

## **Healthy, Balanced Perspective On Money Investments**

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Sometimes it is easy to get caught up in old paradigms, old ways of doing things with thinking that is not current with the times. Sometimes it is easy to miss the critical and important things that are right in front of us because of those old voices or traditional voices. Too often, it is simply just hard to change doing what we normally have been doing or what we are familiar with. Additionally, sometimes we do not take the time to carefully look at the necessary facts and realities to get the complete picture and truth about how things work.

Not being current or not being well informed can cause us to miss the opportunities available to us; therefore, causing problems and issues we do not desire. We simply do not seize the day. We may not take the time to focus adequately, to have the healthy and balanced perspective that is in the best interest of our needs for safety, security, growth, tax savings and income.

In this article, we'll look at obvious and hidden realities of basic money investments. When you see the realities and the truth about where your money is or can be invested, you will be able to make prudent decisions. You'll be able to better understand the primary advantages and disadvantages within the three primary industries where we may invest. You'll learn where you can place or invest your money for safety, growth and income. And overall you should have a balanced and healthy perspective to make the best decisions for yourself. You will be able to see the forest and the trees at the same time.

Keep in mind the risks that negatively impact your money in pre-retirement and in retirement. Some of the most common risks are 1) tax risk, 2) investment risk, 3) inflation risk, 4) longevity risk, 5) under insured or not insured risk, 6) financial advisor risk, and 7) health and long term care risks. In this article we will not look at the details of these individual risks; however, as we examine the facts below, keep in mind the various risks in order to best discern and understand the issues facing pre-retirees and retirees.

Ed Slott, CPA, Tax Consultant, Financial Educator, and TV host of his show, Retirement Rescue aired on WETA, Comcast channel 26 on Saturday afternoons, talks about The Five Silent Retirement Killers. The following are the five killers he lists:

- 1) taxes... income, capital gains, estate taxes, etc.

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Note, the reference in this article to investing is regarding intangible assets (money), not tangible assets like real estate, gold or silver, etc.

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- 2) risk... as mentioned in the previous two paragraphs
- 3) saving money in the wrong places
- 4) uncertainty
- 5) inactivity

These factors or killers can be overcome. Focusing and understanding the potential devastating consequences of the lists or issues in the two previous paragraphs, and seeing the type of realities and truths presented below will help you choose the best solutions for you and your family.

Now let's look at one of the most common paradigms or views most have been taught and attempt to abide by, being asset allocation or diversification. We normally associate asset allocation or portfolio diversification with financial markets only. The thinking usually understood (and often not appropriate for every investor) is to invest so much in this type mutual fund or this sector mutual fund, so much in that one, etc., so much in various stocks and / or various types of bonds. The investments might also include a Real Estate Investment Trust (REIT), gold, silver, commodities, etc. The key point is that diversification and allocation is too often thought of as being exclusively within your financial market investments only (not inclusive of banks and insurance companies) where your money is at risk (and has no guarantees) as clearly stated by every prospectus issued for every market investment. (Every securities investment is required by the Securities Exchange Commission or SEC to issue a prospectus that describes the risk and the fact that there is no guarantee of principal or returns.)

Financial market brokers have been masterful at getting many people to think that allocation is exclusive to the types of investments that they offer. They suggest through their talk or their advertisements that this is the best way and the only way to think, plan and invest... keeping your money exclusively within their financial market investment choices.

Then there are the banks that promote that your money is insured and safe because of the Federal Deposit Insurance Corporation (FDIC). This is true, up to \$250,000 per account. Their presentation usually includes, 'we will only pay you a small interest on your money, but you can get to your money easily'. A possible missed important fact and something that bank representatives normally do not mention is that you pay tax on the interest earned in Non Qualified (or Non IRA) bank accounts, netting you after taxes an even lower return than typically thought. Too often the net effect of taxes is simply not factored into the financial planning. The impact of the net returns is not keeping up with inflation yearly and challenge the investor to having sufficient money in retirement.

For most, financial markets and banks are the two primary industries where investors think about placing or tend to place their money. However, a renewed and significant shift started in the late 1990's where billions, yes billions of dollars were and are being allocated to the third primary industry where you can place your money, the insurance industry. Although, the recent significant increase of investors money to insurance products, like annuities has had

much to do with turbulent financial markets and low interest rates that banks offer, the fact is the insurance industry has been the back bone for safety, security, growth and income for investors for hundreds of years.

The insurance industry overall is more conservative and long term in nature. This industry does not utilize the media for advertising and promotions anywhere near as much as financial brokerage firms and banks do. Therefore the insurance industry, as huge as it is, and as secure as it is, tends to be the least visible, the least heard and the least considered choice amongst the three industries. Additionally, aggressive tactics by financial brokerage firms and financial brokers to attract and retain new business has left many to think that the one primary place to invest is with their firms. These factors and influences have caused pre-retirees and retirees in far too many cases to keep most of their money at risk in financial market investments.

The too often overlooked fact and reality is that there are three primary industries where we can and probably for every investor should invest or place our money; banks, financial markets, and insurance companies. Because so many investors have only a two industry paradigm (financial markets and banks), this article will highlight insurance industry and product realities, advantages and opportunities. All three industries have their merits and should be given fair and equal consideration without bias. Too many investors have missed or been misinformed as to the reality and truth of the significantly important, necessary products offered through the insurance industry; therefore, we will shed light on the facts in this article.

Let's look at what investments are 'liquid' or considered 'liquid' in these three industries and why. After, we'll look more closely at the insurance companies' product advantages. We'll look at a few basic concepts regarding 'industry allocation' and also more of the realities of each industry in order for you to have a healthy and balanced perspective to investing.

The fact is, whether your cash or money investments are in banks, financial markets or insurance products, most money investments can be considered, and are 'liquid'. However, financial market brokers in an attempt to attract and retain new business too often give their prospects and clients misinformation with respect to the liquidity of insurance products like annuities. It has been written and said by financial brokers that insurance company products are 'not liquid'. Is this really the truth and reality? As you will find out in this article, this is a gross misconception.

What does liquid, really mean? Should the definition only be what a government regulator has defined or a financial broker promotes? Shouldn't we take our blinders off when we are attempting to understand the advantages and disadvantages of various investment choices so we can get our retirement plans right? This is our life, our safety, and our security we need to get right, isn't it? Shouldn't we make sure we get the facts straight so that the most prudent decisions can be made?

Let's expand the current definition of liquidity (or access to your money) so the practical truth can be seen and applied to investing. We are going to look at the realities of liquidity in the three primary industries. In order to do so, we must examine 'penalties' associated with the three basic type investments or industries.

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Any investment has its ‘penalties’. It just depends on how you define ‘penalty’. Let’s make sure we have the facts straight so we can see things the way they really are. We are going to expand the definition of ‘penalty’ to see the realities and the actual effects or not of ‘penalties’, so that we can best understand liquidity with investments in the three primary industries.

If you invest your money in banks, what do you call, low returns and taxation on your returns that you realize? Couldn’t you call that a ‘low return and tax penalty’. This type of ‘penalty’ will cause you to not keep up with inflation and go behind in the value of your money over time.

Now does that mean you should not have some of your money in banks or money markets for emergencies or vacations or short term projects, etc.? ABSOLUTELY NOT. Have some of your money there. The question is how much money or what percentage of your money? The well known TV host, Suze Orman often states you should have eight months of income in cash, banks or money markets for emergency purposes. We all have to use good prudence for ourselves as to how much should be allocated for cash and or emergency purposes.

Now let’s look at financial market investment liquidity and penalties. What do you call a 20% or 40% or 50% decline in the financial markets? Remember the years 2000, 2001 and 2002 when the Standard and Poors or S&P Index declined approximately 49%? What happened in 2008? Most people lost approximately 40% of their money that was invested in the financial markets. Couldn’t we say that is a ‘market penalty’?

And did you ever get at the same time, a 1099 Statement (for tax reportable capital gains, dividends or interest income) from the investment company or mutual fund company in the year or years you lost money or value in your account(s). You more than likely did. Do you know why that happens? One way it happens is when money managers sell a stock or stocks at a profit in the same year the fund overall has lost money. The gains from these sales get passed onto you as a capital gain, even though your overall fund lost money. Also, if the stocks the fund were invested in produced dividends or the bonds the fund invested in produced interest income, you will have realized dividend or interest income reportable to the Internal Revenue Service (IRS) regardless of whether the fund or your account value was at a loss during a specific tax reportable calendar year. So you can see that financial markets can and do give you ‘market and tax penalties’.

And what about those ‘no load’ funds or B Shares (meaning there is no sales charge on the initial investment)? If you take a distribution from those type mutual funds early (before the term ends), you will be paying a deferred sales charge or a ‘penalty’.

Another key perspective to consider about our expanded definition of what really is a ‘penalty’, relative to market risk and liquidity is the concept of the “math of losses” that sheds light on why market investments can be costly to an investor. Let’s start with a question relative to the “math of losses”. If you lose 50% of \$100,000 in a down market (which could happen in just a few years, as happened to so many in the years 2000, 2001 and 2002) leaving you with \$50,000, what percentage gain do you need to get back to your \$100,000, and how long might that take? You need 100% of \$50,000 just to get back to your \$100,000. How many

years might that take to gain 100%? In pre-retirement or retirement years that could be too many years.

The Rule of 72 (how long does it take to double your money at a particular compounded rate of return) suggest it would take 10 years at 7.2% annual return each year.

We tend to invest more conservatively the older we get and not get a 7.2% return annually. Therefore, it could easily take 8 to 15 years to get back to your original \$100,000. Do you think you have that time, if you are retired or pre-retired? Can you really afford to experience this effect? What if you need that \$100,000 to generate income or better grow your nest egg? Is it a wise use of your money to invest all or a majority of your investments where another market decline could cause you additional significant losses? If you need to grow your money above bank rates in a principal safe way and achieve market type gains, where can you do that outside of banks and financial markets? Insurance companies provide products that offer that opportunity.

Financial market declines can create a pretty serious consequence to your overall safety, security, growth and income needs. Understanding and focusing on the “math of losses” concept and potential consequences described above, should give you some great insight to help you make the best decisions.

So, should you have your money in the financial markets? Maybe so but maybe not. Or maybe not as much as you think or have currently invested. Perhaps you should or need or want to invest in stocks and bonds. It may make sense for your overall financial strategy to have some of your money in financial markets. The question is how much or what percentage of your money should be in financial markets? The Rule of 100, explained below will help you think through the best industry asset allocation at a given age.

Before explaining the Rule of 100, let's look at what a 'penalty' is in fixed, guaranteed (not variable) insurance products. To have a clear perspective, it's important to understand a few things. Overall, one of the most misunderstood industries and their products, is the insurance industry. What are the biggest things that hang people up with insurance programs or products such as Annuities, Fixed Index Annuities or Asset Based Long Term Care plans? Is it the programs benefits? Absolutely not. Because generally, the benefits, provisions, and guarantees in insurance programs or products typically far out weigh the banks and financial markets for most pre-retirees and retirees wanting more tax savings, safety, security, growth and income. So what is the misunderstanding about a penalty and liquidity with insurance products? And what may be an investors hesitation? Is it misinformation or misconception regarding the truth about these products? Is it the effect or non-effect of the term period and surrender charge misconception, the 'if penalty' misconception (I will explain the 'if penalty' below), that may keep the investor, investing only in traditional financial markets and banks? I propose this is the case.

So let's address when and how an investor would receive a 'penalty' with an insurance product like cash value life insurance or an annuity? Well, first, an interesting fact is that a very large majority of people in insurance programs (as the research and studies show), never realize a penalty from an insurance company or annuity program. Why is that? The reason is because

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all of these programs have many safety valves and “free out money” provisions that allow easy access to the money you need without any penalty. And wherever there may be a penalty charge on a distribution, in those cases, most have realized greater gains compared to banks and financial markets that make up for the potential small ‘IF PENALTY’ that may be or could be applied in early years. Also keep in mind, the ‘if penalty’ declines to zero over the term period of the program, that may be only 7 or 10 years. You should know at the end of the term period, the investment can continue.

So, what is the ‘IF PENALTY’? It is a penalty applied only IF you do not take advantage of the many “free out money” provisions and opportunities.

Where does the misconception of surrender charges or a penalty and supposed lack of liquidity in insurance products come from? Usually, it is the financial market brokers giving misinformation to steer investors to their financial market investments or generally “hear-say” misinformation.

In order to have a healthy and balanced perspective regarding a potential penalty or an ‘if penalty’ and liquidity, let’s look at the facts. Here are many of the actual and compelling reasons why an insurance product ‘IF PENALTY’ is not a factor... the reasons why it is so easy to access or receive your money without a penalty...

- 1) at death, with most products, there is no penalty
- 2) if Long Term Care is needed whether, in home care or in a nursing home, with the right chosen products, there is no penalty
- 3) taking your Required Minimum Distributions (RMD’s), there is no penalty
- 4) with a lifetime income guarantee from an income rider benefit, there is no penalty
- 5) with typical 10% (and sometimes 20%) annual free out distributions of your money, there is no penalty (To make a major point, taking 10% distributions each and every year, which you can do without a penalty in most annuities, is more of a percentage than most people take out of a usual distribution strategy for the long term. The question is... would you normally take more than 10% a year out of all of your investments each and every year over the long term? Of course not; you would deplete your money too rapidly.)
- 6) a program with a “premium return guarantee” where you can get all of your deposited money back at any time, even on day one or month one or year one, etc., there is no penalty
- 7) overall, a surrender charge or penalty only exists outside the above mentioned typical free out provisions (It is an ‘IF PENALTY’. There is a penalty ONLY IF you take your money out above free out provisions during a term period. Historically and statistically most people do not need to or want to take money out above the free out provisions.)

- 8) the term period is temporary and the 'if penalty' declines to zero over the term

Let me ask you something. If for some very low probability reason (as mentioned above), you wanted or needed all of your money out of your annuity such as a Fixed Index Annuity, and let's say there was a 10% penalty like in the first year (because you did not have a product with a premium guarantee where you get all your deposit money back at any time), what is worse, a 10% annuity penalty (where you have safety of principal) OR a 'financial market decline penalty' that could easily be 15% to 20% or more of your actual money, just because you were invested?

How many times have we seen significant losses in financial markets over time, as mentioned above? Too many times I am sure you will agree. What will the future be? Historically, on average financial markets decline every four to six years. How difficult is it to keep up with the financial market roller coaster and not be penalized with these type investments? For most, it is very difficult.

It is also important to note, that since most investors attempt to re-allocate (often to early or too late) during shifting markets very, very few investors ever realize an average 10% return, stated by most financial brokers. We hear the financial market brokers speak of financial markets (with respect to an index such as the Standard & Poors or S&P) averaging 10% over the long term and we assume that means the investor. When it does not. Most never just buy and hold, and with attempting to re-allocate, usually with poor timing the effect is an average return from financial market investments considerably less than 10% over the long term.

Back to the 'if penalty' in an insurance industry product like a Fixed Index Annuity, the schedule provides a declining charge arrangement that declines over the course of the term and disappears at the end of the term. The key point is you have access to your money penalty free which meets most people's needs. There is no 'if penalty' charge applied on distributions after the term and as noted above there is no 'if penalty' when utilizing your money wisely during the term. After the term you can continue your investment and access your money freely for any reason. Most keep their investment(s) with insurance company programs in place for tax savings (annuities and cash value life insurance grow tax deferred), safety, growth and income.

Too many people get hung up on a paradigm and perception with respect to insurance company surrender charges or penalties ('IF PENALTIES') that are not anywhere near reality, where they are not understanding the above. Why is that? Many times it is because the financial market brokers do not specialize in annuities, therefore, do not completely understand annuities and they are misstating truths and realities. Additionally, the motivation to misspeak regarding insurance products is an effort to prevent their own business losses or not wanting to lose an investor's money to the competition like the insurance companies. So, financial brokers may often say inaccurate, misleading or totally wrong things. The financial broker voice is a big voice in this world and many have fallen prey to misinformation from that voice. Beware and be aware. Learn the facts and truths as conveyed in this article.

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Now, let's ask the same questions we asked above regarding placing money in banks and or financial markets. Should you have your money in a suitable annuity or asset based long term care program or other insurance programs? If so how much or what percentage of your money should be invested there? Emphatically, you should have some diversification with these insurance programs or products. So how much should be invested? Let's talk about the answers conceptually and strategically through a commonly accepted guideline, the Rule of 100 to get the important answers.

The Rule of 100 will help you have a better perspective on how and why to diversify an investment plan across the three primary industries? With respect to thinking about what your industry allocation should be, consider the Rule of 100 as a guideline.

Here is how it works. Take your age and subtract it from 100 and that number is the percentage guideline or maximum percentage of your money you should have at risk (the risk of market declines and loss of your money). So if you are age 65, the guideline suggests having no more than 35% of your money at risk. Of course, investment or market risk can be defined in different ways, but let's keep it simple. Market or investment risk for purpose of this article, is losing money that will negatively impact your financial position and security today and or in the future.

Everyone will have objective and subjective considerations that effect the number or the percentage of your money that should be at risk. Where can you avoid market and investment risk and achieve safety, growth and income needed for your retirement?

Here are some specific key questions to ask yourself, for you, your family, your heirs and your legacy to better understand the answer:

- 1) Where can I invest my money to make sure it is guaranteed?
- 2) Where can I create a lifetime income ('private pension'), I cannot outlive and still control my asset and have access to my money?
- 3) Where can I avoid market penalties?
- 4) Where can I avoid market declines?
- 5) Where can I get rates better than the banks consistently, year in and year out?
- 6) Where can I grow my money tax-deferred where I leverage compound growth because of tax savings?
- 7) Where can I capture all or in part, the upside of the market, locking in my gains each year and not lose any principal?
- 8) Where can I avoid all penalties upon transfer of my assets at death?
- 9) Where can I avoid all penalties if I have to go into a nursing home or need in home care for long term care?

- 10) Where can I get access to my money on day one and in the future if I needed it if you have the right provisions in a select program?
- 11) Where can I get 100% of my investment deposit back with no penalty if I need that money on day one or any time for whatever reason, in select programs?
- 12) Where does my money have a triple guarantee for protection and safety... where your money is backed by a state regulated fund, where your money is additionally backed by regulated reserve funds, where your money is backed by an industry where no investor has ever lost any money in the history of America?
- 13) Where can I get between a 6% to 10% bonus or leverage of my invested money at time of deposit or on day one of the investment depending on the plan that best suits my needs? (Some programs pay a bonus for new deposits during the first five or seven years.)
- 14) Where can I get a plan where I can multiply my transferable money up to 100% or greater on day one for LTC and estate transfer at death?
- 15) Where can I get a fixed rate of return above bank rates on a tax deferred basis?
- 16) Where can I get a guaranteed, at least 6% or 7% compounded annual step up in value for the calculation of a lifetime income pay out?

The answer to all of these questions, you may know.... the insurance industry. Some of the programs that include provisions above are Fixed Index Annuities and / or Asset Based Long Term Care plans.

The key point is balance out your portfolio of investable or invested assets, your money amongst the three primary industries. Do this after you ask yourself, what percentage of my money makes sense to be allocated amongst banks, financial markets and insurance companies, in accordance with my goals, objectives and needs in light of the facts, truths and realities highlighted in this article. Ask yourself how much do I need the advantages of insurance products? Most people, probably need to invest a lot more money with insurance company products to provide the best tax savings, safety, security, growth and income for today and the future.