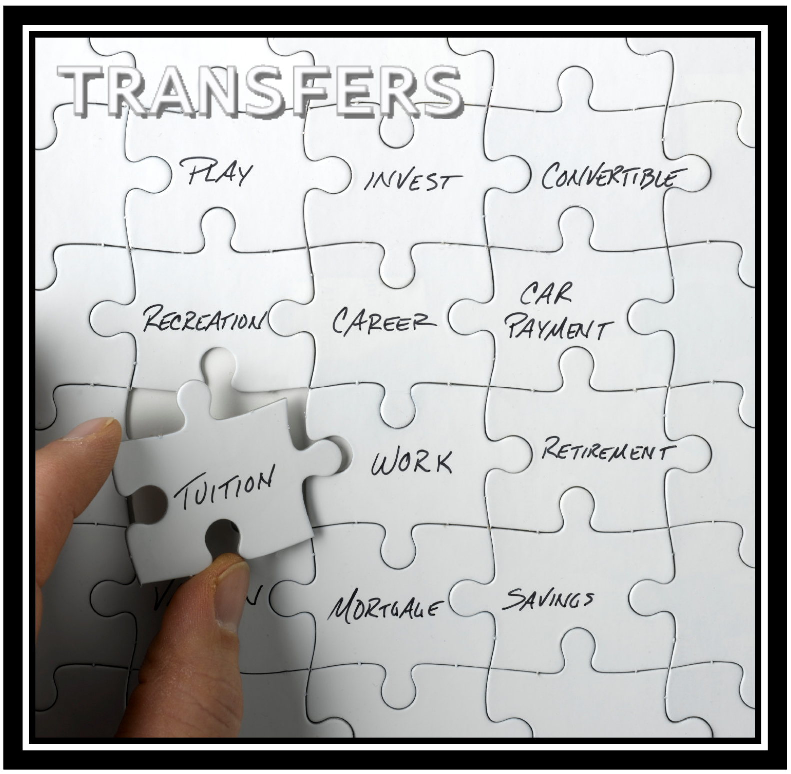
Wealth & Wisdom
INSTITUTE

ELIMINATING LOSING FINANCIAL STRATEGIES



Transfers

The Evolution of Transferring Your Wealth Away to Those Who. . .
Create Situations,
Control the Outcomes. . .
And Profit From It

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Major Transfers Of Your Wealth

In your everyday existence, you are confronted with transfers of your wealth. You continuously, unknowingly and unnecessarily, give or transfer money away. Not only do you give this money away but you also lose the ability to earn money on that money once it is transferred. This compounds your loss. To eliminate or reduce these transfers, you must first learn to recognize them and then understand how directly or indirectly they cost you money. You may have to confront conventional financial wisdom. Remember, the ones giving you these financial programs tend to profit from them. Always ask, who would profit from these transfers? Here is a list of the transfers of your wealth we will be discussing:

- Taxes
- Qualified Retirement Plans
- Financial Planning
- Disability
- Credit Cards
- Tax Refunds
- Owning A Home
- Life Insurance
- Purchasing Cars
- Investments

These ten transfers can create financial losses for you. You should study each one and determine how they will affect you. On the surface, the transfers seem pretty basic. It is not until you think a layer deeper that you find that these transfers may cause unintended consequences in the future. The future demographics of the country will affect everyone's financial future.

Financial Planning

The American public is bombarded by the media, bullied by sales people and bewildered by the things it feels it needs to know. When it comes to finances, this is the confusion most people face. A lot of the conflict is created by several industries trying to profit under the guise of trying to help people financially. They provide product and or services, both of which are for sale. Banks, investment firms, insurance companies, money managers, brokers, financial planners, lawyers and accountants, all want your financial attention. All profess to have all the solutions to all your financial concerns. Who's right and who's wrong?

Most of these industries will try to convince you that the competition is inept, incompetent and incomplete. The best defense is a good offense and these industries are very busy trying to dismember their competition in front of potential clients. You can cut their arrogance with a knife. Don't get me wrong, there are a lot of highly skilled professional people out there, but they find it impossible to think beyond their own industry. A lot of their training and background will narrowly point their clients in one direction. If anyone suggests anything other than that one direction, they will be labeled as crazy. Thus, the confusion!

All of these industries are motivated by one thing. Money, more specifically, YOUR MONEY! These industries make money via fees, commissions, management and expense charges. They will always profess that "the other guy is ripping you off." It is disappointing and unprofessional that the people in this industry are willing to put the client (you) in the middle of these arguments.

You must find someone who knows and understands transfers of your wealth. If you don't, these groups will be simply asking you to give up some of your standard of living to fund their projects and programs. Without knowledge, you will remain bewildered.

Remember, these industries and salespeople believe that there is only one way to make your money grow: Through higher rates of return. Again, when chasing higher rates of return, who is the one at risk, you or the one making the recommendation? In a down market, who wins, you or them? If you discover transfers of your wealth and reduce them, your wealth would grow regardless of market performance. I call that growth internal savings. Let's take a look at some different types of planning and savings concepts available to the public, compared to internal savings.

INVESTMENT FUND [IF]

$80,000	Deposits
$ 6,000	Earnings
$ 4,800	Earnings After Taxes
Yes	Fees

BANK SAVINGS [BS]

$150,000	Deposits
$ 6,000	Earnings
$ 4,800	Earnings After Taxes
Yes	Fees

INTERNAL SAVINGS [IS]

$ 0	Deposits
$6,000	Earnings
$6,000	Earnings After Taxes
No	Fees

IF

In interviewing financial professionals, you are looking for someone who could best fulfill your financial needs. First, the investment fund (IF) salespeople say you could earn $6,000.00 in one of their accounts. You would have had to deposit $80,000.00 in the account. Unfortunately, you would have to pay capital gains tax on the growth and you would end up with net earnings of $4,800. There may also be advisory fees and account fees, based on your account balances and the type of account it is.

BS

Banks also want your business, so they introduce you to their bank savings (BS) programs. The bank says it too could get you a $6,000.00 return. All you would have to do is to put $150,000.00 into their handy dandy CD account. Of course, you would have to pay tax on your earnings, leaving you with about $4,800.00. There may also be some fees charged annually to maintain this account, in addition to penalties if you want or need to withdraw some of that money before its maturity date.

IS

Now I come along and tell you about internal savings (IS) and teach you about transfers that you unknowingly and unnecessarily make every day. I say I can also get you a $6,000.00 return. The big difference is, you don't need to deposit any money in any account. Even more rewarding, there will be no tax on your gain and no fees or penalties involved. Finally, the coup de grace: This is the only program where the $6,000.00 is guaranteed.

Now ask yourself: Do you want your financial future based on IF, BS, or something you know IS going to happen? Internal savings, by reducing transfers, also teaches the lessons needed to end the confusion that all the financial industries create. Remember, someone earning $75,000.00 a year, saving $5,000.00 of that income, would have $70,000.00 in residual income to pay all their bills and taxes. If you could internally save 1% of that $70,000.00, you would create a 14% increase on your $5,000 savings, with no market risk, fees, penalties or spending one more dime out of your pocket. Does this sound like the type of financial advice and planning you would like to pursue?

In the comparison, you will notice that by utilizing internal savings and reducing transfers, you can increase your lifestyle and standard of living money. You may also be able to enhance your own "banks" and create more liquidity, use and control of your money, in addition to benefiting from significant tax savings. Converting transfers to internal savings will bring about that defining moment in the way you think about money.

As I stated previously, I don't believe the way in which financial planning is being sold to the American public. There are good people out there to help you, but finding them is the trick. Measure them on their experience and knowledge. Make sure they surround themselves with other professionals and specialists and preferably you were referred to them by someone you know and trust. Find someone who continues the process of teaching you financial techniques you need to know and can use.

Internal Savings: An Example

We have talked about transfers of your wealth and how they affect you. Let's take a look at how learning about dealing with transfers, and recapturing transferred dollars could change your life.

Let's take a 40 year-old woman who was totally depressed about work, saving money, and spending money. But her main concern was she wanted to create the best possible learning atmosphere for her daughter by sending her to a private school. The problem was that in her current lifestyle, she felt there was no way she could afford the $450.00 monthly tuition needed to enroll her daughter in private school. After all, like most households, there was no EXTRA MONEY left over at the end of the year to do anything. Look up "EXTRA MONEY" in Webster's dictionary. It doesn't exist.

I told her that I believed it was possible to send her daughter to that private school WITHOUT her spending one more dime than she was already spending. Her look of disbelief told me that she had gone through her share of other planners' quick fixes. I could sense her reluctance but assured her that she would experience a defining moment in the way she looked at her finances. I told her that after one meeting she would learn more about finances than she had her entire life, and with this knowledge she could enroll her daughter into the private school without spending any more money. She said "Prove it!" So I set about doing just that.

Her Stats

- 40 years old, single mom, divorced
- One child, 11 year old daughter
- $45,000 gross income per year
- Homeowner 30 year mortgage at 7%
6 years left on mortgage

Her Initial Goal

- Enroll her daughter in private school, now through high school (7 years)
- Get control of her finances
- Maintain current lifestyle

Her Problem

- There was no money after taxes to do this.

HER BASIC LIFESTYLE	
Home Value	$180,000.
Mortgage Balance	$ 60,000.
Home Equity Value	$120,000.
401(k) Balance	$ 50,000.
Mutual Funds	$ 20,000.
Bank Savings	$ 10,000.
Average Annual Tax Refund	$ 4,000.
Credit Card Debt	$ 3,000.
Car Debt	$ 11,000.

Upon seeing these figures, I knew she could improve her situation greatly. But, her concern was there was no money left at the end of each month. I told her we would take a look at her monthly outlay, and possibly, we could find some answers there.

HER BASIC LIFESTYLE		Monthly Payment
Home Value	$180,000.	
Mortgage Balance	$ 60,000.	$1,000.
Home Equity Value	$120,000.	
401(k) Balance	$ 50,000.	$ 400.
Mutual Funds	$ 20,000.	$ 100.
Bank Savings	$ 10,000.	$ 0.
Average Annual Tax Refund	$ 4,000.	$ 0.
Credit Card Debt	$ 3,000.	$ 150.
Car Debt	$ 11,000.	$ 350.
MONTHLY OUTLAY		**$2,000.**

While I could see the problem, she couldn't. First of all, she was convinced by her parents and the mortgage lender to reduce her debt on the house as fast as she could. You need to know the folly of paying off one's house prematurely. Next, her accountant told her to put almost 10% of her salary into her 401(k), despite the fact that her employer matched only 5% of her salary. You also need to know that the tax savings in these qualified plans may not be real, but only apparent. Finally, the last financial planner she talked to convinced her that all her problems could be solved by investing $100.00 a month into a mutual fund. Overall, her debt seemed relatively average.

Start Thinking

What I really needed for her to do was to start thinking. She said, "See, I'm laying out $2,000.00 a month, and that doesn't cover food, clothes and what little luxuries we have." She was afraid if anything happened to her, she could lose everything. She was right. I saw that her fears had crippled her from making necessary financial decisions.

She needed to look at things from a different perspective. The next few minutes would be critical. I said, "Ok, we know what your monthly payments are, but what is the rate of return on the equity in your home?" She looked at me sort of puzzled and said, "Well the value of my house has gone up, but I don't know the percentage." I told her she was correct, the value of her property did go up. I asked her whether her property value would have gone up whether she had $1.00 or $120,000.00 of equity in the house. YES, it would have gone up. The question again was regarding the rate of return on her home equity of $120,000.00? The answer is ZERO!!!

LIFESTYLE			
		Monthly Payment	**Rate of Return**
Home Value	$180,000.		
Mortgage Balance	$ 60,000.	$1,000.	
Home Equity Value	$120,000.		0%
Home Down Payment	$ 30,000.		

I asked her, "Remember putting that $30,000.00 down on your home at purchase? Well, what has been the rate of return on that $30,000.00?" She looked at me quizzically asked, "Zero?" I said, "My, you're getting smart. You're right, there is no rate of return on that money." At this point, I had to ask her one more question. "If you needed that $30,000.00 for an emergency, could you borrow it from the bank?" She just stared at me. I said, "No, because it's not part of the mortgage."

LIFESTYLE			
		Monthly Payment	**Rate of Return**
Home Value	$180,000.		
Mortgage Balance	$ 60,000.	$1,000.	
Home Equity Value	$120,000.		0%
Home Down Payment	$30,000.		0%

Lifestyle Savings

I continued by asking her about her savings, and I congratulated her on her attempt to save money. She had money accumulated in the bank, in a 401(k), and in mutual funds. When I asked her how she felt about her savings, she said she felt confused and troubled. She said it seemed she wasn't making much headway. I told her that she was not alone and this market confounded even the so-called experts. Over the past several years, she had received the standard professional advice, "Keep doing what you were doing, it will get better." I asked, "I know you're putting in $400.00 a month into your 401(k), but what has been the average rate of return on it over the last several years?" She sighed and said, "I've lost money or gained very little." She also stated that her mutual funds produced results just like her 401(k). I congratulated her, and she laughed and said, "But I'm getting 2% return from my bank." It was time to celebrate.

Hope For Recovery?

I told her, as funny as it might sound, she was in a good position, and she just didn't know it. Let's take a look at her money and see.

LIFESTYLE			
		Monthly Payment	**Rate of Return**
Home Value	$180,000.		
Mortgage Balance	$ 60,000.	$1,000.	
Home Equity Value	$120,000.		0%
Home Down Payment	$ 30,000.		0%
401(k)	$ 50,000.	$ 400.	6%
Mutual Funds	$ 20,000.	$ 100.	6%
Bank Savings	$ 10,000.	$ 0.	2%
Annual Tax Refund	$ 4,000.	$ 0.	0%

She said, "I don't see anything good here." I told her between her home and savings she had invested a total of $230,000.00. If you look at her rates of return, anybody would be depressed. I asked her, "Did the people handling your accounts at the bank or investment company ever call you to try to help you?" "NO," she said firmly. "Did you call them?" "NO," she said.

"One more thing," I added, "What was the rate of return that the government gave you for that overpayment of taxes you sent them?" She said, "Let me guess, ZERO?" Yup! I looked at her and said that her debt was in line with her income. I asked her, "Are you ready to save some money so you can put your daughter in that private school? Let's get to work."

Home Sweet Home

First, I reviewed how she was dealing with her mortgage. She had a $60,000.00 balance on her mortgage. Her $997.95 monthly payment carried a 7% interest rate. If it were possible to refinance that $60,000.00 to a lower rate, let's say 6.5% for 30 years, her payment would be $380.00 per month. That's a $620.00 per month difference in what she was currently paying. $620.00 per month at 7% for 6 years would accumulate to $55,602.00 at the end of her 6th year in her 30 year mortgage. Her balance in that mortgage at that time would be $55,319.00. She would also pick up about another $6,000.00 in mortgage interest deductions during that time. I then asked her if she could use an extra $620.00 a month. She didn't have to think about that one.

Future Concerns

I told her that she might feel content just refinancing her house. The $620.00 per month was more than enough savings to put her daughter into her school of choice. But, she wanted to continue to see what else could be done. So we looked at her attempts at saving for her future. She had a 401(k) into which she was depositing $400.00 per month and her employer was matching these savings up to $200.00 per month. She had experienced fluctuating returns on this account for the past several years. I told her that I had reservations whether a 401(k) would create real tax savings in the future for her. By reducing her 401(k) contribution to the matching amount, she would save an additional $200.00 per month. As for the mutual funds, I advised her to stop investing $100.00 per month for now. This money could also help fund her daughter's education for that seven year period.

She said, "That sounds good, but what will happen to my retirement savings?" I told her that if she added no more money to her 401(k) and received an average of a 7% rate of return, it would grow to $286,270.00 in 25 years. Also, should she continue to deposit $200.00 per month in addition to her employer's match, at 7% that monthly amount will grow to another $325,918.00 by the time she reached age 65. Those two amounts add up to $612,188.00 in her 401(k). In addition, without depositing any further funds, the mutual funds at an average rate of return of 7%, would grow to $114,508.00 by age 65. Total all that up and it comes to $726,696.00 at age 65. I told her that these are not guaranteed returns and the amounts used in my example could vary dramatically. However, with $726,696.00, she could live on $60,000.00 at 7% for 24 years and that's not including social security, if it's still around at that time.

Spending Down An Asset

She seemed less depressed as we talked. I asked "Have you ever spent down an asset?" She didn't know what I meant so I explained, "If you took the $10,000.00 you have in the bank and withdrew $150.00 a month until it was gone, that would be spending down an asset. How long would it take for that money to be done?" She shrugged her shoulders. I told her that at 7% it would last 7 years. "Isn't that the number of years you need to fund your daughter's education?" She shook her head, YES!

Tax Exuberance

Now, of all the things that are misunderstood, receiving a large tax refund every year takes the top prize. Remember, the government isn't paying you any interest on this money. That $4,000 refund represents $333.00 per month out of her pocket. When I told her that it was almost enough to make her car payment, she said she never thought of it that way. I looked at her and said, "Remember thinking is mandatory."

Well Looky Here

Now we took a look at her financial picture if she did the things we discussed:

LIFESTYLE				
	Value	**Monthly Payment**	**Rate of Return**	**New Monthly Payment**
Home Value	$180,000.			
Mortgage Balance	$ 60,000.	$1,000.		$ 380.
Home Equity Value	$120,000.		0%	
Home Down Payment	$ 30,000.		0%	
401(k)	$ 50,000.	$ 400.	6%	$ 200.
Mutual Funds	$ 20,000.	$ 100.	6%	$ 0.
Bank Savings	$ 10,000.	$ 0.	2%	$ 0.
Annual Tax Refund	$ 4,000.	$ 0.	0%	$ 0.
Credit Card Debt	$ 3,000.	$ 150.		$ 150.
Car Debt	$ 11,000.	$ 350.		$ 350.
MONTHLY OUTLAY		**$2,000.**		**$1,080.**

Her original monthly expenditures were $2,000.00, but after a little thinking, it has been reduced to $1,080.00 per month. A $920.00 per month savings!

But Look Again

If she were to spend down the $10,000.00 in bank savings over seven years, she would offset that $1,080.00 per month even more. To further reduce that monthly outlay, I told her to call the Human Resources department of her employer, and have them adjust her exemptions so she wouldn't continue to overpay her taxes. If done properly, she could pick up another $333.00 per month, and eliminate that large refund.

By spending down the $10,000.00 and changing her withholding, she saved a total of $483.00 per month. Subtracting that from her new monthly outlay of $1,080.00, and her new adjusted monthly outlay is $597.00. That's a $1,403.00 per month difference. I asked her, "Do you feel you can afford that private school now?"

Are We There Yet?

I told her, "I know this has been a long journey. We are almost there. But, I want you to look one more time. This time, I want to look at your debt." She said, "Ok."

Between the credit card debt and the car loan, she was paying about $500.00 per month in payments. I asked, "Would you be interested in reducing that monthly payment by over 30%? Would you also like to deduct the interest you are paying for this debt from your taxes?" I reminded her that when we first started talking about refinancing her home, I had mentioned an equity line of credit. If she were to establish an equity line of credit, she could use it to pay off her car note and credit card balances. She was paying 18% interest on her credit card and 7% on the car loan. By using an equity line of credit, she could lower the interest rate to approximately 5%. This interest rate would be flexible, and her new monthly payment on the credit card would go from $150.00 to $75.00 per month. Her car payment would be reduced from $350.00 to $247.00 per month. The interest on these loans would then be tax-deductible and she would save another $100.00 per year in tax savings. She said, "Great!"

I said to her, "I really believe you will start to enjoy your life more now that you have created some financial freedom for yourself. Gaining liquidity, use and control of your money creates that freedom. Obviously, I still have concerns that we must address when it comes to protecting your assets. In the event of something happening to you, I would want you to receive an income. As a single parent, this is very important."

LIFESTYLE					
	Value	**Monthly Payment**	**Rate of Return**	**New Monthly Payment**	**Spend Down Asset**
Home Value	$180,000.				
Mortgage Balance	$ 60,000.	$1,000.		$380.	
Home Equity Value	$120,000.		0%		
Home Down Payment	$ 30,000.		0%		
401(k)	$ 50,000.	$ 400.	6%	$200.	
Mutual Funds	$ 20,000.	$ 100.	6%	$ 0.	
Bank Savings	$ 10,000.	$ 0.	2%	$ 0.	$150.
Annual Tax Refund	$ 4,000.	$ 0.	0%	$ 0.	$333.
Credit Card Debt	$ 3,000.	$ 150.		$ 75.	
Car Debt	$ 11,000.	$ 350.		$247.	
MONTHLY OUTLAY		**$2,000.**		**$902.**	
SPEND DOWN ASSET				**($483.)**	
NEW MONTHLY OUTLAY				**$419.**	

Original Monthly Outlay	$2,000.
New Monthly Outlay	$ 419.
Internal Savings - Difference	$1,581.

"If you recall, we were originally looking for $450.00 per month to send your daughter to private school, but we found an additional $1,131.00 of savings. Can you see the power of recapturing transfers that you're currently making? Did you feel that defining moment in the way you think about your money?" The client was ecstatic, and had indeed felt that defining moment.

If you have the knowledge to deal with the transfers of your wealth and learn to recapture money you are unknowingly and unnecessarily spending, it will truly change your life. WITHOUT SPENDING ONE MORE DIME. PLEASE NOTE THAT NO PRODUCT PURCHASE WAS NECESSARY.

We set a time to start working on her lifestyle. You couldn't believe how happy she was. She thanked me, thanked me and thanked me. For a moment I almost felt special. My reward was changing her ability to think, which changed her life, and changed her daughter's future.

In the foregoing example, there was a lot of work that had to be done. Aside from refinancing the home, there were additional things that had to be considered such as what to do with the extra money, and how to curtail her exposure in the event of disability. It would be devastating for her to lose her ability to earn an income. Everything she worked for would be gone if she was disabled for any length of time. In the event of her death, heaven forbid, work had to be done to provide direction for her wealth and her daughter's future.

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