The Pirates of Manhattan – *Highway to Serfdom*

By Barry J. Dyke (book highlights)

This is Barry's follow up book to his popular *"Pirates of Manhattan – Systematically Plundering the American Consumer & How to Protect Against it". (You can read my summary review of that book at www.magafinancial.com)*

Barry spent 10 years researching and writing his first book and it was certainly an eye opener regarding how Wall Street, Banks, Investment Banks, securities and mutual fund industries (The Pirates of Manhattan) were profiting from our use of their products. How we have lost control of our money and the only ones making money seemed to be the people who running the 'Pirates.'

In this new book his focus is on how these same 'Pirates' are hijacking America's savings with target-date mutual funds. Wall Street is after your retirement account for their gain. Yet for some reason, they don't use these same funds for their own retirement.

Wall Street does not want informed people capable of critical thinking to make important financial decisions with regard to their savings. They want us to believe they are wise old men who are prudently looking after our money. They want you to embrace their perennial optimism that the stock market is always efficient, and that the only place to warehouse your savings is stock mutual funds they manage for your 401(k). In reality, Wall Street and the asset management industrial complex, which he calls 'The Pirates of Manhattan', are wolves in sheep's clothing. The truth is much different from what they would like us to believe.

Your 401(k) has become an object of Wall Street's affection. Wall Street has created target-date funds and is touting them as the best way to invest for your future (default for most 401(k)s). In reality these target-date funds are highly complex, impossible to understand (not one person in a thousand can understand them), have no guarantees, and have performed poorly. Target-date mutual funds are now the most popular and favored default investment for the nation's retirement plans and a major growth area in the asset management/mutual fund industry.

With government sanctions, asset managers and Wall Street have been given an annuity income stream for life. These funds picked up tremendous momentum with the *Pension Protection Act of 2006*, which gave the mutual fund/asset management industry three valuable gifts.

The first gift was *automatic enrollment* into 401(k) plans, guaranteeing mutual funds additional trillions to manage and billions in new fee revenue.

The second gift was to make target-date mutual funds the *most favored* default investment choice. Through lobbying, the mutual fund industry effectively kicked out competition from the life insurance industry and other successful conservative managers of economic risk.

The third was the Department of Labor *exempting employers from any legal liability* in case the target-date mutual fund blew up – which they did in 2008.

Now the name of the game is getting assets under management. With target-date funds, as long as they get the assets, the financial institutions will make money and cannot be sued regardless of investment performance.

Maximizing a retirement plan such as a 401(k) looks great on paper and it would work in an imaginary Alice in Wonderland world where there are no taxes or market risk. However when you factor in the inevitable real world of market risk, management fees, inflation, trading costs, taxes and lost opportunity costs of the money within that retirement plan, the 401(k) falls apart. The 401(k) plan was originally meant to be a side dish of retirement savings, but today it is served up as the main course.

The author provides a very interesting chapter on the media and its truth decay. How the media industry is in sad shape and has an unhealthy, codependent relationship with Wall Street, banks, and the mutual fund industry. Financial gurus such as Suze Orman, Dave Ramsey and Jane Bryan Quinn are unfortunately misinforming the American public about mutual funds. They are shills for Wall Street. You will never see any serious consistent journalism criticizing the poor returns or risks inherent in mutual funds. They refuse to publish anything that illuminates the level of corruption within the mutual fund industry – its advertiser base.

Note: Orman, then 55, admitted that she had built a fortune of about $32 million and earned anywhere from $3 and $5 million annually. She also admitted that 75% of her assets were tied up in zero coupon municipal bonds (paying her 4.5% tax-free interest per year). Only a tiny portion of her wealth, about $1 million, is in several stocks and mutual funds. But she recommends that everyone put most of their money in mutual funds – kind of makes you wonder.

Orman has an ongoing jihad against permanent cash value life insurance – something that has worked far longer than mutual funds. On her website she make her feelings very clear. She hates whole life insurance. She hates universal life insurance. She hates variable life insurance. She only likes term insurance.

Those who have helped make her a national celebrity do not follow her advice. She is a spokesperson for the FDIC (Federal Deposit Insurance Corporation). The banks Orman is a spokesperson for invest in cash value life insurance in a big way. How big? By the end or 2009, the total amount of bank-owned cash value life insurance reached $135 billion of cash surrender value, meaning the death benefit proceeds to banks were roughly $675 billion or about 5 times the cash value amount. Kind of makes you wonder.

This is epitomized by the proverb by Will Rodgers *"Wall Street. What goes up must have been sent up by somebody."*

Here is one example of his research. *Money (a Time Warner magazine),* the perennial cheerleader for the mutual fund industry, in a March 2009 special report – after the stock market had lost 50% of its value in 2008, after the DOW Industrials have lost more than 47% of their value (one of the worst drops in the index's 113 year history) – continued to tell consumers to plow their money into their 401(k)s. What *Money* purposely neglects to tell consumers is that between 2000 and 2010, according to the Investment Company Institute 2010 fact book, *3,250 mutual funds were liquidated, and another 3,321 were merged out of existence.*

Time Warner stock in June of 2008 was at $60 a share. Today it hovers around $34 a share. Should we be taking investment advice from a company that has lost close to 45% of its share price? Of course, the mutual fund companies are big advertisers in these publications.

Interestingly, while this was happening, the Time Warner executives were still doing very well. Jeffrey Bewkes, CEO, made $13.85 million in 2009, John Martin, CFO, made $4.25 million and Paul Cappuccio, General Counsel, made $3.8 million.

Time Warner magazines are Jekyll & Hyde publications. In October 19, 2009, *Time* magazine, its flagship, did a cover story entitled *"Why It's Time to Retire the 401(k)".* That article went into great depths to explain to consumers' the massive losses of stock market investments. Among its recommendations to fix the problem: use of annuities and guaranteed accounts – the complete opposite of what was recommended by *Money* and *Fortune. (copy of above article on our website)*

The two chapters on 'what the elite do' and 'the plunder continues' are really eye openers. Some examples include:

A main reason for the growth of the 401(k) is that corporate America wants to limit and divert benefits for rank-and-file employees so they can immensely enrich executive insiders. The 401(k) business is also a highly lucrative business for the asset management industrial complex – an industry that consistently creates profits for itself more reliably than for its customers.

Roughly 400 large public companies terminated their well funded or over funded pension plans for the less favorable cash balance or 401(k) plans. These type companies tinkered with pension obligations and trust funds to inflate earnings, reduce corporate contribution, and increase executive compensation.

For highly compensated CEO's, the average compensation in 2010 for the top 350 companies in the US was **$9.3 million**, according to a review of proxy statements by the Wall Street Journal and HayGroup, up 11% over 2009. Corporate executives' retirement plans could not be better. Examples include:

Sam Palmisano's (IBM) retirement package at age 65, according to regulatory filings, will be *$3.2 million a year*. He is the one who froze pensions for 117,000 employees in 2006 citing pension costs, volatility and unpredictable markets. Of course, this didn't hurt his retirement plan.

How about the banks? Large commercial banks in America are largely inept in making real products with solid profits over extended periods of time – and would not exist today without taxpayer bailouts, central bank interventions, implicit government guarantees, and mutiny over the shareholders they were suppose to serve.

But banks are one huge compensation scheme for its executives. According to data from the latest five years of filings with the Securities and Exchange Commission, bankers extracted an astonishing **$2.2 Trillion** in total compensation. This is a massive transfer of wealth from the American economy to the personal accounts of bank executives. If this trend continues over the next decade, this could result in the transfer of **$5 Trillion;** money which could be spent on roads, schools, and other projects of value.

The point is that the elites make Olympian paydays but much of their compensation has minimal risk (cash which is irrevocable). When they retire they receive guaranteed pensions, all economic risks have been transferred to their employer, the shareholders, or the taxpayer. These pension agreements are employment contracts, usually ironclad agreements. No 401(k)s for these people.

In the case of corporate executives, when corporate boards don't hold management accountable, much of the executive's compensation is stock-based, which can be manipulated for short-term results. Companies are often managed recklessly for short-term results to get the stock price up. One of the best examples of this is Enron in 2001. In court documents filed in 2002, it was found that before Enron collapsed, it paid out $744 million in salary, bonus, and stock grants to 144 executives for an average of $5.3 million each.

Finally, high-paid executives, bankers, as well as workers in the federal government and the Federal Reserve, all prefer sure-thing, guaranteed savings plans, while the vast majority of American workers are thrown under the bus with speculative mutual funds in general and target-date funds in particular.

So it seems that the 'Pirates' who run finance and oversee the American Empire, namely the federal government, the Federal Reserve, and the nations banks, do not speculate a majority of *their savings* in actively traded mutual funds.

A tremendous amount of research went into providing the material for this book. He goes into great detail, and provides example after example, in backing up his hypothesis. If you want to be an independent thinker and not depend on LUCK for your retirement, then both of his books are a must read. You can got to his website at www.piratesofmanhattan.com to order your copy. I have a copies of both you can borrow if you don't want to buy them. Just give me a call.

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