CREATIVE
Wealth Maximization
Strategies

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"Know well the condition of your flocks, and pay attention to the conditions of your herds; for riches are not forever, nor does a crown endure to all generations."
Proverbs 27:23,24

PAY ATTENTION–NOW!

The typical mass-market personal finance magazines you find on news racks often try to grab your attention with urgent headlines about things that you need to do "now" or investments you ought to buy "today." Readers know it's manipulative, know that it plays to their greed and fear, but still the headline draws them into thinking "maybe I ought to check it out."

This isn't a mass-market publication. But there's no harm in using a few "grabber" headlines. And if the result is a sense of urgency, maybe that's okay too.

When it comes to money, you gotta pay attention.

You really don't have a choice. This is the financial world we live in:

> **Obscure rules** (see the Bank Regulation D article in this issue), **arbitrary deadlines** (contributions by April 15th, but withdrawals before December 31st, right?), **red tape** ("That request can only be made in writing, and must be accompanied by the CUSIP number, plus a medallion guarantee"), **Bad service** ("You're going to have to transfer to another department."), **Ignorant advice** (Even the IRS hotline is wrong almost half the time)…

It can be aggravating. More than aggravating, it can be a little frightening, because screwing up even one little detail can jeopardize your savings, your wealth, your future.

Add to this aggravation the insidious way many of these items sneak up on you. The daily concerns – your family, your career – keep you occupied. Then one day, you say, "Whoa, I gotta take care of this! I need to:

"get a will"
"prepare an estate plan"
"obtain some life insurance"
"re-allocate my portfolio"
"change the beneficiaries, and…"

"take-care-of-a-bunch-of-other-things-that-really-are-important, but I haven't had time for."

Between the tyranny of the urgent, and the complexity of the financial tasks, it almost makes you wonder if there's a conspiracy. Maybe this is how "they" (you know, the big financial institutions and federal government) keep productive people in check, by generating so many rules, and then making it hard to follow them. That way no one can become too powerful or too independent, right?

Hey, we're not qualified to figure out conspiracy theories. Besides, it really doesn't matter. Whatever the cause, the effect is the same:

If you don't pay attention to your money, you will lose it.

Read this carefully: Whoever said, "just work hard, and the rest will take care of itself," was wrong! If you work hard, but neglect the "rest" – taxes, estate planning, insurance, investments, retirement saving, etc. – you are effectively authorizing someone else to take the rest from you. Yes, things can be stupid and unfair. There may be a conspiracy, maybe not. But if you don't pay attention to your financial details, expect to lose some (maybe a lot) of your money, and your dreams. The only effective response is to plan, and then monitor what's going on with your money.

In their 1996 book *The Millionaire Next Door*, researchers William Danko and Thomas Stanley noted that one of the defining characteristics of millionaires was that they spent three times the effort to regularly monitor and plan their financial situation, when compared to others who earned as much, but had a lower net worth. The bottom line: people who pay attention to their financial situation have a greater chance of financial success. Paying attention to your money pays off.

Delegating is a good way to make paying attention workable

Paying attention to your financial program can be a do-it-yourself project. But considering all the other things that take your time and interest, and the detailed nature of successfully executing even the most basic of financial tasks, finding a reliable financial professional to help you pay attention is often the best way approach.

<u>Delegating</u> is a good way to make paying attention workable. Considering all the time needed, and the detailed nature of successfully executing even the most basic of financial tasks, finding a reliable financial professional to *help* you pay attention is often the best way approach.

Delegating does not mean you can stop paying attention. **It means you retain the services of experts to correctly complete the details that come from paying attention.** When you decide what needs to be done, using experts greatly increases the chances that your decisions will be properly executed. Next to deciding to pay attention to your money, finding a good team to help you is perhaps one of the best things you can do to maximize your chances for financial success.

The Powerful Impact Of Time – For And Against You

The following syndicated Associated Press article, which appeared on January 3, 2000, is a typical "financial New Year's resolution" article. It could have been written in 1950, 2000 or 2050. It's simple, almost to the point of being hokey, but it gets the point across.

"If you put a dollar away every day for a baby born on New Year's Day, you will have set aside $365 a year. Now if you keep doing this every year, putting a dollar a day away, and you invest the money at 10% a year, that child will be a millionaire in retirement. That's just with a dollar a day. Financial author Tama McAleese says by 65, that child will have accumulated $2,422,615 and change."

There are a few things about this example that don't quite work. For instance, where can you invest just one dollar at a time and have it earn 10%? And what about taxes? But that's nitpicking; the general idea makes sense. A follow-up comment from the article is even more interesting, and the basis for further discussion. McAleese says:

"It's not the stock market that makes you rich. It's not the top mutual fund that will set you up for life. It's ***time*** *that makes you rich, along with the discipline of regular investing."*

That's dead-on accurate. Time and discipline are big factors in financial success. The sooner you start to prepare financially, the better off you are. At an intuitive level, this is just common sense. Mathematically, the idea is convincingly illustrated by any calculation of compound interest. The numbers get huge in the later stages of calculation, but only because enough years have passed for the accumulation to gain velocity. The sooner you start, the bigger the number at the finish – like $2.5 million from a dollar a day.

Most logical, rational people who understand this idea will say, "Gee, we should get started."

But even logical, rational people often struggle to get much farther than "Gee, we should get started." There always seems to be something right now that is more important than securing the future. Time slips away, and with it, the chance to succeed.

Then again, if you are one of our readers, you might already be started. You filled out a questionnaire, gathered your papers, and completed an analysis. Maybe you've even set up a "wealth account," bought an insurance policy, re-allocated your retirement plan, began investing regularly, and established an estate plan. Good for you.

But those actions may have taken place a year ago or longer. Are you still making the effort to regularly maximize your financial abilities?

Probably not. Like everyone else, you have things that demand immediate attention. Even if you are committed to addressing long-term priorities, it doesn't make all the rest of life go away. Quite likely, some of the pressure you felt about your financial situation has lessened because you did take action.

Here's the thing: Just like most people don't have a

**ARE YOU PAYING ATTENTION?
IS IT TIME TO CHECK IN WITH THE PEOPLE ON YOUR "FINANCIAL TEAM," JUST TO MAKE SURE EVERYTHING IS GOING SMOOTHLY?**

grasp of what they could gain over time, **they understand even less what they are losing over time.**

Psychologically, most of us have a greater motivation to keep from losing what we already have, as opposed to trying to get more. That being the case, maybe financial advisors and institutions ought to talk more about the prospective losses and less about the possible gains. Then maybe more people would respond with action, instead of "Gee, we should get started." And once they have started to pay attention, they would keep paying attention.

Think of it this way not only are your good financial decisions enhanced over time, but also bad ones. That means ***the most costly financial mistakes are the ones you are making right now!***

As an example, the longer you use credit cards, the more it hurts you. Instead of time compounding for a good result (as with your savings) time is compounding against you. Even if you finally pay off the credit cards, the money lost (the interest paid to someone else) still keeps compounding against you. **The inefficient things you do today with your finances create long-term consequences.** Economists and accountants call this "lost opportunity cost". It really is time working against you.

It's an interesting twist. This means using credit cards (or any debt) for the wrong reason when you are 25 is worse than at 65, because the financial consequences will multiply for a longer time**. If you want to screw up, do it when you're older! You won't have to live with consequences for as long.**

What are some "financial mistakes" that add up over time? Some items are obvious, but others may surprise you:

- Using debt for depreciating assets
- Compounding taxable investments
- Overlapping insurance coverage
- Choosing a 15-yr. mortgage instead of a 30-yr.
- Making extra principal payments on a mortgage/loan
- Fully funding qualified retirement plans
- Living on the interest and never touching the principal

Look at the list. Do you know why these things might be considered losing strategies? Like we said, some are obvious. But the financial press also routinely recommends some of the items listed. What's up with that? In many circumstances, some financial options may ultimately cost more than the promised benefits. Why? Because their assessment doesn't include an accounting of the opportunity cost.

In summary…

You must pay attention to your financial program. Your financial well-being is your responsibility, and there's no auto-pilot program that allows you to "set it and forget it."

One of the most effective ways to pay attention to your finances is by delegating other professionals to pay attention on your behalf. Find good advisors, and put them to work on your plans.

If you are making financial mistakes, you should fix them – now! Not tomorrow. Not next week. Not next year. Now. Every day you wait is adding up against you. Today's mistakes are the ones that will hurt you most in the future!

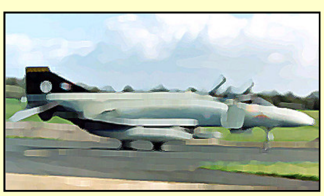
ARE YOU PAYING ATTENTION? IS IT TIME TO CHECK IN WITH THE PEOPLE ON YOUR "FINANCIAL TEAM," JUST TO MAKE SURE EVERYTHING IS GOING SMOOTHLY?

A "WAY" OUTSIDE-THE-BOX FINANCIAL IDEA

Credit Scores For Rent

When evaluating prospective borrowers, lenders often check their credit scores. Lower scores indicate higher risk for the lenders. To accommodate this risk, lenders often charge low-score borrowers higher interest rates.

THE F-4 Phantom Financial Strategy: The only way to stop paying attention.



Sick of all the details that come with paying attention to your finances? Looking for a way to streamline your financial world? There's only one plan that can give you the chance to ignore financial details and still be okay! It's called the F-4 Phantom Plan.

The F4 Phantom was the mainstay fighter jet used by the US Navy, Marines, and Air Force during the long years of the Vietnam War. Despite its massive size, weight and less-than-sleek design, the F4 was extremely fast because of its massive power. As an anecdote, it was often noted that the Phantom was living proof that given enough power, even a 10-ton brick could fly. (Wind tunnel testing reportedly showed that the Phantom's drag coefficient would be lower if flown backwards, rather than forward!)

The F-4 Phantom Financial Strategy works on the same principle: Given enough money, even a sloppy, wasteful, unattended financial strategy can work. Just like increasing power is an effective method for overcoming gravity, the addition of more money can usually provide a solution for every financial hurdle.

The F-4 plan might sound sarcastic, but it's not a joke. A lot of high-profile/high-income individuals (think actors, rock stars, or professional athletes) appear to have perfected the F-4 plan. They blow through more money in a month than most people make in a year – and keep doing it year after year – because they make so much money they just can't blow it all.

Not a highly-paid actor, platinum-selling rock star, or an all-star jock? Well…you'll probably have to pay attention to your finances like the rest of us.


"Piggybacking" or "Coat-tailing"
is a method of quickly improving one's
credit score.

Since credit scores are derived from computer programs that analyze long-term payment histories, undoing a poor score can take quite awhile; a number of good years may be required to negate one stretch of trouble.

…unless you can find someone to "rent" their good credit history to you. An Associated Press article by J.W. Elphinstone that first appeared June 3, 2007 detailed the practice of "piggybacking" or "coat-tailing" as a method of quickly improving one's credit score for the purpose of either securing a loan (typically a mortgage) or qualifying for a lower rate. For a fee, some financial companies, (usually operating on the Internet) offer to help potential borrowers improve their credit scores by arranging for them to be added as authorized users on credit cards of people with strong credit histories.

In exchange, the cardholder allowing the piggybacking on his or her credit history can receive $100 to $150 per slot, depending on the age and credit limit of each card. The company assures that the newly-authorized individual will not receive a credit card, account statement or other personal information. As an example, the article cited a 44-yr-old retired Army officer who was receiving "more than $2,500 a month by lending out 19 credit card slots on two old Citibank cards with strong payment histories."

Once the credit card company files an updated report to credit bureaus – leading to a higher score – the credit renter is removed from the account of the person allowing the piggybacking. However, the credit card's payment history remains on the authorized user's credit report forever, and lenders have no way of knowing how the credit borrower is related to the cardholder.

Upon learning of the practice, several lenders have called piggybacking fraudulent and unethical, saying that borrowers who present a false credit history are actually lying about their true ability to repay loans. Proponents of the practice respond by noting that piggybacking is a standard practice often used by parents to help their children establish or improve their credit scores. Why shouldn't people be able to do the same thing for "friends," even if the friends pay for the privilege? Thus far, governmental authorities have yet to decide on piggybacking. Says Frank Dorman, a spokesperson for the Federal Trade Commission, "What I've gathered from attorneys here is that it appears to be legal. However, the agency is not saying that it is legal."

As a result of the Associated Press article, Fair Isaac Corporation, the developer of the widely-used FICO computer scoring program, said it plans to modify its scoring program later this year in a way that will negate piggybacking strategies. If successful, the days of renting your credit score may be short-lived.

"I don't know how long before someone decides it's illegal," says the retired Army officer who rented authorizations on two credit cards. "But I'm not counting on this for the long term."

Regulation D For Savings Accounts – Could You Be in Violation?

The Federal Reserve Bank is responsible for regulating banking activity in the United States. In its role as a central bank, the Fed is also a bank for other banks and a bank for the federal government. One of the areas the Fed regulates is the reserve requirements each bank must maintain – i.e., how much cash each bank must hold in relation to the amount it has loaned out. These requirements are delineated in a series of alphabetically-titled regulations (Regulation A, B, C, etc.). In one section of Regulation D, a little-known rule can have a costly impact on individual depositors.

A sub-provision of Regulation D limits the number of transfers that can be made in and out a savings account to six per month. If more than six transfer transactions occur, banks can charge violators a fee. (In a story that appeared in the June 18, 2007 *Detroit News*, the fee was $45.)

Note that Regulation D applies to *savings* accounts, not *checking* accounts. And certain transactions don't count as part of the six (such as those made for the purpose of repaying loans held by the same bank). But here's a partial list of transactions would be considered Regulation D transfers:

- Transfers made as part of overdraft protection on associated checking accounts.
- Telephone transfers from the savings account to other accounts or third parties.
- Pre-authorized automatic transfers (such as those made to pay insurance premiums).

Regulation D effectively keeps depositors from using a savings account as an "in-and-out" account to buy groceries, pay monthly bills, etc. – that's what a checking account is for. But even if the account is primarily used

(Regulation D For Savings Accounts –continued)

for accumulation, it's easy to see how a Regulation D violation could occur.

Suppose you have two life insurance premiums being drawn each month. That counts for two transactions. The hot water heater breaks and you need to tap the "emergency fund." That's three. The next week, you make another withdrawal to pay for the new carpet – four transactions. In the midst of all this financial upset, you forget to deposit a paycheck, and the overdraft protection kicks in on two different days. Six transactions. One more bounced check, and you're a Reg D violator!

Most banks and credit unions can provide you with a list of transactions available for your particular savings account that could accumulate to a Reg D violation. And most institutions will include a disclaimer reminding you that "Federal Reserve Regulation D is a directive of the government, not of your bank/credit union."

A Special Needs Trust: Do You Know Someone Who Needs It?

It is normal for parents to love their children. In fact, it is so normal that while we may be in awe of the sacrifices some parents make for their children, we are never really surprised. Loving and protecting children, especially your own, is a powerful motivation.

Some parents are faced with a situation where the imperative to protect and provide will never go away. A parent of a special needs child faces the possibility that their child may remain a child forever – and that they will remain a parent forever as well. It's a challenging task, yet most parents – because of love – willingly accept the role. In the face of great heartache, they nobly continue to provide, protect and love their children.

Like any other parents, those with special needs children worry about their child's future. But they also wrestle with a large, looming unique issue of concern:

"Who will take care of my child when I'm gone?"

In a June 21, 2007 *Lansing* (Michigan) *State Journal* article titled "Anxieties of a Caregiver Parent are Ones I Know Well." columnist John Schneider speaks from personal experience about the struggles these parents face.

Schneider's article was prompted by an incident from earlier that week in which a 60-year-old mother killed her 24-year-old daughter who had Down syndrome, then committed suicide. Apparently, the mother had just received news from her doctors that her cancer, once thought to be in remission, had returned. Police on the scene said the mother left a note, saying she couldn't bear more treatment, and didn't think anyone would take care of her daughter.

Schneider, the father of a daughter with developmental difficulties, who died of an accidental drowning when she was 25, says the murder-suicide, "although extraordinary, is not unprecedented. I know this because I have, stuffed into a book somewhere, a handful of yellowing newspaper clippings about similar tragedies – murder-suicides involving parents and their children with disabilities."

Schneider then offers a few examples, stating the "(t)he common element (is): a reluctance on the part of the parents to leave their vulnerable children to an indifferent world."

"Murder can never be justified. Suicide is a poor escape. … but the world, minus the sheltering arms of a loving parent, can be a harsh place for people who depend completely on the selflessness and forbearance of other human beings. That's why we sometimes read about parents who just aren't willing to send their children to that place. "

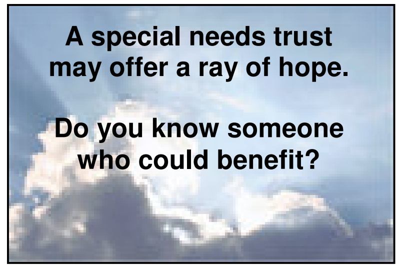
A Special Needs Trust* May Offer a Ray of Hope

One of the ways parents with special needs children can respond to the prospect of a need for long-term parental caregiving is through the establishment and funding of a special needs (or supplementary) trust. This type of trust enables individuals to bequeath property to a disabled person to fund additional expenses without jeopardizing government benefits, such as Social Security and Medicaid. Citing a report by attorney Stephen Elias, the April 9, 2007 *National Underwriter* listed the following items that could be paid for through this legal structure:

- Life insurance premiums
- Out-of-pocket medical and dental expenses
- Medical equipment not provided by Medicare
- Eyeglasses
- Exercise equipment
- Annual independent checkups
- Transportation
- Motor vehicle and vehicle maintenance
- Vehicle insurance premiums
- Physical rehabilitation services
- Essential dietary needs
- Materials for hobbies
- Tickets for recreational and cultural events
- Musical instruments
- Cosmetics
- Home furnishings and improvements

Details matter

The *National Underwriter* devotes a large portion of the article to the importance of **properly structuring the trust.** For example, "too often attorneys select a boiler-plate from a manual that contains language for a first-party or self-settled trust, one created using the grantor's own money, rather than a third party trust funded with assets from parents, grandparents, a spouse or relative." Correctly naming the trust as the beneficiary of assets (as opposed to the special needs child) is a critical detail. Trustee designations are another important issue, as is the integration of other siblings into the inheritance of other assets as well.



Doing a special needs trust properly can be a lengthy, detailed process, but getting it right is critical. The NU article estimates that some 40% of supplementary trusts are rendered invalid by the IRS because of inappropriately written provisions.

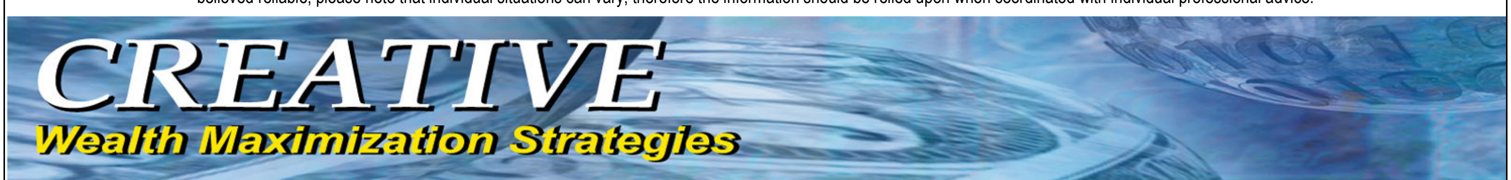
Life Insurance can be a very effective special-needs asset.

Most advisors interviewed in the NU article said life insurance should serve as a primary asset in special needs trusts, for several reasons. First, life insurance is well suited for those who don't have a lot of assets to pass on. Second, designating life insurance as the special needs asset may preserve the value of other assets designated as inheritance for other heirs. Third, life insurance may often receive favorable tax treatment.

Do you know someone who perhaps would benefit from a consultation about a special needs trust?

As Schneider says "…Where there is life, there is hope. I believe that. But I also believe hope is sometimes hard to see. It can sink out of sight, leaving a hole perfectly suited for despair." Knowing there's a good plan in place can go a long way toward alleviating despair. A good plan gives parents a hope that their sacrifices for the children they love will not be undone in the future.

*Representatives do not give legal or tax advice. You should consult with an attorney about any trust or legal document.



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