my opinion, there is no better place for money than within the successful business.

Why is it that business owners then take a portion of the income and invest it into some sort of retirement plan where they have NO or very little control?

When, if they simply incorporated a business model that included banking as their source of funding, they would not only be able to grow their business, but keep control of their capital. In addition, their capital would be under their roof, where they know how the business works and operates.

What could you use the loan funds for? Pretty much anything! You could use it for overhead, flooring, inventory, remodeling, expansion, equipment, or any other purpose.

I'm going to date myself now, but back in the seventies, there was a commercial for margarine that went like this, "Everything's better... with Blue Bonnet on it."

The same goes with banking. Every investment gets better if it runs through your banking system first. Why? This is quite simply due to the possible tax benefits. Before we get started, I need to make a little disclaimer. I am not an accountant and I don't even play one on TV. I'm not giving you accounting advice, just practical experience from my life. I recommend you check with your tax person as it relates to this discussion.

Have you ever had to borrow money for your business? If so, the business most likely, or should have, deducted the interest paid for the loan on the company's tax return.

Or maybe you traded a stock account on margin. Margin costs, which are essentially interest costs, are a legitimate deduction for the "cost of money." If you itemize the interest expense, this is done on Schedule A.

If I take a loan from my banking system for an investment or business use, I should be able to deduct the cost of money (interest) that I pay back to the insurance company for the loan. It's a legitimate cost of doing business.

If you don't see it yet, you will shortly see why using your banking system as a source for investment or business capital will actually give you a better return.

Suppose we have two business men who decide they need \$100,000 for inventory. They know from past experience that \$100,000 will typically generate \$120,000 in revenue over the year... or about a 20% return on their capital.

Investor A uses his own cash for the inventory, while Investor B goes to his banking system for the loan.

Investor A	Investor B
\$100,000 Investment (Inventory)	\$100,000 Investment (Inventory)
Uses Cash	Borrows from HIS Banking System
Return: \$20,000	Return: \$20,000
Taxable Income: \$20,000	Cost of Money: 6%
33% tax bracket	Interest Deduction: \$6,000
Taxes Due: \$6,600	Taxable Income: \$14,000
Net Profit: \$13,400	33% Tax Bracket
	Taxes Due: \$4,620
	Net Profit: \$15,380

Difference of: **\$1,980**. Investor B made **\$1,980** more than Investor A. Remember they both made the same investment, the same return, the only difference is that Investor B went through his bank first! Investor B is able to deduct the interest expense or the cost of money. This interest was charged by the insurance company for the loan. When you pay back the loan with interest, the "lion's share" of the interest is credited back to your policy. That is like having "your cake and eating it too."

More importantly when compared to another investor, who does not have his own banking system, you have effectively achieved a higher rate of return, doing the exact same thing!

Everything gets better if you go through your bank first!

By the way, we won't even dwell on the fact that for most businesses if you do this like Investor A, there is a good chance that this income will be subject to all the payroll taxes such as FICA, Medicare, and so forth. That will reduce his net profit even more.

In addition, Investor B now has \$15,380 back inside the bank for the next loan to do this over and over and over again!

I have clients who flip property using their bank. Their return is better than it would have been had they not gone through the bank.

You think a stock is a winner, you feel good about it, and you gotta have it? If you go through your bank, your return will be better.

CAUTION: If you borrow money from your bank it needs to be paid back. If you borrow and invest in a “long shot” and it doesn’t pan out, guess what? You still need to pay the loan back or your bank will go

Notes



“bankrupt” at some point. Think about the restaurant. You can’t “steal” from the bank or eat the profits. So, be very careful about what you invest in with YOUR borrowed funds. Be a prudent and wise steward of your funds and make sure you have the wherewithal to pay back the funds. It would even be more prudent to make sure you invest in only those things that you are very comfortable will return your capital.

IRS Will Pay Your Death Benefit

Well, in reality, they won’t actually pay for your death benefit. However, you can take money that would normally be paid to the IRS in the form of taxes and in a sense use that tax money for your death benefit.

How does that work? The tax advantaged benefit inside of an insurance policy.

This goes back to a previous discussion. Do you remember when we talked about how bringing money back to your accounts - that was normally being paid to others - is a faster way to wealth? If you are able to save or redirect money back to your accounts rather than sending your money to someone else, this becomes a wealth generator and will in fact create wealth faster and more efficiently than rate of return on your investments/savings.

Remember: Anytime you can eliminate the payment of interest to others and direct that same market rate of interest to an entity that you own and control, with minimal taxation, you have improved your situation.

The same holds true for taxes. What if we could “bring back” money normally being sent to the IRS to pay for you death benefit?

First, we need to understand what is going on inside of an insurance policy. As you know, when we buy a whole life or a permanent insurance policy for banking purposes, we are putting in much more money than the actual cost of insurance. This enables us to build up cash value.

Let’s use our previous example of a policy. Remember the premium is essentially split up.

The Base Policy Premium: \$10,335.13

The Annual Paid-Up Additions Rider Premium: \$39,234.87

Year	Age	Annual Premium	Cash Value	Death Benefit
1	41	\$50,000.00	\$41,009.00	\$1,340,160.00
2	42	\$50,000.00	\$87,499.00	\$1,495,941.00
3	43	\$50,000.00	\$143,205.00	\$1,649,062.00
4	44	\$50,000.00	\$201,463.00	\$1,799,585.00
5	45	\$50,000.00	\$262,342.00	\$1,947,713.00

By year 5, we have \$262,000 in cash value.

Now compare that to our savings account. For ease of comparison, let's just say we have \$262,000 in a savings account or any other taxable account.

From 1925 to 2009, 10 year treasury rates have averaged 5.18% (bond-bubble.com). Since most insurance companies have some measure of treasuries in their portfolio, and also have a mix of real estate income as well, they will typically do better than this average. However, I'm going use 5% as my blended rate. I believe that historically, insurance companies have done better than this, but 5% for our example will be fine.

Let's say we have a taxable account yielding 5% and an insurance policy yielding 5%. As we all know there is a cost of insurance inside of an insurance policy, whereas, there are no insurance costs inside of the taxable account.

It will be well to note that the taxable investment account will likely require the account holder to accept all the risk associated with the investment.

The return on \$262,000 at 5% is \$13,100. Assuming a 33% tax bracket for both federal and state taxes, the tax liability would be \$4,323.

This is \$4,323 that you will need to write a check out to the IRS to pay.

Inside of an insurance policy the account will also grow by \$13,100. However, we have a cost of insurance. It's important to note that inside of the base premium is also a cash value building component. In other words, our base premium of \$10,335 is not all insurance costs. In fact, if all we did was pay base premium, at the end of year 5, we would still have over \$36,000 in cash value. About 70% of the base premium has ended up in cash value at the end of year 5. By year 10, you have just about everything you put in, back in cash value. And this is a lousy way to buy whole life. In other words, we didn't even take advantage of the PUA where the real turbocharger to cash value occurs.

What we can conclude is that the "real" cost of insurance inside this policy is about 30% of the base premium or in our case, \$3,100.

Now to my point.

We have two accounts. One is taxable, one is not. They both have \$262,000 in them.

The taxable account is required to send \$4,323 to the IRS each year based upon the rate of return.

The insurance policy is required to pay \$3,100 for the cost of insurance.

Question: If both accounts earn \$13,100. And in one account the tax liability will be \$4,323 that you will send to Uncle Sam - and have nothing but a cancelled check to show for it.

And in the other account, it will cost you \$3,100 for the cost of insurance, so in effect you are about \$1,200 ahead. *AND* you have a death benefit of \$1.9 million for your troubles. Which kind of account makes the most sense to you?

Did not, in a sense, the IRS pay for your death benefit? Had we saved inside of a taxable account we would have paid \$4,323 to the IRS. But since we decided to use our insurance policy to store our cash, we only paid out \$3,100 and pocketed nearly \$1,200 over the taxable account. What makes this even

better is we have \$1.9 million in death benefit – just in case! Thank you IRS for the death benefit and the extra tax savings as well!

Notes



Strategies

We have been discussing the banking process - a way to create and maintain wealth for both families and businesses.

It's important to understand that one size does not fit all. It takes some planning to determine not only if the banking system is a good fit for you based on age, health, family objectives, and so forth, but if there are other strategies that may be effective for your situation as well.

This book was written to detail the banking process. However, we implement many different strategies based on our client's personal needs.

Some of the other strategies we utilize are:

- Generating Income – with greater tax benefits
- Gifting – to charities/non profits – without disinheriting the family
- Gifting – for several generations
- Protecting a disabled or handicapped family member
- Using Arbitrage to increase income and protect estate
- Avoiding estate taxes
- Alternatives to “Reverse Mortgages”
- Stretch or multi-generational IRA's
- Using equity wisely
- Business continuity and protection – including buy/sell – key man – and banking
- Leveraged Retirement
- Protecting your estate from lawsuits
- Family Split Dollar Trusts
- Several other strategies.....

Each one of these strategies could become another volume in and of itself (and some day may be). These ideas and concepts are simple, effective, and easy to implement. However, it requires an expert beyond the “traditional” financial planner. This is “out of the box thinking.” No longer can you blindly put money into a retirement plan, pick and choose about any mutual fund, or rely upon the stock market to create the wealth you will need. Sadly, most advisors have no concept or even realize that these strategies exist. They are lackeys for the financial industry still peddling the same old concepts, that DO NOT WORK!

When discussing our strategies with clients, the light goes on and I often hear, “Where have you been for the last 20 years and why hasn't anyone told me these strategies even exist?” We take pride in using techniques and ideas that are not common – The Banking Process being one of them.

Notes



Advisor

Finally, you may have received this book from a financial advisor. This person obviously is thinking out of the box and potentially has other ideas as well. Contact them for further discussion. We encourage you to work with someone who understands these concepts.

If, on the other hand, you received this book from our website or from a friend of ours, feel free to contact me directly. I'm happy to answer any questions you have or to discuss other strategies as well. My contact information can be found in the "Preface" section on page 4 and on the last page under "Biography."

This book was given to you by: _____

Contact Information: _____

Phone: _____ Email: _____

Conclusion

You have now been introduced to an extremely valuable strategy. Several more volumes could be written on the practice and implementation of the banking system. It truly is, as **Nelson Nash** said, “infinite.”

Imagine all the wealth that is being sent to others that if you just bring it back to your control and to your accounts – wealth is easily attained.

A couple of other books I might recommend to you:

Becoming Your Own Banker – Nelson Nash (www.infinitebanking.org)

Nelson is the father of the Infinite Banking Concept. He will go down in history as a true innovative thinker that just may have changed the lives of thousands of people who understood the power of banking.

Pirates of Manhattan – Barry Dyke (www.thepiratesofmanhattan.com)

This book is a more complete exploration on the financial world. Barry explains how it is nearly impossible to win in the traditional financial planning model. He also points out that the largest banks in the world have a huge stockpile of cash value life insurance - something that the FEN (Financial Entertainment Network) crowd does not tell you.

Both books are extremely informative. Nelson Nash’s in particular has inspired the entire banking phenomena. His insights are simple, understandable, and sound. I think you’ll like it.

In the beginning pages of this book, we discussed about preparing for two lives. One you live a long and healthy life. The other you die early. The banking system utilizing whole life insurance does in fact do both. No matter what life is in front of you, you can have the peace of mind that wealth can be yours by doing exactly what you would normally do, but this time – **You are the Bank!**

The last few pages of the book contain a very comprehensive personal financial information worksheet. It’s a place to put in your personal information as well as goals, concerns, and answers to financial questions.

You can use the form for personal use or with an advisor.

My recommendation is to work with our firm or with the advisor who gave you this book to look at a detailed plan of action to see if banking can work for you and to explore other ideas and strategies that will benefit you and your family.

Thanks for reading “**The Banking Effect**” and best of luck!

Personal Financial Data

CONFIDENTIAL PERSONAL & FINANCIAL DATA

Your Name:		DOB		Age:		E-Mail:	
You Spouse:		DOB		Age:		E-Mail:	
Home Address:						Home No.:	
City:		State:		Zip Code:			
Home/Cell No.:		Work No.:		FAX No.:			
Number of Children:		Number of Grandchildren:		Other:			

FINANCIAL CONCERNS

Please check any of these financial concerns that may concern you (Check as many as apply):

- ☐ Running out of money during retirement
- ☐ Paying the least tax legally possible
- ☐ Protecting assets in the event of a nursing home stay or lawsuit
- ☐ Maintaining liquidity in the event of an emergency
- ☐ Making certain that your best interests are aligned with the interests of your advisor(s)
- ☐ Getting the best possible investment return with the least amount of risk
- ☐ Avoiding a big hit or decline in investment assets
- ☐ Getting assets to your heirs without probates
- ☐ Planning for Children or Grandchildren
- ☐
- ☐
- ☐

EMPLOYMENT INFORMATION

	Position	Current Employer	Address
You	_____	_____	_____
	Salary: _____	Bonuses: _____	Other Income: _____
Spouse	_____	_____	_____
	Salary: _____	Bonuses: _____	Other Income: _____

ESTIMATED NETWORTH

- ☐ Under \$500K
 ☐ \$500k-\$1M
 ☐ \$1-2 Million
 ☐ \$2-5 Million
 ☐ Over \$5M

PERSONAL QUESTIONS

DETAILS

Do you have a financial Advisor?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Do you have a living trust?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Do you have a will?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Do you have income from real estate?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Do you have an attorney?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Do you have an accountant?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Do you expect to care for a child or parent?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Do you expect an inheritance?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Any problems with previous stockbrokers?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Do you have long term care protection?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	

YOUR ASSETS

REAL ESTATE:

Property	Value	Mortgage
Residence	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$

NOTES RECEIVABLE:

\$

TOTAL REAL ESTATE EQUITY:

\$

CASH & CASH EQUIVALENTS:

Checking:	\$
Savings:	\$
Money Market Accounts:	\$
Certificates of Deposit:	\$
Total Cash Equivalents	\$

COLLECTIBLES:

Items	Estimated Value
	\$
	\$
	\$
	\$

STOCKS, BONDS & MUTUAL FUNDS (NOT IN RETIREMENT ACCOUNT):

Holdings	Value	Cost Basis
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$

IRA & OTHER RETIREMENT ACCOUNTS:

Holdings	Value
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$

ANNUITIES:

Company	Value	Cost Basis
	\$	\$
	\$	\$
	\$	\$
	\$	\$
	\$	\$

PRESENT PERSONAL LIFE INSURANCE:

Insured	Company	Type	Face Amount	Cash Value	Premium
			\$	\$	\$
			\$	\$	\$
			\$	\$	\$
			\$	\$	\$
			\$	\$	\$
			\$	\$	\$

LONG-TERM CARE INSURANCE:

Insured	Company	Maximum Daily Benefit	Issue Date	Premium
		\$		\$
		\$		\$

GENERAL QUESTIONS & ADDITIONAL INFORMATION:

Are you retired?	<input type="checkbox"/> Yes <input type="checkbox"/> No
If no, when do you plan on retiring?	Date: _____
What level of monthly income will you need from your investments during retirement?	Monthly: \$ _____
If you were entirely comfortable that it was possible, would you like to have more retirement income than you've indicated here? (In other words, if you knew that you could take more income from your assets without depleting them, would you?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Do you think your income needs during retirement will change significantly either up or down for any reason?	<input type="checkbox"/> Yes <input type="checkbox"/> No
Are you planning any major expenditures in the next 10 years? (For example, buying an automobile, vacation home, RV, boat or planning on making a large financial outlay to a family member.)	<input type="checkbox"/> Yes <input type="checkbox"/> No
If yes, what will those major expenditures be?	_____
What do you estimate will be the total dollar amount of these expenditures?	\$ _____
Will you be financing these major expenditures?	<input type="checkbox"/> Yes <input type="checkbox"/> No

ESTATE PLANNING INFORMATION: (Please Complete This Section)

Do you currently have a will?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
If yes, when was it drawn up?	Date: _____	
Do you currently have a trust?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
If yes, when was it drawn up?	Date: _____	
Do you have a patient advocate, living will, or durable health care power of attorney?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
If yes, when was it drawn up?	Date: _____	
Do you have a durable power of attorney?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
If yes, when was it drawn up?	Date: _____	
Do you have any money management concerns for your heirs? (In other words, are you concerned about your heir's ability to properly manage the assets you leave them?)	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Do you have charitable intent in your estate?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
If yes, what charities and what approximate % or what dollar amount of your estate?	\$ _____	
Which of these statements would best describe the importance of leaving an inheritance to your heirs?		
<input type="checkbox"/> Extremely important	<input type="checkbox"/> Somewhat important	<input type="checkbox"/> Extremely important
How important is minimizing taxes on your estate?		
<input type="checkbox"/> Extremely important	<input type="checkbox"/> Somewhat important	<input type="checkbox"/> Extremely important

Do you currently have an irrevocable trust of any kind in place? (i.e., a charitable remainder trust, a charitable lead trust, an irrevocable life insurance trust, a trust of a spouse that has passed away, a generation skipping trust or similar?) ☐ Yes ☐ No

If yes, what type of trust and what is the approximate asset balance of the trust?

Are you or your spouse, if applicable, anticipating receiving an inheritance at anytime in the future? ☐ Yes ☐ No

If yes, how much do you estimate the inheritance will be? \$

GENERAL FINANCIAL QUESTIONS:

What balance do you typically hold in cash accounts? \$

What do you feel like you need to 'hold aside' in cash accounts for emergency expenses? \$

How did you happen to select the stocks, bonds, and mutual funds that you currently hold?

When you buy a stock, bond, or mutual fund do you have an exit strategy? (a plan as to under what circumstances you'll sell the stock or bond) ☐ Yes ☐ No

If yes, what is that strategy?

Have you recently done an analysis on these holdings to see how they've performed compared to market indexes? (Market averages or benchmarks) ☐ Yes ☐ No

If yes, what was the result?

Are there any of your investments that you feel you should liquidate?

If yes, which ones? ☐ Yes ☐ No

Notes





Biography

Dan Thompson

Eagle Capital Management

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Dan is the founder of Eagle Capital Management and has received national recognition for his work in innovative financial strategies.

Dan began licensing as a Financial Advisor in 1986 in both securities and insurance.

He has owned and managed his own investment firm since 1990. Dan is also the founder and principal of Eagle Equity Fund, a Real Estate Fund that seeks opportunities in the real estate market for accredited investors.

For over a decade, Dan has adopted a very non-traditional approach to financial planning. Frustrated with markets and financial buzzwords, he thought there had to be a better way to wealth. Now utilizing models and strategies not often heard of in the financial community, he finds cutting edge ways to produce financial results without the risk normally associated with financial planning.

Dan originates from Central California where he watched many of his mentors attain wealth by hard work, proper money management, and conservative approaches to investing. Learning lessons of money management as a teenager gave him the desire to work as an Investment Broker at a very young age.

Dan and his wife, Sharon are the parents of 5 children. He is also involved helping non-profits raise money for their causes using a very unique strategy.

Dan still enjoys playing basketball and is also on the promo water-ski team for MasterCraft Boats.