The Pirates of Manhattan: ***Systematically Plundering the American Consumer & How to Protect Against it*** by Barry James Dyke

If you now put money into a 401(k), 403(b), IRA or Roth IRA, you are more than likely investing in mutual funds. I believe that anyone investing in mutual funds should read this book.

The author had done extensive research in the ten years prior to the publishing of this book, as is obvious by the detail of the statistics presented. He suggests that in the absence of guarantees, most financial products fall apart and fade away. No one knows what the stock market will do, not even the professionals who manage money. The concept that mutual funds offer a surefire road to wealth is an absolute hallucination.

The Federal Reserve System, banking, finance, academia, securities and mutual funds sectors are what he calls '***the Pirates of Manhattan.***' He suggests that the insurance industry, which is a financial industry as much as a bank or mutual fund, is actually a business with a great deal of integrity and financial stability and comes out smelling like roses in comparison to the *Pirates*.

Through historical, mathematical, and economic research and analysis over a number of years, the author discovered that the best and safest products, which worked consistently for consumers without government subsidies over an extended period such as one's entire life, were the financial products that only came out of the life insurance industry because they had contractual guarantees. In fact, our entire Social Security and defined benefit pension systems grew out of the actuarial science and discipline of the life insurance industry. Banks, mutual funds, security firms – they are no match to the life insurance industry when it comes to managing economic risk.

The purpose of the book, according to the author, is to give the consumer meaningful and factual background information as to why they should consider taking at least a portion of their hard-earned dollars and put them with a life insurance company first, instead of placing their money in a bank, mutual fund or other financial intermediary. He does this very well and because the author provides so much critical information to help the reader do what is best for him or herself, it is a very difficult book to summarize. I have done my best to select key information that you should know, but obviously, the best way to get it all is for you to read the book yourself. I have a supply of books just for the purpose of providing them to people who want to read the book. Just ask me for one.

In the chapter on **'the Casino Age'** he reminds us that speculating and gambling has always been a part of American culture, but it is hard to remember when it was so prevalent throughout our society. Everyone appears to be trying to get something for nothing. The media lathers us up at the behest of Wall Street. Like casino gambling, the only consistent winners in the end are the casino owners.

In the chapter on **'Deregulation, De-Supervision, and Plenty of Subsidies'**, he reviews the history of deregulation in financial services, particularly in the banking and securities industries over the past twenty years. One example that shocked and amazed me was what Citibank did in 1998. First, understand that in 1933 congress passed the Glass-Steagall Act designed to separate commercial and investment banking interests. They concluded that the collusion of these two industries were a major contributor to the crash of 1929 and the Great Depression. In the intervening 66 years the consumer was protected from this type of collusion. In spite of this law Citibank, in 1998, decided to merge with Travelers to form Citigroup. This new company was the largest financial conglomeration of all time, the largest coming together of banking, insurance and securities interests – when legislation still on the books said it was **illegal** to do so. They basically said – to heck with it, let's do it anyway. Moreover, they pulled it off with the blessings of the President, Bill Clinton, and Chairman of the FED, Alan Greenspan, and the Secretary of the Treasury, Robert Rubin. Shortly thereafter, in 1999, the Gramm – Leach – Bailey Act was passed – completely repealing the former Glass Steagall Act. Now banks, insurance companies and securities firms could affiliate with each other and sell one another's products. This is just one example of the little known facts about how the financial industry has swayed 'deregulation' in their favor (and not the consumer).

In the chapter – **'Never Met a Man Who Made His Millions in Mutual Funds'** is best summarized by repeating some of the quotes from the book.

"The trouble with mutual funds is that they are rewarded for the money they attract, not for the money they earn." George Soros

"I suppose if I were to give advice it would be to keep out of Wall Street." John D. Rockefeller

"The industry has lost its way. We have turned a very good profession into a business which is good for the business but not for the investor." John Bogle, New York Times, Nov 2, 2003

"The sad truth of the matter is that over time the vast majority – approximately 80% - of the mutual funds underperform the overall stock market." The Motley Fool

"Some investors are savvy (or lucky) enough to profitably time the markets – but they are the exception. Millions of investors chase returns after hearing about the markets ups and downs on the six o'clock news and a recent Dalbar study shows that most equity fund investors earn less than inflation as they try fruitlessly to buy low and sell high. Fixed income investors do a little better but still earn less than the index.

Motivated more by fear and greed than intellect, these investors chase market returns to the detriment of their pocketbooks. An update to DALBAR's Quantitative Analysis of Investment Behavior (QAIB) study shows that since 1984, equity mutual funds shareholders have held their funds for a little over two years, and as a result, have earned less than inflation. Investors in fixed income products do a little better but still earn far less than posted returns.
The average equity investor earned a paltry 2.57% annually; compared with inflation of 3.14% and the 12% that the S & P 500 index earned annually for the last 19 years. (after 2008 these numbers are much lower)

The average fixed income investor earned 4.24% annually; compared to the long-term government bond index of 11.7%.
From Dalbar, Inc July 2003 QAIB report

In the book, *Empire of Debt*, by Addison Wiggin and William Bonner they remind us that the greater fool theory is alive and well. They write:
"Wall Street insists that investing is like healthcare; it is not a zero sum game either. One investor does not have to die so that another makes above market gains. We can all get rich. This is like saying we can all be above average. "Rich" is a relative term, not an absolute one…
Over time, all investors are destined to lose money (compared with the general market), for the cost of the Wall Street casino must be paid. Brokers, analysts, deal-makers, financiers, fund managers, account managers – all the financial intermediaries who make up the Wall Street industry – draw salaries and pensions as long as they draw a breath. That money too, must come out of investors' pockets, so that over the long run, the average investor's real return must be lower than the actual return from the investments. And many, including most of the little guys, will eventually lose money…
The typical investor in public markets has no idea what he is doing. Putting his money into a stock or a mutual fund brings him a temporary happiness. He sees himself as Kirk Kerkorian making a bid for General Motors or Warren Buffett shrewdly moving on an insurance company. "I bought Google," he tells his wife. His chest expands. He feels a crown of authority on his head and imagines his most private part growing. For he has mastered the most sacred and all-powerful rite of our time; with a single gesture he has joined the Knights Templar, the Freemasons, and the local country club. His is in. He is with it. He gets it. He is one with all the other swells who make up this wondrous modern economy. He has gone to Wall Street like Sir Galahad to Camelot.
He does not realize the misery awaiting him. Only later, much later, does he discover that he is not a hero, but just a chump – an insignificant speck of dust on Wall Street's white shoes.
The scene would be depressing if there weren't something gloriously comic in it. Wall Street is doing nothing evil; it is merely doing its job – separating fools from their money.

The root of the misconception is the nature of investing, at least that public form of it. The idea of it is that a man can get rich without actually working. All he has to do is put his money "in the market" by handing it over to Wall Street, and through some magic never fully described, it comes back to him 10-fold. He must see his broker as Christians see Jesus at the wedding feast. He casts his dough on the water of the lower Hudson and the East River, and it comes back multiplied into really big money.
There must be some science to it, he imagines, some wisdom that investment geniuses come up with years ago that – like penicillin or quinine - is now available to him. But it is not so. Instead, the whole edifice of Wall Street is built on a hollow wish: that you can get something for nothing." (pp.308-309)

Contrary to the incessant downpour of slick Madison Avenue advertising and endless cavalcades of affluent fresh scrubbed couples smiling about their mutual fund purchases, mutual funds are full of risks as well as conflicts of interests. **While few investors make money in the mutual funds, it is a pot of gold for those who own and manage them.** (bold and underline is mine)

There has never been a straight-line bull market of ten, twenty or thirty years. At best, mutual fund performance is a crystal ball projection like something out of a Harry Potter movie. No one knows what the stock market will do. No one knows what interest rates will be. No one knows how tax laws will change or how much inflation will take away in purchasing power.

When the stock market and mutual funds performance tanks and goes into a tailspin as it did around 2001 (*and as we now know it did again in 2008*), the financial institutions replace the mutual fund mountain charts with circle pie asset allocation charts. Mutual funds, like airplanes, do not operate in a vacuum. Mutual funds must contend with pilot error, headwinds, and all types of bad weather. Like airplanes, investors in actively managed mutual funds will encounter economic headwinds such as manager costs, commissions, market risk, inflation risk, lost opportunity costs, taxes and hyperactive quick-to-pull-the-trigger speculative traders.

John Bogle, founder and former CEO of Vanguard Funds, writes in his book, *The Battle for the Soul of Capitalism* about the mutual fund compensation game.
"In effect, the fund industry operates under an institutionalized system of managers 'capitalism', one so deeply entrenched that it will be difficult to dislodge. An institution with its own serious governance problems and riddled with conflicts of interest is hardly in a preferred position to cast stones at others.
While the shareholder wealth consumed by the managers of corporate America has been far from trivial, the shareholder wealth consumed by the managers of mutual fund America has been enormous. More than one-fifth of the robust annual gross returns generated for investors in the financial markets – stock, bond, and money market alike – during the past two decades has been siphoned off by fund managers. The awesome magic of compounding returns has been overwhelmed by the tyranny of compounding costs. Without a major reduction in the share of the market returns arrogated to themselves by our mutual fund intermediaries, more than three-quarters of the future cumulative financial wealth produced by stocks over an investment lifetime will be consumed by fund managers, leaving less than 25% for the investors. Yet it is the investors themselves who put up 100% of the capital and assume 100% of the risk." (pg xxii)
The average fund manager makes $436,000 for managing other people's money, with the top 10% of fund managers making around $1.7 million per year.

Gretchen Morgenson, in an article in the New York Times on April 16, 2006 called *'Fund Managers May Have Some Pay Secrets, Too,'* talks about the difficulties of getting mutual fund managers compensation.
"Amid all the talk about executive compensation and pay for performance, one group of managers has been pretty much untouched: those who run mutual funds. Pay disclosure for them is scant, because many fund management companies are private and do not need to file pay figures with regulators. Others are subsidiaries of large organizations, and the fund executives are not necessarily among their company's five highest paid people, whose compensation must be detailed…
For most funds, however, the only hint of how much managers receive is the total figure paid by the funds to the management companies that have been contracted to run them. There is no way for shareholders to see the

compensation paid to specific fund manager or even to the five most highly paid executives of the management company.
As such, investors have no way to compare what their fund managers made with how well they performed. That could be eye opening…
Some will argue that money managers operate in a free market and that their pay reflects the demand for their services, plain and simple. But with so many fund customers locked into their funds through retirement plans that are run by their employers, the free market in mutual fund managers is by no means as free as some make it out to be."

The mutual fund business has grown dramatically because of one significant and major trend, which is going on throughout the retirement planning system in America – the decline of defined benefit plans – and a move to 401(k) (defined contribution) plans. These plans were meant to supplement the defined benefit plan, but now because so many of them are disappearing, the 410(k) is being served up as the main course in retirement planning.
In this sleight of hand, investment risk has been removed from the employer and shifted onto the employee. Unfortunately, the costs to manage the money in the defined contribution mutual fund are exponentially higher than defined benefit pension plans, which usually use low-cost independent money managers.

With the defined benefit plan the employee was guaranteed an income for life for the retiree and his or her spouse. With the defined contribution plans [(401(k) & 403(b)] what investors get in the end is anybody's guess. In the absence of guarantees, the total final sum is an Alice and Wonderland projection. Furthermore, what is clearly omitted in these 'projected sums' by mutual fund companies are the final costs an individual would incur such as high management fees to run the fund, market risk, taxes, inflation, and lost opportunity costs.

Regardless of all the problems with over-diversification in mutual funds, another problem with the mutual fund business is that they just do not perform. According to Lipper Analytical Services, the vast majority of funds, around 94% have underperformed the market. Other research confirms this as well. Gary Weiss in *Wall Street Versus America* comments on over all mutual fund performance. Quotes are from Burton G. Malkiel, a well known professor of finance at Princeton University.

"Milkiel's found that in 2003, 73% of actively managed funds failed to beat the S&P 500. The failure rate was just as bad over the long term – 72% over three years, 63% over five years, 86% over twenty years, and (this is the source of the number earlier) 90% over twenty years. The very oldest and most long-lasting funds were generally losers."

From Ed Slott's book, *The* Retirement Savings Time Bomb and How to Diffuse It.
"Having been so busy chasing investment returns all their working lives, they've probably neglected the distribution part of the equation, and thus risk losing a whopping amount of what they've saved to the taxman. As the greatest transfer of wealth in human history reaches its apex in the coming years, there will be an explosion of excessive taxation that will reach epidemic proportions (especially given the population affected), an explosion that will give millions of ill-prepared and under protected American savers like yourself the financial shock of their lives."

The Chapter on **'Life Insurance and the Human Life Value Concept'** is designed to remind us that our most valuable assets is our ability to earn income. In spite of this, we often spend more to insure our cars than we do our lives. He reviews how the courts agree about the human value and reaffirms it with the payment of $6 billion in life insurance benefits to victim's beneficiaries of the 9/11 World Trace Center tragedy. Sadly, the 9/11 Victim Compensation Fund, represents another sign of bail out for two privileged industries, the airlines and New York finance. These funds came out of a bill passed two weeks after the 9/11 tragedies. So the majority of the funds came from the government (*our taxes*), not the insurance companies. Since Feinberg (appointed Special Master of this fund) backed out existing life insurance, it penalized those who had the discipline and foresight to take care of their families. Ironically, many of those who died with multi-million dollar incomes, has minimal personal insurance.

This chapter also does a good job of explaining the differences between a mutual life insurance company and a stock life insurance company. Something that is important when choosing whole life product.

From the chapter on - **'Bank-Owned Life Insurance'** - Permanent life insurance is perhaps the most underutilized and least understood financial product in America today. Unfortunately, knowledge of the product is minimal. Even many employees in the home office where the life insurance is manufactured do not fully comprehend the strengths and economic benefits of permanent life insurance.

However, one segment of the nation's economy completely understands the economic value of high cash value permanent life insurance as a golden asset. This section of the economy is arguably the strongest and most potent force in the entire economy. This section controls everything – how much you pay for your car, how much you pay for a mortgage, how much you pay in usury credit cards – it is the ***<u>nation's banks</u>***, particularly large money center commercial banks.

Banks by permanent life insurance by the tractor-trailer loads. Banks own so much that the cash values on their balance sheets actually make them look like life insurance companies unto themselves. Banks buy high cash value life insurance for a variety of reasons, including funding bank executive and director supplemental pensions, healthcare costs and other employee benefits; to improve the income statement; to enjoy tax benefits, and to strengthen the financial stability of the bank.

Let's face it; banks are in the *money* business. Banks have immense resources. They have legions of economists, analysts, attorneys, and accountants to help each bank *maximize the efficiency and economic output* of its money. These professionals must make sure that the money within a bank is working as hard as it can with the maximum amount of safety. Banks would not purchase billions of life insurance lightly. It would be foolish to think otherwise. Banks buy a great deal of life insurance **<u>because it provides immeasurable economic benefits, financial stability, and safety – which is superior to the banks themselves.</u>** (underline and bold is mine)

According to the FDIC's research 4,082 of the nation's commercial and savings banks owned bank-owned life insurance (BOLI) in 2006. As of December 31, 2006 the aggregate cash surrender value in these policies was an astounding $106.825 billion where as at the end of 2004, it was only $65.8 billion. In 24 months they had increased their holding by $41.02 billion, or a 62% increase over 2004 (I wonder if they knew something we didn't).

Tier One capital is at the very core capital of all banks. It is the bank's bedrock, its foundation and structural steel. The larger the Tier One capital, the stronger the bank in times of adversity and to support other balance sheet assets, and a strong Tier One is what all banks strive for, since this asset determines how much money they can lend to the public. This is the bank's lifeblood.

As one would imagine, Tier One is comprised of very safe assets such as cash, gold bullion, loans guaranteed by the federal government, and balances due from the Federal Reserve Banks. Cash value life insurance is a fundamental component of Tier One capital. See attached copy of top banks and how much of their Tier One capital is in Bank owned life insurance (BOLI).

Don Blanton, President of MoneyTrax and one of the leading authorities on life insurance and financial planning in the United States, was at his residence in New Orleans during Hurricane Katrina, one of the greatest natural disasters this country has ever seen. Property damage as we know was of an incredible magnitude. Don gave permission to reprint part of his 2005 fall newsletter. It illuminates the benefits of having cash value equity in your life insurance instead of a home.
"I could never have anticipated the impact of Hurricane Katrina. We have been in the paths of hurricanes many times but never dreamed a hurricane could change our lives forever. I have believed in the conviction that cash value is more valuable than home equity and have preached that message for over twelve years now. I have encouraged my clients over the years that having their home paid for is a desired position but doing so in a way that gives up liquidity, use and control may not be the best way to reach that goal. My personal opinion is that when you have cash value equal to your

mortgage balance your home is paid off. Having the money to write the check if you desire is most comforting. It is not necessary to have your home paid off. You need the money.
Hurricane Katrina has further solidified my personal convictions about where one's money should be located. I have clients on the Gulf Coast that lost everything in the storm. "Everything" is hard to imagine. You can't. If you could have heard the phone calls of some of my clients and their tears and cries, you would have a better idea. Those who had their homes paid for are in for a rough time working with insurance companies and talking to attorneys trying to get back to square one. Property values most likely will not get back to pre-hurricane values even when the home has been replaced. In any case, it is going to take years. They had no mortgage, but now they have no money and many have no job. The entire equity is in the hands of the insurance adjusters. Many have been offered checks much less than what it will take to rebuild. Many have taken the money today in an effort to move on with their lives even at a loss.
Clients who had their equity in cash value had a much different reaction to their tragedy. Their mortgage company has frozen their payments due and even waived payments until the first of the year on homes in the area. Even on homes that were not affected. Meanwhile, they have access to their cash value. They have secured loans on their contracts to put a down payment on a new home to live in until they receive their insurance settlements on their damaged home. This has provided a seamless opportunity to get their families and jobs back on track. They will one day sell the home they are in today, pay off the loan balance on the insurance policies and return to their original home. Those who did not have access to their money were not able to move fast enough to purchase the few homes on the market and available.
I have had clients who have used the money in their contracts to start side businesses related to the clean up and reconstruction while their current businesses are suffering. I have a physical therapist that has no clients to see so he started up a stump grinding business to make ends meet until his clients come back to town. I have a dentist who is driving a tractor-trailer to the dump to remove debris from all the trees that have been blown down. He said he is starting his practice all over again with just a few people to see each week. People have moved to get their children in school and may not be back until Christmas, if at all.
*I am more convinced now than the day I got in the insurance business**. Insurance is the greatest product ever invented and cash value is much more valuable than home equity.*** *If you do not believe it, come to New Orleans or the Gulf Coast of Mississippi and try to tell folks who have lost everything who thought having their home paid off is a safe position."* (bold and underline is mine)

NOTE: Don Blanton is the creator of the question that I often ask: ***"if what you thought was true turned out not to be true, when would you want to know?"*** Especially if it affected your financial future.

High cash value life insurance has many characteristics more common with banking than life insurance as we traditionally think of it. Maybe that is why banks buy so much of it. However, when you analyze where your cash must reside, and your cash must reside somewhere, a whole life policy is in so many ways a superior warehouse, perhaps the best warehouse within our economic system. Again, you would be receiving these benefits simultaneously:

- The money is being professionally managed *(by conservative long term actuarial planners)*
- There are guarantees on the money higher than a checking account
- There is additional interest on the money in the form of dividends
- The money growing within the policy is not being taxed like a bank
- You have access to your money
- There are death benefits in case someone dies and disability benefits to fund the program if someone becomes disabled
- Depending on the state of residence, there are various protections on death benefits, disability benefits, and cash value in the case of lawsuits, bankruptcies, etc.
- Life insurance is an engineered system designed to accept additional deposits. It is the ultimate holding tank for money, yet you are not locked out of an account because of government regulations.

Credit is the lifeblood of a family and a business. Once you understand the mechanics of permanent high cash value life insurance, you will understand that the product can become your own bank or the infrastructure of your very own finance company. Life Insurance loans provide certainty in a very uncertain world.

Today the average American forks over about thirty-five cents of every dollar in interest costs paid to some bank or finance company. If we have a system to pay back that interest to ourselves versus a finance company, we will obviously become much wealthier.

When we have a large pool of accessible capital under our control, we become more confident and financially stronger because we are not dependent on a third party for approving our credit. When we are not dependent upon a bank, we can be better negotiators. When we have a pool of capital under our control, we *can act* on an opportunity versus *reacting to* an opportunity.

In Summary:

Permanent life insurance, particularly dividend – paying whole life insurance (from a mutual company), is one of the rare financial products that is guaranteed to accomplish exactly what it was intended to accomplish. I know of no other financial product that can say that.

The primary reason why dividend paying whole life insurance has worked well throughout the years is that it is not based upon stock market returns, the latest fad or consumer hype. In 2008 not one owner of a whole life policy lost money in their policy.

Obviously, we believe that every family should have a whole life policy at the foundation of their financial house. We can help you 'find' the money to start one, or if you already have one now, we can help make sure that is funded to benefit you and can be used as a banking tool.

NOTE: We can provide you with a 12-minute video on *'The Private Reserve Strategy'*. You can download our '*Private Reserve White Paper'* from our magafinancial website along with other related book summaries that apply to this unique concept.

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Total Bank Owned Life Insurance (BOLI)

Institution	Capital Assets/$Billions	BOLI Assets/$Billions	% of Tier One of Bank
Bank of America	$95,348	$14,402	15%
Wachovia	$32,919	$12,874	39%
JP Morgan Chase	$68,726	$ 7,874	10%
Washington Mutual	$21,081	$ 4,285	20%
Well Fargo	$29,191	$ 3,693	12%
Citibank	$59,860	$ 3,281	5.4%
U.S. Bank, NA	$12,359	$ 3,241	26%
Keybank, NA	$ 6,809	$ 2,602	38%
Branch Banking	$ 8,075	$ 2,381	29%
Bank of New York	$ 5,474	$ 1,721	31%
Sovereign Bank	$ 5,023	$ 1,717	34%
PNC Bank	$ 6,159	$ 1,617	26%
National City	$ 8,382	$ 1,565	18%
Regions Bank	$11,095	$ 1,253	11%
Harris National	$ 3,297	$ 1,155	35%
Huntington National	$ 1,989	$ 1,115	56%
M & T Bank	$ 3,355	$ 1,074	32%
Bank of the West	$ 4,551	$ 1,046	23%
LaSalle – Chicago	$ 6,542	$ 985	15%
LaSalle – Troy, MI	$ 3,803	$ 660	17%
Fifth Third – Cincinnati	$ 5,300	$ 906	17%
Fifth Third – GR	$ 5,341	$ 1,402	19%
TD Bank North	$ 2,433	$ 791	32%
Comerica	$ 5,649	$ 854	15%
Mellon	$ 2,103	$ 772	36%
Marshall & Ilsley	$ 3,192	$ 730	23%
First Tennessee, NA	$ 2,489	$ 576	23%
Sun Trust	$12,856	$ 564	4%
RBC Centura Bank	$ 1,889	$ 547	28%
NY Commercial Bank	$ 1,735	$ 525	30%
Compass Bank	$ 2,350	$ 474	20%
Colonial Bank	$ 1,536	$ 473	31%
North Fork Bank	$ 3,886	$ 434	11%
Associated Bank – WI	$ 1,457	$ 411	28%
Astoria – NY	$ 1,415	$ 385	27%

Note: Some of these banks don't exist today due to mergers and buyouts that have occurred in 2008 & 2009, but the BOLI assets moved to the new bank entity.