a **better** financial plan

SIGNIFICANTLY IMPROVE YOUR FINANCES
WITHOUT THE HELP OF WALL STREET

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chapter 1

A Financial Life Preserver

If you want A Better Financial Plan, then you've come to the right place. This book is going to show you how to significantly improve your retirement planning. Not slightly improve it—*significantly* improve it! This book will help you regardless of whether you are 20, 35, 50, or 70 years of age. Consider this book a life preserver for your financial plan. The dilemma for you is whether you want to grab it or push it away. The first thing I'm going to do is rip to shreds the logic of traditional financial planning, so brace yourself. When I mention traditional financial planning, I am primarily talking about the 401(k) and IRA. In order to improve your financial plan, you have to first realize the shortcomings of what you are likely doing with your money. Only then can I help improve your finances. If my logic doesn't make sense after you read the first three chapters, then put the book down, because I

doubt that you will be open to the suggestions I make in the remaining chapters.

Do you realize that just 3% of the US population is financially independent? Just 3%. Do you think this 3% of people are doing the same thing with their money as the other 97%? Of course not. You know they are not. I need you to think and invest like the 3%, not the 97%. Keep that in mind as we proceed.

Let me tell you now that I'm not a fan of the 401(k) or traditional IRA. Each is an investment vehicle for the 97%, not the 3%. Roth IRAs are a step in the right direction, but they too are severally flawed. If you have children and you are saving for their college education, then you've likely been told to put money into a college 529 plan. Another move for the 97%. Do you have a 15-year mortgage or shorter? Are you sending extra money each month on your 30-year mortgage? How about a biweekly mortgage? Do you have any of the above? These are all strategies implemented by the 97%. I'll tell you why they are flawed soon enough.

I hope you are the type of person who is open to new ideas and is willing to zig (3%) when everyone else zags (97%), so long as the logic makes sense. When you implement what you learn in this book, your rewards will be A Better Financial Plan that does the following for you:

- Provides increased liquidity.
- As a result of your increased liquidity, better protects you from any unexpected financial hardships that may arise.
- Will deliver a good rate of return on your long-term savings.

- Results in your paying less in taxes during retirement—a lot less in taxes!
- Allows you to pay less in fees to traditional advisors.
- Dramatically reduces the amount of time you spend managing your retirement plan.
- As a result of all of the above, positions you to spend and enjoy 30%–50% more money during retirement than if you stay on the path taught by most traditional advisors.

The best part is this: you will learn how to accomplish all of the above while *reducing* your overall investment risk and without changing your cash flow one bit. Oh, and the solution isn't complicated. It's easy. After all, the best things in life usually are. Sound too good to be true? Perhaps it does, but if you do your research, you'll find that hundreds of thousands of people around the country have been implementing the strategies that you will learn throughout this book for years, and the numbers are growing by the tens of thousands each year. So although what you are about to learn may be new to you, I assure you that you are not the guinea pig.

Let me also point out what this book won't do for you. It won't help you formulate a comprehensive financial plan or help you properly allocate and diversify all of your assets. That would be impossible for me or anyone else to do without thoroughly understanding your personal situation. I laugh when I stumble upon Dave Ramsey or Suze Orman on the radio or a local cable channel, or any other advisor for that matter, dishing out all of this "one-size-fits-all" financial advice to people without knowing all of the

facts about each listener's financial situation. That is impossible to do for any advisor. I'm not attempting to do that in this book.

So, wait a minute: I just got done telling you this book will show you how to significantly improve your finances, and now I'm telling you I can't help you with a comprehensive financial plan. Which is it? It's both! As I said, the first thing you are going to learn is what is wrong with traditional financial planning. When you understand all of its shortcomings, you will likely want to redirect or reallocate some if not all of your long-term savings. I will then spend the rest of the book covering one specific financial strategy ***that if implemented*** will make more of a positive impact on your long-term retirement savings than anything else you can do. Anything! That being said, are there other things you can do with your savings that will complement the strategy that you learn here even more? Absolutely, but none will have a greater, more positive impact on your finances than what you learn in the following chapters, and I intend to prove it.

What I cover in this book is completely based on and illustrated with facts. There are plenty of "opinion" books out there. I assure you this won't be another one of them. After all, you know what they say about opinions. I'm going to back up every statement I make in this book with proof to support my claims. This way, the next time someone gives you some financial advice that contradicts what you learn in the pages that follow, you'll be able to confidently ignore his or her flawed wisdom. Better yet, give that person a copy of this book to read so that he or she can see the light as well. Then *you'll* be the one throwing the financial life preserver.

So who am I, and what qualifies me as someone from whom you should be taking advice? I'll give you some basic information now, but I admit it may seem vague. My qualifications will be told throughout

the following chapters, because my financial success is a direct result of implementing what you are about to learn. This book, in essence, is my résumé. You'll see what I mean as we go.

In 2003 I started my financial planning practice in a town called King of Prussia, Pennsylvania, about 15 miles west of Philadelphia. I have an accounting degree from Albright College, a small liberal arts college in Reading, Pennsylvania. I am in my late 40s and have been happily married to the same woman since 1993. We have four beautiful children between the ages of 13 and 20.

I became a financial professional because I experienced firsthand the pitfalls of traditional planning. I have also greatly benefited from the strategy that you will learn about in this book. I was a student before I became a teacher. To date I have thousands of clients who have successfully implemented everything you will learn in the chapters ahead. I deliver weekly financial seminars all over the country to audiences ranging from 25 to 200. Every seminar is the same, and so are the reactions of my attendees. I start by pointing out the flaws of traditional planning. The facial expressions of my attendees are priceless. "I've never heard it explained that way before" is something I've heard 10 times a week since 2003. I've also been told to write a book a thousand times as well. I'm finally doing it.

I'm a "street-smart" financial professional with real-life game experience. I know what it is like to do a fantastic job of saving my money during the '90s only to feel the pain of watching my wealth get decimated by a stock market correction, as was the case from 2000 to 2002. I've lent money to friends and family only to never see it come back. I've purchased cash-value life insurance from my friends just to get them to leave me alone. I own a bunch of gold. I've watched its value soar, only to see it drop dramatically the past couple of years. Do you notice you

don't see the gold commercials on television much anymore? I've done the real estate thing too. I've easily made over a million dollars investing in real estate from 2000 to 2008. I also know what it's like to have a third of my rental units sit vacant for months at a time or to get the phone call from my property manager telling me there has been a fire in one of my units. Talk about stress. Today, I have other investments worth over $3 million that were derived from the liquidity of my long-term savings and my ability to seize the moment when business opportunities arose. More on that later. Most people you see or hear giving financial advice on radio or television ***don't have financial game experience***. In fact, very few financial advisors with Merrill Lynch, Edward Jones, Morgan Stanley, Ameriprise, or ANY other brokerage firm, for that matter, have financial game experience. Neither do most accountants, attorneys, or bankers. Most advisors of any type haven't taken a financial risk in their life. Most are in no better shape financially than their clients; many, in fact, are in worse financial shape. I am not exaggerating one bit on that statement. Whatever money they have made is a result of their job and not the result of investment successes that they have had.

From whom do you want to take financial advice? The financial professional who has made his or her money solely from the fees and commissions collected from clients? Or the professional who has made a lot of money with investments and business opportunities that he or she has participated in, as well as the income derived from running a successful financial planning firm? I sure hope you'd prefer to take advice from someone who has made significant money from his or her investments and not just the fees or commissions he or she charges clients.

Again, it is my experience that very few advisors have made true wealth in anything outside of their practice. Don't believe me? Put your advisor on the spot and ask him or her. It's a fair question. After all, your

advisor asks you about your finances, right? It's OK for you to ask, but very few clients do, so you will probably catch him or her off guard. Watch your advisor become speechless when you ask him or her to provide a list of financial successes he or she has had outside of his or her practice.

OK, enough already. Like I said, you'll find out more about me as we go. Now it's time to learn a better financial plan. I'm about to throw you a life preserver. Get ready to grab it.

chapter 2

The 401(k) and IRA, the Other Side of the Story

I'm about to trash traditional planning, in particular the 401(k) and IRA. There is no other way to put it. I'm going to do so over the next two chapters, taking a different angle in each. In this chapter I'm going to point out the flaws pertaining to how these plans are relied on for retirement planning. The next chapter will look at the characteristics of the 401(k) and IRA as pure investment vehicle chassis. The merits of each view stand on their own. When you combine them, "Forget about it," as many of us Italians say when something is a no-brainer.

I don't think I've ever been so excited about putting something in writing as I was when working on the next two chapters. You won't implement any of my suggestions on how to improve your finances unless I can help you understand what is wrong with traditional planning, which is what I've set out to do in the following sections.

If you are still working and saving money for retirement, then reading the next two chapters is a must. Imagine that there is a 10-mile traffic jam on the highway. This book is going to show you the detour to avoid the financial logjam up ahead. If you are retired and not contributing to a 401(k) or IRA anymore, I still want you to read the next two chapters, because you will likely say to yourself, "Yeah, he is spot-on. Why couldn't I have learned this 30 years ago?" You, too, Mr. or Mrs. Retired Person, will majorly benefit from the following chapters, but you will take my suggestions more seriously if I can impress you with my views on traditional planning. Here we go.

The Perfect Retirement

I want you to take a moment to think about what your perfect retirement looks like. Think for a minute or two of what you'd like your financial status to be in that period of your life. If you are like most, the vision of your retirement, financially speaking, has you living in a home that you have paid off years before, a home that holds plenty of memories of raising your now grown children. You are drawing on your 401(k), getting a little bit of Social Security, and living the lifestyle that you'd hoped for—traveling when you want, visiting the grandchildren often, and exploring things that you'd hoped you'd explore once you got here.

But what if I told you that the road you are currently on, the road that you decided to take to your financial future, was backed up for miles and miles because of some unforeseen problem ahead? If that were true, would you want to know immediately—I mean, would you want to know that this was the case right now, today, without delay?

Of course you would. It is sort of like when you hit the road on vacation and you have a pretty solid four- or five-hour drive ahead of you. If the main route you are going to take is stopped dead because of

a jackknifed tractor-trailer, you want to know about it far before you hit the traffic, don't you? Again, of course you do. You'd want to know so that you can take an alternative route. In fact, you'd be happy to add more miles onto your trip if it meant that you could keep moving forward rather than just stop dead with no progress.

Well, I do have bad news for you, I'm afraid. The single most popular retirement plan in the United States is sort of like that backed-up route to your vacation destination. There's a problem ahead, and you need to adjust course now in order to account for the problem. You need to examine an alternative route and take it so that the flaws of the status quo retirement savings plan don't keep you from reaching that perfect retirement we mentioned just a couple of paragraphs ago.

A Brief History of the 401(k)

Why is it even called a 401(k)? Seriously, do we even know what those numbers and one letter represent? If you don't know where the name comes from, you are not alone. The term 401(k) represents section 401(k) of the Internal Revenue Code written in 1978. So let's take a look at why the 401(k) was created, the environment in which it was created, and why the fact that it was never designed to be the sole source of retirement planning in the United States is problematic for those of us living in the twenty-first century.

Before we dive in here, I want to properly set your expectations. I'm going to give you just some cursory history here. There are obviously nuances to the evolution of the 401(k), and there are some benefits. But the reality is that the dependency that the US population has today on the 401(k) as a main savings vehicle was never intended to be. And that is the point. Since the early '80s an entire industry has evolved to

exploit a section of IRS code that was originally intended for something completely different.

Section 401(k) of the Internal Revenue Code was added primarily as a compromise between the federal government's desire to tax high-income earners and high-income earners' desire to decrease their income tax rate as much as possible. The original language of the code allowed employers to decrease profits in a manner that would decrease, or, rather, defer, their tax burden. In 1980, an employee benefits consultant by the name of Ted Benna noticed that the code could potentially allow employees to take a similar advantage. This would incent employers to provide a mechanism for employees to elect to defer some of their income into these newly created plans. On behalf of his employer, Mr. Benna petitioned the IRS to modify 401, section k, to allow such funds to be created. In 1981 the code was amended, and as early as 1983, there were seven million 401(k) participants; as of 2014 (according to the Investment Company Institute, Federal Reserve Board, and Department of Labor), there is over $4.4 trillion (yes, with a *t*) tied up in 401(k) plans. This represents almost a quarter of all retirement assets in the entire United States.

So here we are 40 years after the dawn of the 401(k), and the landscape has been radically changed for the average American. In the late '70s and early '80s, nearly 80% of all laborers in the United States had a pension plan as part of their entire compensation package. In addition, there was almost no talk about the solvency of the Social Security program. So, in effect, the 401(k) was ADDING on to what had been the established long-term financial plan for nearly everyone across the entire country since World War II. Read that sentence again because it is important. The 401(k) was an addition to the prevailing wisdom of long-term savings at the time.

Fast-forward now to the second decade of the new millennium and it is a different environment. Many of our political leaders believe that Social Security will be insolvent in the 2030s if nothing is done to address the strains on the system's current infrastructure. Today, fewer than 10% of employees have any sort of pension plan on which to depend. The 401(k) was the third leg to a retirement savings strategy stool; now, for most people, it is the only leg.

The Stock Market Is Risky

One of the major problems with the ever-increasing dependency on the 401(k) is that at its heart, it is a stock-market-driven approach. Of course, 401(k) investors have options to move their money into safe vehicles, but by doing so, they forfeit any hope of growth. To ensure growth, the average investor believes he or she has no choice but to endure market risk. Accepting this risk is sold by the financial planning industry by telling them, "Don't worry; over time you'll perform just fine at about 8%–10%. After all, that is the historical return of the market."

Sounds fair, right? Stick it out, hold on for the ride, don't worry about losses, and by the end you're gonna get yourself 8%–10% on your investment. Seriously, this is how the market is sold to us today: just buy and hold, buy and hold. That is the "strategy" that is going to net you very comfortable growth.

What is true about this? Well, it depends on the time we are examining. It is true that, historically, the market does 8%–10%, BUT that is typically over an 80–90-year window. **Eighty years!** Who has 80 years to invest? Most people reading this book have a 10-, 20-, 30-, or 40-year investment horizon. And there are plenty of 10-, 20-, 30-, or 40-year time frames that the market hasn't moved. I will prove that a

few times in the upcoming chapters. So let's consider a more realistic example.

If we look at market performance since it hit its bottom on March 9, 2009, we happily realize that the S&P 500 has returned about 16% through December 31, 2015. In fact, the market is on the best bull run in its history at the time of this writing. But that 16% growth looks great only if we erase our memory of the 20%, 30%, or even 40% decline we experienced in 2008.

Let's put this in perspective. Suppose a 45-year-old woman on the first business day of January 2000 finally reaches the point in her earning life where she can max out her 401(k) and even take advantage of savings in the market that are beyond what the 401(k) allows. During that time, she will have ridden two bubbles and two subsequent busts, the second of the two nearly bringing down the entire US economy. On January 1, 2016, this now 60-year-old woman has earned only about 2.15% (based on the S&P performance from January 1, 2000, to December 31, 2015).

FIGURE 2.1. *So much for consistently earning 8%–10% annual returns by investing in the stock market. The S&P 500 increased just 2.15% annually during the 16 years from January 1, 2000, to December 31, 2015. Source: Yahoo Finance.*

Her window was 16 years. She was told to buy and hold, which she did. She is closer to retirement, and her appetite for risk has most certainly waned. If she even has the patience to continue to hang in there, she certainly is losing sleep when she considers daily that the market has never in its history seen the continual growth that it has currently experienced. Anxious. That is the adjective that best describes this woman, and it is believing in the status quo that led her straight into this state.

Averages Don't Mean a Thing

Risk. That is what we are focusing on here. Your 401(k) and IRA certainly have the potential for huge upsides, but they come at the price of accepting probably more risk than you'd like. More importantly, the approach is one of timing, and as in that last example in the previous section, our fictional 45-year-old woman who finally maxed out her 401(k) was unfortunate enough to do so when the next 16 years of the market would deliver less than 3%.

Think about that just for a minute. Three percent! This gal worked hard her whole life, probably did all she could to sock away what she could as she raised her children, developed a career, established her home, and on and on. What does she get for that hard work? She gets smacked down by the realities of a market that has had a fantastic run since 2009 but over the period that she has invested has delivered an actual return of **less than 3%**.

It's a shame, because that gal, and millions like her, deserves better. Everyone deserves an approach that doesn't insist that he or she just buckle up for the ride because the 80-year track record of the market delivers between 8% and 10%. News flash for you reading this right now: you do not have an 80–90-year investment horizon. Your investment is probably between 5 and 30 years. Why go on about it like that? Because there is one misleading term or phrase used when companies market

stock-market-related investments such as the 401(k) and IRA. The term or phrase that needs to be exposed is called "average returns."

Look at it this way. Let's assume the market plummets by 50% in one year but then rallies to deliver a 50% gain the very next year. The average return for those two years would be 0%. Not too terrible when you consider that year 1 was a catastrophe. But the ***actual return*** on the actual money in the actual accounts that were on the roller coaster ride lost money overall—a 25% loss, for that matter. This is a silly simple example, but let's not kid ourselves. The math is simple. If we have a dollar and lose 50 cents, a 50% gain on what we have left doesn't get us back to a dollar, now does it? Of course not, it only gets you back to ¢75. That's it. This is why ***we really shouldn't pay attention to the average returns over any period of the market***. Rather, we should look at the actual performance.

OK, let's move away from the simple and look at a real example over the course of the 21-year period from 1995 through 2015. See Figure 2.2. This period included the five best consecutive years the market ever had, from 1995 through 1999. But it also includes two brutal stock market corrections. If a $10,000 annual contribution is made, you can see that the average yield during this time is calculated at about 9.16%. Not too shabby. That being said, if we look at the actual yield over this same period of time, we see it is a much different story. That actual return comes in at a more modest 5.82%. So much for the 8%–10% actual returns you were told you could expect.

This is the reality of what risk means to us. Unless we can somehow predict the movement of the market and have the ability to constantly manipulate our account distributions, this is what recent history tells us about what we can expect. But market timing is impossible; in fact, most of us move money out of the market well into a bear market and

YEAR	ANNUAL YIELD	AVERAGE RETURN	ACTUAL RETURN	ACTUAL VALUE
1995	34.11%	34.11%	34.11%	13,411
1996	20.26%	27.19%	25.08%	28,154
1997	31.01%	28.46%	27.80%	49,985
1998	26.69%	28.02%	27.40%	75,995
1999	19.51%	26.32%	25.07%	102,773
2000	(10.14%)	20.24%	15.20%	101,338
2001	(13.04%)	15.49%	8.12%	96,819
2002	(23.37%)	10.63%	0.51%	81,856
2003	26.38%	12.38%	5.05%	116,088
2004	8.99%	12.04%	5.71%	137,423
2005	3.00%	11.21%	5.29%	151,846
2006	13.62%	11.42%	6.41%	183,889
2007	4.22%	10.86%	6.13%	202,071
2008	(38.49%)	7.34%	(0.95%)	130,445
2009	23.45%	8.41%	1.79%	173,379
2010	12.78%	8.69%	2.96%	206,815
2011	0.00%	8.18%	2.65%	216,815
2012	13.41%	8.47%	4.05%	257,231
2013	29.60%	9.58%	5.70%	346,331
2014	11.00%	9.65%	6.12%	395,528
2015	(0.73%)	9.16%	5.82%	402,568

FIGURE 2.2. *A $10,000 annual investment in the S&P 500 from 1995 through 2015 delivered a 9.16% average return and a much more modest 5.82% actual return.*

don't put it back in until the bull has been running for a year or so. That compounds the problem here, because any management that we are trying to impose over the risk ends up making matters worse.

The Truth of Tax Deferment

OK, where are we so far on evaluating the 401(k) and IRA? (1) They are risky, (2) buy and hold works great over an 80-plus-year period, but most of you reading this book probably have a 5–30-year investment window, and (3) they are sold on a misleading "average return" that we'll never actually benefit from. What about the tax-deferred benefit? Surely, that has a differentiating value enough for us to assume risk regardless of what our actual return ends up being, doesn't it?

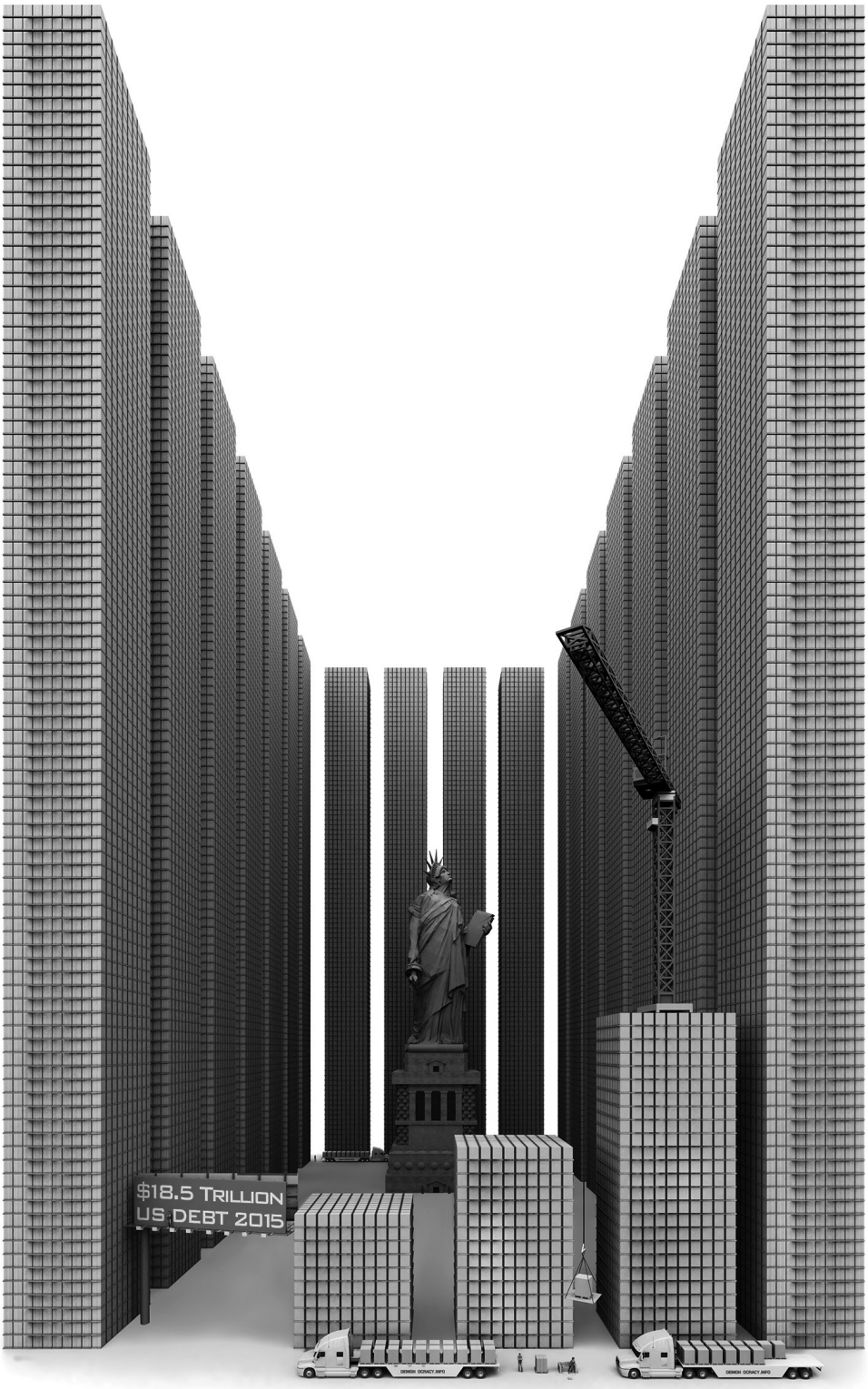

FIGURE 2.3. *The US national debt of $18.5 trillion in $100 bills. Courtesy http://www.Demonocracy.info.*

I always answer this question with a question of my own that I'll put to you now. Once again, I'd really like you to pause for a moment and honestly and genuinely answer. Here goes.

Do you think taxes will be higher or lower in the future?

I know how you answered because I've asked this question of thousands of people who have attended hundreds of financial workshops that I've conducted over the past 10 years. Everyone, and I mean everyone, answers that question the same way. Actually, everyone answers not only the same way but also **in** the same way. It goes like this. First, people in the audience sort of snort, chuckle, or flat-out laugh out loud. Then they say something along the lines of, "Of course they are going to be higher." Everyone thinks taxes are going to be higher.

The reasons why are pretty obvious, but I really want to hammer home the obvious for a moment because I think it is important to emphasize so that I can underscore a point.

The image in Figure 2.3 is one that you may have seen before.

The large towers that surround the Statue of Liberty represent, in $100 bills, our national deficit, which, at the time of writing this book, is approximately $18.2 trillion. A lot of money, no? You bet it is, but it is such a large amount that we can't possibly get our heads around that number. This picture helps puts it into perspective.

Debt means the US government has a bill to pay, and the only means of revenue that the government has at its disposal are taxes, and the truth of the matter is that in 2016, the marginal tax rate is actually pretty low, historically speaking.

Now, this notion of the marginal tax rate being low is one that I sometimes shudder to bring up at my seminars because many of us feel we are taxed too high already, and sometimes people let me know it when I suggest that the marginal rate is historically low. But I bring it

up nonetheless because the current state of the marginal tax rate isn't a political discussion; it is a reality discussion. Let me explain by using the image in Figure 2.4 below:

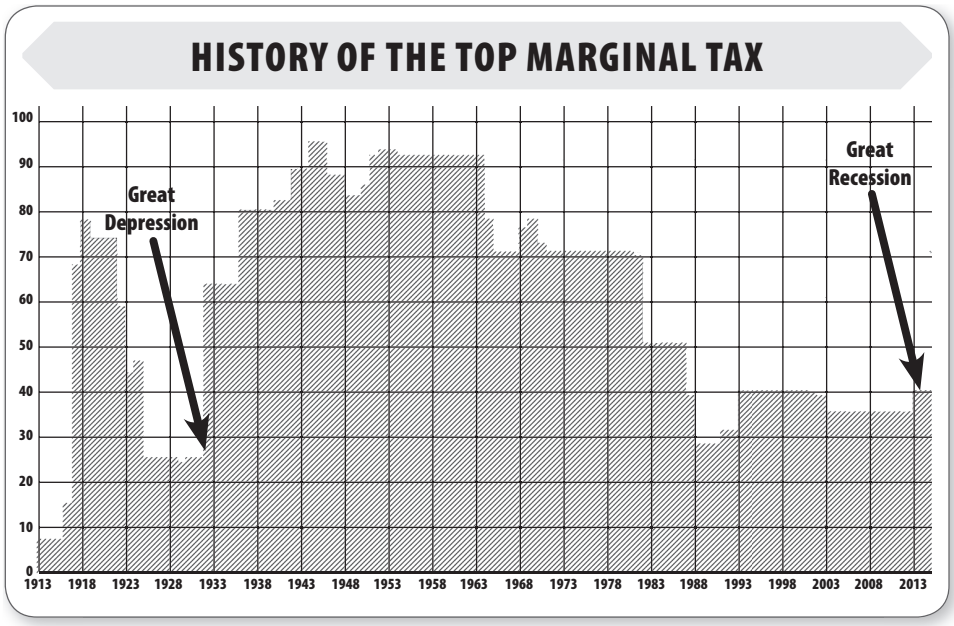

FIGURE 2.4. *Taxes are a bargain today compared to where they have been in the past.*

The idea of a law that guarantees the government revenue is far younger than the country itself. The 16th Amendment, passed in 1913, is what gave the US government the legal authority to tax income. The chart you see here shows you the resulting marginal tax rate that the government has imposed since the IRS was born. There are two things to note here. The first is obvious. Relative to the entire history of taxation in the United States, the current marginal tax rate is fairly low. But the second thing to look at is the period after the Great Depression and World War II, when taxes climbed and were on their way to their height. One major economic event and one major military clash led to higher taxes. Our current national debt is high in part because of the response

to the Great Recession and the war on global terrorism, one major economic event and an ongoing military struggle. If you add to this the questionable health of some major government programs such as Social Security, you will quickly understand why you feel in your gut that taxes in the future will be markedly higher. I mean, come on: you don't need an advanced degree in economics to know that to address some of the major issues of our fiscal health, the government is going to need more revenue.

What is the point of all of this? Well, you most likely chuckled to yourself when I asked whether taxes were going higher and probably nodded your head during the discussion of debt and the marginal tax rate. Yet the 401(k) and IRA are financial vehicles that defer your taxes until a later time when you just agreed they would be higher. See where I'm headed with this?

Taxes in our qualified plans aren't avoided; they are deferred. This is not a revelation, of course, and we all know this to be fact, but I can tell you from experience that hardly anyone ever mentally factors in what the bite out of his or her retirement income is going to look like when he or she becomes responsible for paying those taxes. Don't take my word for it, though; I would encourage you to seek out the 70-somethings in your life and ask them how they feel about the income tax that leaves their hands every time they draw on their qualified account. They're not going to be smiling when they tell you the answer, and I promise you that if they are honest, they are going to come clean with you that they really hadn't anticipated how much that tax bill would sting.

There is a cost to deferring your taxes; unfortunately, no one ever examines it in order for us to make a better decision over whether that cost is worth accepting. Let me explain.

Let's assume that a young woman in the 33% tax bracket began saving when she was 35 years old. She puts $4,000 away diligently into

an IRA. So her total annual tax deferment will be about $1,320. Now to make it easy, we'll do two things. First, we'll give her an annual return on her investment of 10%. Yeah, I know we just spent time calling out the fact that the market will probably never give you year-over-year actual growth of 10%, but let's just assume that this is what she'll be earning. The second assumption we'll make is that she'll maintain the $4,000-a-year contribution for each of the next 30 years. So it looks like this.

Annual savings:	**$ 4,000**
Duration:	**30 years**
Tax bracket:	**33%**
Annual taxes deferred:	**$ 1,320**
Total saved at 10%:	**$723,744**
Total taxes deferred:	**$ 39,600**

Now let's focus on the distribution of her IRA. Will she likely take a lump-sum distribution from her IRA? No. Where would she put it? Instead, she will likely withdraw the money over time. Let's assume a 10% withdrawal each year, as she continues to earn 10% on the balance. Believe it or not, I'm trying to make this look as good as I can for her.

Annual withdrawal:	**$72,000**
Tax bracket:	**33%**
Annual taxes paid:	**$23,760**
Net income:	**$48,240**

The bottom line here is that between the ages of 65 and 85, this woman will have **paid** over $450,000 in taxes for the **right** to have saved $39,600. Please explain the tax efficiency of this approach—please.

Now, one of the first arguments that people make when I run through this example goes something like this: "Yeah, but wait a minute—you've kept her in the same tax bracket. My accountant told me I will be in a lower tax bracket." You see, this right here is why you need a team of advisors, which we'll get to later. When I get that question, and I always get that question, I look at my audience and I say the following: "If you are in a lower tax bracket when you retire, then it means you have FAILED FINANCIALLY!" Who the heck wants a financial plan designed to be in a lower tax bracket when you retire? I don't want to mince words. If you are in a lower tax bracket, it only means one of two things happened: it means you didn't save enough money, or it means the money you saved hasn't performed well—and you don't want either scenario. Doesn't it make sense to have a financial plan designed to be successful so that at retirement you are in a higher tax bracket as a result of your successful financial planning and investing? Of course it does. ***Putting a financial plan together assuming that you'll be in a lower tax bracket is another way of you conceding that you are going to be a financial underachiever***. Why would you want to be that person? How about you put a plan together based on your being successful and as a result being in a higher tax bracket? That's a plan based on success. That's what I want. How about you? This book will teach you how to deal with taxes that come with your successful investing, as you will see.

The bottom line is this: if you are banking on taxes being lower when you retire, then you are in for a wake-up call.

So with that in mind, let's go back to that perfect retirement that I had you think of earlier. Remember? House paid off, kids grown, big

old qualified retirement accounts? Not looking so perfect now, huh? Our income tax is going to hurt, and because our house is paid off and our kids are grown, the two biggest tax deductions we enjoyed our entire lives are gone when we need them most. And what did you get for this "perfect retirement"? Your money completely tied up and illiquid for 20 or 30 years.

Come on! That is brutal. I mean, how did we get duped into this? I'll tell you how.

Free Pizza and a Retirement Plan

Chances are this is how you ended up in your first 401(k). Early in your career, you were at work one morning and decided to head to the company kitchen to grab a cup of coffee. As you poured your cup, you noticed a sign about a free pizza and salad lunch that afternoon. The lunch was part of your human resources department "employee care" program, and the guest at the lunch that day was a representative from Fidelity. The topic was retirement savings.

You ended up going to grab your free slice, and the Fidelity rep started talking to you about free money, something called a match. He told you how you could seemingly swindle Uncle Sam out of taxes by investing money instead of taking it home. And he goes on and on about how the historical growth on this "401(k)" account, which you had heard of but didn't know a whole lot about, was between 8% and 10%.

He sure seemed like he knew what he was talking about, the pizza was good, and free money, shoot, who wouldn't want that? Besides, the woman from human resources was probably 15 years your senior, and she confirmed that, yup, all this is true and a gracious part of the company's benefits plan. She made it seem as though you'd be foolish not to take advantage of the company match, that it was free money that you would

be saying no to. You grabbed one more slice to go after filling out the paperwork to begin your deduction at 5% of your gross salary at the time.

Sound familiar? I can tell you that this story, while a little exaggerated, is how nearly all of my clients describe their initial decision to start investing in their 401(k). It isn't a coincidence; it goes down this way because the financial industry has one goal in mind: get more of your money to manage. After all, if the status quo investment plan is fraught with the sort of land mines that I've been describing, why is it so popular? It is popular because an entire industry has evolved around the mechanics of the traditional stock market investment.

Let's take a look at how that industry works and benefits.

The Best Business Model Ever

Time for another question. Let's assume you owned a small business—oh, I don't know; let's say a restaurant. Suppose that you just wrapped up your best year ever. If I told you that every year following this year, you are now guaranteed to start the New Year off **knowing** that every single customer who had a meal at your restaurant would return the following year, how would you be feeling about your business? Probably pretty good, right?

If this were the case, you would have a very healthy level of recurring revenue. Recurring revenue is the amount of money that former customers are going to spend with you again in the future. It is also the foundation for many business models that we are very familiar with. For example, consider your smartphone. The full retail price for the latest iPhone is between $500 and $800, yet few people actually pay that. They end up getting a $600 phone for almost nothing. Why is this? Because the wireless carrier is happy to subsidize the cost of the phone

in exchange for a two-year contract that obligates you to pay $100 per month. More importantly, once the carrier has you as a customer, the odds are you'll remain with it and simply upgrade your phone to the latest version from time to time. Just look at the advertising battle going on between Verizon, AT&T, T-Mobile, and Sprint. They all want your monthly cell phone revenue.

Recurring revenue is key for every business, and there are so many examples all around us. How about television? Look at the recurring revenue battle between DirecTV, Verizon FiOS, and Xfinity with Comcast.

I bet you can think of many more examples. Every month I get coffee shipped to my doorstep for my Keurig coffee maker. That's recurring revenue. How about the gym membership I pay for monthly that I don't use nearly enough? That's recurring revenue. An alarm system was installed in my house for free last year. Why was it free? Because now I am locked into a two-year monthly service contract with the security company. I can go on and on. If you weren't aware of it before, now you are. That is the name of the game for any business: recurring revenue.

Why am I spending so much time on recurring revenue? ***Because Wall Street and the financial planning industry in general have the ultimate recurring revenue business model***. Let's take a look.

Your Assets, Their Gain (Even When You Lose)

Remember that the 401(k) was created by exploiting tax code that wasn't originally written for the average employee. Also recall that the 401(k) was born in an age where it was more of an augmentation to the retirement savings status quo and not the cornerstone of the long-term savings plan. But there was money to be made with this new approach, and plenty of financial firms capitalized to make that money theirs.

As I mentioned earlier, according to the Investment Company Institute, Federal Reserve Board, and Department of Labor, as of 2014 there was well over $4.4 trillion tied up in 401(k) accounts. After our discussion about tax deferment, I'm hoping that you start to see this for what it is: a guaranteed annuity for the federal government by way of tax revenue once you start your withdrawals and annual management fees for Wall Street–related firms and their advisors all along the way. These firms and the financial professionals that manage these accounts for their clients are paid on a percentage of the total amount of assets that they have under management.

Fees from advisors alone are usually between 1% and 2%, and the advisor receives his or her payment regardless of how well his or her clients' investments perform. Now, obviously, the advisor wants you to do better, because 1% of a larger number is a much larger payday for him or her. But if you don't do well, the advisor still takes a cut. So think about it. When you make a 401(k) or IRA contribution at the age of 35, you've basically locked up your money for at least 25 years, and as a result, you've locked up a recurring revenue stream for one of Wall Street's many companies and their advisors. You would never sign up for a 25-year contract with your cell phone carrier, would you? So why do you do it with a much more important asset—your retirement nest egg—with some firm on Wall Street? It makes zero sense. The 3% would never do that.

Now do you understand why Vanguard, Fidelity, Merrill Lynch, and dozens of other financial services companies have armies of advisors working for them? They all want possession of your retirement dollars that are locked up till at least age 59 1/2. Please, for your own good, put your "Business 101" hat on. You've been told over and over again by all of these financial expects on TV, on the radio, and in magazines and newspapers that the first thing you should do when it comes to retirement planning

is max out a 401(k) or IRA. Next time you hear someone say that maxing out a 401(k) or IRA is the first thing you should do for retirement, I want you to take notice for whom he or she works. I guarantee that person somehow works for a company that makes money as a result of your contributing to a 401(k). And it could be indirectly. How do you think the *Wall Street Journal* makes money? Fidelity, Vanguard, and Merrill Lynch advertise in its pages. How about *Money* and *Fortune* magazines? Wall Street companies advertise there too. Many times *Money* magazine and other publications allow advisors from their advertisers to write articles that help to brainwash you that a 401(k) and IRA are the best places to sock money away for retirement.

"But, wait a minute, Dean; my accountant doesn't work on Wall Street, and he tells me to max out my 401(k) and IRA too." Yeah, I know. But how do you measure your accountant? By how much he lowers your tax bill, that's how. If you contribute to a 401(k) or IRA, you reduce your taxes today and you think your accountant is a genius. For most people, taking a tax deduction today is clearly a penny-wise, pound-foolish strategy. But when you notice how your accountant is just one more advisor who is saying the same thing as your stock broker, who happens to be saying the same thing as the guy on CNBC's *Squawk Box*, and is similar to the article you read in the money section of *USA Today*, you connect the dots and believe that maxing out a 401(k) or IRA must be the best thing for you. Wrong! Go reread this chapter from the beginning and tell me how anything I've written isn't logical.

Remember in the first chapter I took a jab at 529 plans as a way of saving for college? Well, think about it. Everyone knows that the cost of attending so many colleges has increased by 5%–10% a year for the past 10–15 years. With that in mind, I challenge you to find me one 529 college savings plan that has come close to earning those returns. Good luck.

You see, traditional advisors tell you that with a 529 plan you'll get tax-free growth on your money. True, you will. Problem is that for the past 15 years, we've had no market growth! But guess what? Advisors get recurring revenue when you contribute to these plans, so of course they promote them.

How about the jab I took in chapter 1 related to 15-year and biweekly mortgages? Banks like recurring revenue also. When you have a 15-year mortgage, your monthly payment to the bank is larger. So, again, logic this for yourself. By making a larger monthly payment to the bank or mortgage company, you are increasing that company's monthly revenue, which makes that company more liquid, allowing it to be able to lend more money! If the bank is more liquid, who is less liquid? You are. Why would you want that?

Let me be clear. The companies and the advisors that manage your retirement dollars want you to make money. They want you to make a lot of money. I am not insinuating that they are bad people working for corrupt companies. I'm simply saying that Wall Street is the ultimate recurring revenue model and the trillions of dollars that sit in 401(k)s and IRAs employ millions of people around the world and make a lot of people a lot of money, even when you don't. That's why you are bombarded with experts telling you to max out your contributions to these plans.

In early 2009 I was at an industry event, and one of the keynote speakers was going on and on about how great a 2008 he had despite the bottom dropping out. Why was it so great? Because his clients, on average, lost ***only 19%*** while most consumers were down 25%–40%. Yes, that's right; his clients lost a mere 19%. But guess what? He still got his 1.5% fee, so, really, his clients lost over 20% because they didn't get any protection from the crash by spending 1.5% with him that year.

You see how this is absolutely crazy to me. Name me another industry that will not allow you to somehow recoup your money if you are not happy with a product or service. If you go to a restaurant and the service is awful, a manager will come out and discount your check or pay it outright. If a piece of clothing that you just bought has a hole in it, you take it back to the store. Shoot, a company like Costco takes almost anything back even if you have been using it for a year. But your advisor and the companies that he or she works for in the transaction below in Figure 2.5 get theirs no matter what happens to your money.

FIGURE 2.5. *Thousands of companies and their employees generate hundreds of millions of dollars in recurring revenue annually thanks to the 401(k) and IRA industry.*

So are you starting to feel misled? I bet you are. Are you starting to see why maxing out a 401(k) or IRA is for the 97% of the public? This is your hard-earned money we are talking about. I need to make sure. The next chapter will examine the characteristics of the ideal investment. Let's see how your 401(k) or IRA stacks up.

chapter 3

The Ideal Investment

At all of my financial seminars, I stand next to a blank whiteboard with a marker, and I ask my audience to name the characteristics of the ideal investment. I'm not looking for them to shout out the names of specific investments. Instead, I am looking for them to give me the characteristics of the perfect place to save money.

I have asked this question 500 times at 500 different seminars, and I'm telling you that there are five characteristics that come up every single time. Every time!

The five characteristics of the ideal investment that come up every time, in order of importance, are as follows:

1. Safe
2. Good returns

3. Liquid
4. Tax free
5. Low maintenance

OK, take a look at this list above. I'm going to assume that you agree that if you could design the perfect investment vehicle, you would want it to have all five of these characteristics. I need you to nod your head in agreement. Of course you want all of this.

At my seminars, I write these characteristics on the whiteboard, and then I stand back, I turn to the audience, and I ask them two more important questions.

"Does anyone know of an investment vehicle that has all five of these characteristics?" I wait. I wait some more. You can hear a pin drop. Very seldom will anyone suggest something that delivers all five of these characteristics. So now I ask you. Can you think of anything that delivers all five of these ideal characteristics? Before we continue, I need you to make a mental note right now. Can you think of an investment that is safe, has good returns, is liquid, is tax free, and is low maintenance? Don't worry if you can't. Nobody else can either.

Last question for my seminar audience and for you. If such an investment existed, how much money would you put into it? I don't know what you're thinking, but I bet it's similar to what all my seminar audiences have thought. You'd put most of what you have into it. Am I correct? Please say yes. I mean, why wouldn't you? If you've got a hunch that I'll be introducing you to such a financial vehicle in the following chapters, you'd be right! I know, I know; "Too good to be true," you are thinking. I challenge you to stick with me and soldier on until the end of the book. Because I know without question that when you finish,

you are not going to have thoughts about the approach being too good to be true; you'll be thinking, "I wish I knew this years ago." So let's take a look at what would make the ideal investment.

Safe

We all want our investments to be safe. We don't want to glance at our smartphones in the morning to see that yet another global crisis or civil unrest is getting ready to wreak havoc on the US stock market. We don't want to constantly be checking our retirement accounts for performance, anxiously evaluating when we need to move our money to a safe harbor to weather the latest storm. No, what we all want is to simply be confident in our choices about where we place our money. We want to rest easy at night with the knowledge that, no matter what is going on in the world, what we've been able to save for our retirement isn't going anywhere, that our long-term nest egg is protected against just about anything and will be there waiting for us when we're ready to use it.

Good Returns

So what is a good return? If I ask 10 different people, I generally get 10 different answers. As I have mentioned, I conduct many financial seminars and talk with literally thousands each year. While this is more anecdotal than scientific, I can share with you that my audience usually agrees that a "good" return is in the ballpark of 6%–9%. Some go lower than that, and some go higher, but, ultimately, I pose this question to my audience: "If you received between 6% and 9% on an investment, would you consider that investment to be successful?" Framed this way, most agree that such a return would in fact be a good one

But this isn't about whom I've asked this of in the past; it is about you. So pose the same question to yourself about what you would

consider good. Does 6%–9% qualify as good in your book? I'm going to go out on a limb and suggest that, yes, indeed, if you received 6%–9% on a long-term investment, you would most likely be satisfied with that return.

This "good return" question is important as we move forward, because if you are unsatisfied with a rate of return in this range, then, quite candidly, the remainder of the book might not appeal to you. But I think it does appeal to you; you're just skeptical of something being both safe and good. If that is the case, stick with me!

Liquid

I personally think that a 401(k) or IRA is crazy for another reason I hinted at in the previous chapter, illiquidity. Take yourself back to our discussion about tax deferment also in the previous chapter. Remember that aha moment when I took a look at the cost of tax deferment? Remember that feeling you had when I asked you the question about whether taxes will be higher in the future? Yet we willingly surrender access to our long-term savings in return for access to the funds when taxes will almost certainly be higher and in a period in our lives where we would prefer not to have to pay any taxes.

Why is this a bad deal? Well, again, I'm going to go back to the conversation I have with my seminar audiences. I typically ask whether there is a small-business owner in the room. Inevitably, there are at least one or two. I ask them whether they'd be willing to surrender their businesses' cash to me for the next 30 years so that I could invest it on their behalf. How many business owners do you think raise their hands and say that they would love the opportunity to surrender cash to me in the hopes that I'll be able to get them an 8%–10% return at the end of that time frame? And, oh, by the way, they'll have to pay income tax on any gains when I

give it back to them. So guess how many business owners would give me the money from their business checkbook? None! No way.

Even if you don't own your own business, I bet you agree that it would be a stupid question to ask a business owner. After all, business owners understand very well that in order to capitalize on opportunities to grow their business, they are going to need access to cash. And most of these same business owners do not want to incur any debt to fund business opportunity; they want the "free" money of their own cash.

Liquidity matters for the same reason. There are going to be opportunities that arise in your lifetime where the only thing between you and the potential growth of your nest egg is access to cash. Sadly, your retirement accounts and tax-qualified plans are not going to give you access to your own money without incurring some very severe penalties.

Now is a good time to bring up the 3% of people who are financially independent, who we mentioned in chapter 1. I bet you agreed with me when I said that this group of people is doing things differently from the 97% of people who are just getting by. I assure you that locking up money for 20–30 years is not what financially astute people do with their money.

Think of a guy like Donald Trump. He is running for president as I type this. Think for a second about Donald Trump, the businessman and entrepreneur, not the politician. Do you think this guy made his fortunes by locking up money for long periods of time? Of course not. So why would you? Liquidity allows us all to take advantage of good investment opportunities that arise, and they always do.

Bottom line: we want our money to be liquid because it gives us greater control over how we can map out our financial futures. So most agree that the perfect investment would be liquid.

Tax Free

The Holy Grail: save money, have it grow at a fair rate free from loss, AND allow it to be accessed tax free—not tax deferred, TAX FREE! Boy, wouldn't that be great? Everyone thinks taxes are going higher in the future. So having a financial vehicle that generated tax-free dollars would be a dream come true. Not much else to say on this one.

Low Maintenance

This is another one of those "this is too good to be true" criteria. We are also conditioned to believe that in order to get good returns, we have to be on top of our money almost 24-7. What we want is an investment that doesn't demand we have master's degrees in personal finance. We want the infomercial promise of "set it and forget it."

Look: I'm here to tell you that nearly everyone whom I do business with, have spoken in front of, worked with, or simply traded stories with believes himself or herself to be undereducated on what is seen as the complex issues of investing. We all want simplicity with everything today, and investing is no different.

OK, so in a nutshell, the ideal investment is safe, has good growth, is liquid, generates tax-free dollars, and is low maintenance. As we covered, most people, including most traditional advisors, have no idea where to find such an investment gem. I'm going to tell you where you can, and then I am going to prove it, dispelling every misconception you have ever been told.

But before I get to that, I need to take one more jab at traditional planning—the same planning that you are likely implementing and have been told by all the so-called experts that you should be doing.

Let's compare the 401(k) and IRA to the ideal investment characteristics we outlined above.

Question 1: Is a 401(k) or IRA a safe investment? No, it isn't. Everyone you know likely lost a lot of money in 2008 within a 401(k) or IRA and many others during other times as well—so, no, neither is safe. The 401(k) and IRA fail the safety test.

Question 2: Does a 401(k) or IRA deliver good returns? Well, it depends on what 5-, 10-, 20-, or 30-year period of time you are looking at, as I will prove soon enough. Sometimes it does; sometimes it doesn't. So, for now, let's just say a 401(k) and IRA deliver good returns half the time.

Question 3: Is a 401(k) or IRA a liquid investment? NO! We covered this a few paragraphs ago. Put your money in a vehicle you can't touch for 20–40 years? Crazy. The 401(k) or IRA fails the liquidity test big time. While we are on this topic, I feel compelled to discuss the popular "company match." This is "free money," many suggest, but it isn't really free at all. The cost is illiquidity. Now, look; I get it: a certain percentage of your long-term savings matched is an attractive offer. But I look at it this way. If you are going to give me, say, a 20-cent match for every dollar of mine that I invest in a qualified plan in exchange for eliminating my access to that money for the next 30 years of my life, I'm going to say, "Keep your two dimes, thank you very much."

Question 4: Is the 401(k) or IRA tax free? Nope! Each is tax deferred. There is a big difference between tax free and tax deferred. And I bet you think taxes are going higher in the future.

Question 5: Is the 401(k) or IRA a low-maintenance investment? No, it isn't. All you have to do is remember back to 2008. Were you able to forget about the allocations you had? Probably not. Not that you should be spending hours reallocating your portfolio, but you absolutely can't ignore it. Point is you need to spend time here and there properly rebalancing your 401(k) and IRA portfolio.

The bottom line is this: the 401(k) and IRA are, without question, the number one places that all the experts say you should put retirement dollars first when it comes to saving and putting together a sound financial plan. Yet, if you stop and look at these vehicles and compare them to the ideal place to save money, they fail at least four out of the five ideal investment traits. Eye opening, isn't it?

You want to learn something new about your long-term savings plan, right? You're reading this book because you are hungry for a better way, an alternative, an option that you really want to believe exists. How would you feel about an alternative that is extremely safe, delivers between 6% and 9%, is liquid, can be accessed tax free, and requires almost no maintenance at all? Would that be something that you would want as a piece of your retirement portfolio?

It's time you learned A Better Financial Plan.