

CREATIVE

Wealth Maximization Strategies

TRIAD | WEALTH SYSTEMS
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NOVEMBER 2006



THE ONLY CONSTANT IS CHANGE. Businesses that remain static usually die out. In order to remain vital, growth is essential. The same applies to publications – if they don't change with the times, they may soon become irrelevant. For print media, changing times includes the recognition that more readers are accessing and receiving information via the Internet. While the content may be the same, the format is different. And the difference in format makes a difference in how the publication is read, i.e., readers don't "turn the pages" the same way.

Because a number of our readers have the option of receiving this publication electronically, there will be some format changes, beginning with this issue.

Near the top of each issue, we've provided a Table of Contents. We would love it if everyone read the entire newsletter, but not everyone has the time, and not every article is relevant to every reader. This Table of Contents gives you a quick glance at the issue, and allows you to scroll (or flip) to the items that immediately catch your interest.

In addition, the articles will be defined in the Table of Contents by four standard financial categories. These categories comprise the basic components of financial management, and each issue will consist of a mix of topics from these areas. Here are our four categories:

1. Financial Philosophy

Ideas matter. How you *think* affects how you *act*, and

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this is especially true in regard to financial choices. One of the objectives of this newsletter is acquaint you with some of the prevailing thoughts about money, and evaluate how accurate and profitable those ideas are. In some instances, the purpose is to provide some counterpoint to conventional perspectives on money, to get "outside the box" for different looks at how financial success can be realized.

Developing a philosophy to guide your financial decisions is arguably the most important part of "financial planning." While the arguments may be logical, some of the assumptions behind "it's-what-everybody-does" financial strategies may differ from the principles you want to use in your life.

2. Accumulation Strategies & Application

If you understand the philosophies that form the foundation for your financial success, the next step is finding practical ways to make winning ideas become reality. This includes discussions of a diverse range of topics, from effective ways to handle debt, or the benefits of different accumulation programs, to the tax treatment of various types of assets, and anything in between.

These articles are not "recipes." You won't read them, then simply buy a mutual fund, stir in a whole life policy and let grow for 30 years. But they can be starting points for discussions with your financial professionals about developing specific plans that match your unique financial circumstances.

3. Risk Management

Accumulating wealth is one aspect of financial management; holding on to it is another. While accumulation is the sexy side of wealth-building ("I just *love* those rates of return!"), all sorts of unforeseen events

can seriously impact any efforts to accumulate. Ian Hodge, in his book *Making Sense of Your Dollars* (Ross House, 1995) notes that “risk is inescapable. It is absolutely impossible to avoid this concept or its consequences. We still make bad decisions due to a lack of knowledge or due to poor judgment. There are criminals in existence who also add an element of risk to our lives. Nor are we exempt from illnesses and diseases.” Risk management may not be exciting, but ignoring the financial risks in life is stupid.

By the way, risk management isn’t just about insurance. It can also include written agreements, like wills and trusts, or partnership arrangements. It might be allocating a percentage of investments to guaranteed accounts.

4. Details

There’s an old saying that the “devil is in the details.” Great ideas can generate great plans, but great things can be undone by the smallest missed detail. And financial transactions involve a lot of details (remember how many papers you signed at the closing for the purchase of your home?). It’s reading quarterly statements, keeping track of expenses for tax purposes, deciding on beneficiaries, and meeting filing deadlines. It’s also making sure addendums are completed for wills and trusts, that the appropriate riders are part of your insurance contracts, the proper tax ID number is on the account, and that premiums are paid in a timely manner. A good financial program starts with good ideas, but it doesn’t reach a successful conclusion until all the details are completed.

Beyond making sure you’ve dotted “i”s and crossed “t”s, there’s also the need to organize these details for ongoing reference. Once you’ve built the ship and charted a course, you need to measure your progress, and be able to make adjustments if necessary.



Oh yeah... there’s one more thing: You must upgrade as well!

It’s not only businesses or publications that must be prepared to change to remain relevant and prosperous. **Your financial plans will also need adjustment from time to time.** In order to know when it’s time to make changes, you need to stay informed.

Hopefully, our improvements will help you upgrade as well. If you like the philosophies discussed in this newsletter, the accumulation and risk management ideas that follow should merit your consideration. And when it comes time to execute the details, you know we have the expertise and experience to help you get the job done.

FINANCIAL PHILOSOPHY

PRINCIPLES, NOT PROJECTIONS

The details may vary from culture to culture, but material well-being is a universal topic of interest. People everywhere want to know how to get wealth, how to keep it, and how to enjoy it. Money isn’t everything, but it’s an important thing – for everyone. Yet for all the interest, relatively few achieve prosperity.

Is there a secret formula for wealth?

Whenever there’s something a lot of people want but few have, you can be sure that two things will follow: First, there will be the determination that the few, who have what everyone wants, know a “secret formula” that allows them to obtain the prize. Second, a bunch of people will proclaim they know the secret formula – and each formula will be different.



The word “formula” reflects several important assumptions about wealth. First, it implies that achieving wealth is a mechanistic process - if you have the right formula, you can be sure of the outcome. The only variable is how much you want (“want \$2 million instead of \$1 million? Just double the recipe.”). Second, a formula assumes the ingredients are static and controllable.

For example: There’s a simple “formula” for boiling water. At sea level, apply heat until the water temperature reaches 212 degrees Fahrenheit. It works – every time. (Go ahead, try it.) Need to boil more? Add water. Need to boil faster? Turn up the heat.

But what happens if the water isn’t pure? What if there’s salt in it, or alcohol? What if you’re not at sea level? What if you only have a cigarette lighter for heat? What if you don’t have a container for the water? If you can’t control the elements in the formula, you can’t be sure of the outcome.

In most formulas for financial success the basic ingredients are time (How long will you work? When do you want to retire?) and money (How much can you save each month? How much will you need to accumulate?). To these basic ingredients, a number of factors are applied. There’s a projected rate of return, and adjustments for inflation and taxation. In sophisticated formulas, there are even alternate projections based on historical fluctuations. The ingredients are mixed, the formula is applied, and voila...you will become wealthy!

Can you see the problem? These “formulas” aren’t really formulas. They are projections based on assumptions. And the assumptions are not static – they change constantly, and you have little or no control over these changes. You cannot control the rate of inflation, or the rate of taxation. Other than selecting the investment vehicle, you have limited control over the rate of return.

Even if you use historical assumptions, you have no way of guaranteeing the future will replicate the past.

Furthermore, even the basic ingredients of time and money are not under your control. No matter how prudent you are, you can't guarantee how long you will live, or the condition of your health. No matter how skilled you are, you can't be assured of consistent employment. And no matter how frugal you are, you may not be able to save regularly.

In short, because you cannot control the variables, you cannot guarantee outcomes

A Better Way (the only way, really)

The formula approach to financial success is invalid because of the uncertainty and unpredictability of life. While hindsight may give us reasons for what happened, it cannot fully predict what will happen. And even though cause-and-effect exists, we have a limited ability to anticipate all of the variables that might impact outcomes.

Notwithstanding this uncertainty about interpreting the past and projecting the future, there are things you can do. You can act in the present – making decisions about what you can right now, with what you have. If you have \$100, you can decide to spend it, pay off a debt, or save it. With \$1,000, you have more choices than with \$100. And while there may not be formulas, there are financial principles (general truths) that can help you make good financial decisions.

Operating On Principle

Here are several basic financial principles that, regardless of outside variables, can help move you toward financial success:

Save by “paying yourself first.” Saving is always a good thing. And committing to a regular saving amount – a percentage of earnings, or a specific amount each month, etc. – provides the greatest likelihood that you will actually do it. Deciding where to put the money is almost irrelevant; the most important thing is that money is being set aside. People with savings always have more financial options; they can better respond to both crises and opportunities.

Limit or eliminate debt, especially uncollateralized debt. When you borrow, you are making obligations on your financial future. You may believe you can meet those obligations (and so does your lender), but every dollar committed to someone else is a dollar that can't be saved or used to your benefit.

This doesn't mean all debt is bad. When you borrow to buy a home, you have the expectation that, over time, the transaction will result in a financial profit as well as giving you present shelter. And if things don't work out, selling the property can usually satisfy the obligation. But

when you borrow from credit card companies the only asset to satisfy the debt is your future earnings.

Spread the risks with insurance. When you don't make a claim against your insurance, it can seem like money down the drain (“Another six months without an accident! Why do I pay this auto insurance?”). But there are some random, unwanted events that, if they happened to you, could devastate your finances, perhaps for the rest of your life. Insurance is simply a method where a group of people pay a small amount to protect against an event that might happen to one of them. It is the most effective way for people to handle the financial catastrophes that might occur from a house fire, a disability, an auto accident, or an early death.

Achieve long-term success through a succession of short-term objectives. When you're 25, planning for retirement is probably a 40-year project. It's so far in the future, you can't know that what you do now will really help you achieve retirement. Even when you're 45, can you be sure that the way you save now will have been the best approach 20 years later? Too much can happen between now and then.

On the other hand, if you decide at 25 to save \$50,000 by age 30, you'll probably find a good use for the money, because opportunities seem to migrate to people with money. If the next goal is to be debt-free by 35, imagine how many other choices might be available! (Hey, instead of retiring at 65, you might “retire” for a year, do things that you might not be able to do at 65, and then start on some other financial objective. A bit unconventional, but who's to say it couldn't work?)

Maintain control of your assets. Since the only constant is change, it's reasonable to expect your financial course will require regular adjustment over your lifetime. But depending on how they are held, some assets can be hard to rearrange. You may have a sizable equity position in real estate, but how quickly can it be liquidated? Those 401(k) deposits provide a tax advantage, but what happens if you want (or need) to cash out? And what happens if tax laws change?

This doesn't mean real estate or 401(k)s are poor financial choices. It's just necessary to understand not only the benefits, but some of the potential drawbacks that come from relinquishing control over the liquidity of your assets. Having the ability to change or rearrange an asset is an intangible value, but an important one.

Using these principles does not “guarantee” financial success. As Ian Hodge says, “risk is inescapable” – bad stuff, beyond your control, might still happen. But rather than vainly try to project the future through a secret formula that doesn't exist, it's better to maximize the present by acting on principles that give you the greatest chance for profiting in any circumstance.

“Ignorance is not bliss. It's fatal. It's costly. And it's for losers. You either get well-organized, or get crushed.”
- Donald Trump

DETAILS:

CANCEL YOUR CREDIT CARDS BEFORE YOU DIE: NEW URBAN MYTH?

If you have an e-mail account, you probably have someone who regularly sends forwarded e-mails along with a note asking you to "pass it on" to all the names in your address book. Some of the messages are sentimental, some funny. Others elicit outrage, simply because the situations they describe are so, well...outrageous.



Are these e-mails true? Most of the time, no. A little fact-checking (usually on the Internet) proves many of these sentimental, funny, interesting and outrageous stories are just fiction. But sometimes, even if the accuracy of the story is suspect, there's enough truth to make a point. Here's one relating to finances that's been in circulation for at least 3 years:



If you have ever had to deal with a major corporation's customer service then you will really appreciate this. My aunt died this past January. Citibank billed her for February and March for their monthly service charge on her credit card, and then added late fees and interest on the monthly charge...the balance had been \$0.00... now was somewhere around \$60.00) I placed the following phone call to Citibank:

Me: "I am calling to tell you that she died in January."

Citibank: "The account was never closed and the late fees and charges still apply."

Me: "Maybe, you should turn it over to collections..."

Citibank: "Since it is two months past due, it already has been."

Me: "So, what will they do when they find out she is dead?"

Citibank: "Either report her account to the frauds division, or report her to the credit bureau...maybe both!"

Me: "Do you think God will be mad at her?"

Citibank: "...excuse me?"

Me: "Did you just get what I was telling you.... the part about her being dead?"

Citibank: "Sir, you'll have to speak to my supervisor!"
(Supervisor gets on the phone)

Me: "I'm calling to tell you, she died in January."

Citibank: "The account was never closed and the late fees and charges still apply."

Me: "You mean you want to collect from her estate?"

Citibank: (stammer) "Are you her lawyer?"

Me: "No, I'm her great nephew." (Lawyer info given...)

Citibank: "Could you fax us a certificate of death?"

Me: "Sure." (Fax number is given)

(After they get the fax.)

Citibank: "Our system just isn't set up for death..."

Me: "Oh..."

Citibank: "I don't know what more I can do to help..."

Me: "Well... if you figure it out, great! If not, you could just keep billing her...I suppose... don't really think she will care..."

Citibank: "Well...the late fees and charges do still apply."

Me: "Would you like her new billing address?"

Citibank: "That might help."

Me: (Odessa Memorial Cemetery #345 Hwy 129, and plot number 744 given.)

Citibank: "Sir, that's a cemetery!"

Me: "What do you do with dead people on your planet?!"

Outrageous, right? There's no way this actually occurred. Except...

Barbara and David Mikkelson operate an Urban Legend Reference Page (www.snopes.com) that attempts to assess the accuracy of these "urban myth" e-mails. Regarding this particular message (titled "Dead Reckoning" on their site), their comment is as follows: "We don't know if this is a legitimate and accurate transcript of someone's conversation with Citibank... but the premise of this tale is not so ridiculous as it's made to seem here."

The commentary notes that credit card companies don't generally turn accounts over to a collection agency after just 60 days of past due status. More likely, the company attempted to contact the account holder or the family directly. Thus, "we suspect that if the message quoted above does describe a real incident, then either some legitimate charges were placed on the card by the cardholder prior to her death, or the account had been left in limbo for much longer than two months."

If there are charges outstanding, the creditor has a legitimate right to collect from the estate. The executor of a decedent's estate is charged with informing creditors of the death, settling outstanding debts, terminating service agreements, and providing a forwarding address for future correspondence.

As members of America's "Greatest Generation" begin to pass away, their children are often thrust into the responsibility of settling the estate. And compared to previous generations, the Greatest one has more assets – and debts – to settle.



Settling an estate can be a lengthy and exhausting process, physically and emotionally. A disorganized estate only makes the situation worse. It may be a somewhat uncomfortable project, but families are well-served by itemizing assets, and familiarizing the future executors with their responsibilities. This is definitely a situation where careful attention to details now will make future procedures much easier to complete.

RISK MANAGEMENT:

PLAYING THE ODDS ON DISABILITY



What are “good odds”?

If you go to the horse track, the tote board lists a betting line for each race. If a horse is listed at 100-1, he’s a “long shot;” any horse whose odds are low (2-1, 1-1 or 1-2) is

probably the favorite. The lower the odds, the more likely (in the opinion of bettors) the horse will win.

Actuaries are statistical analysts that help insurance companies determine the likelihood (or odds) of a particular event occurring. Unlike bettors at the track who may act on hunches or subjective information, actuaries base their odds on historical numbers. While they can’t determine *who* will total their car, be burned out of their home, have an accident, or die, they can make a good estimate of *how many* will experience these misfortunes.

So it’s interesting to see how actuaries evaluate the risk of disability. (Just for clarity, disability is defined as being unable to do one’s work because of injury or illness.) When you look at the numbers, the odds on a disability occurring to you is anything but a long shot.

- According to an article in the March 1994 *Life Association News*, “one in three people will experience a disabling impairment for at least 90 days prior to age 65. Of those with disabilities that last at least 90 days, the average disability will last for an additional 5.5 years.”

Hmm. One in three people is the same as 2-1 odds. But that’s an old statistic. Got anything newer?

Here’s one from 2001, recorded on the E.F. Moody on-line financial library (www.efmoody.com):

- “The risk of a 40-year-old becoming disabled 90 days or longer prior to age 65 is 64%. The average disability period for a 40-year-old [who is] disabled at least 90 days is 5 ½ years.”

Wow. 64%? That’s better than 50-50. The odds are not only low; they aren’t in your favor.

Okay, the chances of experiencing a disability of least 90 days is fairly high, more likely than you might have imagined. But just because something unfortunate might happen, doesn’t mean it’s going to be devastating, right? The odds of getting a traffic ticket are pretty high, too. But most people aren’t going to be financially ruined by a ticket. How bad is it to be disabled?

- A recent survey in the June 29, 2006 *USA Today* asked roughly 2,300 people, “How long could

you live on your liquid assets?” The results: About 55% estimated they could go less than three months (uh, that’s 90 days isn’t it?) on their liquid assets. 17% said they couldn’t last longer than one week.

- According to the US Housing and Home Finance Agency, 48% of all foreclosures are due to disability.



So far, it seems like there is a strong statistical argument for obtaining disability income insurance. Yet..

- In 2000, the Consumer Federation of America and the American Council of Life Insurers conducted a survey which found 82% of people have no long term disability insurance, or [they] believe their coverage to be inadequate!

What’s going on? Why don’t more people have disability income insurance? Here are several observations.

Most people don’t understand disability. It’s common to think of disability resulting from an accident; a fall from a ladder, an auto collision. It’s also common to associate disability with risky professions, like law enforcement or construction. Yet Steve Crawford, a spokesman for Guardian Disability Brokerage noted in a May 6, 2002 *CNN Money* article that only 13% of disabilities are due to injury. Crawford says, “Disabilities are primarily the result of illness, and I have news for everyone reading this. An illness does not care what you do for a living.”

Long-term disability insurance is primarily thought of as a group benefit – or something for highly-compensated professionals. If you are an employee of a large company, long-term disability coverage may often be offered as part of the benefit package. If you have it, you probably didn’t think about it long – it was a check-off item on your enrollment form.

For those working for smaller employers, if the benefit isn’t offered, you may not know long-term disability insurance exists (and you’re grateful if the company just helps pay for your health insurance).

On the other hand, individual long-term disability income insurance often seems to be designed for highly-compensated, self-employed professionals. Aren’t the contract’s specialty items tailored to specific occupations and circumstances? Individual disability insurance is something for the rich, not the Average Joe.

Individual disability insurance is thought to be expensive. Insurance is priced based on probability; the greater the risk, the higher the premium. A section of the E.F. Moody website on disability states that the chances

of using (putting in a claim on) your homeowners insurance are about 1 in 88, and the odds of using your auto insurance about 1 in 47. You can't make apples-to-apples comparisons between the types of insurance, but one of the reasons disability income insurance may seem more expensive is because it's more likely to occur, and the size of the claim may be greater.

For example: a fairly comprehensive* individual disability policy** from The Guardian Life Insurance Company of America for a 35-year old non-smoking male in a white-collar profession providing \$5,000 a month in benefits after 90 days of disability would cost \$1,807 a year. This coverage would continue to pay benefits as long the insured remained disabled up to age 65. In theory, the insurance company has a potential claim liability of at least \$1.8 million (\$5,000/mo. for 30 years). If the inflation riders are factored in, the potential cumulative claim could be as high as \$2.8 million.

If our hypothetical white-collar worker qualifies for \$5,000 in monthly benefits, that number may represent about 70% of his gross income, approximately \$85,000. If so, the disability insurance premium, or cost, represents 2% of his total income.

Is disability insurance really “expensive?”

Your answer probably depends on your priorities. Solomon Huebner, (1882-1964) was a pioneering author and professor regarding the concepts and applications of insurance. He offered the following commentary on disability:

“A person disabled is just as dead economically as he who is actually dead; and if anything, the living death is worse economically because the victim is still here as a total consumer without being a producer.”

If you have people who rely on your income, you can't afford to stop producing for them. That leaves only two legitimate responses to the risk of disability. The first is to buy insurance. The second is to accumulate enough assets so insurance is no longer necessary. For most people, the solution starts with insurance. That means connecting with an insurance agent or financial professional who knows disability income insurance and can help design a program that matches your needs and your budget.

One odds-related postscript: If the same 35-year-old decided to obtain the same coverage, but limit his benefits to only 5 years from the onset of disability (instead of” to age 65”), the annual premium is \$1,127, a reduction of 37% over the policy that provides benefits to age 65. Since the statistics above noted that 90 percent of disabilities lasting longer than 90 days last an average of 5 ½ years, securing this minimum level of disability insurance still provides a significant increase in protection. It may not be ideal protection, but having some coverage is a lot better than none.

*(Quoted for Occupational Class 6). Optional features include: Residual Benefit, Partial Benefit, Cost of Living Adjustment (COLA) 3%, and Automatic Increase Rider (AIR) 4%.

**Disability income products underwritten and issued by Berkshire Life Insurance Company of America, Pittsfield, MA, a wholly owned stock subsidiary of The Guardian Life Insurance Company of America (Guardian), New York, NY, or provided by Guardian.

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